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Report No: PAD3356

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM PAPER

ON A

PROPOSED ADDITIONAL LOAN

IN THE AMOUNT OF US$500 MILLION

TO THE

ARAB REPUBLIC OF EGYPT

AND A PROPOSED RESTRUCTURING

OF THE

INCLUSIVE HOUSING FINANCE PROGRAM-FOR-RESULTS

February 28, 2020

Finance, Competitiveness and Innovation Global Practice
Middle East and North Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective February 21, 2020)

Currency Unit =	Egyptian Pound (LE)
US$1 =	LE 15.56
LE 1 =	US$0.06

FISCAL YEAR

January 1–December 31

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
AMP	Affordable Mortgage Program
ASA	Analytical Services and Advisory
CAPMAS	Central Agency for Public Mobilization and Statistics
CBE	Central Bank of Egypt
CPF	Country Partnership Framework
DLI	Disbursement-linked Indicator
DLR	Disbursement-linked Result
EDGE	Excellence in Design for Greater Efficiency
EHS	Environmental, Health, and Safety
ESSA	Environmental and Social Systems Assessment
FRA	Financial Regulatory Authority
GDP	Gross Domestic Product
GFMIS	Government Financial Management Information System
GoE	Government of Egypt
GPRS	Green Pyramid Rating System
GRM	Grievance Redress Mechanism
GSF	Guarantee and Subsidy Fund
GSMFF	Guarantee, Subsidy, and Mortgage Finance Fund
IMF	International Monetary Fund
ISR	Implementation Status and Results Report
IT	Information Technology
IVA	Independent Verification Agency
MFD	Maximizing Finance for Development
M&E	Monitoring and Evaluation
MHUUD	Ministry of Housing, Utilities, and Urban Development
MoF	Ministry of Finance
MoU	Memorandum of Understanding

NBRC	National Building Research Center
NPL	Nonperforming Loan
NPV	Net Present Value
NUCA	New Urban Communities Authority
OHS	Occupational Health and Safety
PAP	Program Action Plan
PDO	Program Development Objective
PforR	Program-for-Results
PLR	Performance and Learning Review
PPP	Public-Private Partnership
SCD	Systematic Country Diagnostic
SHF	Social Housing Fund
SHMFF	Social Housing and Mortgage Finance Fund
SLA	Service Level Agreement
WBG	World Bank Group

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Country Director:	Marina Wes
Regional Practice Director:	Najy Benhassine
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BASIC INFORMATION – PARENT (Inclusive Housing Finance Program - P150993)

Country	Product Line	Team Leader(s)	
Egypt, Arab Republic of	IBRD/IDA	Jean Michel Lobet	
Project ID	**Financing Instrument**	**Does this operation have an IPF component?**	**Practice Area (Lead)**
P150993	Program-for-Results Financing	No	Finance, Competitiveness and Innovation

Implementing Agency: Social Housing and Mortgage Finance Fund

Is this a regionally tagged project?	Bank/IFC Collaboration	Joint Level
No	Yes	Complementary or Interdependent project requiring active coordination
Original Approval Date	**Effectiveness Date**	**Closing Date**
05-May-2015	11-Nov-2015	30-Apr-2022

Program Development Objective(s)

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 SHMFF's capacity to design policies and coordinate programs in the social housing sector.

Ratings (from Parent ISR)

	Implementation	Latest ISR

	11-Jul-2017	29-May-2018	24-Dec-2018	28-Jun-2019	19-Nov-2019	18-Feb-2020
Progress towards achievement of PDO	MS	MS	MS	MS	MS	MS
Overall Implementation Progress (IP)	MS	MS	MS	MS	MS	MS
Overall Risk	S	S	S	S	S	S

BASIC INFORMATION – ADDITIONAL FINANCING (EG Inclusive Housing Finance Program Additional Financing - P168582)

Project ID	Project Name	Additional Financing Type	Urgent Need or Capacity Constraints
P168582	EG Inclusive Housing Finance Program Additional Financing	Restructuring, Scale Up	No
Financing instrument	**Product line**	**Approval Date**	**Will there be additional financing for the IPF component?**
Program-for-Results Financing	IBRD/IDA	20-Mar-2020	No
Projected Date of Full Disbursement	**Bank/IFC Collaboration**	**Joint Level**	
	Yes	Complementary or Interdependent project requiring active coordination	

Is this a regionally tagged project?

No

Disbursement Summary (from Parent ISR)

Source of Funds	Net Commitments	Total Disbursed	Remaining Balance	Disbursed
IBRD	500.00	321.74	178.26	64 %
IDA				%

Grants					%

PROGRAM FINANCING DATA – ADDITIONAL FINANCING (EG Inclusive Housing Finance Program Additional Financing - P168582)

FINANCING DATA (US$, Millions)

SUMMARY

Government program Cost	2,800.00
Total Operation Cost	500.00
Total Program Cost	500.00
Total Financing	500.00
Financing Gap	0.00

Financing (USD Millions)

International Bank for Reconstruction and Development (IBRD)	**500.00**

COMPLIANCE

Policy

Has the parent Program been under implementation for at least 12 months?

Yes

Have the DO and IP ratings for the parent Program been rated moderately satisfactory or better for at least the last 12 months?

Yes

Does the program depart from the CPF in content or in other significant respects?

No

Does the Program require any waivers from Bank policies?

No

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

TASK TEAM

Bank Staff

Name	Role	Specialization	Unit
Jean Michel Lobet	Team Leader (ADM Responsible)	Financial Sector	EMNF1
Laila Ashraf AbdelKader Ahmed	Team Leader	Financial Sector	EMNF1
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Simon Christopher Walley	Team Member	Housing Finance	EFNLT
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Extended Team

Name	Title	Organization	Location
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Arab Republic of Egypt

Inclusive Housing Finance Program Additional Financing

TABLE OF CONTENTS

I. INTRODUCTION

1. **This Program Paper seeks the approval by the Executive Directors to provide an additional loan in an amount of US$500 million to the Arab Republic of Egypt for the Inclusive Housing Finance Program Additional Financing (AF) (P168582).** The proposed AF will be linked to the ongoing Egypt Inclusive Housing Finance Program-for-Results (PforR) (P150993) as its parent program. To further enhance the development impact of the parent Program, a Level II restructuring will: (i) amend the original Loan Agreement (Ln. 8498-EG) to reflect changes to the Program description; and (ii) extend its closing date from April 30, 2022 to December 31, 2024 to align with the closing date of the AF.

2. **The parent Program was designed to support the Egyptian Government's Social Housing Program, which is an integral part of its social safety net package.** The Program's development objective (PDO) is to improve the affordability of formal housing for low-income households in the Arab Republic of Egypt and to strengthen the Social Housing and Mortgage Finance Fund's (SHMFF's) capacity to design policies and coordinate programs in the social housing sector. The original loan in the amount of US$500 million for the Inclusive Housing Finance Program-for-Results was approved by the World Bank Group Board of Executive Directors on May 5, 2015 and became effective on November 11, 2015. The closing date of the loan is April 30, 2022. The Social Housing Program[1] launched by the Government of Egypt (GoE) in the wake of the 2011 revolution has the goal of providing 1 million houses for low-income households. The parent PforR directly financed the expenditures associated with the government's program that aimed at reforming the policies and institutions in charge of making social housing accessible, affordable, and decent by supporting the delivery of demand-side subsidies.

3. **The proposed additional loan will help finance the expenditures associated with (i) scaling up the delivery of housing subsidies, and (ii) strengthening the institutional and regulatory environment of affordable housing through second generation reforms.** After four years under implementation, the Program is demonstrating impactful results in terms of inclusion particularly among young low-income Egyptian households and women. With the proposed additional loan, the government will scale up the delivery of demand-side subsidies for affordable housing to increase number of beneficiaries served by 31 percent and reach the government target of more than one million homes for low-income households by 2024. This agenda remains a key priority for the Egyptian authorities. To further support this scale-up and ensure the long-term sustainability of the Social Housing Program, through the additional financing, the government will continue strengthening the institutional and legal environment of affordable housing. The PDO of the AF will remain the same as the parent Program.

II. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING

A. Country and Sectoral Context

4. **Egypt is sustaining its robust growth, fiscal outturns are improving, and external accounts are stabilizing at broadly favorable levels.** Egypt has improved its macroeconomic environment following key fiscal, exchange rate and energy sector reforms, supported by the International Monetary Fund (IMF) three-year Extended Fund Facility, as well as the series of the World Bank Development Policy Financing

[1] Social Housing Law 33 of 2014 establishing the Social Housing Fund (currently the Social Housing Mortgage and Finance Fund—SHMFF).

operations. Real gross domestic product (GDP) grew at 5.6 percent in FY19, compared to 5.3 percent a year earlier. Unemployment decreased reaching 7.5 percent in the last quarter of FY19, from 9.9 percent a year earlier, and compared to a peak of 13.4 percent in FY14. However, job creation by the private sector remains limited. Fiscal accounts continued to improve as the overall deficit continued its downward trend to reach an estimated 8.3 percent of GDP in FY19, compared to 9.7 percent a year earlier, and from a peak of 13 percent in FY13. Additionally, the primary deficit shifted to surplus. Government debt remains elevated at an estimated 90.2% percent of GDP in end-FY19, but has come down significantly from 108 percent of GDP only two years earlier. Egypt's net international reserves are also at broadly favorable levels, covering around 8 months of merchandise imports.

5. **Inflation has fallen to single-digit levels, thus paving the way for monetary easing.** Inflation has decreased to 3.1 percent in October 2019, from 4.8 percent a month earlier.[2] The Central Bank of Egypt (CBE) has thus cut key policy rates cumulatively by 350 basis points during August—November 2019. The expansionary monetary policy is expected to improve private sector cash flow via its impact on lending rates.

6. **While the macroeconomic environment has improved, social conditions remain difficult.** Nominal wage growth fell below inflation during 2016—2018. Therefore, real wages have been eroded. Official estimates indicate that 32.5 percent of the population lived below the national poverty line in FY18, with the highest poverty rates in rural Upper Egypt. To mitigate the social costs of reforms and their disproportionate effect on those in poverty, the GoE has scaled up available social assistance mechanisms. The budget allocation for the Takaful and Karama cash transfer program grew by 400 percent between 2015 and 2018, expanding the program coverage to 2.2 million households in December 2018. Similarly, the GoE has increased the allocations of the food smartcard programs.

7. **Population growth, poor availability of housing stock, and high prices have made access to decent housing unaffordable for the poorest segments of the population.** Ineffective and uncoordinated past housing policies, coupled with high population growth and high interest rates, have affected the availability of affordable housing in Egypt for years.[3] According to a research conducted during the preparation of the parent Program in 2014, the demand for new homes was estimated at 300,000 units per year plus additional 254,000 units to gradually deal with the existing backlog while the total housing production did not exceed 200,000 units per year.[4] Preliminary research today shows that housing demand could have reached 700,000 units per year because of the growing share of the population below 40 years of age (which was estimated at 60 percent in 2017), as well as the effects of migration due to civil conflicts in the region (Syria, Libya, and Yemen).[5] This current shortage has increased housing prices dramatically making formal housing unaffordable for low-income households and contributed to the

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[2] Inflation had peaked at 33 percent in July 2017. However, it is worth mentioning that the Central Agency for Public Mobilization and Statistics (CAPMAS) has revised the weights of the CPI basket. Thus, starting September 2019, the inflation figures may not be comparable to the same month of the previous year.

[3] World Bank. 2008. Towards an Urban Sector Strategy. Paragraph 32.

[4] Source: Ministry of Housing, Utilities, and Urban Development (MHUUD), 2014.

[5] CAPMAS has conducted a survey to better understand the current trends in the Egyptian housing market. The World Bank supported this activity in the context of the Enhancing Social Housing Governance ASA, financed by the MENA Transition Fund. The results of the survey have become available in November 2019 and are described in Annex 9.

development of informal neighborhoods. This problem has been exacerbated by the complex macroeconomic environment, which has contributed to rising mortgage interest rates (ranging from 20 percent over the last few years) and weak mortgage market.

B. Parent Program Performance

8. **The Inclusive Housing Finance Program is on track to meet its development objective, four years into implementation.** The parent Program's disbursements have reached 64 percent of the total loan amount (US$321 million of US$500 million). Close to 90 percent of the Program expenditures have been allocated to the financing of the demand-side subsidy.[6] The Program has been consistently rated Moderately Satisfactory since its inception. Of the four PDO indicators, one has been met (Establishment of a housing M&E system) and the remaining three are progressing well. Of the 23 intermediate results indicators, 17 have already been met or exceeded their targets. Of the eight disbursement-linked indicators (DLIs), five have been fully achieved. DLI 5 (number of beneficiaries of demand-side subsidies) has not reached its projected ambitious target of 20,000 beneficiaries per month; however, significant progress has been achieved and the SHMFF is now capable of delivering at least 10,000 subsidies per month. The remaining two DLIs - DLI 6 (rental subsidy) and DLI 8 (private sector participation in construction of affordable housing) - are lagging behind. A mid-term review in July 2018 noted solid implementation progress and identified actions to be taken to address the lagging performance of DLI 6 and DLI 8 (including creation of a dedicated rental unit and testing different approaches of potential Public-Private Partnerships [PPP]) and to accelerate the delivery pace of DLI 5 (i.e., delegation of subsidy underwriting to selected banks on a pilot basis).

9. **The overall fiduciary performance of the original Program is assessed to be Moderately Satisfactory.** The Program financial statements are audited by an independent external auditor as required by the loan agreement, and the auditor has expressed unqualified audit opinions on the Program financial statements to date. Most of the fiduciary measures recommended under the original Program were successfully implemented. An independent internal audit function was established in 2016 and staffed and has been discharging its role and mandates. The SHMFF programs were integrated in the state budget and are recorded in the Government Financial Management Information System (GFMIS). Periodic progress reports and annual financial statements are published on the SHMFF's website, although timeliness and presentation need to be further improved. Minor procurement was carried out during implementation (that is, recruitment of an independent verification agent and consultants) in compliance with local legislation and acceptable to the World Bank.

10. **The Program is having a positive impact in terms of inclusion particularly among young low-income Egyptian households.** As of December 2019, the Program (Box 1) has supported the delivery of demand-side subsidies to about 287,600 households and across all governorates. The Program has contributed to greater social and youth inclusion, with 70 percent of Program beneficiaries below the age of 40 and 18 percent below the age of 30. The Program has also prioritized families, with 57 percent of beneficiaries being married couples with young children. Indirectly, the Program has contributed to decreasing the expansion of informal housing on agricultural lands and promoted job creation of skilled and unskilled labor through construction. Analysis of the Program performance shows that on average over the past four years more than 75 percent of Program beneficiary households were among the lowest

[6] The Parent PforR covers approximately a third of every down-payment subsidy issued by the SHMFF.

40 percent of Egypt's households by income distribution and their share has steadily increased from 68 percent in 2015 to 80 percent in 2019.[7] This is an exceptional performance for a mortgage-based affordable housing program dependent on the banking sector to issue mortgages without government guarantees. In most countries, at a similar income level as Egypt, the mortgage market does not reach even the 50th percentile of the household income distribution.[8] In addition, banks have steadily increased the inclusion of informal revenues (albeit verifiable) in their assessment of household incomes, opening the Program to households with informal earnings which were hitherto excluded. Since consumption expenditure (adjusted for family size and cost of living) is one of the most widely used methods to measure poverty, current beneficiary monitoring data on household income do not allow an assessment of the poverty status of individual beneficiaries. Simulations using the national household survey and eligibility criteria of the Program suggest that 32.5 percent of households eligible under the mortgage-based ownership Program, and 40 percent of households under the rental program are most likely poor. The remaining beneficiaries of both programs are considered low-income vulnerable populations. The public rental program has no minimum income requirement and could potentially reach a higher proportion of poor households. In the future, SHMFF could consider enhancing its monitoring system to measure variables on the welfare status of beneficiaries in order to be able to assess the proportion of poor households it is serving, even though the Program is not a social protection program.[9]

11. **The Program has also contributed to increased gender inclusion.** Among the housing owners benefiting from the Program, 20 percent are women.[10] This is a significant percentage considering that almost 13 percent of all households in Egypt are led by women. Government studies show that over 90 percent of assets in Egypt are owned by men. According to the 2019 Women's Economic Empowerment Study, only 5 percent of women in Egypt own assets (either alone or jointly) versus 95 percent of men.[11] Moreover, social norms in Egypt stipulate that men are expected to provide a home to be able to marry, which reinforces the gender gap and indirectly discourages women from home ownership.[12] According to the 2017 Organization for Economic Co-operation and Development report on Women's Economic Empowerment, *"the wife often has very limited or no assets. Then, throughout the marriage, property including the family home is usually registered in the husband's name."* These figures demonstrate a clear ownership gap between men and women and thus illustrate the importance of the Program's contribution to addressing these disparities.

[7] Based on national household income data from CAPMAS' Housing, Income, Expenditure and Consumption reports, including all income from "work" and excluding income from properties (imputed rent) and transfers.
[8] Source HOFINET.org
[9] The estimation of beneficiaries' poverty status is done using periodic quick surveys that allow for imputation of consumption expenditures.
[10] 7.95 percent are female-headed households with a husband and children, 5.17 percent are single, 2.63 percent are divorced with children, and 1.46 percent are widowed with children.
[11] Zeitoun, Nahla Ahmed Mohamed Salaheldin. 2018. *Women Economic Empowerment Study (English)*. Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/861491551113547855/Women-Economic-Empowerment-Study.
[12] Working Economic Research Forum: The Role of Housing Markets in the Timing of Marriage in Egypt, Jordan, and Tunisia, Working Paper No. 1081.

Box 1. Evolution of the Affordable Mortgage Program (AMP)

In the early 2000s, housing subsidies in Egypt were poorly targeted, reaching mostly upper-middle-income beneficiaries; extremely inefficient (paying for an average of 90 percent of the housing price); and distorting the mortgage market. No private lenders participated, and the Housing and Development Bank, a state-controlled bank, ran deficits on its mostly subsidized mortgage portfolio.

The World Bank worked with the Ministry of Housing, Utilities, and Urban Development (MHUUD) and Guarantee and Subsidy Fund (GSF), the predecessor of the current SHMFF, to develop a national demand-side down-payment subsidy program (the AMP) designed to minimize the required subsidy amount to reach low-income households. It leverages households' own contributions by making the subsidy conditional upon households taking out a maximum affordable market rate mortgage loan, with a step-up feature that increased monthly payments each year by 7 percent (since by law public salaries are increased by that percentage each year) and a minimum down payment. At that time, mortgage interest rates were in the order of 11–12 percent, but legal restrictions on payment-to-income ratios and loan terms made it challenging to reach the target group (the 20th to the 60th percentile of the income distribution). By the time these restrictions were removed, political and economic uncertainties and high inflation of the post-revolutionary period brought both housing construction and mortgage lending to a halt. Mortgage rates reached more than 20 percent in 2012.

In that context, the CBE initiated an LE 20 billion stimulus package for the housing sector in May 2014, providing banks with low-cost funds which banks would on-lend to qualifying low-income households under the AMP at a highly subsidized fixed rate of 7 percent for 20 years. Banks were allowed a fixed margin of 4.5 percent, and over time, 24 banks were participating in the AMP, allowing it to reach a wide geographical area.

The World Bank approved a PforR loan for the Inclusive Housing Finance Program in May 2015 to support the SHMFF in scaling up its program and to expand and strengthen it as an institution. The specific components of the subsidy package under the CBE program remained the same, but the values of the down-payment subsidy, the maximum housing prices, and related loan amounts have been adjusted over time to inflation. The specific features of the current program are as follows:

(a) **A relatively small down-payment subsidy** that is progressive, that is, the lower the income the higher the subsidy, and has a maximum value of LE 40,000 (equivalent to 15 percent of the current house price of LE 260,000) and an average of LE 20,000 (8 percent of the current house price). The PforR covers approximately a third of every down-payment subsidy issued by the SHMFF.

(b) **A down payment by the beneficiary** of a minimum of 15 percent of the house price and a maximum of 50 percent.

(c) **A 20-year loan at a subsidized rate of 7 percent** with an amortization schedule that increases the monthly payment by 7 percent each year, based on the legal requirement to increase public salaries by 7 percent annually.

Since January 2019, the CBE liquidity funding for AMP mortgages to the banks has stopped and has been replaced by a scheme where the interest rate subsidy is paid for by the Ministry of Finance (MoF) and banks use their own funds to finance the mortgage loans. This is a transition arrangement since an interest rate subsidy exit mechanism will be implemented by the next affordable housing advertisement campaign, which will be launched in the first half of 2020.

12. **The parent Program has contributed to the institutional strengthening of the SHMFF, making it a good example of public sector governance.** The PforR has been supporting the institutional consolidation of the SHMFF (the implementing agency), contributing to the development of effective and transparent affordable housing policies, and encouraging the design of effective and well-targeted housing subsidies for the lower-income groups, particularly women and youth. The SHMFF has a

professional board and management team, robust internal controls, periodic disclosure obligations, and robust monitoring and evaluation (M&E) systems to monitor progress and impact of housing policies. It is also a good example of gender inclusion with key management positions taken up by women (including the chief executive officer, several department heads, and a few board members).

13. **The delivery pace of demand-side subsidies was initially slower than projected during the design phase of the parent Program, but it has increased over time.** The Program had a very slow start. During the first year of the Program, the SHMFF was only able to deliver up to 3,000 subsidies per month. Today with the support of the PforR, the SHMFF issues subsidies, on average, to 10,000 households per month (or 120,000 per year). This is a good number compared to global standards.[13] However, the parent Program had higher ambitions and expected the SHMFF to be able to deliver subsidies to 500,000 households by 2019, at a pace of 20,000 households per month. These figures and experience during implementation lead to the conclusion that these targets were overly ambitious. An analysis of the SHMFF's workflow shows that the institution at its full capacity and with the implementation of further operational reforms will be able to deliver a maximum of 11,000–12,000 subsidies per month.

14. **Despite the solid performance of the Program, private sector participation in the construction of affordable housing has not taken off as expected.** As of the last Implementation Status and Results Report (ISR) of February 2020, only 1,950 demand-side subsidies supporting the purchase or rental of housing units built by the private sector have been delivered, while the target was 250,000 by 2020. The weak uptake of private sector participation in affordable housing has three main reasons. First, after the Egyptian revolution in 2011, many legal issues surrounding land allocations and use between the government and private developers (inappropriate use of lands allocated for social housing) needed to be renegotiated, triggering trust issues which made public-private partnerships more difficult. Second, the conditions offered by the government for private developers to build affordable projects were not financially viable and did not ensure a level playing field. Third, over the last few years, Egypt has witnessed a lucrative construction boom in the high-end market that has shifted the attention of private developers from affordable housing to high-income housing. As a result, 99 percent of affordable housing construction projects have been carried out by state-controlled construction companies since 2011.

15. **By contrast, private financial institutions have been strong supporters of the Program.** The PforR has been instrumental in attracting lenders to this new market segment, as well as establishing that lending to this sector can be profitable without creating credit risk. At its inception, the Program used the state bank system as a distribution channel for the delivery of affordable mortgages. More than 14 private banks and 8 specialized private mortgage companies have now signed Memoranda of Understanding (MoUs) to participate in the Program. The partnership has been successful, and today, 23 percent of the affordable mortgages are delivered by private financial institutions. The portfolio quality of affordable mortgages is very good with only a 0.2 percent nonperforming loan (NPL) rate.

16. **The private rental component has not progressed over the last four years.** The parent Program expected to support both private landlords and tenants through the design of specific subsidies. However, this work stream never took off. The GoE has focused on the ownership program since home ownership is a high priority for Egyptian households.[14] In addition, the lack of a dedicated structure within SHMFF

[13] For example, France delivers about 8,000 subsidies per month.
[14] This was confirmed in the recent CAPMAS housing demand study, see Annex 9.

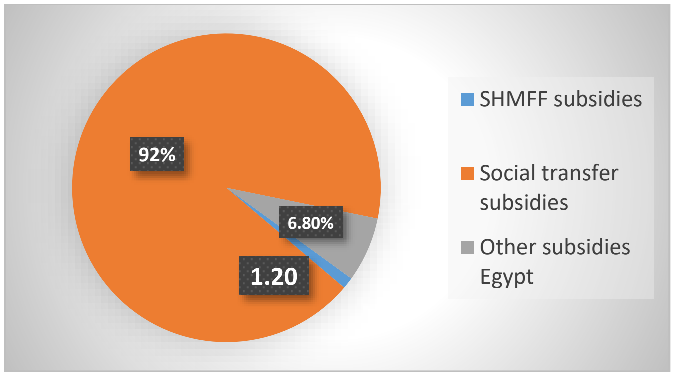
and the absence of data on the demand for rental units and comprehensive understanding of the key constraints faced by private landlords prevented the SHMFF from focusing on affordable rental.

C. Rationale for Additional Financing and Strategic Context

17. **The rationale of the parent Program remains relevant for the AF.** Providing adequate housing for the poor remains a key priority for the GoE. The presidential program of providing one million homes to low-income people remains relevant, and there is strong commitment from country authorities to deliver on the ambitious targets.[15] The key premises for justifying the intervention under the parent Program remain unchanged: (a) lack of availability and high price of housing; and (b) complex macroeconomic environment which has resulted in high inflation and high interest rates, making it impossible for low-income population to afford a home. Under these conditions, the provision of formal and decent affordable housing for the low-income populations is not possible without an effective state intervention to address this problem. However, such an intervention requires strong institutional capacity to design policies that support affordability of homes and at the same time do not create market distortions. The SHMFF, the institution in charge of housing policies in Egypt, has carried out its mandate effectively since its creation in 2014 with the support of the ongoing Inclusive Housing Finance Program and Enhancing Social Housing Governance Advisory Services and Analytics (ASA).

18. **Given its significant impact and low fiscal cost, the Social Housing Program makes a strong case for a scale-up.** For a flagship national housing program that has delivered and allocated more than 280,000 homes to low-income households since 2014 (Figure 1), the government's direct fiscal allocation to the program has been modest. Even if the total amount of subsidies issued by the MHUUD for housing and utilities are taken into consideration (of which the SHMFF subsidies are only one part), these were only 0.3 percent of the total subsidies, 0.08 percent of the total government expenditures, and 0.02 percent of the GDP for FY15/16, the latest year for which these figures are available. In comparison, the social transfer programs commanded 92 percent of the total subsidies, 23 percent of the total government expenditures, and 7 percent of the GDP.

Figure 1: Share of the SHMFF Housing Subsidies in Total Subsidies



Source: Ministry of Finance - Egypt

[15] This was announced during the election campaign for President Sisi in 2014, confirmed in 2015, and more recently confirmed as part of the current government program: https://www.reuters.com/article/us-egypt-housing-idUSKBN0TS14620151209.

19. **The current structural reform has negatively affected the poorest segments of the population requiring an immediate scaling up of the Program, making the AF very timely.** Construction costs and house prices have also escalated, and housing affordability remains a major constraint for low-income households. Therefore, it is critical to scale up the delivery of demand-side subsidies as part of the overall social safety net and contribute to social peace and stability. The parent Program had targeted 725,000 subsidies to be delivered in the context of the AMP. The proposed AF will scale up the delivery of subsidies to increase the number of beneficiaries by 31 percent. This will allow SHMFF to deliver 950,000 subsidies for ownership by 2024. The Program will also be further strengthened to ensure that more than 100,000 low-income households (below LE 2,500 or US$146) that do not qualify for the AMP still have access to affordable housing through a revamped rental program.

20. **The scale-up will strengthen the positive social outcomes of the Program.** After four years of implementation, the Program had positive impact in terms of social inclusion (see paragraphs 10-11). The Program will further contribute to facilitating access of low- and middle-income groups (within the 20th and 70th percentile of the income distribution) to appropriate ownership and rental housing schemes. This will also alleviate the growth of informal and unstructured housing. The Program is expected to adopt mechanisms that promote social inclusion and access to affordable housing to various disadvantaged and vulnerable groups. The Program will focus on including a large bracket of population that has been excluded from decent and affordable housing, thus fostering equitable access to the Program by various socially marginalized groups, including female-headed households, poor families in marginalized governorates and lagging regions, and groups with special needs.

21. **A second generation of institutional and regulatory reforms is required to support the scale-up of the subsidy delivery process, strengthen the affordable housing ecosystem and further improve the institutional capacity of SHMFF:**

22. **SHMFF needs to implement internal reforms aiming at improving its operations and institutional structure.** SHMFF needs to implement further institutional reforms to ensure its governance systems and internal structures are fully conducive for the delivery of the ambitious targets. For example, the subsidy delivery process remains administratively heavy and requires finetuning to serve more efficiently Program beneficiaries (proposed new DLI 12). The claims process is scattered and requires consolidation to respond more effectively to citizen complaints and to minimize fraud (proposed new DLI 3.1). Rental housing is a critical element of affordable housing, and vacancy remains a key issue in Egypt, but no dedicated institutional structure within the SHMFF exists to support the design of the relevant policies (proposed new DLI 6.1 and 6.2). Climate change is a significant risk for Egypt. Therefore, the GoE should lead by example and introduce green standards into affordable housing (proposed DLI 11).

23. **The expiration of the CBE credit line provides an opportunity to review the calibration of the subsidy model to make it more transparent, efficient and fiscally responsible.** The LE 20 billion CBE credit line was closed in January 2019 following the recommendation of the IMF. As a result, the interest rate subsidy is now paid from the budget, adding to the overall fiscal costs. The expiration of the credit line provides an opportunity to rethink the fundamentals of the Affordable Housing Program**.** Interest rate subsidies are expensive and regressive. Therefore, it is critical to support the SHMFF with the gradual phasing out of the interest rate subsidy to ensure the Program remains sustainable and fiscally responsible (proposed new DLI 9). The phasing out of such subsidies needs to be carried out in a progressive and orderly manner to minimize the impact of the Program changes on the target population while minimizing the fiscal impact for the government.

24. **Private sector and government authorities have taken steps to rebuild trust and explore new opportunities for PPPs in affordable housing construction.** To reduce government fiscal outlays, it is crucial to reengage with the private sector on affordable housing construction. 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 SHMFF must define itself as a credible and effective partner and ensure a level playing field for all private sector entities. Private developers have recently shown strong interest in affordable housing. The AMP provides diversification opportunities, a steady source of income for private developers, and a continuation of employment in the construction sector. An effective partnership between the government and private sector requires clear rules of engagement from the public sector as well as a properly regulated and supervised industry to protect the Program beneficiaries.[16] The government has approved new PPP guidelines in January 2020 addressing the key concerns of private developers to facilitate their participation in affordable housing (see paragraphs 46-47) (proposed new DLI 8.1, 8.2 and 8.3). As a result, private developers have committed to build 10,000 units during the pilot phase.

25. **The real estate industry is contracting due to price-output volatility, which in turn can potentially have adverse economic consequences if no regulatory action is taken soon.** Preliminary research on shadow banking conducted in the context of the preparation of the proposed AF confirmed a significant growth of installment sales by private developers. From a sample of 51 projects representing close to 150,000 units worth LE 463 billion, all units are sold in installment sales and relate to high-end housing markets. Such a system of shadow banking exceeds half of the overall bank lending to the private sector and 10 percent of GDP. These practices generate significant risks to the economy in terms of real estate cycle volatility, consumer protection, large scale mobilization of long-term retail savings, and reputation for the regulatory authorities. A well-regulated developers' industry would: (a) unlock the expansion of secured forms of financing (through mortgage[17] during construction phase, which are not allowed by the CBE, rather than installment sales); (b) refinance (through banks loans to developers); and (c) enhance consumer protection (proposed new DLI 10.1 and 10.2).

26. **The proposed AF will contribute to achieving the World Bank Group's (WBG) twin goals.** The AF is aligned with the Country Partnership Framework for Egypt (CPF, Report No. 94554), key findings of the Systematic Country Diagnostic (SCD, Report No. 99722), and Performance and Learning Review (PLR, Report No. 135709-EG). The parent Program and proposed AF are aligned with CPF objectives 1, 2, and 3 (improved governance, private sector development, and improved access to short-term income opportunities for the poor) and with one of the SCD highest priorities (improved governance). Objective 3.3 of the CPF identifies increased access to housing for low-income population as a key priority. The CPF states that the provision of affordable housing will directly contribute to achieving the WBG twin goals of eliminating extreme poverty and boosting shared prosperity in a sustainable manner through addressing several key constraints to growth and well-being of the poor. The provision of better targeted affordable housing subsidies will have a direct and immediate effect on poverty by increasing the percentage of income available for non-housing costs and by reducing transportation costs and increasing proximity to

[16] Extensive consultations with private sector developers were held during the preparation phase of the AF. The proposed AF will address identified challenges through: (i) ensuring good locations near services and employment centers; (ii) ensuring a level playing field; and (iii) mainstreaming application processes for units built by the private sector.

[17] The CBE does not let banks extend mortgage loans to individual buyers over a construction phase.

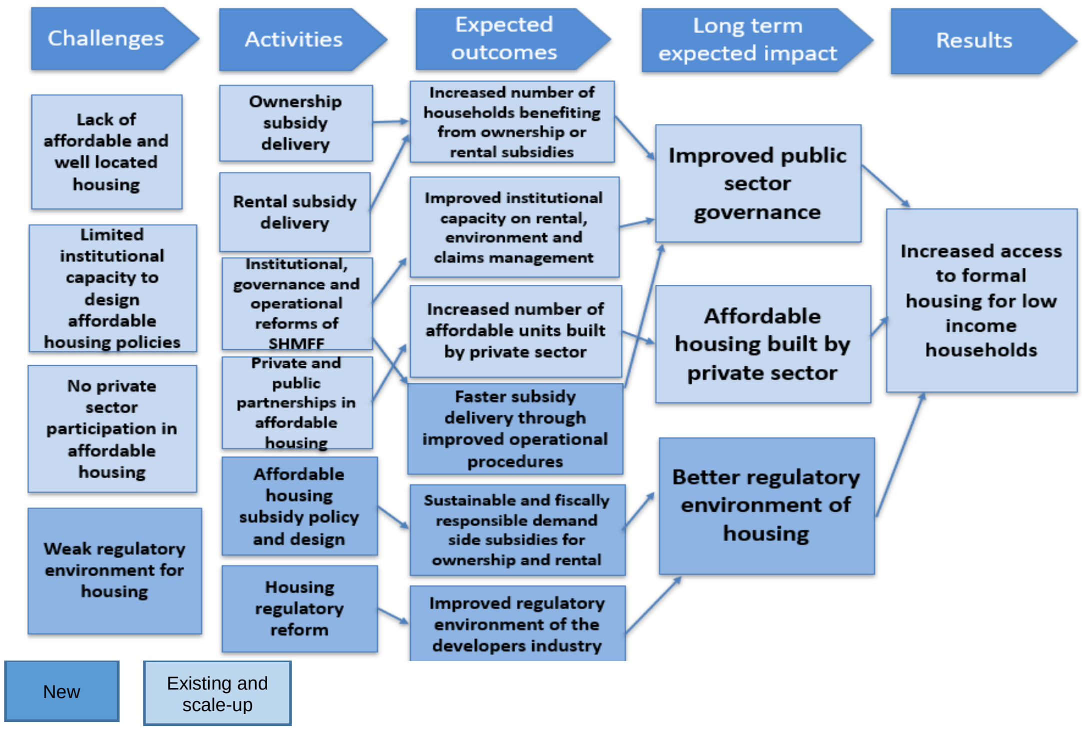
employment opportunities, markets, and services. The PLR continues to support inclusive housing finance as a key priority. The gender-related actions of the Program are also in line with WBG's Gender Strategy pillar on "Removing Barriers to Women's Ownership and Control of Assets".

27. **The AF also contributes to the implementation of the enlarged WBG Middle East and North Africa strategy and the Maximizing Finance for Development (MFD) approach.** The proposed AF will support the development of PPPs for private companies to develop low-income housing and bring private rental landlords into the low-income housing sector. Private sector companies are expected to build close to 125,000 affordable units. Both the parent operation and the proposed AF have DLIs targeting private sector participation in affordable housing (e.g., DLI 8, 8.1, 8.2 and 8.3 on number of demand-side subsidies provided supporting the purchase or rental of housing units developed private entities). Furthermore, in the context of the new MoU between the MoF and SHMFF, the banking sector, including private banks, will play an even more proactive role in the financing of affordable housing mortgages because the liquidity for the subsidized loans will come from the participating banks' own capital. The MFD approach as well as the social and economic inclusion objectives are also in line with the enlarged MENA Regional Strategy (March 2019), in particular, its pillar on renewing the social contract.

III. PROPOSED CHANGES

28. **The proposed AF will support the scale-up of the delivery of subsidies, deepen the reforms of the affordable housing ecosystem and bolster the institutional strengthening of the SHMFF (Figure 2).** An updated technical assessment is included in Annex 2. Similar to the parent Program, the AF will contribute to improving public sector governance in the area of affordable housing (including ensuring level playing field) and increasing access to formal housing for low-income people in the long term. At the end of the Program, the country is expected to have: (a) improved the regulatory environment for housing; (b) strengthened the governance and institutional framework of the SHMFF; (c) improved the operational efficiency, accountability, and transparency of the SHMFF; (d) increased the number of households benefiting from affordable ownership and rental programs; and (e) increased involvement of the private sector in affordable housing construction. To achieve these outcomes, the Program will: (a) support the development and implementation of a more transparent, socially inclusive and fiscally responsible scheme to replace the costly interest rate subsidy and regulate the private developers' profession (proposed new DLIs 9 and 10), (b) strengthen the governance of the SHMFF by establishing new departments (Environment, Claims Management, and Rental Units) (proposed new DLIs 3.1, 6.1 and 11), (c) improve the operational efficiency of SHMFF by implementing new workflow arrangements (proposed new DLIs 12 and 12.1), (d) increase access to affordable housing by scaling up the delivery of subsidies for ownership and developing a new rental program (scaled-up DLI 5 and new DLIs 6.1 and 6.2), and (e) promote more private sector participation in affordable housing construction (proposed DLIs 8, 8.1, 8.2 and 8.3).

Figure 2. Theory of Change - Egypt Inclusive Housing Finance Program



29. **The proposed AF will scale up existing DLIs, as well as introduce new institutional and regulatory DLIs.** The parent Program had four components: Strengthening Governance and Institutional Setup of Housing Sector (Component 1), Enhancing Transparency and Accountability of Social Housing Programs (Component 2), Improving Access to Affordable Housing (Component 3), and Promoting Well-located Social Housing (Component 4). The AF will build on the first three components of the parent Program. About 73 percent of the AF amount will focus on supporting the scale-up of Component 3 while the remaining 27 percent will focus on institutional building actions under Components 1 and 2 (Table **1**). All the proposed additions and changes are in line with the PDO of the parent operation. The PDO remains the same. Program boundaries have not changed. The AF will continue financing the delivery of the demand-side subsidies and associated operational costs within the boundaries of the Affordable Housing Program. New DLIs (see sections III.A, III.B, and III.C) and an additional PDO indicator have been included to track the implementation progress under the AF. The M&E framework remains the same, but the timeframe for achieving results was revised to reflect the closing date of the AF (December 31, 2024).

Table 1. New Cost Allocation by Component (US$, million)

Component	Current	Cost Allocation		
		AF	Reallocation	Total
Component 1: Strengthening Governance and Institutional Set Up of Housing Sector	100	129	0	229
Component 2: Enhancing Transparency and Accountability of Social Housing Programs	50	6	0	56
Component 3: Improving Access to Affordable Housing	325	365	0	690
Component 4: Promoting Well-located Social Housing	25	0	0	25
Total	**500**	**500**	**0**	**1,000**

A. Proposed Changes to Component 1: Strengthening Governance and Institutional Set-Up of Housing Sector (US$129 million)

(a) Improvement of the Operational Efficiency of the SHMFF (US$15 million)

30. **The AF will contribute to bolster the improvement of the operational efficiency of the subsidy delivery process.** A more effective workflow delivery process will be implemented to allow the scale-up of the distribution of demand-side subsidies for ownership. The SHMFF will design and implement pilots with multiple banks for 5,000 affordable homes in different locations. Selected banks in targeted locations will receive full delegation from the SHMFF of the subsidy approval process (underwriting, processing and delivery). The pilots, to be developed by the SHMFF, will be used to test a fully delegated process by participating banks on a small scale and will help move away from the system of national advertisement campaigns. The proposed AF will also encourage the reduction of the number of interventions of the SHMFF during the subsidy approval process. As a next step, a workflow analysis will be carried out to streamline the existing process. The process will be made more efficient (thus allowing for further increases in affordable mortgages reinforcing the banks' ownership of the Program) by reducing the number of steps in processing of subsidies.

31. **Proposed new DLIs and DLRs.** The proposed AF introduces DLI 12 'Improve the efficiency of the subsidy application and issuance process' with two DLRs, namely: DLR 12.1 'Carrying out of a review and streamlining of procedures and screening processes of application, analysis and provision of the subsidy and implementation of recommendations', and DLR 12.2 'Pilot delegation of underwriting procedures to selected banks'.

(b) Improvement of the Financial, Economic, and Regulatory Environment of Affordable Housing Finance (US$100 million)

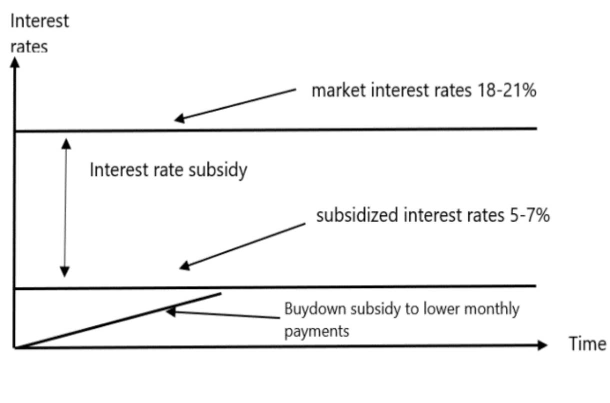
(i) Interest Rate Subsidy Exit Mechanism (US$50 million)

32. **The AF will contribute to the development, adoption, and implementation of a financially sustainable, fiscally responsible and socially inclusive subsidy mechanism that progressively phases out the interest rate subsidy.** The implementation pace and exit strategy will depend on the macroeconomic environment, particularly interest rates. However, even with an extended stagnation of high interest rates over the medium term or even a potential increase, a sustainable exit mechanism can still be implemented. Several countries around the world since the 1980s, including the United States, Mexico, and South Korea, have replaced interest rate subsidies with more efficient, transparent and socially progressive down-payment subsidies.

33. **A new subsidy methodology will be implemented during the first half of 2020 when a new advertisement campaign will be launched.** The GoE will adopt an interest rate exit mechanism that progressively phases out the interest rate subsidy and increase the down-payment subsidy (Figures 3 and 4). Since the current level of the existing down-payment subsidy is relatively small compared to housing prices (in the order of 15 percent on average), it absorbs a steady increase in the interest rates, while keeping the affordability level stable without exceeding 33 percent of the housing price at the lowest income level. This is a modest subsidy level by international standards. Other parameters will have to be reviewed at the same time to ensure the exit mechanism is sustainable and the Program continues serving households between the 20th and 70th percentile of the income distribution. When subsidized interest

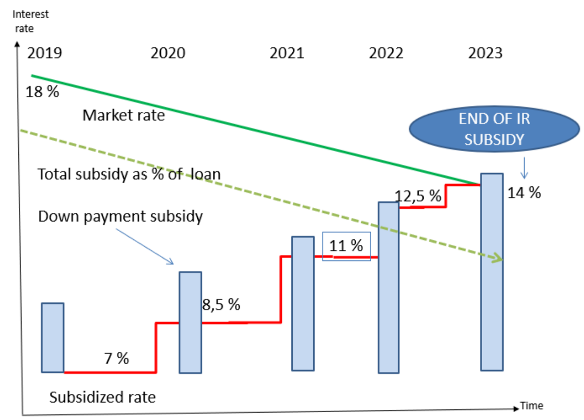
rates gradually increase each year and monthly repayments increase, the size of the down-payment subsidy will be adjusted, taking into account changes in household incomes and prices of housing units. A review of the size and other characteristics of housing units and prices across geographic areas will allow greater diversification of housing options relative to preferences and ability to pay by qualifying households. Even if market interest rates do not decrease as currently anticipated, the interest rate subsidy will be phased out and absorbed in a more efficient and equitable down-payment subsidy (Box 2). In the unlikely scenario of an increase in interest rates, the strategy would similarly be based on an increase of the down-payment subsidy. See Annex 6 for a detailed analysis on the interest rate phase-out mechanism.

Figure 3. Current Subsidy System



Source: World Bank Staff estimates.

Figure 4. Example of Transition over Four Years



Source: World Bank Staff estimates.
Note: IR = Interest rate.

Box 2. Progressive and Adaptive Interest Rate Exit Strategy

Prudent Anticipation of Market Conditions

The exit strategy design is based on a prudent estimate of future market rates. Following the floating of the currency in November 2016, market rates for long-term loans increased from 11–12 percent to over 20 percent based on CBE rates (mid-corridor) of more than 18 percent. The CBE rate has started to decrease as of February 2019 and reached 13.75 percent in September 2019. The current expectation is that it would get back to 11 percent over the next 18–24 months, implying market rates of 13–14 percent.

Methodology and Modeling

The SHMFF, with support of the World Bank TA, commissioned the development of a financial model able to: (a) test a variety of financing plans for individual loans for the program, with or without interest rate subsidies, and (b) provide forecasts for expenses on individual loans as well as for the overall program expenses. The model for individual loans allows the SHMFF to test many outcomes based on changes in interest rates, value of the homes, incomes, the size of the down-payment subsidy, and the amount of the down payment provided by the borrower. At the same time, the SHMFF has started working on the principles of an exit strategy for the interest rate subsidy, considering expected increases in construction cost as well as expected increases in income levels.

Progressive and Adaptive Strategy

Based on the prudent forecast of market rates at 11–12 percent by 2021, the model indicates that it is possible to progressively eliminate the interest rate subsidy over the next few years and rely solely on (increased) down-payment subsidies to finance affordable housing. The key transition steps are as follows:

- Interest rates would be progressively increased to reach market levels over three to four years. Each year (or every six months depending on how the SHMFF markets the units), the interest rates for new loans would be higher than in the previous campaigns, starting at 8.5 percent for the next announcement.
- A higher percentage of down-payment subsidy that would not exceed 50 percent of the cost of the house for the lowest-income households. Despite the high down-payment subsidy, according to simulations, the total cost of the subsidy program would still be 25–30 percent lower than a mix of the actual 7 percent subsidized rate and down-payment subsidy. International examples show that a total subsidy amount of 45 percent to 33 percent of house cost, with a rapid decrease at higher income levels is considered manageable, particularly during the interest rate subsidy exit phase. Mexico, Chile, and Indonesia are some of the countries with subsidy systems within that range or higher.
- Income group targeting in nominal terms would be adapted from the original bracket of bracket of LE 1,500–3,500 (approximately US$92–216) per month to LE 2,500-5,700 (approximately US$154-315), consistent with inflation in prices and wages and making sure that the targeted fraction of the income distribution remains the same.
- The types of units provided through the program would be diversified, with smaller, less expensive units for lower-income households.

An exit trajectory based on four annual steps with the 11–12 percent interest rate as end result would, in the light of recent economic developments, be realistic, as it would:

- Remain very prudent with regard to possible market developments (it would be possible to implement the interest rate step-up by semiannual increments to smoothen the phasing out),
- Allow for adaptations in the trajectory when interest rate and inflation movements so require,
- Be acceptable for the public and not increase the credit risk for the lender, and
- Continue serving households between the 20th and 70th percentile of the income distribution.

Finally, in the case where rates would remain at their current level (18 percent), the AMP will increasingly rely on down-payment subsidies to phase out the interest rate subsidy, subject to the following conditions:

- A higher percentage of down-payment subsidy that would not exceed 50-55 percent of the value of the property for the lowest-income households (but the total cost of the subsidy program would still be 25–30 percent lower than a mix of the 7 percent subsidized rate and down-payment subsidy), and
- A higher nominal minimum income to access the program in line with the most recent CAPMAS income and expenditure data would be required to keep the program financially affordable for the same 20th percentile of the income distribution (LE 2,500). Overall subsidy levels will depend on type and price of houses.

34. **The achievement of the exit mechanism DLI will be accomplished in two phases.** First, the new methodology will be developed describing step-by-step the process, target population (20th to 70th percentile of income distribution), and planned implementation calendar for phasing out the interest rate subsidy progressively during the next 3–4 years. The proposed methodology will be prepared to the satisfaction of the World Bank and will be approved by the board of the SHMFF in 2020. Second, the adopted new methodology will be implemented as soon as the next advertisement campaign is launched

in the first half of 2020. The implementation will be verified annually by reporting whether the subsidy advertisement campaign is consistent with the new methodology.

35. **Proposed DLI.** The proposed AF introduces DLI 9 'Development, adoption and implementation of an alternative system that progressively phases out the interest rate subsidy'.

(ii) Regulation of the Real Estate Profession and Installment Sales Practices (US$50 million)

36. **The AF will support the adoption of legislation to regulate the real estate developers' profession and installment sales.** The implementation timeline will follow a gradual approach to allow the industry to adapt to the proposed regulatory changes. Two levels of regulatory and supervisory interventions are envisioned under this component, during the construction and the installment phases (post construction):

- During the construction phase, there is an urgent need to make mandatory the escrow account (or similar instruments) practice (whereby homeowner's funds are earmarked to their real estate project and finance the actual delivery of the purchased unit in time and with the expected quality instead of using the funds provided by clients to finish other projects). This will be regulated by the MHUUD under a specific legislation (i.e. real estate developers law, which is different from the current draft prepared by the industry proposing the creation of a self-regulatory entity). A regulatory entity under the MHUUD will regulate the real estate profession (similar to the real estate regulatory authority in Dubai or India).
- At the installment phase (after completion of the housing program), developers will be regulated by norms creating a level playing field with banks and mortgage companies. This would be regulated ideally by the Financial Regulatory Authority (FRA) and amendments to the Mortgage Law (or other law as required) will need to be introduced.

37. **Proposed DLIs and DLRs.** The proposed AF introduces DLI 10 'Adoption of legislation regulating real estate profession and installment sales', with DLR 10.1 'Adoption of a real estate developers law (including implementing regulations; and related regulatory authority) in form and substance satisfactory to the Bank', and DLR 10.2 'Adoption of regulations on installments sales post construction including supervisory regime, in form and substance satisfactory to the Bank'.

(c) Institutional Organization of the SHMFF (US$14 million)

Environment Unit (US$14 million)

38. **The AF will support the operationalization of the Environment Unit within the SHMFF.** The key parameters of operationalization, including minimum staffing requirements and key performance indicators (such as number of occupational health and safety [OHS] audits conducted, number of environmental audits, correction actions that have been endorsed by developers, and documentation of the findings in quarterly progress reports) will be defined in an Operations Manual of the new Environment Unit (which is one of the Program Action Plan [PAP] actions) that will be prepared to the satisfaction of the World Bank.

39. **The Program will also support the implementation of basic green initiatives.** The Program will support the effective certification process of social housing units built by both public and private sector. The initial target is 25,000 units over the life of the Program (about 9 percent of the units that will be

constructed in three years of the Program implementation). It is expected that this activity may have a slow start and would accelerate later once green building concepts are better assimilated by developers. The certification parameters will also be included in the Operations Manual of the new Environment Unit. As the construction costs will be considered in social housing, the Program is limited to entry-level Green Pyramid Rating System (GPRS) certification, which entails measures to the site selection, designs, selection of materials, and introduction of some plumbing and power saving tools. Same as green building standards in Western Europe and Northern America, GPRS is a voluntary system. Developers are not mandated by law to use it. To create demand in Egypt for GPRS-certified buildings, minimal critical mass of GPRS-certified buildings needs to be constructed. After that competition will drive demand for high-quality GPRS-certified residential and commercial green buildings. Although only 9% of new construction are planned to be GPRS-compliant/certified in the scope of this Program, the estimated number (25,000 units) is a substantial addition to the existing stock of GPRS buildings in the country. This effort will increase demand for GPRS-compliant buildings overall in Egypt, and train experts in GPRS design, audit and certification. Therefore, the initiative will have a long-term effect on the scale far beyond residential subsidized housing, and contribute to climate change mitigation and adaptation efforts in Egypt. Flood risk consideration could be included into site selection criteria and incorporated into the entry-level GPRS certification, thus resulting in substantial climate adaptation of Egypt.

40. **Proposed DLI.** The proposed AF introduces DLI 11 ‘Operationalization of SHMFF Environment Unit’ and DLI 11.1 ‘25,000 social housing units built by public or private developers have received green GPRS certification as determined per criteria set out in the Operations Manual’.

B. Proposed Changes to Component 2: Enhancing Transparency and Accountability of Social Housing Programs (US$6 million)

Claims Management Unit (US$6 million)

41. **The AF will strengthen the capacity of the SHMFF through the establishment of a Claims Management Unit.** Building on progress to date on DLI 3 (Establishment and functioning of an accountability and transparency mechanism within SHMFF for implementing the Program) and the need to enhance its grievance redress mechanism (GRM), the SHMFF will streamline its administrative and workflow procedures for handling claims. This will be done through the creation of a dedicated Claims Management Unit with adequate staffing, oversight, institutionalized standard operational procedures, and requisite training for better coordinating the handling of information requests, complaints, and feedback on the Program. A dedicated Claims Management Unit will strengthen the institutional capacity of the SHMFF to manage: (a) an increasing volume of subsidy applications; (b) information requests, feedback, and grievances related to said applications and the broader program; and (c) systematic communications and outreach on the Program. An operational and fully staffed Claims Management Unit will, at a minimum, ensure:

- Adoption and implementation of streamlined operational procedures;
- Adequate staffing and training for coordinated claims handling;
- Service level agreements (SLAs) between the Claims Management Unit and the pertinent SHMFF units or stakeholders essential to claims processing and resolution;
- Maintenance of adequate, inclusive channels for receiving and following up on claims;

- Implementation of systematic outreach and communications campaigns;
- Maintenance of adequate systems for facilitating claims processing (including a ticketing system); and
- Periodic audits and publication of claims monitoring reports.

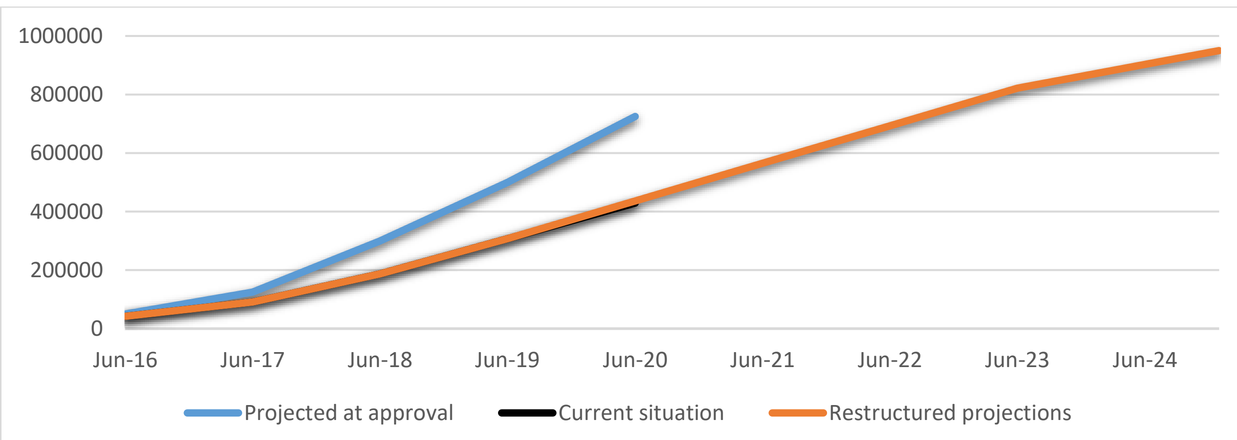
42. **Proposed DLI.** DLI 3.1'Establishment of an operational and properly staffed claims management unit '' will be introduced under the proposed AF.

C. Proposed Changes to Component 3: Improving Access to Affordable Housing (US$365 million)

(a) Scale-up of Demand-side Subsidies for Ownership (US$250 million)

43. **The AF aims at scaling up the delivery of demand-side subsidies (DLI 5).** Additional beneficiaries (31 percent) are expected to receive demand-side subsidies for ownership. The original estimated delivery pace under the parent Program (that is, more than 200,000 beneficiaries per year to reach 725,000 beneficiaries by its closing date, out of the 950,000 social housing units targeted by the GoE program) proved overly ambitious, especially within the envisaged timeframe. The assessments made during the AF preparation confirmed that the maximum target would be 11,000–12,000 subsidies per month. Therefore, by extending the closing date of the parent loan to align with the closing date of the proposed AF (that is, December 31, 2024) and by allocating an additional US$250 million to this component, the SHMFF will be able to deliver 950,000 subsidies by the end of 2024, which corresponds to the government program's ultimate objective (Figure 5).

Figure 5. Number of Households Receiving Demand-side Subsidies (Current and Projected Targets)



Source: The Social Housing and Mortgage Finance Fund

44. **In addition, DLI 5 will continue supporting women's increased access to asset ownership and climate change mitigation measures.** Female-headed households will continue to be given preference during the subsidy underwriting process in the context of the AMP. The proposed AF will further strengthen outreach activities and dissemination of information to incentivize women to use the offices located around the country and the online processes to apply for the subsidies and, thus, ensure the fulfillment of the Program target of reaching 24 percent of female beneficiaries. With respect to climate change considerations, one of anticipated effects of climate change in Egypt is sea level rise and

possible/likely changes in patterns of natural annual flooding of the Nile river. Therefore, communities whose livelihood depends on Nile, as well as communities along the Mediterranean coast, will likely be affected by climate change. Change in the patterns of flooding usually leads to migration of poor citizens from rural to urban areas. Demand for affordable housing in urban areas will increase due to migrants, the problem of informal housing will become more severe. Individuals with income below the poverty line will be most vulnerable to the effects of climate change. Targeted subsidy will allow vulnerable population to adjust to challenges triggered by climate change and will address the problem with informal housing in urban areas. As mentioned in paragraph 39, 25,000 of the newly built units will be part of a green building certification initiative.

45. **Proposed scale-up.** The scale-up supported by the proposed AF will result in increasing the targeted number of households receiving demand-side ownership subsidies from 725,000 to 950,000 by Program completion (December 31, 2024), and allocate additional US$250 million to factor in the supplemental 225,000 subsidies. This scale-up will enable the Program to reach the target of 228,000 female-headed households. The demand-side subsidy, set at US$310 in the parent Program, will be increased to US$553.73 (both parent and AF financing combined) to adjust for the past inflationary pressures.

(b) Private Sector Participation in Affordable Housing (US$84 million)

46. **The AF will support concrete actions to encourage a solid pipeline of PPPs in affordable housing.** As described in paragraph 14, private sector participation in affordable housing construction has been extremely limited to date. Private developers have identified several obstacles that have blocked the possibility of effective PPPs. These barriers include density limitations (number of units per building), limited mixed use of developments (that is, commercial versus housing), competition with government construction companies, and certain construction norms (that is, parking requirements and land size/location). The New Urban Communities Authority (NUCA),[18] the main provider of land in new cities in Egypt,[19] has also made the collaboration with the private sector more difficult. For example, NUCA requires from private developers a letter of guarantee from a financial institution to provide them land for affordable housing construction. State-controlled developers, including NUCA, do not have to comply with such a requirement. The letter of guarantee increases the cost of the operation for private developers because of the high fees required by financial institutions for the issuance of such instrument. An executive resolution from NUCA's board removing this requirement was issued two years ago, but it was never implemented.

47. **The Egyptian government is taking concrete actions (see Box 3) to reestablish the collaboration with private sector and ensure a level playing field between private and public sector actors, making the AF very timely.** The AF will support the development of new PPP deals in affordable housing construction. The objective is to unlock PPPs with agreeable terms that are financially viable for both

[18] NUCA was established in 1979 under Law 59/1979 with a mandate to create new urban centers; redistribute inhabitants far from the Nile Valley and decrease urban extension on agricultural lands; develop new areas beyond existing cities and villages; and ensure availability of land for low- and middle-income housing. The Chairman of the NUCA Board is the Minister of Housing, Utilities, and Urban Development

[19] In November 2019, the Government of Egypt has requested technical assistance from the World Bank to support the reform agenda on land and property registration. This is a critical area of reform in Egypt as property registration is one of the key obstacles for the development of mortgage markets.

parties and that ensure effective level playing field. It is critical to ensure that these PPPs remain affordable for the target population, ensure that construction projects are well-located and have access to basic services and infrastructure (schools, shops, transportation, and job centers). Underwriting procedures for subsidy delivery should remain the same between private and public sector construction projects. Key obstacles identified by the private sector will be addressed in the context of these new PPPs, particularly the letter of guarantee required by NUCA. Payment in installments with grace periods will be made available by NUCA to developers. Such payment flexibility will allow increased participation of medium size developers in the PPP deals. Some of the units built in the context of the PPP will also be part of the green building certification initiative carried out in the context of the new SHMFF environment unit. The AF will encourage concrete actions through DLIs 8.1-8.3 to support private sector participation in affordable housing, including: (a) development and implementation of new PPP guidelines addressing key bottlenecks identified by private developers,[20] (b) call for proposals under the new PPP guidelines, and (c) rollout and implementation of three PPP pilots representing at least 10,000 units. The Program will remain flexible to test different approaches to PPPs to achieve the goal of real private sector participation. Diagnostics and M&E studies will be carried out half way through implementation to identify areas requiring further finetuning. Regardless of the PPP model, the key principles of affordability, level playing field, and location will remain unchanged.

Box 3: New PPP framework for affordable housing construction in Egypt

Context

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 SHMFF must define itself as a credible and effective partner and ensure a level playing field for all private sector entities. SHMFF has been successful in building robust partnerships with private financial institutions. Close to 23 percent of the loans of the AMP are underwritten by private financial institutions. However, collaboration with private developers has not progressed much since the inception of the Program.

The problems

Over the last four years, the Program has recorded the delivery of only 1,950 demand-side subsidies supporting the purchase or rental of housing units built by the private sector while the expected target was 250,000 by 2020. The weak uptake of private sector participation in affordable housing has three main reasons:

- *Trust:* After the Egyptian revolution in 2011, many legal issues surrounding land allocations and use between the government and private developers (incorrect use of lands allocated for social housing) needed to be renegotiated, triggering trust issues which made PPPs significantly more difficult.
- *Rigid regulations making PPP unviable*. Density limitations (number of units per building), limited mixed use of developments (commercial versus housing), and certain construction norms (parking requirements and land size/location) made the economics of a private sector intervention almost impossible making private developers shifting their attention to high end developments.
- *High cost of land and the role of NUCA*. Private developers complained that the price of land sold by NUCA (the public institution in charge of selling land for the development of new cities) is very high. In addition, NUCA requires from private developers a letter of guarantee from a financial institution to provide them land for affordable housing construction.

[20] Formally approved by the Minister of Housing and the SHMFF and NUCA's respective boards. These approvals were completed in November 2019 and January 2020.

- *Level playing field between private developers and public developers.* The price of the land, the cost of utilities infrastructure, and the public services are excluded from the price charged by public developers. However, private developers are expected to pay for all the above-mentioned items which creates competition problems between private and public developers creating in some instances up to 30 percent price difference.

A new opportunity to collaborate
The GoE has taken action and recently signed a new PPP deal with private developers in order to launch a new partnership with private sector. The new PPP deal will start with a pilot phase of 10,000 units. The key terms of the deal are as follows:

- NUCA will provide well-located parcels of land to private developers.
- Developers will be allowed to build on these parcels 30 percent affordable housing (land free of charge) and 70 percent middle-income housing (land priced at market price).
- NUCA will provide flexible payment options for the purchase of the land: 10 percent down payment, and the land will be paid in installments over 10 years with the first 3 years of grace period. No letter of guarantee will be required.
- Affordable unit prices will be capped between LE 350,000 and LE 450,000 based on location and the relevant economic feasibility study.
- Area of housing unit: 80 m^2 up to 83 m^2 max.
- Population density per feddan: 240 persons per feddan.
- Project implementation period: 3 years from the date of receiving permits.
- The selling process will be carried out through the developer in accordance with the regulations, instructions and procedures applicable of the Ministry of Housing and the Social Housing and Mortgage Finance Fund.
- The subsidy underwriting and issuance process will be the same for public and privately built units.

The proposed PPP deal provides a solid foundation for collaboration between private developers and government. These will constitute real PPPs as the private sector will bear the construction risk while in the past it was just an outsourcing of the construction activities by NUCA. The proposed deal addresses the key concerns from private developers including densities, mixed use of land, mixed developments (middle and low income), flexible payments and elimination of the requirement of the letter of guarantee. NUCA has committed to provide well-located land which is critical for the success of the PPP including flexible payment options. Land for affordable housing will be free of charge which will contribute to ensure the level playing field between private and public construction companies. The PPP deal will also help alleviate fiscal spending as the construction costs and commercialization of the units will be carried out by the private sector.

48. **Proposed changes to existing DLI 8 and new DLIs.** DLI 8 and its original target of 250,000 units to be built by the private sector will remain unchanged, but the target date to achieve it will be extended to December 31, 2024. In addition, the proposed AF will introduce three DLIs: DLI 8.1 ‘Development and implementation of new PPP guidelines addressing key bottlenecks expressed by private sector’, DLI 8.2 ‘Call for proposals under new PPP guidelines’, and DLI 8.3 ‘Rollout and implementation of 3 PPP pilots representing 10,000 units’.

(c) Development and Implementation of an Affordable Rental Program (US$29.75 million)

49. **In the context of the implementation of an interest rate exit mechanism, a rental program is even more needed to serve the population that cannot afford a mortgage or prefers renting.** It is critical to build an effective rental program for those who cannot afford a mortgage (lower-income categories)

or prefer renting to ownership (youth). The AMP serves households with incomes between LE 1,500 and LE 5,700 per month (approximately US$92–316). However, a large segment of poor households with incomes below LE 2,500 (approximately US$154) still cannot afford the monthly payment or qualify for a mortgage loan. Although 90 percent of Egyptian households prefer home ownership, young workers with moderate income will also temporarily prefer a rental accommodation to remain mobile or benefit from a more central location.

50. **The AF will support the SHMFF's institutional strengthening to encourage the development of the affordable rental market in Egypt:**

- **Institutional.** The AF will support establishment of a Rental Unit within the SHMFF with a clear mandate to design and implement rental development strategies, policies, and action plans. It would also include a digital platform aimed at facilitating the enrollment of landlords and tenants and matching of rental demand and supply. The platform would provide all the information needed by both landlords and tenants on existing laws, procedures, types of contracts, and intermediation experiences in the rental market, as well as on the rights, benefits, and obligations pertaining to the specific SHMFF programs.
- **Incentive packages.** The AF will also support the development and implementation of a package of incentives aimed at stimulating individual landlords to rent out their apartments/houses to low-/middle-income households. This would not only concern investors in newly built rental housing but also induce owners of vacant or unfinished units in both formal and informal neighborhoods to improve these units and bring them into the market. This action would partially address the existing high levels of vacant properties in the market. The package would consist of two distinct programs: (a) one for landlords, with guarantee schemes, and (b) one for tenants, on the development of demand-side tenant subsidies aimed at filling the gap between the rent required by the investor and the payment affordable to the tenant, estimated at 25 percent of income.
- **Gender.** The SHMFF will give preference to women-headed households in the rating criteria to provide rental subsidies.

51. **Proposed changes to DLI 6 and new DLIs.** The subsidy component of the DLI will not be modified; however, the monetary value per rental subsidy issued will be increased from US$476.07 to US$590.53 to adjust for the past inflationary pressures. The proposed AF introduces DLI 6.1 'Establishment of a functioning rental unit and a digital platform within SHMFF linking private landlords and eligible tenants', and DLI 6.2 'Implementation of a rental incentive package including a rental risk insurance product, and direct subsidies for tenants'.

D. Institutional Arrangements and Verification Protocols

52. **The SHMFF will remain the implementing agency for the AF.** The SHMFF's performance is rated Satisfactory. The SHMFF is properly staffed with qualified professionals and robust governance systems in place. As the AF will scale up the parent Program, it is critical to keep the same implementing entity to ensure continuity of the ongoing Program. As the AF supports further institutional strengthening of the SHMFF (that is, Environment, Rental, and Claims Management Units), additional staff will be recruited to ensure proper implementation of the new Program activities. Verification protocols through an independent verification agent (IVA) will remain unchanged.

E. Program Expenditures

53. **Actual expenditures under the parent operation have been lower than projected during preparation.** The expenditure framework has five main components: (a) overhead; (b) studies, plans, and capacity building; (c) housing data and systems; (d) housing demand programs (ownership); and (e) housing demand programs (rental). From year 1 (2015/2016) to year 4 (2018/2019) under the parent Program, the SHMFF spent about US$0.3 billion (

54. Table **2**), mainly on the ownership component, against projected expenditures totaling US$1.4 billion over the same period. This low level of actual expenditures is consistent with the slower-than-expected implementation of the Program and the Egyptian pound devaluation. Without the Egyptian pound devaluation, the level of expenditures would have reached US$0.6 billion. In addition, the SHMFF managed to outsource some activities (engineering studies, call center, and applications screening), which resulted in lower costs. Some other activities ended up being less expensive than originally forecasted, in particular the SHMFF's management and information system (40 percent rebate on the list price offered by IBM) and the housing data (that the SHMFF got for free from the Housing and Development Bank and the governorates). Finally, it is worth mentioning that the Enhancing Social Housing Governance Trust Fund that started implementation in 2016 partially alleviated the SHMFF expenditures on capacity building and studies.

Table 2. Parent Program Expenditures (US$ million)

Expense Item	Year 1	Year 2	Year 3	Year 4	Total
#1 - SHMFF overhead					
Actual	2.2	2.0	2.2	0.0	6.4
Projected	*2.0*	*3.0*	*3.0*	*4.0*	12.0
#2 - SHMFF studies, plans, and capacity building					
Actual	0.3	0.3	0.4	0.0	1.0
Projected	*2.0*	*2.0*	*2.0*	*2.0*	*8.0*
#3 - SHMFF housing data and systems					
Actual	0.1	0.1	0.3	0.3	0.8
Projected	*3.0*	*3.0*	*2.0*	*2.0*	*10.0*
#4 - Ownership subsidies					
Actual	74.5	44.3	74.0	78.3	271.1
Projected	*199.3*	*332.2*	*398.6*	*465.0*	*1,395.1*
#5 - Rental subsidies					
Actual	0.0	0.0	0.1	0.0	0.1
Projected	*0.8*	*2.5*	*3.4*	*5.0*	*11.7*
Total expenses (actual)	**77.1**	**46.7**	**77.0**	**78.6**	**279.4**
Total projected	***207.1***	***342.7***	***409.0***	***478.0***	***1,436.8***

Source: SHMFF data

55. **The expenditure framework has been revised to take into account implementation delays and savings and reflect the changes introduced by the AF.** The revised expenditure program (Table 3) will consist of the same five items:

- The SHMFF overhead moving forward is based on existing expenditures (mainly staff cost) plus the hiring of at least 15 new staff for the newly created units (Claims Management, Rental, and Environment Units). The total overhead expenditure is increased by 10 percent every year to adjust for inflation.
- The SHMFF's studies, plans, and capacity building include, among others, the housing demand survey conducted by CAPMAS (and paid by the SHMFF for about US$0.4 million).
- Expenditures on housing data and systems include the expected cost of a new server, maintenance fees (accrued by 10 percent each year to take into account the inflation rate), and the implementation of an electronic platform linking landlords to tenants (US$0.1 million).
- Expenditures under the ownership program rely on the following assumptions: (a) a gradually increasing pace of demand-side subsidies to be delivered by the SHMFF (starting from approximately 280,000 as of December 2019 and reaching 950,000 by December 2024), and (b) a gradual increase of the average per unit down-payment subsidy (to offset the impact of the exit mechanism for interest rate subsidies while keeping the same affordability for the low-income households target by the operation).
- The expenditures on the rental component (which were close to zero under the first four years of the parent operation) will take into account: (a) the gradual increase of the number of subsidies delivered to tenants (starting from the current level of 1,931 beneficiaries and reaching 102,400 beneficiaries by 2024), and (b) the incentive package to further stimulate landlords to rent their housing units (including the vacant ones) to low-income households (see new DLI 6). Rental subsidies are cumulative; once a household has entered the Program, the subsidy continues into the following years. Over 20,000 female-headed households will be provided with rental subsidies through the proposed AF.
- The interest rate subsidies (as part of the new temporary interest rate subsidies mechanism replacing the CBE stimulus package) are not included in the Program expenditures because these are considered unproductive expenditures.[21] The total amount of subsidies amounts to approximately US$1 billion over the next five years.
- Private sector contribution under the proposed PPPs supported by the Program are not included in the expenditure framework as it relates to the supply-side if affordable housing which is outside of the scope of the Program. However, private sector contribution is projected to represent more than US$1.2 billion.

56. **Total revised program expenditures are estimated to be US$2.8 billion**. This includes the actual expenditures under the parent loan since inception (about US$0.3 billion) and the total program

[21] The interest rate subsidy is temporary and only covers for the subsidies that were committed during the last advertisement campaign of October 2018 and that were not covered by the CBE credit line which expired as of February 1, 2019. The next batch of advertisement will take place by the first half of 2020, and it will implement the new interest rate exit mechanism.

expenditures projected over the next 5 years (US$2.5 billion, see Table 3). Thus, the PforR (parent plus AF) will finance 36 percent of the total program expenditures. The revised program expenditures take into consideration the effective implementation capabilities of SHMFF based on the experience of four years of program implementation (both ownership and rental programs). In addition, financial projections of items 1, 2 and 3 are based on SHMFF business plan.

Table 3. Program Expenditures (US$ million)

Expense Item	Year 1	Year 2	Year 3	Year 4	Year 5
#1 - SHMFF overhead	2.2	2.6	2.9	3.2	3.5
#2 - SHMFF studies, plans and capacity building	0.2	0.2	0.2	0.5	0.2
#3 - SHMFF housing data and systems	0.9	0.7	0.7	0.7	0.8
#4 - Ownership subsidies	204.7	324.7	441.2	619.4	803.7
#5 - Rental subsidies	15.8	18.6	21.4	24.1	13.9
Total	**223.8**	**346.8**	**466.3**	**648.0**	**822.2**

Source: SHMFF projections (baseline December 2019).

57. **The Social Housing Program has a low fiscal cost.** Even if the total amount of subsidies issued by the MHUUD for housing and utilities are taken into consideration (of which the SHMFF subsidies are only one part), these were only 0.3 percent of the total subsidies, 0.08 percent of the total government expenditures, and 0.02 percent of the GDP for FY15/16, the latest year for which these figures are available. In comparison, the social transfer programs commanded 92 percent of the total subsidies, 23 percent of the total government expenditures, and 7 percent of the GDP. Focusing on the SHMFF subsidies and taking the current disbursement rate of the SHMFF of 10,000 subsidies per month as the base case, at the average of LE 16,000 (approximately US$1,000) per subsidy, the cost to the government would have been 1.2 percent of the total subsidies, 0.29 percent of the total government expenditures, and 0.09 percent of the GDP during FY15/16 (for a detailed analysis of program sustainability, see Annex 7). For example, Mexico and Chile spend close to 1 percent of their GDP on affordable housing subsidies. Even if the full current interest rate subsidy is put on the budget (in net present value [NPV] terms for 16,000 subsidies per year), the cost to the GoE would still only amount to 5.7 percent of the total government subsidies, 1.39 percent of the total government expenditure, and 0.4 percent of the GDP (using FY15/16 figures). With the downward trend in interest rates, the amount of the interest rate subsidy is projected to decrease over time. Based on those numbers, the fiscal sustainability of the program is deemed strong (even after adding the interest subsidies) and does not appear to put the current fiscal consolidation effort off track. In addition, based on the recommendations of the IMF, the LE 20 billion CBE line of credit was eliminated in January 2019.

58. **The GoE has requested an advance in order to move forward with the implementation of several activities.** The WBG will provide an advance payment of 25 percent of the PforR financing to the client due to the large amount of activities which have been launched and completed in the first six months of the operation. These activities include: the creation of a claims management unit in SHMFF (DLI 3.1); the creation and operationalization of an environment unit in SHMFF (DLI 11); the implementation of the interest rate subsidy exit mechanism before June 2020 (DLI 9); and the timely scale-up of DLI 5 to meet increasing demand, especially in light of the latest income data showing increased poverty in Egypt. In addition, approval of the revised PPP guidelines by the boards of NUCA and SHMFF will constitute prior results for private sector participation (DLI 8).

F. Closing Date

59. **The AF will have a closing date of December 31, 2024.** Considering the effective implementation pace of the activities under the parent Program and planned new activities under the AF, it is critical to set a realistic timeline for implementation based on the lessons learned from the parent Program. The parent loan closing date of April 30, 2022 will be aligned with the closing date of the AF.

G. Program Action Plan

60. **The PAP has been updated to include new actions related to the DLIs on the Claims Management and Environment units.** Additional actions on gender have been included to enhance the existing gender-related activities carried out by the SHMFF.

H. Changes to the Results Framework

61. **The Results Framework has been updated to reflect the inclusion of new DLIs and the scale-up of the Program.** Eleven new DLIs with DLRs have been included under the AF (Table 4). The M&E framework was amended as follows (Table 5): one new PDO indicator was included and the target of PDO Indicator 1 (see Table 5) was increased from 830,000 to 1,052,400 beneficiaries. The target of Intermediate Indicator 3.1 on 'Number of households receiving demand side housing ownership subsidies (AMP) for new units' was increased from 725,000 to 950,000 beneficiaries. To monitor the extent to which the Program contributes to the closing of the gender gap in ownership and rental, the results framework has been updated to include new indicators on ownership and rental, and a clear identification of targets for female beneficiaries.

Table 4. List of Amended DLIs and New DLIs

Disbursement Linked Indicator	Disbursement Linked Result (as applicable)	Amount of the Loan Allocated (expressed in US$)	Disbursement Calculation Formula
DLI #3.1: Establishment of an operational and properly staffed claims management unit	DLR #3.1: An operational and staffed claims management unit has been established within SHMFF, as determined per criteria set out in the relevant verification protocol.	$6,000,000	$6,000,000, of which $2,000,000 upon establishment of the unit; and $1,000,000 for each FY of its operation.
DLI #5: Number of households receiving demand-side homeownership subsidies for new housing units in each Fiscal Year during Program implementation under the AMP (Baseline: 209,398 as of April 1, 2019).	DLR #5: Up to 950,000 households.	$250,000,000	$250,000,000, of which $337.67 for each new household from the baseline of 209,398 households up to 950,000 households. (Note: US$553.73 for both parent and AF combined)

DLI #6: Number of new households participating in rental subsidy programs in each Fiscal Year during Program implementation (Baseline: 1,931 as of April 1, 2019).	DLR #6: Up to 102,400 households.	$29,750,000	$11,500,000, of which $114.47 for each new household above the baseline up to 102,400 households. (Note: US$590.54 for both parent and AF combined)
DLI #6.1: Establishment of a functioning rental unit and a digital platform within SHMFF linking private landlords and eligible tenants	DLR #6.1: An operational and staffed rental unit has been established within SHMFF; and said rental unit has developed a web-based platform within the existing SHMFF website, in form and substance satisfactory to the Bank, all in accordance with criteria set out in the relevant verification protocol.		$8,000,000, of which $3,000,000 upon establishment of said rental unit; $1,000,000 for development of said digital platform; and $1,000,000 for each subsequent FY of operation of said unit and said platform.
DLI#6.2: Implementation of a rental incentive package including a rental risk insurance product, and direct subsidies for tenants.	DLR#6.2: Development and implementation of a rental incentive package including a rental risk insurance product for landlords, and direct subsidies for tenants as determined per criteria set out in the relevant verification protocol.		$10,250,000, of which $2,250,000 for design and launch of said rental incentive package; and $2,000,000 for each subsequent FY of its implementation.
DLI# 8.1: Development and implementation of new PPP Guidelines addressing key bottlenecks expressed by private sector.	DLR# 8.1: Adoption of PPP Guidelines in form and substance satisfactory to the Bank as set out in the relevant verification protocol.	$84,000,000	$17,000,000 upon adoption of said PPP Guidelines.
DLI# 8.2: Call for proposals under new PPP Guidelines.	DLR# 8.2: A public tender process has been launched for private sector participation in affordable housing construction projects in accordance with the new		$17,000,000 upon completion of the tender process.

	PPP Guidelines and as set out in the relevant verification protocol.		
DLI# 8.3: Rollout and implementation of three PPP Pilots representing 10,000 units.	DLR# 8.3: Effective launch and completion of said PPP Pilots tendered under DLR# 8.2.		$50,000,000, of which $5,000 per each demand side subsidy delivered for units built by the private sector under said PPP Pilots.
DLI#9: Development, adoption and implementation of an alternative system that progressively phases out the interest rate subsidy.	DLR#9: Development of a mechanism describing the process, methodology and roadmap for phasing out said interest rate subsidy on terms and conditions satisfactory to the Bank; and implementation of said mechanism, as determined per criteria set out in the relevant verification protocol.	$50,000,000	$50,000,000, of which $10,000,000 for development, adoption and rollout of said mechanism during first FY; and $10,000,000 for each subsequent FY of implementation.
DLI# 10. Adoption of legislation regulating real estate profession and installment sales.	DLR#10.1: Adoption of a real estate developers law (including implementing regulations; and related regulatory authority) in form and substance satisfactory to the Bank.	$50,000,000	$25,000,000, of which $10,000,000 upon adoption and publication of said real estate developers law in the Official Gazette; $5,000,000 upon adoption of implementing regulations and their publication; and $10,000,000 upon establishment of regulatory authority.
	DLR#10.2: Adoption of regulations on installments sales post construction including supervisory regime, in form and substance satisfactory to the Bank.		$25,000,000, of which $10,000,000 upon adoption of said regulations and their publication in the Official Gazette; $5,000,000 upon adoption of implementing regulations and their publication; and $10,000,000 upon operationalization of supervisory regime.

DLI# 11. Operationalization of SHMFF Environment Unit.	DLR#11.1: SHMFF Environment unit is operational in accordance with the terms and conditions set out in the Operations Manual.	$14,000,000	$4,000,000, of which $2,000,000 upon operationalization of said SMHFF Environment Unit; and $500,000 for each subsequent FY of its continued operation.
DLI#11.1: Number of housing units with green GPRS certification from the National Building Research Center as per the Operations Manual.	DLR#11.2: 25,000 social housing units built by public or private developers have received green GPRS certification as determined per criteria set out in the Operations Manual.		Up to $10,000,000, of which $400 per certified unit.
DLI# 12. Improve the efficiency of the subsidy application and issuance process.	DLR #12.1: Carrying out of a review and streamlining of procedures and screening processes of application, analysis and provision of the subsidy and implementation of recommendations.	$15,000,000	$7,500,000 upon completion of said review.
	DLR #12.2: Pilot delegation of underwriting procedures to selected banks.		$7,500,000, of which $1,500 for each subsidy delivered under the pilot.
TOTAL AMOUNT		500,000,000*	

* Includes a front-end fee of US$1.25 million.

Table 5. Revised Results Framework and Targets

	Indicator Name	Current Target	Revised Target (AF)
PDO 1	Number of targeted households accessing ownership and rental housing units with support from the Program	830,000 beneficiaries	1,052,400 beneficiaries
New PDO 5	Development, adoption and implementation of an alternative system that progressively phases out the interest rate subsidy (No/Yes)	N/A	Yes
Intermediate Results Indicator 3.1	Number of households receiving demand-side housing ownership subsidies (AMP) for new units	725,000 beneficiaries	950,000 beneficiaries
New Intermediate Results Sub-Indicator 3.1.1	Female-headed households as percentage of beneficiaries	N/A	24 percent

	Indicator Name	Current Target	Revised Target (AF)
New Intermediate Results Sub-Indicator 3.2.1	Female-headed households as percentage of beneficiaries	N/A	20 percent

IV. APPRAISAL SUMMARY

A. Technical

62. **The World Bank will support the SHMFF in the design and implementation of the reforms supported by the Program.** An updated technical assessment is included in Annex 2. The World Bank's input, drawing upon international experience, is focused on improving the Program design, performance, processes, and capacity of the SHMFF. Some of the specific areas for which the World Bank will provide technical support aiming at strengthening governance and accountability include operationalizing the Environment, Claims Management, and Rental Units; developing and implementing the phasing out of the interest rate subsidy; designing rental incentives programs; implementing PPP pilots; implementing regulatory reforms; and supporting the implementation of operational efficiency measures.

B. Fiduciary

63. **The overall fiduciary performance of the parent Program is assessed to be Moderately Satisfactory.** Before the merger of the SHF and the Guarantee, Subsidy, and Mortgage Finance Fund (GSMFF) in 2018, each fund produced its own set of final accounts on an annual basis. The accounts consolidation of both funds has taken place in August 2018 following the merger of the funds. The SHMFF reports on the monthly budget execution to the MoF. The Program financial statements are prepared on an annual basis covering expenditures under the Inclusive Housing Finance Program. The largest share of expenditures was for the up-front subsidies for the ownership component. The mortgage-linked interest subsidy was not included in the Program financial statements as its cost was absorbed by the CBE under its mortgage finance initiative and not financed by the state/SHMFF budget. The Program financial statements are audited by an independent external auditor as required by the parent loan agreement, and the auditor has expressed unqualified (clean) audit opinion on the Program financial statements to date. While the key Program activities and institutional arrangements are the same under the AF (despite the merger of the two funds), the AF comes with additional fiduciary risks. The significant increase sought in targeted applications, the respective review and scrutiny required, the effect on the SHMFF's financial sustainability, and the potential spillover effect on the state budget collectively increase the Program's fiduciary risk. To mitigate these risks, a significant portion of the AF will be dedicated to institutional capacity strengthening to ensure the institution has the right staff and tools to deliver on such an ambitious Program. In addition, the Program will support the progressive phase-out of interest rate subsidies which will contribute to the alleviation of fiscal expenses.

C. Environment and Social

64. **Environment.** An addendum has been prepared for the Program's Environmental and Social System Assessment (ESSA). The objective of the addendum is to update the original assessment conducted in November 2014, considering: (a) progress in the implementation of measures stipulated in the ESSA, (b) updates and changes that occurred to the environmental and social systems since 2014, and

(c) new environmental and social effects of the AF. The findings of the addendum show that the ESSA analysis and conclusions generally apply to the AF (new and modified DLIs) and that the Program will bring the best environmental practices to the social housing sector.

65. **The environmental risk has increased from Low to Moderate.** The environmental risk of the parent Program was low because it was limited to the boundaries of the demand side and had no support for supply-side activities involving land acquisition or construction activities. The AF will continue to support the demand side of social housing while introducing best practices to the construction activities, such as improving the environmental, health, and safety (EHS) measures and introducing the principles of green building. Except for DLI 11, the modified DLIs and new DLIs did not introduce support to certain supply-side activities; however, the supply of housing units will be key in achieving the Program objectives. Therefore, although the direct risks and impacts of the AF remain related to the demand side (that is, delivery of subsidies), environmental risks related to the supply side (that is, construction) are linked to the Program. Accordingly, the environmental risk of the Program was raised to Moderate for the following reasons: (a) the construction activities, considered to be linked to the Program activities, mainly because the past period of the Program implementation showed that the units delivered to the beneficiaries were newly built, are generally associated with moderate OHS risks; and (b) the effective operation of the new Environment Unit is yet to be assessed during the upcoming implementation period of the Program.

66. **Social.** Building on the parent Program, the AF is anticipated to have further positive social outcomes. It will positively contribute to facilitating access of low- and middle-income groups to appropriate ownership and rental housing schemes. This will also alleviate the growth of informal and unstructured housing. The Program is expected to adopt mechanisms that promote social inclusion and access to affordable housing to different disadvantaged and vulnerable groups, with a focus on including a large bracket of population that was previously excluded, thus fostering equitable access to the Program by various socially marginalized groups, including female-headed households, poor families in marginalized governorates and lagging regions, and groups with special needs. The Program will also adopt measures to improve the effectiveness, transparency, and accountability of housing programs. The enhanced institutional capacity will contribute to better management for the Program to ensure that the low- and middle-income households, which are the primary beneficiaries of the Program, will benefit. The Program also assists in developing incentives for private rental investors to rent out their units to low-income tenants. This promotes sustainability of the Program and allows the government to focus on housing solutions for the lowest-income and underserved segments.

67. **The social risk of the Program is Moderate.** The AF will continue financing demand-side interventions as in the parent Program. The social risk was assessed as Low in the parent Program, with key risks including limited institutional capacity to handle social issues, risks to social inclusion as a result of inability to reach needy and priority cases, and risks to Program sustainability stemming from affordability of housing units. The Program has undertaken progressive efforts to mitigate against these; however, action is still pending on key social risk mitigation measures outlined in the parent PAP, notably on designing and implementing early consultation, communication, and outreach plans and hiring a social team and social officers.[22] Furthermore, as anticipated in the parent PAP, local-level GRMs will be better

[22] SHMFF do not have dedicated staff to handle social-related aspects of the Program. These tasks are currently carried out by existing SHMFF staff assigned on an ad hoc basis. Communication and consultations have been outsourced in some instances to other government entities which causes some coordination problems. To address

streamlined with existing GRM channels to ensure that various types of complaints are handled efficiently and to continue to foster a constructive relationship between local beneficiaries and the program. The AF risk has been assessed as Moderate to reflect limitations in institutional capacity with an anticipated significant increase in the number of beneficiaries. Social risks and mitigation measures are detailed in the ESSA addendum (Annex 4), which were consulted upon through targeted focus groups and site visits in coordination with the SHMFF. Based on these inputs, the ESSA was finalized and disclosed.

D. Are there any waivers of Bank policies approved by the MD and/or to be approved by the Board? If so, explain.

68. Not applicable.

E. Corporate Requirements

(a) Gender

69. **In Egypt, there is a gender gap in asset ownership, with only 5 percent of women in Egypt owning assets (alone or jointly), compared to 95 percent of men.** The parent Program contributed to closing this gap, as women constituted 20 percent of beneficiaries of housing subsidies directly linked to increasing ownership. As part of the proposed AF, the following actions will be taken to contribute to closing this gender gap in ownership and control over assets: eligibility criteria prioritizing women-headed households as beneficiaries of both ownership and rental subsidies will remain; outreach efforts and information campaigns will specifically target women to increase their knowledge of the program and to incentivize them to participate; and the formal registration process will incentivize joint titling of housing. Both actions will be included in the PAP. The progress towards closing this gap will be measured by the PDO level indicator on the share of female-headed household of the number of targeted households accessing ownership and rental housing units with support from the Program (with a target of 24 percent female-headed households as beneficiaries); as well as two intermediate sub-indicators focusing on the percentage of female-headed households benefiting from the ownership and rental programs with targets of 24 and 20 percent, respectively.

(b) Climate Change Risk

70. **Climate risk management.** Climate change is expected to cause a rise of average temperatures, an increase in the number of days of extreme heat waves, and an increase in dust storms, which will be associated with additional use of energy and water for cooling and cleansing by households. Other vulnerabilities in Egypt include a rise in sea levels, less rainfall but more frequent surge storms, salt water intrusion into underground aquifers, and changes in the start and end of seasons. The establishment of the Environment Unit will work toward improving the adaptation to such conditions through the introduction of green building concepts, including improving thermal insulation and natural ventilation and introducing water conservation measures at new housing units. There will also be mitigation co-benefits through conservation of energy consumption in housing units and less commuting distances/times, which are part of the green building accreditation as well as the proximity of housing units to employment centers (DLI 7). The higher percentage of housing units occupancy (measured by DLI

these shortcomings, the AF will support the creation of a properly staffed claims management unit in charge of centralizing all social-related aspects of the Program.

4) will also reduce the need for building new units associated with an increased carbon footprint during construction and possibly being built on informal settlements or agriculture land; this is also applicable to DLI 5 and DLI 6 as directing households toward planned and formal housing will significantly improve resilience to climate change as illustrated in Box 4 below. The rationale for the climate co-benefits is summarized in Table 6. As already mentioned in paragraph 38, climate-resilient site selection could result in high climate adaptation co-benefits for population of Egypt. In addition to GPRS voluntary standard, country regulations control for quality of residential and commercial real estate development (building structural stability and integrity, no new construction in known flood zones, etc.). Quality control will be ensured/monitored during implementation of this project. Buildings offered for recipients of housing subsidy will have substantially lower climate-related risks than the housing where this population currently resides, and substantially higher quality than informal housing. This Program will reduce hazards to health and life of financially disadvantaged (below poverty line) citizens of Egypt, both general hazards and climate change-induced.

Box 4: Informal settlements and vulnerability to climate change

The lowest income households are the most vulnerable to climate change, as they are unable to secure housing units that would adapt to the increasing climate risks in Egypt. With the population growth and the need for new housing units the informal settlements are growing in unplanned areas that are most vulnerable to climate change impacts. The expansion of informal settlements has been usually decreasing areas of fertile agriculture land in the Nile valley, and, hence, increasing the food security risks and compromising adaptation capacity to droughts. Furthermore, informal settlements are characterized by high population density and condensed parcels in which buildings would be almost contiguous or separated by few meters. Such situation minimizes the natural ventilation inside houses, makes them highly vulnerable to extreme heat waves. Also, this context usually adds limitations to access, which amplify the risks to people in need to medical care as result to some climate change features (such as extreme heats and dust storms) as such limitation of access usually delays their prompt access to the needed healthcare. Additionally, the limited access in informal settlements increases GHG emissions, as the narrow streets makes it impossible to use public transports for the last mile of the journey and necessitates the use of other means of transportation (such as toktoks) with much higher carbon footprint.

Social Housing Complex

Photo: A Social Housing Complex in Imbaba surrounded by informal settlements. The image illustrates the higher adaptation capacity of social housing complexes in comparison to informal settlements

The availability of affordable housing is inversely proportional with the expansion of informal settlements as they both target the lowest income groups. This relation has been clearly highlighted in this document. The gap between supply and demand of housing units coupled the utilization of blank units as an inflation free investment (rather than for utilizing them for housing) have contributed to the growth of informal settlements. Although this Program is addressing the demand side, it was noted that the beneficiaries of the parent Program used newly built units supplied by the national program, therefore, those beneficiaries would have housing units much more adaptive to climate risks and analysis of the beneficiaries of the parent Program demonstrates that the vast majority (more than 95% according to an analysis of a recent sample) have moved from informal settlements to planned housing supplied by the SHMFF. The design of the parent Program and the AF proposes adaptation and mitigation measures to climate change in the following areas:

- The establishment of an Environment Unit and making sure that green building concepts are followed and GPRS certified in 25,000 units under the Program
- Program beneficiaries will receive an awareness package about the best practices for energy saving and waste management. This is part of the Program Action Plan as indicated in Annex 5.
- The housing units supplied by the SHMFF, others than those certified for GPRS, are following physical planning concepts and subject to Environmental Impact Assessment according to the requirements of the national system. According to building Law 119/2008 licensed housing should follow the masterplans of each area which take the environmental factors (including accounting for natural risks and ensuring that enough spaces and green areas are within the housing area) into consideration.
- Making sure that the units are effectively occupied and not used as an inflation free investment, which would minimize the need for expanding informal settlements. This is an ongoing activity under DLI 4.
- The housing units are less than 60 minutes commute from employment centers which reduces GHG emissions of transportation. This is an ongoing activity under DLI 7.

71. **Climate change challenges pose additional hurdles to reducing poverty and vulnerability of households in Egypt.** The Program will adopt mechanisms that promote social inclusion and access to affordable housing to different disadvantaged and vulnerable groups, with a focus on including a large bracket of the population that was previously excluded, thus fostering equitable access to the program by various socially marginalized groups including female-headed households, poor families in marginalized governorates and lagging regions, and groups with special needs. Given that the Program targets the most vulnerable, low-income, marginalized populations who lack the resources to adapt to climate-induced shocks (flood, drought, and heat waves), it is imperative that interventions are designed with climate risks in mind. Heavy rains often result in flash floods that damage property, claim lives, and displace people. Future projections indicate reduction in rainfall and runoff in the coastal and central parts of the country which can lead to substantial reduction in agricultural productivity. Poor and vulnerable households in the country thus suffer the highest economic losses from extreme weather. Historically, Egypt is highly exposed to natural disaster risk. Over the next century, as temperatures increase (+2–6^{o}C) and sea levels rise (+0.25–2.5 m), the frequency and intensity of such extreme weather is expected to grow. By 2100, annual damages from sea level rise could range from US$2.1 billion per year to US$14.8 billion per year in coastal communities as up to 50 percent of the Nile River Delta becomes inundated. New social protection and disaster risk reduction mechanisms are incorporated into this Program to shield vulnerable groups from these disruptive impacts.

72. **In the context of the AF, which targets a vulnerable and marginalized demographic, climate adaptation is of vital importance.** Climate adaptation reduces the need to build informal settlements on agricultural lands, unsafe areas that are vulnerable to rising sea levels, or settlements with inadequate infrastructure which will not withstand storms due to low-quality urban drainage and building material. A more detailed rationale for climate adaptation is included in Table 6 and Box 4. Climate change will be taken into account and climate adaptation encouraged through the institutional strengthening of the SHMFF, as demonstrated by the establishment of an Environment Unit (see new DLI 11). Climate adaptation actions are included in the PAP.

(c) Climate Co-benefits

73. **Table 6 provides a short assessment of the potential climate co-benefits of the proposed AF.**

Table 6. Rationale for Climate Co-Benefits

DLI/DLR	Parent or AF	Finance (US$, million)	Vulnerabilities to Climate Change (please see Annex 10)	Rationale for Adaptation	Rationale for Mitigation
DLI 5: Number of households receiving demand-side homeownership subsidies for new housing units in each Fiscal Year during Program implementation under the AMP	Parent and scaled up in AF	250	Less freshwater resources because of droughts, higher intensity of surge storms, rising sea levels, occasional heavy rainfalls and flash-floods and change of start and end of seasons	The beneficiaries of the subsidies are provided with housing units more resilient to climate change compared with informal settlements as illustrated in Box 4. The supplied units of the Program are built in planned areas with adequate spacing between buildings allowing for adequate natural ventilation and more resilience to extreme heat waves and dust storms. Those planned areas are in compliance with Law 119/2008, which ensure locating housing areas according to masterplans and away from areas of natural hazards, such as areas prone to floods. Subsidies will minimize the climate change-induced hazard to health and life of low-income population, will improve economic capacity of targeted households and will improve their resilience to economic impacts of climate change. The Program is ensuring that housing units are effectively occupied which reduces the demand for informal settlements in agricultural areas. Informal settlements reduce the food security and resilience to droughts in Egypt. This AF will directly benefit the low-income population, and will indirectly benefit the farmers by protecting their crop yields.	The beneficiaries of subsidies are provided with housing units close to employment centers (less than 60 minutes commuting to employment centers) and have better access to the last mile part of the journey, which is not available to inhabitants of informal settlements. This significantly reduces the GHG emissions of transportation. Furthermore, the beneficiaries will be provided with awareness materials to reduce energy consumption and improve waste management as this is part of the Program Action Plan. This is also added to the verification procedures of the DLI.

DLI 6: Number of new households participating in rental subsidy programs in each Fiscal Year during Program implementation	Parent and scaled up in AF	29.75	Extreme heat waves, dust storms, less freshwater resources because of droughts, higher intensity of surge storms, rising sea levels, and change of start and end of seasons	The beneficiaries of the rental subsidies are provided with housing units more resilient to climate change compared with informal settlements as illustrated in Box 4. The supplied units of the Program are built in planned areas with adequate spacing between buildings allowing for adequate natural ventilation and more resilience to extreme heat waves and dust storms. Those planned areas are in compliance with Law 119/2008, which ensure locating housing areas according to masterplans and away from areas of natural hazards, such as prawn areas to floods. Subsidies will improve economic capacity of targeted households and will improve their resilience to economic impacts of climate change. The Program is ensuring that housing units are effectively occupied which reduces the need to build informal settlements in agriculture lands which would reduce the food security and resilience to droughts.	The beneficiaries of subsidies are provided with housing units close to employment centers (less than 60 minutes commuting to employment centers) and have better access to the last mile part of the journey, which is not available to inhabitants of informal settlements. This significantly reduces the GHG emissions of transportation. Furthermore, the beneficiaries will be provided with awareness materials to reduce energy consumption and improve waste management as this is part of the Program Action Plan. This is also added to the verification procedures of the DLI.
DLI 8: Number of demand-side subsidies provided	Parent and not changed	84	Extreme heat waves, dust storms, less	he beneficiaries of the subsidies are provided with housing units more resilient to climate change compared with informal settlements as	The beneficiaries of subsidies are provided with housing units close to employment centers (less than 60 minutes commuting to

DLI/DLR	Parent or AF	Finance (US$, million)	Vulnerabilities to Climate Change (please see Annex 10)	Rationale for Adaptation	Rationale for Mitigation
supporting the purchase or rental of housing units developed by private sector entities	as part of AF		freshwater resources because of droughts, higher intensity of surge storms, rising sea levels, and change of start and end of seasons	illustrated in Box 4. The supplied units of the Program will be built in planned areas with adequate spacing between buildings allowing for adequate natural ventilation and more resilience to extreme heat waves and dust storms. Those planned areas are in compliance with Law 119/2008, which ensure locating housing areas according to masterplans and away from areas of natural hazards, such as areas prone to floods. Subsidies will minimize the climate change-induced hazard to health and life of low-income population, will improve economic capacity of targeted households and will improve their resilience to economic impacts of climate change. The Program is ensuring that housing units are effectively occupied which reduces the need to build informal settlements in agriculture lands which would reduce the food security and resilience to droughts.	employment centers) and have better access to the last mile part of the journey, which is not available to inhabitants of informal settlements. This significantly reduces the GHG emissions of transportation. Furthermore, the beneficiaries will be provided with awareness materials to reduce energy consumption and improve waste management as this is part of the Program Action Plan. This is also added to the verification procedures of the DLI.
DLI 11: Operationalization of an SHMFF Environment Unit	AF	14	Less freshwater resources because of droughts, higher average temperatures, and more frequent heat waves and dust storms	The introduction of green building concepts improves the thermal insulation and natural ventilation of housing units which improve the adaptation to heat waves. This will also improve water conservation (as part of green building accreditation), such as reusing gray water and using aerators in taps, which is an adaptation measure for less availability of freshwater. This benefits of this DLI are add-on to the discussed benefits of DLIs 5, 6 and 8, as the GPRS accreditation is additional to the location benefits discussed for DLIs.	Better thermal insulation will reduce the need for cooling and heating which will reduce energy consumption by housing units.

V. KEY RISKS

74. **The AF overall risk is rated Substantial, same as the parent Program.** Because the AF will complement and scale up the activities currently carried out by the parent Program, the risk assessment and mitigation measures will remain unchanged. The overall Substantial rating is based on the following assessment of risks rated Substantial and High: Macroeconomic, Sector Strategies and Policies, Technical Design, Institutional Capacity, Fiduciary, and Stakeholders (Annex 1).

75. **Macroeconomic (Substantial).** Egypt's economic reform program has reflected positively on macroeconomic stabilization and economic activity. Real GDP grew at 6 percent in FY19, compared to 5.3 percent a year earlier. Fiscal accounts continue to improve as the overall deficit continues its downward trend to reach 9.7 percent of GDP in FY17/18. Interest rates remain high but have gone down slowly over the years from 20–21 percent in 2014 to 18–19 percent in 2019. Inflation has eased over the past 24 months, slowing from a record 33 percent in July 2017 to 3.1 percent in October 2019. The deterioration of the macroeconomic environment could result in higher interest rates, making the program more expensive, which in turn will make the phasing out of the interest rate subsidy more difficult. The Program cannot directly mitigate macroeconomic risk. However, Egypt has completed an IMF structural adjustment program which has shown positive results in terms of economic recovery. A new IMF program is being discussed which will support the continuation the implementation of critical reforms to support the improvement of macroeconomic indicators. In addition, the Program supports actions that are in line with the objectives of the structural reform, including progressive elimination of the interest rate subsidy and PPPs on affordable housing to reduce fiscal expenses on affordable housing construction. In case of interest rate increase, the interest rate exit mechanism will be recalibrated to ensure the target population continues benefiting from the Program.

76. **Sector Strategies and Policies (Substantial).** The Program currently relies heavily on the existence of housing subsidies. Egypt is implementing structural reforms and policies ensuring fiscal consolidation. Fiscal consolidation can potentially force the government to cut or eliminate many subsidies. However, this risk is mitigated by the low impact of housing subsidies in public finances. Subsidies for housing were only 0.3 percent of total subsidies, 0.08 percent of total government expenditures, and 0.02 percent of GDP for FY15/16 (last year that data were available). To further mitigate this risk, the Program will support the phase-out of the costliest subsidy (from a fiscal perspective) which is the interest rate subsidy.

77. **Technical Design (Substantial).** The success of the Program depends on the ability of the Government to subsidize affordable mortgages for a target population. Furthermore, the Program in the past relied heavily on an LE 20 billion CBE credit line which expired in January 2019. A new financing scheme was put together jointly by the MoF, SHMFF, and NUCA. Under the new system, the largest share of the cost is covered by the MoF. The MoU allows the MoF to review its participation in the scheme periodically. This creates uncertainty every time the MoF is set to review the terms of the agreement. To mitigate this risk, the Program will support the development and implementation of an exit mechanism that gradually phases out the interest rate subsidy and replace it with a more transparent, socially inclusive, and fiscally responsible system of down-payment subsidy. Another technical risk is limited private sector participation. PPP did not work under the parent operation for the reasons explained in paragraph 14. To mitigate this risk, the Program will support the implementation of PPP pilots in the area of affordable housing. A PPP deal has been reached between the government and private developers.

Formal approvals have been given by NUCA and SHMFF and three pilots are expected to be launched in the next 12 months.

78. **Institutional Capacity (High).** The SHMFF is a government institution with robust governance systems and qualified staff. However, the Program has the goal to increase the delivery of demand-side subsidies by 31 percent and further develop the affordable rental market. Without proper calibration of human resources and organizational changes, the SHMFF will not be able to deliver on the ambitious targets. To mitigate this risk, the Program will continue supporting the strengthening of the SHMFF's capacity including through the creation of a dedicated Claims, Environment, and Rental Units. The Program will also support the SHMFF's internal administrative reforms to increase the subsidy delivery capacity from 10,000 subsidies per month to 11,000-12,000, which in turn will allow the delivery of 950,000 ownership subsidies by the end of the Program. The SHMFF will also recruit staff to operationalize new units.

79. **Fiduciary (Substantial).** The increase in targeted applications, the respective review and scrutiny required, the effect on the SHMFF's financial sustainability, and the potential spillover effect on the state budget collectively increase the Program's fiduciary risk. To mitigate this risk, the AF will dedicate a significant portion of the financing to institutional building initiatives to ensure effective capacity of the SHMFF to deliver the Program. In addition, the AF will also support the implementation of an exit mechanism for the interest rate subsidy which will make the Program more sustainable. The Program will also support the strengthening of the internal audit function to reduce fraud and other fiduciary risks.

80. **Stakeholders (Substantial).** The Program involves several stakeholders including the SHMFF, MHUUD, NUCA, MoF, private developers, and Program beneficiaries. Coordination between the government authorities could be difficult. To mitigate this risk, the governance structure of the SHMFF, through its board of directors, provides a platform for all these parties (who are members of the board) to discuss and coordinate key housing policy issues. The Program is also exposed to fraud risks if non-eligible applicants receive subsidies. To mitigate this risk, the SHMFF has put in place a robust screening process, which is complemented by a second layer of scrutiny by financial institutions. In addition, the Program will support the creation of a Claims Management Unit to further enhance the grievance redress mechanism of the SHMFF. Private sector participation in affordable housing will not be accomplished if the government does not provide the right incentives to private developers as well as a level playing field to allow them to compete fairly with state-owned construction companies. To mitigate this risk, the government has approved new PPP guidelines addressing the key concerns of private developers to facilitate their participation in affordable housing. As a result, private developers have committed to build 10,000 units in the context of the new PPP deal as compared to only 1,950 units over the last four years.

VI. WORLD BANK GRIEVANCE REDRESS

81. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be

submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit *http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service*. For information on how to submit complaints to the World Bank Inspection Panel, please visit *www.inspectionpanel.org*.

VII. SUMMARY TABLE OF CHANGES

	Changed	Not Changed
Change in Results Framework	✓	
Change in Loan Closing Date(s)	✓	
Change in Program Action Plan	✓	
Change in Implementing Agency		✓
Change in Project's Development Objectives		✓
Change in Program Scope		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Change in Disbursements Arrangements		✓
Change in Safeguard Policies Triggered		✓
Change in Legal Covenants		✓
Change in Institutional Arrangements		✓
Change in Technical Method		✓
Change in Fiduciary		✓
Change in Environmental and Social Aspects		✓
Other Change(s)		✓

VIII. DETAILED CHANGE(S)

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Current Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IBRD-84980	Effective	30-Jun-2020	30-Apr-2022	31-Dec-2024	30-Apr-2025

IX. RESULTS FRAMEWORK AND MONITORING[23]

Results Framework
COUNTRY: Egypt, Arab Republic of
EG Inclusive Housing Finance Program Additional Financing

Program Development Objective(s)

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 SHMFF's capacity to design policies and coordinate programs in the social housing sector.

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	DLI	Baseline	End Target
PDO			
1.1 Number of targeted households accessing ownership and rental housing units with support from the Program (Number)		0.00	1,052,400.00
Action: This indicator has been Revised			
1.2 female-headed households as a percentage of benefeciaries (Percentage)		0.00	24.00

[23] Clarification regarding Disbursement Linked Indicators Matrix Table: i) "Total Allocated Amount (USD)" should be read in "million USD"; and ii) "As % of Total Financing Amount" should be read as "As % disbursed of total allocated amount to DLI".

Indicator Name	DLI	Baseline	End Target
Action: This indicator has been Revised			
2. Percentage of Program beneficiaries in bottom 20% of the income distribution (Percentage)		0.00	50.00
Action: This indicator has been Revised			
3. Percentage of income spent on housing costs by Program beneficiaries (Percentage)		0.00	30.00
Action: This indicator has been Revised			
4. Establishment of a housing M&E system functioning and informing the Multi-Year Plan and Annual Targets (Yes/No)		No	Yes
Action: This indicator has been Revised			
5. Development, adoption and implementation of an alternative system that progressively phases out the interest rate subsidy (Yes/No)		No	Yes
Action: This indicator is New			

Intermediate Results Indicators by Results Areas

Indicator Name	DLI	Baseline	End Target
Strengthening Governance and Institutional Set-up of Housing Sector			
1.1. Completed executive by-laws, organizational structure, financing model, fiduciary arrangements, operating systems for the SHMFF (Yes/No)		No	Yes
Action: This indicator has been Revised			

Indicator Name	DLI	Baseline	End Target
1.2. SHMFF fully staffed as per organizational plan (Yes/No)		No	Yes
Action: This indicator has been Revised			
1.3. Internal audit function providing assurance services for the ownership and rental programs affiliated with the SHMFF established and operating (Yes/No)		No	Yes
Action: This indicator has been Revised			
1.4. Adequate staffing of social officers as per organizational plan (Yes/No)		No	Yes
Action: This indicator has been Revised			
1.5. Number of capacity building and training workshops conducted for the hired social workers at the Central and Governorate level. (Number)		0.00	27.00
Action: This indicator has been Revised			
Enhancing Transparency and Accountability of Social Housing Programs			
2.1. Mechanism to monitor occupancy of housing post-subsidy established and functioning as per DLI definition (Yes/No)		No	Yes
Action: This indicator has been Revised			
2.2. Percentage of rental housing units occupied by targeted beneficiaries at least 1 year after lease (Percentage)		0.00	75.00
Action: This indicator has been Revised			
2.3. Percentage of ownership housing units occupied by low-income households after at least 1 year of receiving subsidies under the AMP (Percentage)		0.00	85.00

Indicator Name	DLI	Baseline	End Target
Action: This indicator has been Revised			
2.4. Establish a unified social programs and beneficiary databases (Yes/No)		No	Yes
Action: This indicator has been Revised			
2.5. Establishment of a functioning accountability and transparency mechanism in SHMFF as per DLI definition (Yes/No)		No	Yes
Action: This indicator has been Revised			
2.6. Average time required to resolve complaints in AMP (Days)		60.00	20.00
Action: This indicator has been Revised			
2.7. Percentage of resolved complaints received by SHMFFF and Governorate housing offices (Percentage)		0.00	90.00
Action: This indicator has been Revised			
2.8. Annual published reports on complaints and how issues were resolved, including resolution rates (Yes/No)		No	Yes
Action: This indicator has been Revised			
Improving Access to Affordable Housing			
3.1. Number of households receiving demand side home ownership subsidies for new units under the AMP (Number)		0.00	950,000.00
Action: This indicator has been Revised			
3.1.1. Female- headed households as percentage of beneficiaries (Percentage)		0.00	24.00

Indicator Name	DLI	Baseline	End Target
Action: This indicator is New			
3.2. Number of households participating in rental subsidy programs (Number)		0.00	102,400.00
Action: This indicator has been Revised			
3.2.1. Female-headed households as percentage of beneficiaries (Percentage)		0.00	20.00
Action: This indicator is New			
3.3. Number of previously vacant units occupied 1 year after inclusion into the Program (Number)		0.00	30,000.00
Action: This indicator has been Revised			
Promoting Well Located Social Housing			
4.1. Percent of demand-side subsidies supporting the purchase or rental of housing units within a 60 minute travel time to an employment center (Percentage)		0.00	50.00
Action: This indicator has been Revised			
4.2. Percent of demand-side subsidies supporting the purchase or rental of housing units within a 45 minute travel time to an employment center (Percentage)		0.00	50.00
Action: This indicator has been Revised			
4.3. Percent of demand-side subsidies supporting the purchase or rental of housing units within a 30 minute travel time to an employment center (Percentage)		0.00	15.00
Action: This indicator has been Revised			

Indicator Name	DLI	Baseline	End Target
4.4. Percentage of land made available for SHMFF developments that complies with location and service criteria stated in Law (Percentage)		0.00	100.00
Action: This indicator has been Revised			
Promoting Private Sector Participation in Low-Income Housing			
5.1. Number of demand-side subsidies supporting the purchase or rental of housing units developed by the private sector (Number)		0.00	250,000.00
Action: This indicator has been Revised			
5.2. PPP guidelines publicly disseminated (Yes/No)		No	Yes
Action: This indicator has been Revised			
5.3. Percentage of demand side subsidy supporting the purchase or rental of housing units developed by private sector (Percentage)		0.00	43.00
Action: This indicator has been Revised			

Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
1.1 Number of targeted households accessing ownership and rental housing units with support from the Program		Twice a year	SHMFF		SHMFF

1.2 female-headed households as a percentage of benefeciaries		Twice a year	SHMFF		SHMFF
2. Percentage of Program beneficiaries in bottom 20% of the income distribution		Twice a year	SHMFF		SFMFF
3. Percentage of income spent on housing costs by Program beneficiaries		Twice a year	SHMFF		SHMFF
4. Establishment of a housing M&E system functioning and informing the Multi-Year Plan and Annual Targets		Twice a year	SHMFF		SHMFF
5. Development, adoption and implementation of an alternative system that progressively phases out the interest rate subsidy		Twice a year	SHMFF		SHMFF

Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
1.1. Completed executive by-laws, organizational structure, financing model, fiduciary arrangements, operating systems for the SHMFF		Twice a year	SHMFF		SHMFF
1.2. SHMFF fully staffed as per organizational plan		Twice a year	SHMFF		SHMFF
1.3. Internal audit function providing assurance services for the ownership and rental programs affiliated with the SHMFF established and operating		Twice a year	SHMFF		SHMFF

1.4. Adequate staffing of social officers as per organizational plan		Twice a year	SHMFF		SHMFF
1.5. Number of capacity building and training workshops conducted for the hired social workers at the Central and Governorate level.		Twice a year	SHMFF		SHMFF
2.1. Mechanism to monitor occupancy of housing post-subsidy established and functioning as per DLI definition		Twice a year	SHMFF		SHMFF
2.2. Percentage of rental housing units occupied by targeted beneficiaries at least 1 year after lease		Twice a year	SHMFF		SHMFF
2.3. Percentage of ownership housing units occupied by low-income households after at least 1 year of receiving subsidies under the AMP		Twice a year	SHMFF		SHMFF
2.4. Establish a unified social programs and beneficiary databases		Twice a year	SHMFF		SHMFF
2.5. Establishment of a functioning accountability and transparency mechanism in SHMFF as per DLI definition		Twice a year	SHMFF		SHMFF
2.6. Average time required to resolve complaints in AMP		Twice a year	SHMFF		SHMFF
2.7. Percentage of resolved complaints received by SHMFFF and Governorate housing offices		Twice a year	SHMFF		SHMFF
2.8. Annual published reports on complaints and how issues were resolved, including resolution rates		Twice a year	SHMFF		SHMFF

3.1. Number of households receiving demand side home ownership subsidies for new units under the AMP		Twice a year	SHMFF		SHMFF
3.1.1. Female- headed households as percentage of beneficiaries		Twice a year	SHMFF		SHMFF
3.2. Number of households participating in rental subsidy programs		Twice a year	SHMFF		SHMFF
3.2.1. Female-headed households as percentage of beneficiaries		Twice a year	SHMFF		SHMFF
3.3. Number of previously vacant units occupied 1 year after inclusion into the Program		Twice a year	SHMFF		SHMFF
4.1. Percent of demand-side subsidies supporting the purchase or rental of housing units within a 60 minute travel time to an employment center		Twice a year	SHMFF		SHMFF
4.2. Percent of demand-side subsidies supporting the purchase or rental of housing units within a 45 minute travel time to an employment center		Twice a year	SHMFF		SHMFF
4.3. Percent of demand-side subsidies supporting the purchase or rental of housing units within a 30 minute travel time to an employment center		Twice a year	SHMFF		SHMFF
4.4. Percentage of land made available for SHMFF developments that complies with location and service criteria stated in Law		Twice a year	SHMFF		SHMFF
5.1. Number of demand-side subsidies supporting the purchase or rental of housing units developed by the private		Twice a year	SHMFF		SHMFF

sector					
5.2. PPP guidelines publicly disseminated		Twice a year	SHMFF		SHMFF
5.3. Percentage of demand side subsidy supporting the purchase or rental of housing units developed by private sector		Twice a year	SHMFF		SHMFF

Disbursement Linked Indicators Matrix

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			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Process	No	Yes/No	25.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
2024	Yes		25.00	
Action: This DLI has been Revised. See below.				

DLI 1	*Establishment and operation of an internal audit function within SHMFF providing assurance service for the ownership and rental programs affiliated with the SHMFF*			
Type of DLI	***Scalability***	***Unit of Measure***	***Total Allocated Amount (USD)***	***As % of Total Financing Amount***
Process	*No*	*Yes/No*	*25.00*	*60.00*
Period	***Value***		***Allocated Amount (USD)***	***Formula***

Baseline	*No*			
2024	*Yes*		*25.00*	

DLI 2	Establishing a housing M&E system functioning and informing the Multi-Year Plan and Annual Targets			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Process	No	Yes/No	25.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
2024	Yes		25.00	
Action: This DLI has been Revised. See below.				

DLI 2	*Establishment and functioning of a housing monitoring and evaluation system and an M&E unit within SHMFF, and the preparation of the Multi-Year Plan and Annual Targets informed by the M&E system*			
Type of DLI	***Scalability***	***Unit of Measure***	***Total Allocated Amount (USD)***	***As % of Total Financing Amount***
Process	*No*	*Yes/No*	*25.00*	*20.00*
Period	***Value***		***Allocated Amount (USD)***	***Formula***
Baseline	*No*			
2024	*Yes*		*25.00*	

DLI 3	Establishment and functioning of an accountability and transparency mechanism			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Process	No	Yes/No	50.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
2024	Yes		50.00	
Action: This DLI has been Revised. See below.				

DLI 3	*The establishment and functioning of an accountability and transparency mechanism within SHMFF for implementing the Program*			
Type of DLI	***Scalability***	***Unit of Measure***	***Total Allocated Amount (USD)***	***As % of Total Financing Amount***
Process	*No*	*Yes/No*	*50.00*	*40.00*
Period	***Value***		***Allocated Amount (USD)***	***Formula***
Baseline	*No*			
2024	*Yes*		*50.00*	

DLI 3.1	DLI 3.1: Establishment of an operational and properly staffed Claims Management Unit			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	No	Yes/No	6.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**

Baseline	No			
2024	Yes		6.00	
Action: This DLI is New				
DLI 4	Establishment by SHF of a functioning mechanism to monitor occupancy and vacancy of housing units by households receiving demand–side housing subsidy			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Process	Yes	Yes/No	50.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
2024	Yes		50.00	
Action: This DLI has been Revised. See below.				
DLI 4	*Establishment by SHMFF of a functioning mechanism to monitor occupancy and vacancy of housing units by households receiving demand–side housing subsidy*			
Type of DLI	***Scalability***	***Unit of Measure***	***Total Allocated Amount (USD)***	***As % of Total Financing Amount***
Process	*Yes*	*Yes/No*	*50.00*	*40.00*
Period	***Value***		***Allocated Amount (USD)***	***Formula***
Baseline	*No*			
2024	*Yes*		*50.00*	

DLI 5	Number of households receiving demand-side homeownership subsidies for new housing units in each Fiscal Year during Program implementation under the AMP			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Outcome	Yes	Number (Thousand)	225.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	0.00			
2024	725.00		225.00	
Action: This DLI has been Revised. See below.				

DLI 5	*Number of households receiving demand-side homeownership subsidies for new housing units in each Fiscal Year during Program implementation under the AMP*			
Type of DLI	***Scalability***	***Unit of Measure***	***Total Allocated Amount (USD)***	***As % of Total Financing Amount***
Outcome	*Yes*	*Number (Thousand)*	*475.00*	*2.77*
Period	***Value***		***Allocated Amount (USD)***	***Formula***
Baseline	*0.00*			
2024	*950.00*		*475.00*	

DLI 6	Number of new households participating in rental subsidy programs in each Fiscal Year during Program implementation			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Outcome	Yes	Number (Thousand)	48.75	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	0.00			
2024	102.40		48.75	
Action: This DLI has been Revised. See below.				

DLI 6	*Number of new households participating in rental subsidy programs in each Fiscal Year during Program implementation*			
Type of DLI	***Scalability***	***Unit of Measure***	***Total Allocated Amount (USD)***	***As % of Total Financing Amount***
Outcome	*Yes*	*Number (Thousand)*	*60.25*	*0.98*
Period	***Value***		***Allocated Amount (USD)***	***Formula***
Baseline	*0.00*			
2024	*102.40*		*60.25*	

DLI 6.1	DLI 6.1: Establishment of a functioning rental unit and a digital platform within SHMFF linking private landlords and eligible tenants			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	No	Yes/No	8.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
2024	Yes		8.00	
Action: This DLI is New				

DLI 6.2	DLI 6.2: Implementation of a rental incentive package including a rental risk insurance product, and direct subsidies for tenants			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	No	Yes/No	10.25	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
2024	Yes		10.25	
Action: This DLI is New				

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 cente			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Outcome	Yes	Percentage	25.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	0.00			
2024	50.00		25.00	
Action: This DLI has been Revised. See below.				

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*			
Type of DLI	***Scalability***	***Unit of Measure***	***Total Allocated Amount (USD)***	***As % of Total Financing Amount***
Outcome	*Yes*	*Percentage*	*25.00*	*20.00*
Period	***Value***		***Allocated Amount (USD)***	***Formula***
Baseline	*0.00*			
2024	*50.00*		*25.00*	

DLI 8	Number of demand-side subsidies provided supporting the purchase or rental of housing units developed by private sector entities			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	Yes	Number (Thousand)	50.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	0.00			
2024	250.00		50.00	
Action: This DLI has been Revised. See below.				

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*			
Type of DLI	***Scalability***	***Unit of Measure***	***Total Allocated Amount (USD)***	***As % of Total Financing Amount***
Output	*Yes*	*Number (Thousand)*	*50.00*	*0.60*
Period	***Value***		***Allocated Amount (USD)***	***Formula***
Baseline	*0.00*			
2024	*250.00*		*50.00*	

DLI 8.1	DLI 8.1: Development and implementation of new PPP guidelines addressing key bottlenecks expressed by private sector			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	No	Yes/No	17.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
2024	Yes		17.00	
Action: This DLI is New				

DLI 8.2	DLI 8.2: Call for proposals under new PPP guidelines			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	No	Yes/No	17.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
2024	Yes		17.00	
Action: This DLI is New				

DLI 8.3	DLI 8.3: Roll out and implementation of three PPP pilots representing 10,000 units			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	Yes	Number (Thousand)	50.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	0.00			
2024	10.00		50.00	
Action: This DLI is New				

DLI 9	Development, adoption and implementation of an alternative system that progressively phases out the interest rate subsidy			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	No	Yes/No	50.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
2024	Yes		50.00	
Action: This DLI is New				

DLI 10	Adoption of legislation regulating real estate profession and installment sales			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	No	Yes/No	50.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
2024	Yes		50.00	
Action: This DLI is New				

DLI 10.1	DLR 10.1: Adoption of a real estate developers law (including, implementing regulations; and related regulatory authority) in form and substance satisfactory to the Bank			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	No	Yes/No	25.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
2024	Yes		25.00	
Action: This DLI is New				

DLI 10.2	DLR 10.2: Adoption of regulations on installments sales post construction including supervisory regime, in form and substance satisfactory to the Bank			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	No	Yes/No	25.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
2024	Yes		25.00	
Action: This DLI is New				

DLI 11	Operationalization of SHMFF Environment Unit			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	No	Yes/No	4.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
2024	Yes		4.00	
Action: This DLI is New				

DLI 11.1	DLI 11.1: Number of housing units with green GPRS certification from the National Building Research Center as per the Operations Manual			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	Yes	Number (Thousand)	10.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	0.00			
2024	25.00		10.00	
Action: This DLI is New				

DLI 12	Improve the efficiency of the subsidy application and issuance process			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	No	Yes/No	15.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
2024	Yes		15.00	
Action: This DLI is New				

DLI 12.1	DLR 12.1 Carrying out of a review and streamlining of procedures and screening processes of application, analysis and provision of the subsidy and implementation of recommendations			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	No	Yes/No	7.50	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
2024	Yes		7.50	
Action: This DLI is New				

DLI 12.2	DLR 12.2: Pilot delegation of underwriting procedures to selected banks			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	Yes	Number (Thousand)	7.50	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	0.00			
2024	5.00		7.50	
Action: This DLI is New				

Verification Protocol Table: Disbursement Linked Indicators	
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
Description	Establishment and operation of an internal audit function within SHF.
Data source/ Agency	SHF
Verification Entity	IVA
Procedure	
DLI 1	Establishment and operation of an internal audit function within SHMFF providing assurance service for the ownership and rental programs affiliated with the SHMFF
Description	Establishment and operation of an internal audit function within SHF.
Data source/ Agency	SHMFF
Verification Entity	IVA
Procedure	
DLI 2	Establishing a housing M&E system functioning and informing the Multi-Year Plan and Annual Targets
Description	Establishment and functioning of a housing monitoring and evaluation system and an M&E unit within SHF.
Data source/ Agency	SHF
Verification Entity	IVA
Procedure	
DLI 2	Establishment and functioning of a housing monitoring and evaluation system and an M&E unit within SHMFF, and the preparation of the Multi-Year Plan and Annual Targets informed by the M&E system
Description	Establishment and functioning of a housing monitoring and evaluation system and an M&E unit within SHF.

Data source/ Agency	SHMFF
Verification Entity	IVA
Procedure	
DLI 3	Establishment and functioning of an accountability and transparency mechanism
Description	The establishment and Functioning of an accountability and transparency mechanism within SHF for implementing the program.
Data source/ Agency	SHF
Verification Entity	IVA
Procedure	
DLI 3	The establishment and functioning of an accountability and transparency mechanism within SHMFF for implementing the Program
Description	The establishment and Functioning of an accountability and transparency mechanism within SHF for implementing the program.
Data source/ Agency	SHMFF
Verification Entity	IVA
Procedure	
DLI 3.1	DLI 3.1: Establishment of an operational and properly staffed Claims Management Unit
Description	An operational and staffed Claims Management Unit will include, at a minimum: 1. **Unit**: Unit should be officially created and exist within the organizational structure of SHMFF. 2. **Adoption and implementation of streamlined operational procedures**—including appeals procedures—and uniform service standards for processing applications alongside program-related information requests, feedback, and grievances/complaints, service line agreements with relevant SHMFF units; operational systems (including ticketing systems), and disclosure procedures (including audits). 3. **Adequate staffing and training for coordinated claims handling**, including a claims management officer, a

	grievance redress/complaints-handling focal point, communications staff, requisite IT staff, a technical review committee, and an appellate committee for communicating, collecting, evaluating, investigating, and following-up on claims as applicable within set operating standards.
Data source/ Agency	SHMFF
Verification Entity	IVA
Procedure	**Disbursement** US$ 2 million for creation of unit as per definition US$ 1 million per subsequent year (Y2, Y3, Y4, Y5) for maintaining unit operational Total: US$ 6 million **Verification Procedure** A report describing the claims management function, as outlined in the definition of the DLI, is submitted to the IVA, along with documentation of staffing and allocation of resources for the claims management unit to perform its mandate. After first achievement of the DLI, a report on continued functioning of the claims management units is provided on an annual basis. Verification will include (i) review of the report described above for consistency with DLI definition (ii) review of analysis or documents described in the report; and (iii) interviews with SHMFF. Verification will take place annually.

DLI 4	Establishment by SHF of a functioning mechanism to monitor occupancy and vacancy of housing units by households receiving demand–side housing subsidy
Description	The establishment by SHF of a functioning mechanism to monitor occupancy and vacancy of housing units by household receiving demand side subsidies.
Data source/ Agency	SHF
Verification Entity	IVA
Procedure	

DLI 4	Establishment by SHMFF of a functioning mechanism to monitor occupancy and vacancy of housing units by households receiving demand–side housing subsidy
Description	The establishment by SHF of a functioning mechanism to monitor occupancy and vacancy of housing units by household receiving demand side subsidies.
Data source/ Agency	SHMFF
Verification Entity	IVA
Procedure	

DLI 5	Number of households receiving demand-side homeownership subsidies for new housing units in each Fiscal Year during Program implementation under the AMP
Description	Number of households receiving demand side home ownership subsidy each fiscal year
Data source/ Agency	SHF
Verification Entity	IVA
Procedure	

DLI 5	Number of households receiving demand-side homeownership subsidies for new housing units in each Fiscal Year during Program implementation under the AMP
Description	Number of households receiving demand side home ownership subsidy each fiscal year, US$ 553.73 (starting from April 1, 2019 and baseline of 209,398 already delivered subsidies) per subsidy up to US$ 475 million (both parent and AF combined).
Data source/ Agency	SHMFF
Verification Entity	IVA
Procedure	**Disbursement** US$ 553.73 (starting from April 1, 2019 and baseline of 209,398 already delivered subsidies) per subsidy up to US$ 475 million Total: US$ 475 million (both parent and additional financing)

	Verification Procedure Report prepared by SHMFF and submitted to the IVA. Verification will include: (i) review of the report described above for consistency with DLI definition and (ii) review of a representative sample if processed applications to ensure adherence to Program rules. Verification will take place at least annually, but can be as frequent as quarterly.

DLI 6	Number of new households participating in rental subsidy programs in each Fiscal Year during Program implementation
Description	Number of new households participating in renal subsidy program in each fiscal year
Data source/ Agency	SHF
Verification Entity	IVA
Procedure	

DLI 6	Number of new households participating in rental subsidy programs in each Fiscal Year during Program implementation
Description	Number of households receiving demand side for rental subsidy each fiscal year, US$ 590.53 (starting from April 1, 2019) per subsidy up to US$ 60 million (both parent and AF combined).
Data source/ Agency	SHMFF
Verification Entity	IVA
Procedure	**Disbursement** Number of households receiving demand side for rental subsidy each fiscal year, US$ 590.53 (starting from April 1, 2019 and baseline 1931 subsidies are already delivered) per subsidy up to US$ 60 million (both parent and AF combined). **Verification Procedure** As per the procedures outlined in the parent program

DLI 6.1	DLI 6.1: Establishment of a functioning rental unit and a digital platform within SHMFF linking private landlords and eligible tenants
Description	**Definition** Operationalization of a rental unit will include: **Staffing**: At least two technical experts on rental matters, as well as an IT expert and one lawyer (that can come from a centralized unit). **Unit**: Unit should be officially created and exist within the organizational structure of SHMFF and should have a clear mandate to design and implement rental development strategies, policies, and action plans. **Portal**: the unit should develop a web based platform within the existing SHMFF website that would provide all the information needed by both landlords and tenants on existing laws, procedures, types of contracts, and intermediation experiences in the rental market, as well as on the rights, benefits, and obligations pertaining to the specific SHMFF programs. **Communications:** Systematic outreach and communications campaigns to inform landlords and tenants on the existence of this platform are implemented.
Data source/ Agency	SHMFF
Verification Entity	IVA
Procedure	**Disbursement**: US$ 3 million for the creation of unit as per definition US$ 1 million for the web portal US$ 1 million per subsequent year (Y2, Y3, Y4, Y5) for maintaining both unit and portal Total: US$ 8 million **Verification Procedure** A report describing the rental unit, as outlined in the definition of the DLR, is submitted to the IVA, along with documentation of staffing and allocation of resources for the rental unit (including digital platform) to perform its mandate. After first achievement of the DLR, a report on continued functioning of the rental unit is provided on an annual basis. Verification will include (i) review of the report described above for consistency with DLR definition (ii) review of analysis or documents described in the report; and (iii) interviews with SHMFF.

	Verification will take place annually.
DLI 6.2	DLI 6.2: Implementation of a rental incentive package including a rental risk insurance product, and direct subsidies for tenants
Description	The development and implementation of the incentive package require that: (a) The package would consist of two distinct programs: (i) one for landlords, with rental risk insurance; and (ii) one for the tenants, on the development of demand-side tenant subsidies aimed at filling the gap between the rent required by the investor and the payment affordable to the tenant, estimated at 25 percent of income (b) A complete Business Plan and Operational Manual for the program should be put in place, which will include all program parameters such as targeting of tenants by income, rent levels by type of units and location, and subsidy adjustment methods; (c) Regular monitoring and evaluation studies are conducted.
Data source/ Agency	SHMFF
Verification Entity	IVA
Procedure	**Disbursement** US$ 2.25 million for designing and launching the incentive package US$ 2 million per subsequent year (Y2, Y3, Y4, Y5) for maintaining the program operational Total: US$ 10.25 **Verification Procedure** A report describing the incentive package including its adoption and delivery in the context of rental programs, as outlined in the definition of the DLR, is submitted to the IVA, along with documentation. After first achievement of the DLR, a report on continued functioning of the incentive package is provided on an annual basis. Verification will include (i) review of the report described above for consistency with DLR definition; (ii) review of analysis or documents described in the report; and (iii) interviews with SHMFF. Verification will take place annually.

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 cente
Description	Percentage of demand side subsidies supporting the purchase or rental of housing units located within commute of 60 minutes or less to an employment center.
Data source/ Agency	SHF
Verification Entity	IVA
Procedure	

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
Description	Percentage of demand side subsidies supporting the purchase or rental of housing units located within commute of 60 minutes or less to an employment center.
Data source/ Agency	SHMFF
Verification Entity	IVA
Procedure	

DLI 8	Number of demand-side subsidies provided supporting the purchase or rental of housing units developed by private sector entities
Description	Number of demand side subsides provided to the purchase or rent of housing unites developed by the private sector.
Data source/ Agency	SHF
Verification Entity	IVA
Procedure	

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
Description	Number of demand side subsides provided to the purchase or rent of housing unites developed by the private sector.
Data source/ Agency	SHMFF

Verification Entity	IVA
Procedure	
DLI 8.1	DLI 8.1: Development and implementation of new PPP guidelines addressing key bottlenecks expressed by private sector
Description	Adoption of PPP guidelines: Guidelines should be approved by the Minister of Housing, SHMFF Board and NUCA Board. The guidelines should be also endorsed by private sector participating in the negotiations. Guidelines must address the following concerns from private sector including but not limited to letter of guarantee required by NUCA, density (number of units per building), mixed use of developments (i.e. commercial vs. housing notably retail on ground floor), certain construction norms (i.e. parking requirements), land size/location and level playing field. Subsidy issuance and underwriting process should be the same for units built by public or private sector. The guidelines should be adopted to the satisfaction of the World Bank.
Data source/ Agency	SHMFF
Verification Entity	IVA
Procedure	**Disbursement** US$ 17 million for official adoption and content as per the definition **Verification Procedure** A report describing the adoption of PPP guidelines, as outlined in the definition of the DLI, is submitted to the IVA, along with documentation proving the adoption of PPP (proposal endorsed by the Ministry of Housing and construction professionals, approved by SHMFF and NUCA boards). Verification will include (i) review of the report described above for consistency with DLR definition (ii) review of analysis or documents described in the report; and (iii) interviews with SHMFF. Verification will take place annually.
DLI 8.2	DLI 8.2: Call for proposals under new PPP guidelines
Description	Call for proposals under new PPP guidelines: A tender process must be launched for private sector developers to participate

	in affordable housing construction projects as per the new guidelines. The tender process can be open or closed. The call for proposals will include the award process.
Data source/ Agency	SHMFF
Verification Entity	IVA
Procedure	**Disbursement** US$ 17 million for completion of the call for proposals process as per the definition. Total: US$ 17 million **Verification Procedure** A report describing the tender process is submitted to the IVA, along with documentation showing the adjudication of affordable housing PPPs to private developers as per the DLR definition. Verification will include (i) review of the report described above for consistency with DLR definition (ii) review of a representative sample of processed applications to ensure adherence to program rules. Verification will take place annually.

DLI 8.3	DLI 8.3: Roll out and implementation of three PPP pilots representing 10,000 units
Description	Pilot: for the purposes of this DLI is affordable housing project built by private sector under the revised PPP guidelines (see DLR 8.1) Launch of PPP pilots representing 10,000 units: Effective launch and completion of the pilots tendered under DLR 8.2**.**
Data source/ Agency	SHMFF
Verification Entity	IVA
Procedure	**Disbursement** US$ 5000 up to US$ 50 million per demand side subsidy delivered to program beneficiaries for homes built by private sector in the context of the pilot programs. Total: US$ 50 million **Verification Procedure**

	A report describing the roll out of the PPPs is submitted to the IVA, along with documentation showing the number of completed units and subsidies distributed. After first achievement of the DLI, a report on continued functioning of PPPs is provided on an annual basis. Verification will include (i) review of the report described above for consistency with DLR definition (ii) review of a representative sample of processed applications to ensure adherence to program rules. . Verification will take place annually, but can be as frequent as quarterly.
DLI 9	Development, adoption and implementation of an alternative system that progressively phases out the interest rate subsidy
Description	The achievement of the DLI will be accomplished in two phases. First, the new mechanism will be developed describing step by step the process and planned calendar to phase out (i.e. within 3 to 4 years). The proposed methodology will be prepared to the satisfaction of the World Bank and approved by the Board of SHMFF prior to the launch of the next advertisement campaign during 2020. Second, the new methodology will be implemented by the next advertisement campaign in 2020. The implementation will be verified annually by reporting if subsidy advertisement campaign is consistent with the new methodology.
Data source/ Agency	SHMFF
Verification Entity	IVA
Procedure	**Disbursement** US$ 10 million for the development, adoption and roll out during year 1 US$ 10 million per year (Y2-Y3-Y4,Y5) for implementation to the satisfaction of the bank Total: US$ 50 million **Verification Procedure** A report describing the development, adoption and implementation of the interest rate subsidy exit mechanism (approval from SHMFF's board) as outlined in the definition of the DLI, is submitted to the IVA, along with documentation proving the implementation process (conditions of annual advertisement campaigns). After first achievement of the DLI, a report on continued functioning of the exit mechanism is provided on an annual basis (including conditions of annual advertisement campaign). Verification will include (i) review of the report described above for consistency with DLR definition (ii) review of analysis or

	documents described in the report; and (iii) interviews with SHMFF. Verification will take place annually.
DLI 10	Adoption of legislation regulating real estate profession and installment sales
Description	Two levels of regulatory and supervisory intervention are envisioned under this component: at the construction phase and at the installment phase (post construction). During the construction phase, there is an urgent need to make mandatory the escrow account practice (whereby homeowner's funds are earmarked to their real estate project and finance the actual delivery of the contracted unit in time and with the expected quality (instead of using the funds provided by clients to finish other projects). At the installment phase (after completion of the project), developers should be regulated by norms creating a level playing field with banks and mortgage companies, and this second stage of regulations may also be introduced gradually ideally by the Financial Regulatory Authority (FRA).
Data source/ Agency	SHMFF
Verification Entity	IVA
Procedure	
DLI 10.1	DLR 10.1: Adoption of a real estate developers law (including, implementing regulations; and related regulatory authority) in form and substance satisfactory to the Bank
Description	**Adoption of real estate developer law:** Adoption of a real estate developers law including implementing regulations and supervisory framework. Legislation must include the following parameters: regulate financial practices during pre-construction and during construction phases qualification criteria for being a real estate developer including capital requirements, registry of new construction projects; consumer protection regime in case of default or misuse of funds; regulatory authority; requirement and management of escrow accounts. Legislation has to be adopted to the satisfaction of the World Bank.
Data source/ Agency	SHMFF
Verification Entity	IVA

Procedure	**Disbursement** US$ 10 million after adoption and publication of the law in the official gazette US$: 5 million after adoption of implementing regulations and publication US$: 10 million after establishment of the regulatory authority. Total: US$ 25 million **Verification Procedure** A report describing the adoption of the above referenced legislation, implementing regulations and operations of the supervisory authority is provided as outlined in the definition of the DLI, is submitted to the IVA, along with documentation proving the official adoption of legislation (copy of the legislation and implementing regulations published in the official gazette, annual report from the supervisory entity) . Verification will include (i) review of the report described above for consistency with DLR definition (ii) review of analysis or documents described in the report; and (iii) interviews with SHMFF. Verification will take place annually.
DLI 10.2	DLR 10.2: Adoption of regulations on installments sales post construction including supervisory regime, in form and substance satisfactory to the Bank
Description	**Adoption of installment sales regulation:** Adoption of installment sales regulations which implies an amendment to the Mortgage law (or adoption of a new legislation). The law should include the following parameters: reporting regime to a regulatory authority ideally the Financial Regulatory Authority (FRA), maximum maturity of installment sales, sanction regime, consumer protection regime, disclosure, transition phase arrangements.
Data source/ Agency	SHMFF
Verification Entity	IVA
Procedure	**Disbursement** US$ 10 million after adoption and publication of the regulation in the official gazette US$: 5 million after adoption of implementing regulations and publication US$: 10 million after operationalization of supervisory regime by Financial Regulatory Authority. Total: US$ 25 million **Verification Procedure**

	A report describing the adoption of the above referenced regulation, implementing regulations and operations of the supervisory authority is provided as outlined in the definition of the DLI, is submitted to the IVA, along with documentation proving the official adoption of legislation (copy of the legislation and implementing regulations published in the official gazette, annual report from the supervisory entity) . Verification will include (i) review of the report described above for consistency with DLR definition (ii) review of analysis or documents described in the report; and (iii) interviews with SHMFF. Verification will take place annually.

DLI 11	Operationalization of SHMFF Environment Unit
Description	DLI 11 SHMFF created an environment unit in 2018. The new unit will monitor different milestones and KPIs that will be identified in the Operation Manual (which is one of the PAP actions). The environment unit is expected to ensure compliance of social housing with basic environmental standards (location, positioning and certain constructions materials) and 25,000 units are expected to receive a green certification.
Data source/ Agency	SHMFF
Verification Entity	IVA
Procedure	**Disbursement** US$ 2 million for operationalization as per definition included in the operations manual US$ 500,000 per subsequent year (Y2, Y3, Y4, Y5) for maintaining the unit operational Total: US$ 4 million **Verification Procedure** A report describing the environment unit, as outlined in the definition of the DLI, is submitted to the IVA, along with documentation of staffing and allocation of resources for the environment unit to perform its mandate (as per the environment unit's operations manual). After first achievement of the DLI, a report on continued functioning of the environment unit is provided on an annual basis. Verification will include (i) review of the report described above for consistency with DLI definition (ii) review of analysis or documents described in the report; and (iii) interviews with SHMFF.

	Verification will take place annually.
DLI 11.1	DLI 11.1: Number of housing units with green GPRS certification from the National Building Research Center as per the Operations Manual
Description	Green certification of 25,000 social housing units built by NUCA or private developers. Construction costs should be considered in social housing, the Program is limiting the requirement for GPRS certification to the first level, which could be achieved with minimum cost implications, as it could be limited to introduce some measures to the site selection, designs, selection of materials and introducing some plumbing and power saving tools. Certification criteria will be included in the operations manual of the Environment Unit.
Data source/ Agency	SHMFF
Verification Entity	IVA
Procedure	**Disbursement** US$ 400 per certified unit up to US$ 10 million Total: US$ 10 million **Verification Procedure** Report prepared by SHMFF and submitted to the IVA. Verification will include (i) review of the report described above for consistency with DLR definition (ii) review of a representative sample of processed certifications to ensure adherence to program rules (as per the environment unit's operations manual). Verification will take place annually.
DLI 12	Improve the efficiency of the subsidy application and issuance process
Description	
Data source/ Agency	SHMFF
Verification Entity	IVA

Procedure	
DLI 12.1	DLR 12.1 Carrying out of a review and streamlining of procedures and screening processes of application, analysis and provision of the subsidy and implementation of recommendations
Description	A workflow assessment aiming at streamlining procedures and screening processes of issuance application, analysis and issuance of the subsidy (including underwriting process) will be carried out. The workflow review will include recommendations to reduce or streamline the number of steps in the process. SHMFF will implement the recommendations of the workflow assessment in order to have a revised subsidy delivery procedure.
Data source/ Agency	SHMFF
Verification Entity	IVA
Procedure	**Disbursement** US$ 7.5 million when workflow assessment and key recommendations are implemented. Total: US$ 7.5 million **Verification Procedure** A report describing the adoption of the implementation of recommendations aiming at streamlining the subsidy issuance process as outlined in the definition of the DLI, is submitted to the IVA, along with documentation proving the official adoption of new procedures (i.e. SHMFF internal manuals and policies) . Verification will include (i) review of the report described above for consistency with DLI definition (ii) review of analysis or documents described in the report; and (iii) interviews with SHMFF. Verification will take place annually.
DLI 12.2	DLR 12.2: Pilot delegation of underwriting procedures to selected banks
Description	Pilot delegation of subsidy delivery to selected banks: Pilots with selected banks in selected locations will be implemented to explore full delegation of the approval process. The pilots, to be developed by the SHMFF, will be used to test a fully delegated process on a small scale and will also be a way to move away from the system of national advertisement campaigns. For the delegation of the approval process, SHMFF is expected to design and implement pilots for 5,000 affordable homes.

Data source/ Agency	SHMFF
Verification Entity	IVA
Procedure	**Disbursement** US$ 1,500 per subsidy delivered under pilot program up to US$ 7.5 million **Verification Procedure** Report prepared by SHMFF and submitted to the IVA. Verification will include (i) review of the report described above for consistency with DLR definition (ii) review of a representative sample of processed applications delegated to participating banks to ensure adherence to program rules. Verification will take place annually.

ANNEX 1: SYSTEMATIC OPERATIONS RISK-RATING TOOL

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Latest ISR Rating	Current Rating
Political and Governance	Substantial	Moderate
Macroeconomic	Substantial	Substantial
Sector Strategies and Policies	Substantial	Substantial
Technical Design of Project or Program	Substantial	Substantial
Institutional Capacity for Implementation and Sustainability	High	High
Fiduciary	Substantial	Substantial
Environment and Social	Low	Moderate
Stakeholders	Substantial	Substantial
Other		
Overall	Substantial	Substantial

ANNEX 2: TECHNICAL ASSESSMENT – ADDENDUM

Technical

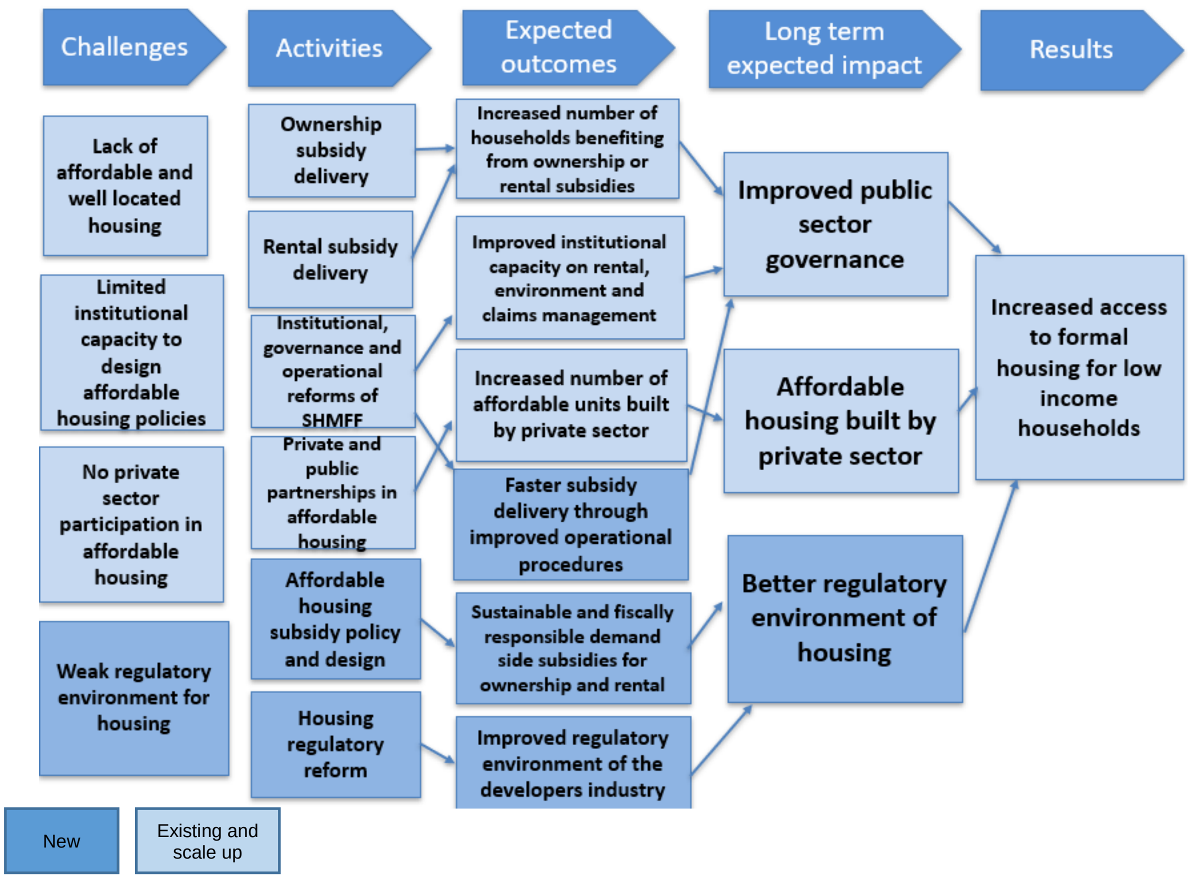
1. **Strategic relevance and technical soundness.** Providing adequate housing for the poor remains a key priority for the GoE. The presidential program of providing 1 million homes to low-income people remains relevant, and there is strong commitment from the country authorities to deliver on the ambitious targets.[24] The key premises for justifying the intervention under the parent Program remain unchanged: (a) lack of availability and high price of housing; and (b) complex macroeconomic environment which has resulted in high inflation and high interest rates, making it impossible for low-income population to afford a home. Under these conditions, the provision of formal and decent affordable housing for the poor is not possible without an effective state intervention to address this problem. However, such an intervention requires strong institutional capacity to design policies that support affordability of homes but at the same time do not create market distortions. The SHMFF, the institution in charge of housing policies in Egypt, has carried out its mandate effectively since its creation in 2014 with the support of the Inclusive Housing Finance Program. The GoE wishes to scale up the delivery of subsidies to reach the target of 1 million homes for low-income households by 2024. To make this goal a reality, the GoE needs to implement a second generation of institutional reforms to ensure effective delivery of the Program, strengthen the ecosystem of affordable housing and bolster the institutional capacity of SHMFF. These actions will ensure fiscal responsibility, transparency, and accountability. In addition, new issues have emerged, such as the expiration of the CBE credit line financing the subsidy program, which required immediate attention and opens a window of opportunity to implement an exit strategy for the interest rate subsidy and more solid collaboration with the private sector.

2. **The proposed AF will support the scale-up of existing DLIs, as well as introduce new institutional and regulatory DLIs.** Seventy-three percent of the AF amount will focus on the affordability aspects while the remaining 27 percent will focus on the regulatory and institutional strengthening aspects. All the proposed additions and changes are in line with the development objective of the parent operation (Figure 2.1). The effective implementation of the parent Program and the AF will result in stronger governance and institutional capacity (including efficiency and accountability), better regulatory environment for housing, increased private sector participations, and higher numbers of households benefiting from an affordable ownership or rental program. As with the parent operation, the AF will contribute to improving public sector governance in the area of affordable housing and increasing access to formal housing for low-income people in the long term. At Program completion, the country is expected to have: (a) improved the regulatory environment for housing; (b) strengthened the governance and institutional framework of the SHMFF; (c) improved the operational efficiency, accountability, and transparency of the SHMFF; (d) increased the number of households benefiting from affordable ownership and rental programs; and (e) increased the involvement of the private sector in affordable housing construction. To achieve these outcomes, the Program will: (a) support the development and implementation of a more transparent and fiscally responsible scheme to replace the costly interest rate subsidy and regulate the private developers' profession (DLIs 9 and 10), (b) strengthen the governance of the SHMFF by establishing new units (Environment, Claims Management, and Rental Units) (DLIs 3.1, 6.1

[24] This was announced during the election campaign for President Sisi in 2014, confirmed in 2015, and more recently confirmed as part of the current government program. This was publicly announced: https://www.reuters.com/article/us-egypt-housing-idUSKBN0TS14620151209.

and 11), (c) improve the operational efficiency of SHMFF by implementing new workflow arrangements (DLI 12), (d) increase access to affordable housing by scaling up the delivery of subsidies for ownership and developing a new rental program (DLIs 5 and 6), and (e) promote more private sector participation in affordable housing construction and a level playing field (DLIs 8.1, 8.2, 8.3).

Figure 2.1. Theory of Change



3. **Parent Program performance.** Four years after effectiveness, the Inclusive Housing Finance Program is on track to meet its development objective. The parent Program's disbursements have surpassed 64 percent of the total loan amount. As of December 2019, government expenditures are about US$0.3 billion. The Program has been consistently rated 'Moderately Satisfactory' since its inception. Of the four PDO indicators, one has been met, two are progressing, and one (private sector participation) is not progressing. Of the 23 intermediate indicators, 17 have been met or exceeded their targets. Of the 8 DLIs, 5 have been fully achieved. DLI 5 (number of beneficiaries of demand-side subsidies) has not reached its projected target of 20,000 beneficiaries per month as envisaged in the Program design; however, significant progress has been achieved and the SHMFF is now capable of delivering 10,000 subsidies per month. The remaining two DLIs, namely DLI 6 (rental subsidy) and DLI 8 (private sector participation in construction of affordable housing), are lagging. On the fiduciary aspects, the Program has performed well and has been rated Moderately Satisfactory and no major issues have been reported. A midterm review in July 2018 confirmed the solid implementation pace but also identified actions needed to be taken to address the lagging performance of DLI 6 and DLI 8 and to increase the delivery pace of DLI 5.

4. **Implementing entity performance.** The SHMFF will continue to be the implementing agency for the AF. The SHMFF's performance as the implementing entity has been rated Satisfactory since Program inception. The SHMFF is staffed with highly qualified professionals and has solid governance systems in place. With the AF aiming to scale up the parent Program, it is critical to keep the same implementing entity. As the AF supports further institutional strengthening of the SHMFF (that is, Environment, Rental, and Claims Management Units), additional key staff will be recruited to ensure proper implementation of the new Program activities. Verification protocols through the IVA will remain unchanged.

5. **Actual expenditures under the parent Program have been lower than the expenditures projected during preparation.** The expenditure framework has five main components: (a) overhead; (b) studies, plans, and capacity building; (c) housing data and systems; (d) housing demand programs (ownership); and (e) housing demand programs (rental). From Year 1 (2015/2016) to Year 4 (2018/2019) under the parent Program, the SHMFF spent about US$0.3 billion (Table 2.1), mainly on the ownership component (against projected expenditures totaling US$1.4 billion over the period). This low level of actual expenditures is consistent with the slower-than-expected implementation of the Program and the Egyptian pound devaluation. Without the Egyptian pound devaluation, the level of expenditures would have reached US$0.6 billion. In addition, the SHMFF managed to outsource some activities (engineering studies, call center, and applications screening), which resulted in lower costs. Some other activities ended up in being less expensive than originally forecasted, in particular the SHMFF's management and information system (40 percent rebate on the list price offered by IBM) and the housing data (that the SHMFF got for free from the Development Housing Bank and the governorates). Finally, it is worth mentioning that the Enhancing Social Housing Governance ASA that started being implemented in 2016[25] partially alleviated the SHMFF expenditures on capacity building and studies.

Table 2.1. Parent Program Expenditures (US$ million)

Expense Item	Year 1	Year 2	Year 3	Year 4	Total
#1 - SHMFF overhead					
Actual	2.2	2.0	2.2	0.0	6.4
Projected	*2.0*	*3.0*	*3.0*	*4.0*	12.0
#2 - SHMFF studies, plans, and capacity building					
Actual	0.3	0.3	0.4	0.0	1.0
Projected	*2.0*	*2.0*	*2.0*	*2.0*	*8.0*
#3 - SHMFF housing data and systems					
Actual	0.1	0.1	0.3	0.3	0.8
Projected	*3.0*	*3.0*	*2.0*	*2.0*	*10.0*
#4 - Ownership subsidies					
Actual	74.5	44.3	74.0	78.3	271.1
Projected	*199.3*	*332.2*	*398.6*	*465.0*	*1,395.1*
#5 - Rental subsidies					
Actual	0.0	0.0	0.1	0.0	0.1
Projected	*0.8*	*2.5*	*3.4*	*5.0*	*11.7*
Total expenses (actual)	**77.1**	**46.7**	**77.0**	**78.6**	**279.4**

[25] Enhancing Social Housing Governance (P159757).

Expense Item	Year 1	Year 2	Year 3	Year 4	Total
Total projected	***207.1***	***342.7***	***409.0***	***478.0***	***1,436.8***

Source: SHMFF data

6. **The expenditure framework has been revised to take into account implementation delays and savings and reflect the changes introduced by the AF.** The AF-supported expenditure program (Table 2.2) will consist of the same five items:

- The SHMFF overhead moving forward relies on existing expenditures (mainly staff cost) plus the hiring of 15 new staff reflecting the creation of the new units (Claims Management Unit, Rental Unit, and Environment Unit). The total expenditure under overheads is increased by 10 percent every year to take into account salary inflation.
- The SHMFF's studies, plans, and capacity building include, among others, the housing demand survey conducted by CAPMAS (and paid by the SHMFF for about US$0.4 million).
- Expenditures on housing data and systems will reflect the expected cost of a new server, maintenance fees (accrued by 10 percent each year to take into account the inflation rate), and the implementation of an electronic platform linking landlords to tenants (US$0.1 million).
- Expenditures under the ownership program rely on the following assumptions: (a) a gradually increasing pace of demand-side subsidies to be delivered by the SHMFF (starting from approximately 280,000 by December 2019 and reaching 950,000 by December 2024); and (b) a gradual increase of the average per unit down-payment subsidy (to offset the impact of the exit mechanism for interest rate subsidies while keeping the same affordability for the low-income households target by the Program).
- The expenditures on the rental component (which were close to zero under the first four years of the parent Program) will take into account: (a) the gradual increase of the number of subsidies delivered to tenants (starting from the current level of 1,931 beneficiaries and reaching 102,400 beneficiaries by 2024), and (b) the incentive package to further stimulate landlords to rent their housing units (including the vacant ones) to low-income households (according to the new DLI 6 design). Rental subsidies are cumulative; once a household has entered the Program, the subsidy continues into the following years. Over 20,000 female-headed households will be provided with rental subsidies through the proposed AF.
- The interest rate subsidies (as part of the new temporary interest rate subsidies mechanism replacing the CBE stimulus package) are not included in the Program expenditures because these are considered unproductive expenditures.[26] The total amount of subsidies to be spent amounts to approximately US$1 billion over the next five years.

7. **Total program expenditures are estimated to be US$2.8 billion**. This represents the total from the actual expenditures under the parent Program since inception (about US$0.3 billion) and the total program expenditures projected over the next 5 years (US$2.5 billion, see Table 2.2). In this framework,

[26] The interest rate subsidy is temporary and only covers for the subsidies that were committed during the last advertisement campaign of October 2018 that were not covered by the CBE credit line which expired in January 2019. The next advertisement will take place in the first half of 2020, and it will implement the new interest rate mechanism.

the PforR will finance 36 percent of the total program expenditures. The revised program expenditures take into consideration the effective implementation capabilities of SHMFF based on the experience of four years of program implementation (both ownership and rental programs). In addition, projected expenses for items 1, 2 and 3 is based on SHMFF business plan.

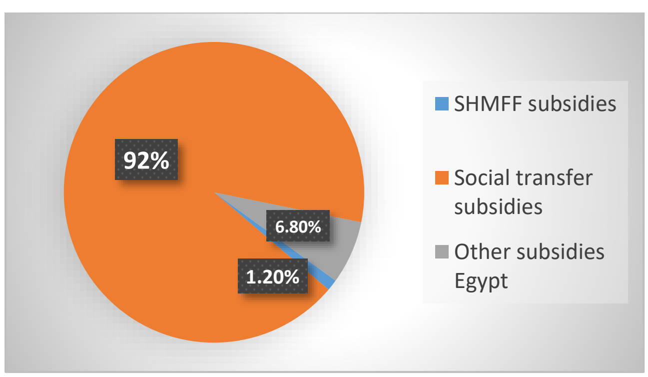
Table 2.2: Program Expenditures (US$ million)

Expense Item	Year 1	Year 2	Year 3	Year 4	Year 5
#1 - SHMFF overhead	2.2	2.6	2.9	3.2	3.5
#2 - SHMFF studies, plans and capacity building	0.2	0.2	0.2	0.5	0.2
#3 - SHMFF housing data and systems	0.9	0.7	0.7	0.7	0.8
#4 - Ownership subsidies	204.7	324.7	441.2	619.4	803.7
#5 - Rental subsidies	15.8	18.6	21.4	24.1	13.9
Total	**223.8**	**346.8**	**466.3**	**648.0**	**822.2**

Source: SHMFF projections (baseline December 2019).

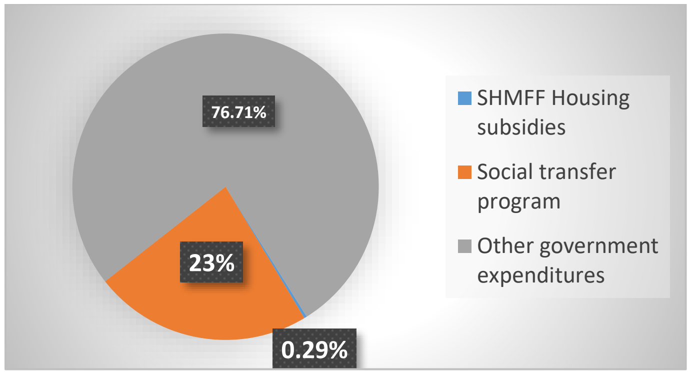
8. **The Social Housing Program had a high impact with a very low fiscal cost making a very strong case for a scale-up.** For a flagship national housing program that has delivered and allocated more than 200,000 homes to low-income households since 2014, the government's direct fiscal allocation to the program has been extremely modest. Even if the total amount of subsidies issued by the MHUUD for housing and utilities are taken into consideration (of which the SHMFF subsidies are only one part), these were only 0.3 percent of the total subsidies, 0.08 percent of the total government expenditures, and 0.02 percent of the GDP for FY15/16, the latest year for which these figures are available. In comparison, the social transfer programs commanded 92 percent of the total subsidies, 23 percent of the total government expenditures, and 7 percent of the GDP. Focusing on the SHMFF subsidies specifically and taking the current disbursement rate of the SHMFF of 120,000 subsidies per year as the base case, at the average of LE 20,000 (US$1,200) per subsidy, the cost to the government would have been 1.2 percent of the total subsidies, 0.29 percent of the total government expenditures, and 0.09 percent of the GDP during FY15/16 (figures 2.2 and 2.3) (for a detailed analysis of program sustainability see annex 7). For example, Mexico and Chile spend close to 1 percent of their GDP in affordable housing subsidies. Even if the full current interest rate subsidy is put on the budget (in NPV terms for 120,000 subsidies per year), the cost to the GoE would still only amount to 5.7 percent of the total government subsidies, 1.39 percent of the total government expenditure, and 0.4 percent of the GDP (using FY15/16 figures). With the downward trend in interest rates, the amount of the interest rate subsidy is projected to decrease over time.

Figure 2.2. Share of the SHMFF Housing Subsidies in Total Subsidies



Source: MoF - Egypt

Figure 2.3. Share of Housing Subsidies in Government Expenditures



Source: MoF - Egypt

9. **Performance of verification arrangements.** Verification arrangements have performed adequately during the implementation of the parent operation. Verification arrangements will remain unchanged and only the terms of reference of the independent evaluator will be updated to reflect the inclusion of new DLIs and updated targets of existing DLIs.

10. **M&E requirements.** The M&E arrangements remain adequate and have been updated to reflect the new DLIs, the new PDO indicator, and updated targets to reflect the scale-up of the Program and updated gender-disaggregated targets.

Economic Analysis

11. **Updated economic evaluation.** The provision of decent housing matters because it improves living standards significantly. 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. 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.

12. 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 government Program under the first AF was expected to increase GDP by 0.6 percent in Year 1 and close to 2 percent in subsequent years. Based on the target of 12,000 subsidies per month under the AF, the government program would increase GDP by 1.2 percent from 2020 to 2024. 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.

13. The entire housing stimulus program of the SHMFF will indirectly contribute to generating job opportunities for skilled and unskilled labor. Based on an elasticity of employment of 1.5 in the construction sector, it was estimated that the total number of jobs directly or indirectly generated through the parent Program over a six-year period would be 1.5 million job-years. Based on the same hypotheses, the AF would bring up this number to 1.9 million over a 10-year period. Another critical economic rationale to assist the housing sector that is closely linked to the strategic goals of poverty reduction and shared

prosperity is improving the link between housing and labor market participation. Well-located and decent housing frees up people's time and enables them to participate in the labor market. Economic opportunities are disproportionally 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 also disproportionally affects women's access to economic activities and enables them to participate in the labor market. Demand-side housing subsidies will improve economic capacity of targeted households and will improve their resilience to economic impacts of climate change. The proposed Program reduces the need to build informal settlements that could be in agriculture lands or unsafe areas vulnerable to rising sea level and/or surge storms without adequate urban drainage.

ANNEX 3: FIDUCIARY SYSTEMS ASSESSMENT - ADDENDUM

Original Program

1. The overall fiduciary performance of the original Program is assessed to be Moderately Satisfactory. Before the merger of the SHF and the GSMFF in 2018, both funds produced final accounts on an annual basis. The accounts consolidation of both funds has taken place in August 2018 following the merger of the funds. The SHMFF reports on the monthly budget execution to the Ministry of Finance. The largest share of expenditures was for the up-front subsidies for the ownership component. The mortgage-linked interest subsidy, however, was not included in the Program financial statements as its cost was absorbed by the CBE under its mortgage finance initiative and not financed by the state/SHMFF budget. The Program financial statements are prepared on an annual basis covering expenditures under the Inclusive Housing Finance Program. The Program financial statements are audited by an independent external auditor as required by the loan agreement, and the auditor has expressed unqualified (clean) audit opinion on them to date. The budget outturns of both funds before merger showed some significant deviations. For example, the SHMFF's budgeted expenditures in FY17/18 were LE 33 billion while the actual outruns amount to LE 15.5 billion. The largest variation was in chapter 6 (expenditures were 42.5 percent of the budget) citing the incompletion of the construction plan for the year. In turn, the discrepancy in the completion of units affects the execution rate of subsidies under chapter 4 of the budget. This situation is expected to improve after a year of the merger of the two funds. The World Bank fiduciary experts will continue monitoring budget management performance of the SHMFF.

2. The assurance procedures were strengthened, and operational efficiency was enhanced through the automation of the applications' submission, the use of specialized investigation companies, the reliance on i-score credit information, automated process of units' allocation, notifications to beneficiaries through text messages, and publishing of program information on the fund's website. Although no comprehensive integrated reporting scheme was officially adopted, the periodic progress reports issued by the SHMFF included relevant information on different performance aspects.

3. Most of the fiduciary measures recommended under the original Program were successfully implemented. An independent internal audit function was established and staffed and has been discharging its role and mandates. An updated 'Procedures Manual' was completed. The SHMFF programs were integrated in the state budget and are recorded in the GFMIS. Periodic progress reports and annual financial statements are published on the fund's website, although timeliness and presentation need to be further improved. The automated application system adopted with the ninth advertisement in August 2017 is a significant positive step in the process. This is also strengthened further by introducing call center service and the adoption of phone text messages to clients.

Additional Financing

4. While the key Program activities and institutional arrangements are the same under the AF, the AF comes with additional fiduciary risks. The significant increase sought in targeted applications, the respective review and scrutiny required, the effect on the SHMFF's financial sustainability, and the potential spillover effect on the state budget collectively increase the Program's fiduciary risk. Accordingly, the following aspects will be considered: (a) absorption capacity of the implementing entity (the SHMFF) to review and process a significant increase in applications; (b) the capacity of participating

banks with regard to mortgage underwriting; (c) financial sustainability of the SHMFF, taking into consideration the respective study completed in 2017 and the latest cash flow projections; and (d) expected pace of progress in DLIs to enable timely financing of the Program needs. To mitigate these risks, a significant portion of the AF will be dedicated to institutional capacity strengthening to ensure the institution has the right staff and tools to deliver on such an ambitious program. The Program will also support the implementation of an interest rate subsidy mechanism and support PPP pilots in the area of affordable constructions that will contribute the alleviation of fiscal expenses.

Budget

5. The Program's audited financial statements are based on cumulative expenditures as of June 2019 (US$266.1 million), mainly for upfront subsidies provided to accepted applicants which amounted to US$264.8 million.

Public Investment

6. The Social Housing Program that was launched in 2014 announced a target of constructing 1 million housing units over five years, with 200,000 units to be built annually, followed by the construction of 100,000–150,000 units annually. The Social Housing Program has also targeted the increase of the housing unit's size from 63 m^2 to 90 m^2. While the SHMFF advised that the sought increase in unit size is driven by demand that is geared toward larger-size units, continuing to avail smaller-size units needs to be considered for two reasons: reducing the fiscal burden on the state budget and accommodating the poorer applicants/beneficiaries with less needs and lower budgets.

7. The cumulative costs of the Social Housing Program are not fully captured by the PforR financial statements that are limited to the demand-side financing. The reporting on cost of units' construction is fragmented through different reports/documents. The interest rate subsidy absorbed by the CBE until the end of 2018 was temporarily covered by the SHMFF from January until June 2019, and then, by the MoF. Nevertheless, the overall expenditures beyond demand subsidies (construction of affordable homes and interest rate subsidies) are not negligible. These issues will be tackled directly by the AF in the context of the interest rate exit mechanism under DLI (DLI 9) and private sector participation in affordable housing construction (under DLIs 8, 8.1, 8.2 and 8.3). A compilation of the financial data provided in the progress report of June 2018 indicates the information presented in table 3.1.

Table 3.1.

	LE	US$
Construction costs of 506,000 units	87 billion	4.97 billion
Interest rate subsidies up to December 2018	20 billion	1.14 billion

8. The Program has experienced certain delays in some areas. For example, the delay in involving private developers in implementing the government program is adding to the fiscal burden on the state budget. The debt leverage of LE 10 billion incurred by the SHMFF in 2018 adds to the fiscal burden.[27] In addition, cash flow deficit in certain periods is expected over the medium term according to the cash flow

[27] According to the SHMFF, this loan was secured from four local commercial banks to finance its working capital, mainly for construction activities. It is payable over four years in equal installments as provided in the SHMFF's cash projections.

projections scenario prepared by the SHMFF. The price of the land, the cost of utilities infrastructure, and the public services are excluded from the price charged by public developers. Private developers are expected to pay for all the above-mentioned items which creates competition problems between private and public developers. Therefore, the argument for availing the units at a price lower than the market by at least 30 percent (as provided in the progress report) will only be substantiated if the private developers are offered the same conditions as the public sector. However, new PPP guidelines were approved in January 2020 with full buy-in from private developers (the deal addresses all the concerns listed above) which should alleviate government expenditures on the supply side and create a level playing field between state-controlled and private developer companies. The Program has also suffered some administrative delays on the subsidy processing. While mortgage processing by banks reimburses the SHMFF for a significant part of the investments, there was a considerable time lag between financing the construction and the completion of mortgage underwriting. As of June 2018, only 155,000 mortgage payments by banks were concluded for 282,000 units constructed and another 228,000 under construction. Administrative delays will be tackled under the AF to ensure better workflow and more efficient subsidy delivery process.

Other Governance Measures

9. The advertisement of the first 500,000 units resulted in a demand level that stood at only 375,000. According to the SHMFF, new construction is now linked to the actual demand, which is an important step in the right direction. It is important to confirm that the actual demand is measured by the accepted applicants after the investigation and the banks' successful underwriting, and not by the total number of applications for a given advertisement. In addition, the progress report of June 2018 showed that 592,000 units were advertised, the construction of 282,000 is completed, while only 155,000 applications were completed and successfully processed up to June 2018. In FY17/18, the highest number of beneficiaries receiving subsidies was 76,000 which means an average of 6,333 monthly, while the peak processing has reached 9,000 in May 2018 according to the progress report. Preliminary data for 2019 show that the SHMFF has improved its internal processes and is able to deliver 10,000 subsidies per month. These processed subsidies in FY17/18 were almost double those processed in the two previous years (34,000 in FY15/16 and 38,000 in FY16/17). Administrative delays will be tackled under the AF to ensure better workflow and a more efficient subsidy delivery process.

10. The above information, together with the fiscal costs indicated in the previous section, suggests that the continued expansion in using public funds in financing additional construction of units needs to be weighed against allocating considerable attention to unlocking part of the huge stock of vacant units (estimated total of 12.5 million units according to the latest census conducted by CAPMAS). The progress report indicates that less than 15 percent of the real estate wealth in Egypt is registered/notarized. The gradual unlocking of this stock would allow expanding the subsidies programs to existing units while creating a larger fiscal space for other public investment priorities. The progress in registration of properties will also mean mobilizing the private rental market, which will give another boost to the Program's subsidy scheme. Enhancement measures to ensure the enforceability of rental contracts will help another breakthrough in the Program. The rental component under the AF will ensure the development of incentive packages to attract private landlords into the affordable rental sector and tackle in part the vacancy problem. The Program will also support purchase of existing units. However, this option has not taken off because banks prefer to underwrite loans for new units. A large portion of the existing housing stock is not registered due to property registration limitations in Egypt, increasing

dramatically the risk and the complexities of loan underwriting for financial institutions. The GoE has recently requested support from the World Bank to improve property registration systems.

Transparency

11. Notable advancement was observed in publishing progress reports using the fund's website. Monthly and quarterly progress reports were available online, with potential further improvement in the timeliness in availing them. The annual progress report for the year ended June 2018 has detailed information with useful breakdowns and classifications on the demand-side covering beneficiaries of subsidies as well as the participating banks and mortgage companies. The Program reports provided useful information on the geographical distribution of units, the implementation status, and the size of subsidies. The progress report of June 2018 only provided limited information on the supply side as shown in table 3.2. The draft progress report of June 2019 provided limited information compared to the detailed progress report of June 2018.

Table 3.2.

	Number of Units	Cost Estimate (LE)
NUCA[28]	402,000	69 billion
Construction and foreign relations sector at MHUUC	104,000	18 billion

12. To promote further transparency and ensure better accountability, the following measures are included under the PAP:

- Publishing detailed data on the supply side—more transparency is needed on actual cost of construction, main contractors, procurement processes, the maintenance and facility management activities in the program projects, and so on;
- Continuously adopting the revised construction approach that links construction to actual demand;
- Availing regular and affordable transportation means to the new housing communities where most of the new social housing units are concentrated; and
- Continue reporting fraud and corruption cases in the context of the program to the World Bank.

Public Procurement

13. The new procurement law was approved in Egypt in November 2018. This new legislation represents a major step in the modernization and development of the legal framework for public procurement in Egypt and for the public procurement systems at the implementation level. According to the established procedure, secondary legislation (bylaws, regulations, and rules) is under preparation and will be completed by the first half 2020. The new law has notable developments and features namely

[28] NUCA constructs through state-controlled construction companies, as well as sub contract to private sector companies (800 nationwide).

- Solidifying the scope of application of the law by curtailing ad hoc exclusions of competitive and transparent procurement procedures;
- Expansion of the range of procurement methods available to procuring entities (specific method for procurement of consultancy services, enabling provisions for e-procurement, online reverse auction to transform traditional forms of public and limited practice, expanded treatment of framework agreements, a simplified procurement method, and request for quotations);
- Provisions on institutional arrangements for the procurement system, in particular central policy and oversight functions for the system;
- Additional techniques introduced for aiding SMEs to participate more and gain a greater share of procurement markets (for example, dividing procurements into lots and more nuanced application of bid and performance security requirements, including introducing the bid-securing declaration);
- Addition of a code of conduct for public officials and employees, and the private sector participants, on ethics and conflict of interest in public procurement; and
- Elaboration of provisions on review of complaints from bidders.

14. However, the law will not achieve its objective to change the procurement practices in Egypt without having the implementation tools in place, the executive regulations, procurement manuals, standard bidding documents (SBDs), e-procurement, and a comprehensive capacity-building strategy.

15. The original Program financed minor procurement packages for selection of consultants which were carried out satisfactorily according to the applicable law. The current procurement system applies the new law and the old implementing regulations (where there is no contradiction with the new law). Similar to the parent Program, the AF is limited to the demand side and there is no major procurement involved. Some consultant services contracts for capacity building, information technology (IT) solution, and M&E will be awarded. Given that the executive regulations are not yet completed and may take a long time to be enacted, a Program Operation Manual (POM) with a set of relevant SBDs developed under similar programs will be updated and used under the Program.

16. Although the supply-side aspects of housing are outside of the Program boundaries, the SHMFF would explore the possibility of improving its public procurement processes. A good model of Procurement Manual and SBDs was developed under the ongoing Egypt Rural Sanitation PforR. A modern procurement approach for the SHMFF will promote transparency and efficiency and achieve the best value for money. This is in addition to publishing the awarded contracts on the government procurement portal, which is currently being developed. This will also help the sector in the following aspects:

- Limitation and reduction of errors that may lead to the failure of the competitive process during the procurement process or when the contract is executed;
- Ease of use, as changes are only made to the bid data sheet;
- Clarification of the rights and duties of all parties (employer and executor);
- Essential element of any future electronic procurement; and

- Solving the problems expected during the implementation and explaining how to deal with the differences.

ANNEX 4: ENVIRONMENT AND SOCIAL SYSTEMS ASSESSMENT - ADDENDUM

Objectives of the ESSA Addendum

1. An Environmental and Social Systems Assessment (ESSA) was prepared for the parent Program by the World Bank in 2014 according to the requirements of the World Bank's policy for PforR financing. As the environmental and social aspects of the Program are carried out according to the country systems, the ESSA reviewed the capacity of existing country systems to plan and implement effective measures for environmental and social management and to determine if any measures would be required to strengthen the country systems. This document is an addendum for the ESSA prepared for the parent Program to cover the environmental and social aspects of the AF.

Methodology of the ESSA Addendum

2. The preparation of the addendum involved a series of interviews and focus group discussions that targeted a range of stakeholders related to the housing sector. The interviews and technical discussions included different interested parties in the field of green buildings, environmental control of housing construction, and occupational health and safety. The focus group discussions took place in two different site locations with different socioeconomic levels, where housing units have been provided to beneficiaries through the parent Program in Giza and Sharqia governorates. Each discussion included homogenous groups: (a) a group of youth, (b) a group of women, and (c) a group of older persons. The purpose of these discussions was to get feedback from the Program beneficiaries about their own experience with the parent Program. The City Authority of 10th of Ramadan City, one of Al-Sharqia governorate's cities, hosted the first series of focus group discussions at the authority premises. The City Authority of 6th of October City, one of Giza Governorate's cities, hosted the second focus group discussions. The sessions took place at a club associated with one of the compounds in the city. Representatives from 10 Tooba (Applied Research on The Built Environment) and Together Association for Development and Environment were also interviewed focusing on social housing and housing demand issues. The Bank team reviewed laws and regulations relevant to the activities of the AF and assessed the institutional capacity of the implementing agency after the merger between the SHF and the GSF to form the SHMFF. The conclusions of the ESSA were used to update the PAP and introduce new DLIs.

Environmental Assessment

3. The National Building Research Center (NBRC), one of the research centers of the MHUUD, has introduced the GPRS which covers different sustainability aspects including sustainable site selection, energy efficiency, water efficiency, materials, natural resources, indoor air quality, management, innovation, and added value. The GPRS gives different certification levels depending on the obtained scores for the building: starting from a score of 30 percent (achieving 30 percent of the standards) for the first Green Pyramid Level up to the Platinum Level (Five Green Pyramid Level) with minimum score of 80 percent. The GPRS is considered compatible with the international green building certification system and covers different building sustainability aspects. In comparison with the International Finance Corporation green building system (Excellence in Design for Greater Efficiency [EDGE]), the GPRS covers the full range of sustainability aspects addressed by EDGE; however, the latter is more stringent in its certifying procedures as the minimum score of each of the pillars should be 20 percent. Despite being less stringent,

the GPRS is considered suitable for the use of the program as a certification tool, as the green building concept is quite new in the country and the sector, and it needs a staged approach to gain momentum.

4. Regarding environmental aspects related to the housing construction industry, the addendum concluded that, generally, the national systems for waste management and OHS adequately address different types of risks in alignment with different international guidelines, such as the World Bank Group EHS Guidelines. However, in terms of actual implementation on the ground, there is relatively low awareness among construction workers and supervisors about the importance of waste management and OHS. Some contractors, especially large companies, abide by the laws and standards and have an EHS system in place for their works. However, many other contractors treat EHS in a non-systematic manner and do not have a clear commitment to comply with the relevant laws and standards. The SHMFF has acknowledged those EHS gaps and will address them as part of the mandates of the newly established Environment Unit which will ensure that contractors comply with environment and OHS laws and standards. This unit was established and approved by the Central Agency for Organization and Administration in 2018,[29] and the SHMFF appointed a head for this Environment Unit in March 2019. This unit will ensure that contractors comply with environment and OHS laws and standards.

5. The AF will not cause any environmental impacts that could be considered significant, diverse, sensitive, or unprecedented. The modified and new DLIs of the AF are not associated with activities that could pose a risk to natural habitats or physical cultural resources. The ESSA identified some community risks related to structural stability and safeguarding against fires, and those risks were classified as low, and the addendum confirms the low risks associated with building safety. It is worth noting that the housing units provided to beneficiaries so far were new units that fulfilled the different engineering codes for building safety.

6. The ESSA of the parent Program assessed the environmental risks as low, given that the Program interventions are limited to the demand side. The AF will continue to support the demand side, while introducing best practices to the construction activities through DLI 11, such as improving the environmental and health and safety measures during construction and introducing the principals of green building in 25,000 units, which are considered as environmental benefits. Except for DLI 11, the modified DLIs and new DLIs did not introduce support to certain supply-side activities; however, the supply of housing units will be key in achieving the Program objectives. Therefore, although the direct risks and impacts of the AF remain related to the demand side, environmental risks related to the supply side are considered linked to the Program. Accordingly, the environmental risk of the Program was raised to Moderate due to the following reasons: (a) the construction activities are linked to the Program activities, mainly because the past period of Program implementation showed that the units delivered to beneficiaries were newly built,[30] and those activities are generally associated with moderate OHS risks, and (b) the effective operation of the new Environment Unit is yet to be assessed during the upcoming implementation period of the Program.

7. The ESSA assessed some environmental benefits for the parent Program such as reducing the need for building new housing units through improving the occupation of existing vacant ones and

[29] The approval of the Central Agency for Organization and Administration is a necessary step according to the government procedures before assigning staff to this unit.
[30] This was not clear during the design of the parent Program, as it was assumed that subsidies will be given to units in newly constructed buildings as well as in existing buildings.

reducing commuting for employment through having housing units near employment centers. Those benefits are still valid for the AF.

8. The PAP of the parent Program included several environmental measures to incentivize energy savings, raise beneficiaries' awareness about waste management, ensure that beneficiaries use safe buildings, and provide guidelines and trainings to different stakeholders on OHS during construction. The SHF has taken good measures toward introducing energy-saving measures to beneficiaries and to ensure that only safe and stable buildings are used by the Program. Waste management awareness and OHS training remain on the to-do list of the SHMFF, which plans to carry them out in a systematic manner, through the newly established Environment Unit.

Social Assessment

9. The social risk management system described in the parent Program ESSA remains largely applicable both in terms of laws, regulations, and standards, as well as procedures and implementation of those laws and standards. Some changes since the original ESSA are summarized in this addendum.

10. The ESSA of the parent Program assessed the social risks as Low based on Program interventions limited to the demand side. Key issues identified in the original ESSA included: (a) limited institutional capacity to handle social issues, including but not limited to, consultations, information sharing, disclosure, verification of eligibility, and addressing concerns/complaints/grievances efficiently; (b) risks to social inclusion[31] as a result of the inability to reach the needy and priority cases such as poor women and illiterate groups in poor cities of remote governorates; and (c) risks to sustainability stemming from affordability of housing units. The parent Program undertook a number of progressive actions to address and mitigate these issues, for example, through media awareness campaigns on the Program, establishment of a grievance redress mechanism (GRM coordinated through a call center, a digitized system for processing claims (applications to housing) interlinked with the GRM, and specific weighting measures for subsidy prioritization of female-headed households and other vulnerable groups such as persons with disabilities.

11. The Program through the SHMFF has made significant efforts to bring the lowest-income bracket of the population on top of the list of priorities of the Social Housing Program. Of note, the average monthly income level for program beneficiaries is LE 1,844 with the lowest-income bracket covered ranging from LE 501 to LE 1,000. Persons under age 40 make up the majority of the Program beneficiaries (over 70 percent), and the Program has achieved 83 percent of its target for female beneficiaries. Women currently make up 20 percent of the Program beneficiaries with a target of 24 percent coverage by 2024. The SHMFF has also proactively promoted the inclusion of elderly persons over 50, going beyond the program eligibility criteria which extend to persons ages 21–50. As a result, persons above age 50 form about 3 percent of the Program beneficiaries.

12. The AF will primarily continue to support the demand side with an anticipated scale-up of subsidy delivery to an additional 31 percent beneficiaries. With an increase in Program outreach, the volume of

[31] Social inclusion is defined by the World Bank as (a) the process of improving the terms for individuals and groups to take part in society, and (b) the process of improving the ability, opportunity, and dignity of those disadvantaged on the basis of their identity to take part in society. See: *https://www.worldbank.org/en/topic/social-inclusion*. As applied to the Program context, it is understood to include the process of improving the ability of disadvantaged groups (who meet the Program eligibility criteria) to get the intended Program benefits.

inquiries, applications, and grievances/complaints are also anticipated to increase. Measures for reaching vulnerable groups and priority cases, for promoting systematic community outreach, as well as addressing institutional capacity constraints remain pertinent to mitigate risks to social inclusion, attain Program objectives, and promote sustainability. Considering the foregoing, and particularly as some key actions outlined as mitigating measures in the original ESSA PAP are still pending, the social risk rating for the AF has been assessed as Moderate. Notably, action is still pending on designing and implementing early consultation, communication, and outreach plans and hiring a social team and social officers. This will be done during the first year of the Program.

13. The AF anticipates various progressive actions which if implemented will serve as mitigating factors for social risks, notably the creation of a Claims Management Unit supported by DLI 3.1, which would streamline workflow coordination for managing claims and complaints, including through updated operational procedures, an enhanced management information system and web portal, and staffing and training to best deliver on SLAs for claims and complaints handling, together with communications, community engagement, and outreach. Other measures to manage social risks and promote Program sustainability are detailed below.

Environmental

Measures Included as DLI

14. DLI 11 was introduced as one of the requirements of the AF, and it includes the operationalization of the Environment Unit within the SHMFF, which was established in 2018. This DLI will measure the effectiveness of the Environment Unit in achieving its objectives through the supervision of the compliance with environmental and OHS measures by developers and introduce the principles of green building through the design, implementation, and operation of the social housing units.

Measures Included in the PAP

15. The PAP includes the following environmental measures:

- An Operations Manual for the Environment Unit will be prepared and approved by the World Bank. The manual will include the staffing and capacity-building requirements of the Environment Unit, the main milestones, and key performance indicators that need to be achieved for effective operation of the Environment Unit. The Operations Manual will include the PAP measures of the parent Program, consolidate the outstanding measures of the parent Program PAP (raise awareness on solid waste management and provide OHS training to different stakeholders), and add measures to ensure follow-up and supervision of the environmental management of construction sites and the introduction of green building measures to maintain the GPRS accreditation.
- The institutional setup of the SHMFF Environment Unit will be strengthened by recruiting the minimum technical staff that will be identified by the Operations Manual. At a minimum, the Environment Unit will start operating with one senior environmental specialist and one senior health and safety specialist

Social

Measures Included as DLIs/DLRs

- DLI 3.1 was introduced as one of the requirements of the AF and includes the establishment and active operation of a Claims Management Unit within the SHMFF to manage information, feedback, and grievances on the Program. This DLI will measure the effectiveness of the Claims Management Unit in achieving its objectives through a number of measures including:
  - a) Adoption and implementation of streamlined operational procedures;
  - b) Adequate staffing and training for coordinated claims handling—including a claims management officer, a grievance redress/complaints-handling focal point, communications staff, requisite IT staff, a technical review committee, and an appellate committee for communicating, collecting, evaluating, investigating, and following up on claims as applicable within set operating standards;
  - c) SLAs between the Claims Management Unit and pertinent SHMFF units or stakeholders essential to claims processing and resolution;
  - d) Maintenance of adequate, inclusive channels for receiving and following up on claims;
  - e) Implementation of systematic outreach and communications campaigns;
  - f) Maintenance of adequate systems for facilitating claims processing; and
  - g) Periodic audits and publication of claims monitoring reports having staff to be hired under the unit supervise its performance, as well as in further strengthening the unit through providing capacity-building trainings.
- DLI 1 as well as DLI 12 will continue to measure the SHMFF's improved operational efficiency during the subsidy delivery process and its screening and monitoring systems to prevent fraud applications, to ultimately prevent potential leakage of program benefits to ineligible cases. DLIs 5 and 6 (respectively on number of households receiving demand-side home ownership subsidies and number of new households participating in rental subsidy programs) will also help measure the efficiency of mechanisms adopted by the Program to promote social inclusion and increased access to affordable housing to different disadvantaged and vulnerable groups.

Measures Included in the PAP

Institutional Capacity

16. Training of pertinent SHMFF staff conducted to build institutional capacity covering good practices for: (a) stakeholder engagement and participatory approaches, (b) GRMs, (c) information disclosure and sharing, (d) digital governance, and (e) M&E for social outcomes. Training will be conducted by the SHMFF beginning within a year of AF approval and over the Program span with support from the World Bank on examples and good practices.

17. Trainings are anticipated under the AF as part of DLI 3.1 and other DLIs to strengthen institutional capacity for handling social issues. To support this, the World Bank will share examples and good practices, particularly on best practices for GRMs and digital services.

Citizen Engagement

18. A Stakeholder Engagement and Communication Plan will be developed by the SHMFF within a year of AF approval and implemented on an ongoing basis over the program, with tailored systematic outreach strategies for various vulnerable groups in coordination with the governorates and civil society.

Social Inclusion

19. Periodic reporting by the SHMFF on performance on social issues covering outreach, targeting, and inclusion of various disadvantaged groups notably women (including female-headed households and women eligible for joint contracts), the elderly, disabled, unmarried youth, lowest-income groups, and persons in lagging regions.

Additional Measures for Promoting Sustainability

20. As feasible, the SHMFF would identify and implement innovative mechanisms to foster links with other existing safety net programs, such as providing adequate information to refer ineligible program applicants as well as applicable beneficiaries to useful relevant programs (for example, Takaful and Karama social protection program, which provides cash subsidies). The SHMFF has a good basis for this level of communication, which will be further strengthened. This would help link the least advantaged groups to systems where they can continue receiving different forms of support. This approach will also ensure long-term positive impacts and continuous access to job opportunities, trainings to build skills, and services.

ANNEX 5: MODIFIED PROGRAM ACTION PLAN

Action Description	Source	DLI#	Responsibility	Timing		Completion Measurement	Action
Multi-institutional governance structure established and functioning to facilitate coordination across Government entities (Advisory Committee)			Client	Due Date	30-Jun-2015		No Change
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		DLI 2	Client	Recurrent	Yearly		Revised
Proposed Establishment and functioning of a housing monitoring and evaluation system and an M&E unit within SHMFF, and the preparation of the Multi-Year Plan and Annual Targets informed by the M&E system	Technical	DLI 2	Client	Recurrent	Yearly	Establishment of M&E unit	
Establishment by SHF of a functioning mechanism to monitor occupancy and vacancy of		DLI 3	Client	Due Date	30-Jun-2016		Revised

housing units by households receiving demand–side housing subsidy							
Proposed Establishment by SHMFF of a functioning mechanism to monitor occupancy and vacancy of housing units by households receiving demand–side housing subsidy	Technical	DLI 3	Client	Due Date	30-Jun-2016	Establishment by SHMFF of a functioning mechanism to monitor occupancy and vacancy	
Full staffing of SHF based on agreed organizational structure and staff skills			Client	Due Date	31-Jan-2016		Revised
Proposed Full staffing of SHMFF based on agreed organizational structure and staff skills	Technical		Client	Due Date	31-Jan-2016	Establishment by SHMFF of a functioning mechanism to monitor occupancy and vacancy	
Integrate housing location criteria and requirement to collect physical coordinates into housing program guidelines			Client	Due Date	30-Jun-2017		No Change
Monitoring and enforcement of location criteria for housing programs			Client	Due Date	30-Jun-2016		No Change
The annual audited financial statements of the Program are issued on a timely basis and made			Client	Recurrent	Yearly		No Change

public.							
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.			Both	Due Date	30-Jun-2016		Revised
Proposed The SHMFF needs to establish robust integrated grievance redress mechanism and link it to the local level grievance redress system. SHMFF will also need to design and implement an improved mechanism for disseminating information.	Environmental and Social Systems		Both	Due Date	30-Jun-2016	establish robust integrated grievance redress mechanism	
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.			Both	Recurrent	Continuous		Marked for Deletion

Establishment of unified beneficiary database			Client	Due Date	30-Jun-2016		No Change
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.			Client	Due Date	30-Jun-2016		Revised
Proposed The operational and financial management arrangements for the rental subsidy should be laid out in regulation and detailed in a Procedures Manual, consistent with SHMFF's Manual when applicable.	Technical		Client	Due Date	30-Sep-2020	Adoption of operations manual for rental unit	
SHF programs should be integrated with the State budget, using the national budget classifications and chart of accounts.			Client	Due Date	01-Jan-2016		Revised
Proposed SHMFF programs should be integrated with the State budget, using the national budget classifications and chart of accounts.	Fiduciary Systems		Client	Due Date	01-Jan-2016	SHMFF programs integrated with the State budget,	

For the new rental subsidy programs, beneficiary enrollment, monitoring, and payment databases should be integrated in the program's management information system (MIS)			Client	Due Date	30-Jun-2016		Revised
Proposed For the new rental subsidy programs, beneficiary enrollment, monitoring, and payment databases should be integrated in the program's management information system (MIS)	Technical		Client	Due Date	30-Sep-2020	rental program integrated into MIS	
Establishment and operation of an internal audit function within SHF providing assurance service for the ownership and rental programs affiliated with the SHF.			Client	Due Date	31-Dec-2016		Revised
Proposed Establishment and operation of an internal audit function within SHMFFproviding assurance service for the ownership and rental programs affiliated with the SHMFF.	Technical		Client	Due Date	31-Dec-2016	Establishment and operation of an internal audit function	

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.			Client	Due Date	30-Jun-2016		Revised
Proposed The SHMFF 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.	Fiduciary Systems		Client	Due Date	30-Jun-2016	The SHF and GSMFF programs were integrated with the State budget, using the national budget classifications and chart of accounts	
Raise beneficiaries' awareness about waste management through distributing leaflets that explain the importance of waste management at the household level.			Client	Recurrent	Continuous		Marked for Deletion
Ensure that beneficiaries use safe buildings through Including building validity			Client	Recurrent	Continuous		Revised

certificate among required application documents							
Proposed Ensure that beneficiaries use safe buildings through Including building validity certificate among required application documents	Fiduciary Systems		Client	Recurrent	Continuous	Ongoing according to the requirements of the national system	
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			Both	Due Date	31-Jan-2016		Revised
Proposed Guidelines and training provided to SHMFF staff and other stakeholders about addressing occupational safety related to construction activities and handling of building chemicals and construction wastes	Fiduciary Systems		Both	Due Date	30-Sep-2020	Not started. Planned to be done on a systematic manner after the establishment of the SHMFF including an Environment Unit	
Deliver training and capacity building to the SHF and other relevant			Both	Due Date	31-Jan-2016		Revised

stakeholders on issues related to land acquisition, involuntary resettlement							
Proposed Deliver training and capacity building to the SHMFF and other relevant stakeholders on issues related to land acquisition, involuntary resettlement	Environmental and Social Systems		Both	Due Date	30-Jul-2021	Training delivered	
Strengthening the institutional Setup through developing comprehensive ToRs for the social team to be hired, and hiring social officers			Both	Due Date	31-Jan-2016		Revised
Proposed Strengthening the institutional Setup through developing comprehensive ToRs for the social team to be hired, and hiring social officers	Environmental and Social Systems		Both	Due Date	30-Sep-2020	Tors developped	
Strengthening the institutional capacity through developing and delivering training packages to the relevant teams, and sharing best practices and similar successful global experiences			Both	Due Date	31-Mar-2016		Marked for Deletion
Designing and implementing			Both	Due Date	31-Mar-2016		Marked for Deletion

context sensitive information sharing and disclosure mechanisms							
Designing and implementing consultation, communication and reaching out plans			Both	Due Date	31-Mar-2016		Revised
Proposed Designing and implementing consultation, communication and reaching out plans	Environmental and Social Systems		SHMFF	Due Date	15-Jan-2021	Designing and implementing consultation, communication and reaching out plans completed	
Establishing robust integrated grievance redress mechanism and link it to the local level grievance redress system			Both	Due Date	31-Mar-2016		No Change
Adoption of an Operations Manual (OM) for the Environment Unit provided to the Bank for No Objection.	Environmental and Social Systems		SHMFF	Due Date	31-Dec-2020	Adoption of operations manual environment unit	New
The institutional set-up of the SHMFF Environment Unit should be strengthened by being staffed with minimum technical staff which includes a senior environmental specialist and a senior Health and Safety Specialist	Environmental and Social Systems		SHMFF	Recurrent	Semi-Annually	The two specialists are on hired	New
Improve transparency of SHMFF by	Fiduciary Systems		SHMFF	Recurrent	Yearly	Disclosure of Improve transparency of	New

disclosing actual costs of construction, main contractors, procurement processes, the maintenance and facility management activities in the Program projects						actual costs of construction, main contractors, procurement processes, the maintenance and facility management activities in the Program projects in annual report.	
Ensure that SHMFF continue their gender inclusion policies, which include the prioritization of female applicants with children and implementation of joint ownership contracts, while monitoring the progress of the 24% female ownership target	Environmental and Social Systems		SHMFF	Recurrent	Yearly	SHMFF includes in its eligibility criteria system higher ponderation for women headed households	New
Conduct dissemination and communication campaigns targeted to women headed households to encourage increase participation in the program	Environmental and Social Systems		SHMFF	Recurrent	Yearly	Communication campaign completed	New

ANNEX 6: EVOLUTION OF THE AFFORDABLE MORTGAGE PROGRAM AND POTENTIAL EXIT OPTIONS

1. **The World Bank Group has been supporting the development of the housing and housing finance sector over the past two decades through a programmatic approach involving financial services, advisory inputs, and knowledge sharing.** In the early 2000s, the World Bank assisted in establishing the legal and regulatory framework for mortgage finance and the first liquidity facility for housing finance. To push forward necessary policy reforms in the housing subsidy and finance sector, the World Bank financed the Affordable Mortgage Development Policy Loan in 2009. Housing subsidies in Egypt until that time were a mix of supply-side subsidies through land, services, and finance. The subsidies were poorly targeted reaching mostly higher-middle-income beneficiaries, extremely inefficient (paying for an average of 90 percent of the house price) and distorting the mortgage market. No private lenders participated, and the state Housing and Development Bank ran deficits on its mostly subsidized mortgage portfolio.

2. **The World Bank worked with the MHUUD and GSF, the predecessor of the current SHMFF, to develop a national demand-side down-payment subsidy program (the AMP) designed to minimize the required subsidy amount to reach low-income households.** It leverages households' own contributions by making the subsidy conditional upon households taking out a maximum affordable market rate mortgage loan, with a step-up feature that increased monthly payments each year by 7 percent (public salaries had to be increased by that percentage each year) and a minimum down payment. All banks, public or private, could participate in the program. At that time, mortgage interest rates were in the order of 11–12 percent, but legal restrictions on payment-to-income ratios (25 percent) and loan terms (15 years) made it challenging to reach the target group (the 20th to the 60th percentile of the income distribution). By the time these restrictions were removed, political and economic uncertainties and high inflation of the post revolutionary period brought both house construction and mortgage lending to a halt. Mortgage rates reached more than 20 percent in 2012.

3. **In that context, the CBE initiated an LE 20 billion stimulus package for the housing sector in May 2014, providing banks with low-cost funds which banks would onlend to qualifying low-income households under the AMP at a highly subsidized fixed rate of 7 percent for 20 years.**[32] Banks were allowed a fixed margin of 4.5 percent, and over time, 20banks (and 8 mortgage companies) were participating in the AMP, allowing the program to reach a wide geographical area. In January 2015, the CBE announced that banks were allowed to substitute bank records for income statements by informally employed households, which accounted for 60 percent of the working population. This segment now has an increasing share of beneficiaries (19.2 percent in one of the state-controlled banks). NPLs are negligible across all household segments.

4. **The World Bank provided a PforR loan for the Inclusive Housing Finance Program in April 2015 to support the SHMFF in carrying out its program and expand and strengthen the SHMFF as an institution.** The specific components of the subsidy package under the CBE program remained the same

[32] For the lowest-income level, a 20-year loan at 5 percent rate of interest was made available, but house prices were mostly unaffordable for the lowest-income segment.

but the values of the down-payment subsidy, the maximum house prices, and the related loan amounts have been updated over time with inflation. The specific features of the current program are as follows:

(a) **A relatively small down-payment subsidy**[33] that is progressive with incomes, that is, the lower the income, the higher the subsidy, and has a maximum value of LE 40,000 (17 percent of the current house price of LE 225,000) and an average of LE 20,000 (8.8 percent of the current house price).

(b) **A down payment by the beneficiary** of a minimum of 15 percent of the house price and a maximum of 50 percent.

(c) **A 20-year loan at a subsidized rate of 7 percent** with an amortization schedule that increases the monthly payment by 7 percent each year, based on the legal requirement to increase public salaries by 7 percent annually.

5. **Since February 1, 2019, the CBE liquidity funding for AMP mortgages to the banks has stopped and banks use their own funds to finance the mortgage loans.** The interest rate subsidy is now on budget and is paid out to participating banks on a monthly basis for 20 years. It is calculated as the differential between the monthly payment at 7 percent and the CBE mid-corridor rate at the time of the payment plus 2 percent. At the current CBE mid-corridor rate of 16.25 percent and a production of 12,000 new loans per month, the monthly total subsidy is LE 200 million at the end of 2019 (and LE 400 million in 2020 if production continues at the same trend, but house prices and loan amounts will increase) but will decrease if interest rates come down, as is anticipated.

6. **The interest rate subsidy was always perceived as a temporary measure which would be phased out as soon as market interest rates would return to (close to) prerevolutionary levels**. It is widely understood that interest rate subsidies for the life of a 20-year loan are substantially more expensive in NPV terms than a down-payment subsidy for the same affordability. In addition, interest rate subsidies are inequitable—as the benefits tend to increase with the loan amount and, therefore, income—and distort the mortgage market. The current macroeconomic reform makes this the right time to move the cost of the interest rate subsidy into the budget and, at the same time, allows a scenario of its phasing out over time with the initial signs that the CBE interest rates are reducing.

7. **The current Program supports the SHMFF in developing an exit strategy for the current interest rate subsidies according to the principles detailed in the following paragraphs.** The exit mechanism to be set up in the framework of the AF is based on a prudent anticipation of market conditions, will rely on a specific financial model, and will be progressively implemented over time.

Prudent Anticipation of Market Conditions

8. The exit strategy design is based on a prudent estimate of future market rates, well above their pre-devaluation level. Following the floating of the currency in November 2016, market rates for long-term loans increased from 19 percent to above 20 percent based on the CBE rates (mid-corridor) of more than 18 percent. The CBE rate started to decrease as of February 2019, and in December 2019, it was

[33] Global good practices require that down-payment subsidies should not exceed 50 percent of the unit's value. Down-payment subsidies are found in Mexico or Chile.

12.25 percent and the expectation is that it would get back to 11 percent over the next 18–24 months, implying market rates of 13–14 percent.

Methodology and Modeling

9. In the framework of the technical assistance for the Program, Ernst & Young has been commissioned to develop a financial model able to: (a) test a variety of financing plans for individual loans for the program, with or without interest rate subsidies, and (b) provide forecasts for expenses on individual loans as well as for the overall program expenses. The model for individual loans allows the SHMFF to test many outcomes based on changes in interest rates, value of the homes, incomes, the size of the down-payment subsidy, and the amount of the down payment provided by the borrower. In addition, the SHMFF has started working on the principles of an exit strategy for the interest rate subsidy, considering expected increases in construction cost as well as in income levels.

Progressive and Adaptive Strategy

10. Based on the prudent forecast of market rates at 11–12 percent by 2021, the model indicates that it is possible to progressively eliminate the interest rate subsidy over the next few years and rely solely on (increased) down-payment subsidies to finance affordable housing. The key components in the transition are the following:

(a) Interest rates would be progressively increased to reach market levels over three to four years. Each year (or half year depending on how the SHMFF markets the units), the interest rates for new loans would be higher than in the previous campaigns, starting at 8.5 percent for the next announcement.

(b) A higher percentage of down-payment subsidy (without interest subsidy) that would not exceed 50-55 percent of the value of the property for the lowest incomes (but the total cost of the subsidy program would still be 25–30 percent lower than a mix of the 7 percent subsidized rate and down-payment subsidy), and in international terms, a total subsidy amount of 45 percent to 33 percent of house cost, with a rapid decrease at higher income levels is considered manageable, certainly in a transition phase.

(c) Income group targeting in nominal terms would be adapted from the original bracket of bracket of LE 1,500–3,500 (approximately US$92–216) per month to LE 2,500-5,100 (approximately US$154-315), consistent with inflation in prices and wages and making sure that the targeted fraction of the income distribution remains the same.

(d) The types of units provided through the program would be diversified, with smaller, less expensive units for lower-income households.

11. An exit trajectory based on four annual steps with the 13–14 percent interest rate as end result would, in the light of recent economic developments, be realistic, as it would

- Remain very prudent with regard to possible market developments (it would be possible to implement the interest rate step-up by semiannual increments to smoothen the phasing out);

- Allow for adaptations in the trajectory when interest rate and inflation movements so require; and
- Be acceptable for the public and not increase credit risk for the lender.

ANNEX 7: SUSTAINABILITY OF THE AFFORDABLE MORTGAGE PROGRAM

1. **For a flagship national housing program that has delivered and allocated more than 200,000 homes to low-income households since 2014, including 20 percent women-headed households and more than 70 percent household heads under the age of 40, the government's direct fiscal allocation to the program has been extremely modest.** Even if the total amount of subsidies issued by the MHUUD for housing and utilities is considered (of which the SHMFF subsidies are only one part), these were only 0.3 percent of the total subsidies, 0.08 percent of the total government expenditures, and 0.02 percent of the GDP for FY15/16, the latest year for which these figures are available. In comparison, the social transfer programs commanded 92 percent of the total subsidies, 23 percent of the total government expenditure, and 7 percent of the GDP. Focusing on the SHMFF subsidies specifically, and taking the current disbursement rate of the SHMFF of 10,000 subsidies per year as the base case, at the average of LE 16,000 (approximately US$1,000) per subsidy, the cost to the government would have been 1.2 percent of the total subsidies, 0.29 percent of the total Government expenditures, and 0.09 percent of the GDP during FY15/16.

2. **The reason for the relatively low on-budget subsidy amount for the program is twofold:** (a) the program leverages households' own contributions by requiring a minimum down payment and a maximum affordable mortgage loan, and (b) the subsidy is scaled progressively with income, that is, the higher the income, the smaller the subsidy, for reasons of efficiency and equity.

3. **The average subsidy amount since 2014 has been LE 20,000 (approximately US$1,239) or close to 8 percent of the current house price of LE 260,000 (US$16,117).** The maximum subsidy amount for the lowest qualifying income group has been increased to LE 40,000 (US$2,470), which is still only 17 percent of the current house price under the program.

4. **However, the on-budget subsidies show only part of the total subsidy amount provided through the program since the CBE introduced its interest rate subsidies in June 2014.** While this subsidy was implicit until February 2019, it will be on the budget as a fiscal cost going forward, which has motivated the discussion on how best to phase it out. It is widely understood by policy makers that this type of interest rate subsidy for the life of the loan is regressive with the size of the loan, administratively costly, and distortionary for the mortgage market. While the subsidy is paid out to banks monthly for the term of the loan (20 years) as the differential in monthly payment between the mid-corridor rate of the CBE plus 2 percent margin and the 7 percent interest charged to customers, it is important to estimate the size of the subsidy in NPV terms for a discussion on the sustainability of the program over the next few years.

5. **The value of the interest rate subsidy varies by loan size.** The current modal loan size is in the order of LE 150,000 (US$9,000) according to one of the main participating banks, and the assumed 'market' rate is 18.25 percent (CBE mid-corridor rate of 16.25 percent plus 2 percent). The NPV of the 20-year subsidy is LE 75,000 (US$4,400).

6. **The total average current SHMFF subsidy per beneficiary is, therefore, as follows:**

- LE 20,000 (US$1,200) demand-side subsidy;
- LE 75,000 (US$4,400) interest rate subsidy in NPV terms;

- LE 95,000 (US$5,600) total subsidy which is 36 percent of the current house price of LE 260,000.

7. **A subsidy level of 36 percent of the house price is modest compared to international standards and given Egypt's low-income levels.** It allows households with incomes as low as LE 2,500 (US$147) to LE 3,000 (US$176) per month to acquire a home, provided that they put in their own and their family's savings.

8. If a total annual disbursement of 120,000 subsides per year at LE 95,000 for a total of LE 11.4 billion is assumed as in the above calculation of the down-payment subsidy only and this figure is compared with the GoE's 2015/16 total subsidy, expenditure, and GDP data, this would still only amount to 5.7 percent of the total government subsidies, 1.39 percent of the total government expenditure, and 0.4 percent of the GDP.

9. **However, because the mid-corridor rate is on a downward trend, the interest rate subsidy will be lower each month if that trend continues.** If the 'market' interest rate reaches 13 percent, the NPV of the interest rate subsidy will be LE 50,000 (US$2,900). At that time, it would be eliminated altogether and the necessary subsidy to households (which is calculated as a function of the house price, the interest rate, the down payment, the amortization schedule, and acceptable debt service ratio) would be incorporated in the calculation of the size of the down-payment subsidy. Because the interest subsidy is paid out monthly, the program would in the meantime take full advantage of the lower interest rates when these become effective, curbing the total subsidy outlays.

10. **Another, more progressive mechanism to phase out the interest rate subsidy is to increase the subsidized rate gradually each year from 7 percent to 13 percent over the course of 3–4 years for example.** During the same period, the amount of the down-payment subsidy would increase to ensure that house prices remain affordable and credit risk remains stable. Such accelerated phasing out of the interest rate subsidy will improve cost efficiency dramatically. For example, at current house prices, interest rates, and loan amounts, subsidies per household would be reduced from 36 percent to 22 percent of the house price by eliminating the interest rate subsidy and increasing the demand-side subsidy by just half of the current interest rate subsidy in NPV terms, while reaching the same income group.[34] These figures will change depending on the trajectory of the interest rates, households' incomes, loan amounts, and house prices. Even in the case where rates would remain at their current level, the overall program will cost 25–30 percent less than the current mix of 7 percent subsidized interest rates and down-payment subsidies.

11. No matter what method is chosen by the SHMFF to phase out the interest rate subsidy, even under current macroeconomic conditions, the total subsidy would be easily absorbed under the Program because the demand-side subsidies are exceedingly low in both absolute terms and as a percentage of total subsidies and total government expenditures.

[34] The current interest rate subsidy is LE 75,000 in NPV terms (see example above), and the demand-side subsidy is LE 20,000. If the interest rate subsidy is removed and the demand subsidy is increased by LE 37,500 (half the NPV of the current interest rate subsidy), the loan amount will decrease to LE 112,500, which for 20 years at 18.25 percent will carry a monthly payment of LE 1,230, just below the monthly payment on a 20 year LE 150,000 loan at 7 percent.

12. **From the World Bank perspective, sustainability can be expressed as the percentage of the household subsidy paid for by the World Bank loan.** The World Bank's support through the PforR is only focused on the down-payment subsidy rather than the interest rate subsidy. The amount per subsidy paid out was US$310 (LE 5,300) in the past and was roughly one-third of the total down-payment subsidy. With the loan extension, the amount will be increased to US$553.73 per subsidy or LE 8,932, based on house price increases and an adjustment of the average down-payment subsidy to LE 20,000 (US$1,239), keeping the World Bank obligation limited to a little bit more than a third of the down-payment subsidy.

ANNEX 8: RATIONALE FOR HOUSING SUBSIDIES AND RELEVANCE IN EGYPT

1. 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: (a) 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, and (b) redistribution - even if there were no distortions, if society feels that the distribution of income is unequal, then interventions that redistribute income from the rich to the poor are justified.

2. **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, and lack of information, 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. Third, 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.

3. **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 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 well-being of households, particularly, women and children. Moreover, home ownership in well-located neighborhoods creates a source of wealth for poor households in a way no other asset will, and perhaps their own savings decisions would not lead them to invest in a house.

4. 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.

5. 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 United States of America 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.[35]

[35] See also: Olsen, Edgar O. 2008. "Getting More from Low-income Housing Assistance." Washington, DC: Brookings Institution, The Hamilton Project;
Olsen, Edgar O. 2003. "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.

ANNEX 9: OVERVIEW OF HOUSING DEMAND SURVEY BY CAPMAS

1. In March 2018, the World Bank finalized an agreement with CAPMAS to conduct a demand survey for housing across Egypt. The survey consisted of a sample of 10,300 households across eight governorates.

Context and Rationale

2. This survey is part of a series of technical assistance activities that the World Bank will deliver under the Enhancing Social Housing Governance Trust Fund. These activities aim at supporting the implementation of the Inclusive Housing Finance Program.

3. The Inclusive Housing Finance Program supports several aspects of the Government's Social Housing Program, including financial aid to low-income households to help them access housing. This aid comes in the form of a subsidy that either complements the down payment and the repayments in the first years of a mortgage loan or contributes to the payment of the rent in the public or the private sector. The overall housing subsidy program is managed by the SHF (now, the SHMFF), and the mortgage-linked subsidy program is distributed through lenders participating in the program.

4. The MHUUD regularly announces calls for applicants through various media for the various phases of the housing program across governorates and new urban communities, predominantly for ownership housing, but also for rental housing when that is available. However, in recent years, the number of applications received was lower than expected. Together with a rejection rate of about 35 percent, by the SHMFF and lenders, this resulted in actual beneficiary pools that were smaller than expected.

5. It was unclear whether the below-expected demand for subsidies/units is related to income and/or savings constraints in lagging regions, insufficient campaign outreach, lack of understanding of the program by the beneficiaries, preference for renting or ownership in specific locations, types of unit, or factors linked to the location of the housing programs.

6. In this context, the GoE asked the World Bank to advise on conducting a housing demand assessment to understand the differential demand for rental and ownership housing by different income and employment groups and for different types of houses, locations, and regions.

7. Thus, the services of CAPMAS were engaged to conduct a demand survey through face-to-face interviews across eight governorates in selected regions. A pilot survey was conducted in December 2018, and the final survey was carried out in January and February 2019.

Study Objectives

8. The main objective of the study is to provide detailed information on the demand for affordable ownership housing with a mortgage loan, down payment, and subsidy and for formal rental accommodation.

9. CAPMAS' mission consisted of designing and implementing a survey based on a nationally representative sample of households and analyzing and interpreting the results. Two types of conclusions are expected:

(a) **An estimate of the present and future demand for housing** based on an agreed-upon definition of demand—the willingness to pay by current and future households for housing of a specific type and in a specific region/location. Some framing issues to assess demand were income, employment, and creditworthiness issues; current housing choices and housing expenditures and future demand within different time horizons; an assessment of demand for both the current head of household as well as other potential 'demanders' in the household, that is, household members living with the household but planning to move in the near future (for example, an adult child or other household member who intends to move); and inclusion of and distinction between 'demanders' who may not necessarily need a new unit but may be interested to buy or rent because of the subsidy.

(b) **A description of the rental market**, both formal and informal (for example, type of units, type of rental contract/arrangement, current rent levels, and profile of tenant household), and an estimate of the demand for rental units of a specific type and location.

Main Characteristics of the Survey

- The demand survey consisted of a sample of 10,300 households across eight governorates and had a response rate of 94.6 percent, that is, 9,747 survey forms (households) were completed and analyzed.
- At this time, only preliminary results are available based on non-weighted data. The sample was designed to overrepresent urban governorates. For example, the share of Cairo in the sample is 27 percent households, whereas it was 11 percent in the 2017 census; the share of urban population is 61 percent in the sample and 42 percent in the census. As a result, there is a bias in the data in favor of tenants (20 percent versus 13 percent in the census).
- These discrepancies are reduced at the governorate level but do not disappear because of sample size and differences in dates (2017–2019) and survey modalities (sample survey versus general census). Although the final results (after weighting) will, therefore, differ from those given below, the main lessons are unlikely to be significantly different.

Key Highlights from the First Survey Results - March 2019

Total Population

- Of the total population covered by the survey (39,401), 61 percent live in urban areas and 39 percent lives in rural areas. In addition, of the interviewed households, 54 percent are urban and 45 percent are semirural.
- Of those 15 years or older, 43 percent are employed, 30 percent are housewives, 15 percent are students, 9 percent are retired, and only 3 percent are unemployed.
- Of those employed, 78 percent have permanent employment and 15 have irregular employment; 76 percent work in the private sector and 20 percent work for the Government.

- More than 7 percent of those 18 years and older have heard about the Social Housing Program, with 53 percent in Minya.
- Only 8.5 percent (2,071) of the population of 18 years and older (24,378) have plans to move; 91 percent is part of an urban household, and 90 percent is male.

Housing Conditions by Current Household

- The great majority of households live in flats (85 percent), and housing conditions are generally high with more than 90 percent with a bathroom and kitchen and connected to water and electricity; 73 percent are connected to a public sewer network.
- 66 percent live in dwelling units with a net area of 70–150 m^2 and another 22 percent has units between 30 m^2 and 70 m^2.
- There is a high satisfaction level with the current living environment; 91 percent of households find their homes acceptable or even highly acceptable and a same percentage like their neighborhood. Indeed, only 6 percent deem their current housing conditions not acceptable and 9 percent found their neighborhood not acceptable.
- 62 percent of respondent households chose their neighborhoods based on proximity to their relatives and 15 percent because of a suitable price.
- 37 percent of households have lived in their current dwelling for more than 20 years and another 19 percent between 10 and 20 years.
- 64 percent of households in the sample are owners—ownership is higher in more rural areas and in the tax-free zone of Port Said and the lowest in Cairo (53 percent). More than 20 percent of households rent their home—11 percent under the old rental law and 9 percent under the new rental law; 15.5 percent have been given the house to use. Households renting under the old law live predominantly in buildings dating from before 1990.

Renter Households

- The use of rental contracts is common. More than 90 percent of renters have a rental contract in urban areas and 70 percent in rural areas.
- The great majority of renters rent their homes from individual landlords; in urban areas, this figure is 85 percent and 12 percent rent from a family member. In rural areas, where renters are few and numbers are less reliable, 16 percent rent from the Government and 69 percent from individuals.
- A surprisingly high percentage of renter households (55 percent) still have a rental contract under the old rental law and 45 percent under the new rental law of 1996. In Cairo, a full quarter of all surveyed households rent under the old rental law (21 percent in Alexandria). The old rental law protects renters against rent increases and influences the way both tenants and landlords perceive the rental market. Rental contract periods are therefore very different under the old and new rental laws.
- **Rental payments.** The overwhelming majority of renters in urban areas with an old rental law contract pay less than LE 250 per month—66 percent pay less than LE 100 per month

and 22 percent pay between LE 100 to LE 250. Renters with contracts under the new rental law have a much more differentiated rental profile and pay higher rents in general—21 percent pay between LE 250 and LE 500, 35 percent between LE 500 and LE 750, 12 percent between LE 750 and LE 1,000, and 21 percent between LE 1,000 and LE 2,500.

- In Cairo, considering only households that rent a flat, 83 percent of those under the old law pay less than LE 250, while only 3 percent of tenants with a new rental contract pay that low a rent.

Owner Households

- More than 50 percent of owners built their own homes, mostly on family land. Even in urban areas, 40 percent built their own house, while 11 percent bought their home from the Government or a real estate company. Only 31 percent of urban homeowners bought an existing house from a former owner, while 18 percent inherited the home. In rural areas, 64 percent built their homes and 31 percent inherited their homes. The remaining 5 percent mostly bought their homes from a previous owner.
- In Cairo, still, 34 percent built their own house, mostly on family land, while 16 percent bought from the Government or a real estate company and 34 percent bought from a former owner and 16 percent inherited their homes.
- Only 6 percent of homeowners are making regular payments for the purchase of their home, and of those who pay, 55 percent pay a yearly amount (mostly below LE 1,500) and 37 percent pay monthly (76 percent of flat owners pay less than LE 500 per month).
- 52 percent of owners pay to a homeowner's association, and all pay for utilities.

Housing Demand of Future Movers (2017)

Housing Situation/Preferences

- 8.5 percent of respondents (18 years and above) are planning to move out of their current homes; 37 percent are less than 30 years and 66 percent less than 40.
- The reason for relocation is marriage (for 39 percent, mostly unmarried now), improving living environment (29 percent), living in a separate house (20 percent), and living in a better area (9 percent).
- 40 percent of total demanders want to move within the same governorate or village and 27 percent want to remain in the same neighborhood; only 27 percent want to move to new cities. The only exception is Cairo where 70 percent of demanders want to move to new cities.
- 86 percent are employed; 81 percent have a full-time job and 79 percent work in the private sector; and nearly all work outside the home.
- One-third of demanders currently walk to work; 36 percent use a minibus and only 11 percent use a private car and 5 percent use a motorcycle. The remainder use a variety of public transportation or a work bus (specifically in Ismailia).

- 41 percent take less than 30 minutes to go to work, and 25 percent from 30 minutes to 60 minutes. The remainder 34 percent are equally divided between those who take between 1 and 2 hours and more than 2 hours.
- Their awareness of government programs reaches 87 percent and is high across geographies.
- 83 percent want a new apartment, but in Alexandria, 22 percent prefer an existing apartment; in Monufia, Minya, and Ismailia, a sizable group of between 7 percent and 9 percent wants to purchase land and build a house.
- 65 percent want three rooms, 23 percent want four rooms, and 12 percent want two rooms in a new home. The great majority want one bathroom.
- 63 percent of demanders are waiting for a unit to become available and are not actively searching. 70 percent have not applied to the government housing program, with Port Said being an outlier where 60 percent have applied. There does not appear to be a correlation with educational status.
- 62 percent of those on a waiting list have been registered for four years or less, and 38 percent for more than four years.

Preferred Tenure, Income, and Payment

- 89 percent desire home ownership, and only 10 percent rental. Demand for rental housing is the highest in Alexandria and Ismailia.
- 21 percent have a monthly income below LE 2,000, 41 percent between LE 2,000 and LE 3,000, and 17 percent between LE 3,000 and LE 4,000.
- The preference for home ownership, while high for all income groups, is lower for the lower-income groups and decreases somewhat with incomes. In Cairo, of those with incomes less than LE 2,000 per month, 20 percent want to rent; of those with incomes between LE 2,000 and LE 3,000, 14 percent want to rent; and of the group with incomes between LE 3,000 and LE 5,000, 10 percent prefer to rent. In Alexandria, the differential is steeper.
- The amount that the demanders are willing to pay per month including utilities is low irrespective of whether ownership or rental is preferred—less than LE 500 for 58 percent of demanders, and between LE 500 and LE 1,000 for another 30 percent. This figure differs across cities though with 26 percent willing to pay less than LE 500 in Cairo and 93 percent in Minya.

Ownership Preference

- The preferred (or affordable) price by candidates for ownership is less than LE 250,000 for 71 percent and between LE 250,000 and LE 500,000 for another 21 percent.
- More than 80 percent of those who want to own want to use finance or installments to pay for the house; close to 20 percent want to pay cash, although this proportion is 4 percent in Cairo. 46 percent count on family support (unclear if it is owners only or all).

Rental Preference

- 37.5 percent of candidates for rental are not ready to pay a rent higher than 20 percent of their income, whereas 50 percent would accept to pay between 20 percent and 30 percent. In Cairo, two-thirds were willing to pay 20–30 percent of income and only 7 percent were willing to pay below 20 percent of income, while 15 percent were willing to pay 30–40 percent of income. Note that those who prefer renting are on average of a lower-income group.
- 64 percent of renters are willing to pay key money and 80 percent in Cairo; most (60 percent) want to pay below LE 5,000 with the exception of Cairo where 32 percent of future renters want to pay LE 5,000 and 29 percent up to LE 10,000.

ANNEX 10: CLIMATE VULNERABILITY CONTEXT OF INFORMAL HOUSING IN EGYPT

1. «A 1981 joint construction industry study between the World Bank and GOHBPR estimated that approximately 77% of all housing units built within Egypt between 1966-1976 were informal."[36] A 1982 study on informal housing indicated that of all units built in Cairo in 1970-1981, 84% were informal.[37] A 1993 GOP report stated that approximately 5.88 million people lived in 23 informal settlements in the Greater Cairo region[38]. Informal settlements began growing in 1960s, faster growth occurred since 1986. Informal settlements do not follow construction and city planning codes, standards, or regulations, and often do not have an architect.

2. Outcomes: geodesy, wind patterns, dust storms, flood zones location, surface slopes, proximity to potentially hazardous infrastructure (high voltage lines, fuel tanks, etc.), heat island effect, risk of flash floods, - all of these are not taken into account. Some of informal settlements are not connected to infrastructure.

3. Lower income informal settlements are commonly found on desert public land, their dwellers are more affected by unemployment. Informal settlements on private agricultural land present a mix of income groups, including upper-medium income level, and often are connected to infrastructure.

4. By building subsidized housing for low-income population, the government of Egypt will partially close the gap in supply of formal housing, and will ensure that low-income population groups have access to quality housing meeting land use and building code standards and regulations. They will also help the low-income population groups' social and economic integration, by addressing the commute challenge, and will also partially reduce settlers' demand for agricultural lands.

5. Transport and water drainage problems in the Greater Cairo started building up as early as 1965, when the government completed and started implementing the First Masterplan, and created three industrial zones: Helwan, Shubra Al-Kheima, and Imbaba-Giza. These problems were further exacerbated by rural-to-urban migration, driven by the industrial demand. Updated version of the Second Master Plan (1980) made a first serious attempt to address them. Key element of the second master plan was to achieve spatial redistribution and prevent further growth of Cairo as a mega-city, by creating new towns on public-owned desert land outside of the Greater Cairo perimeter, and not on agricultural land. The plan did not achieve its full potential because housing was not quite affordable for medium- and low-income population groups, and its supply was insufficient, or the locations did not appear sufficiently enticing to the population.

6. In 1994 heavy rainfall led to a complex disaster in Durunko and several other villages near Cairo. The disaster caused approximately 500 deaths, destroyed a bridge and many buildings, and caused an explosion of fuel storage tanks. People were confronted with flood and fire at the same time, they were drowning and burning simultaneously. Victims were mainly the residents of informal settlements build close to fuel tanks, in the areas prone to flash-flooding.

7. Historically, heavy rainfalls were not typical for Egypt, although Egyptian agriculture does depend

[36] World Bank and GOHBPR (1981), *Construction Industry Study*, Cairo.
[37] ABT Associates, Dames & Moor and GOOHBPR (1982), *Informal Housing in Egypt*, Cairo.
[38] GOP (1993), *Upgrading of Informal Settlements in Greater Caro Region*, Preliminary Report, Cairo.

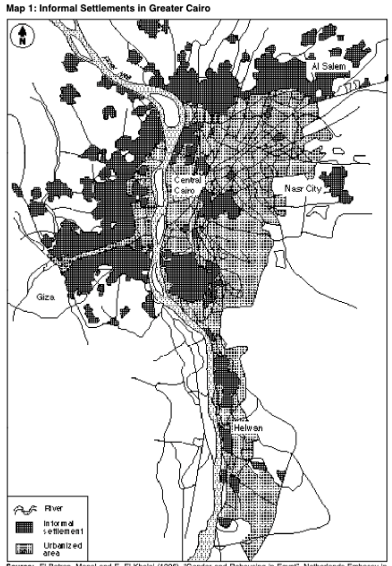
on the natural annual Nile flooding. As the disaster of 1994 has revealed, Egyptian cities, even in the areas which were designed and constructed in accordance to building codes, were not equipped with storm drains, and not prepared to deal with flash floods. An inch of rainfall translated into the 1.5 feet deep water in some urban areas.

8. Climate change in Egypt is forecasted to cause higher risk and/or more frequent occurrences of extreme events: heat waves and flashfloods. 25 years after the Durunko disaster, Cairo still is not properly prepared for flash floods, as was shown by 8 deaths due to heavy rain and flooding on October 22-23, 2019. The city was consumed by chaos, people panicked, schools and universities were closed in Giza and Qalyubia.

9. Today the early informal settlements are 40-60 years old. If they were built in accordance to proper building codes, by now they would have reached the end of their useful lives. However, they were built without following any building standards nor construction rules. Minimizing construction cost and maximizing construction speed were two main (and only) objectives. This means that quality of these buildings is rather inferior. They are not likely to withstand heavy rainfalls and flashfloods. In 1993 close to 5.9 million people lived in informal settlements. Now this number is much higher. Households with middle and upper-middle income, and employment, may be able to recover from the loss of property. For low-income population without jobs, loss of homes and property caused by climate change-induced rainfall would become a heavy blow.

Map of informal settlements, as of 1998[39]:

Map 1: Informal Settlements in Greater Cairo



Source: El-Batran, Manal and E. El-Kholei (1996), "Gender and Rehousing in Egypt", Netherlands Embassy in Cairo, Gender and Development Unit, Cairo.

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10. This Program will help provide affordable housing to low-income population, as an alternative to informal settlements. The housing will be built in accordance with state building codes and regulations, taking into account topography and other environmental factors. Formal settlements for low-income population will be connected to infrastructure and will be less vulnerable to the risks posed by climate

[39] El-Batran, M. and Arandel, C., *A shelter of their own: informal settlement expansion in Greater Cairo and government responses*, Environment and Urbanization, Vol.10, No. 1, April 1998.

change. Reasonable precautions will be made to increase settlements' resilience to extreme weather events. To the degree possible, mitigation of "urban heat island" effect and adaptation to dust storms will be achieved by street layout and the use of urban vegetation and city green zones. To prevent flashfloods, developments will be built in the areas not prone to flash-flooding, and storm drains will be incorporated into design. Unsafe areas, with risk of landslides, floods, and potentially hazardous infrastructure (high voltage cables, fuel tanks, etc.) will be avoided. Disaster evacuation and emergency vehicles access routes will be included into the planning of affordable housing for low-income population.

11. This Program intends to achieve greater adaptation and resilience to climate change in the following ways: 1) While heavy rainstorms in Egypt may be difficult/impossible to prevent, it is possible to move people out of harm's way - physically remove low-income population from the areas where they may be affected by flashfloods and dust storms; 2) Incorporate the consideration of climate change-induced risks into city planning and prevent larger number of people from becoming vulnerable to wide range of climate change hazards and extreme climate events.

ANNEX 11: NEW AND MODIFIED DISBURSEMENT LINKED INDICATORS - DISBURSEMENT ARRANGEMENTS

	Total Financing Allocated to DLI	DLI Baseline	Indicative Timeline for DLI Achievement				
			2020	2021	2022	2023	2024
DLR 3.1: Establishment of an operational and properly staffed Claims Management Unit		No	Yes	Yes	Yes	Yes	Yes
	6		2	1	1	1	1
DLI 5: Number of households receiving demand side home ownership subsidy each fiscal year		209,398	120,000	130,000	135,000	175,000	180,602
	250 (+ 159.8 remaining from parent Program)		66.4	71.9	74.7	96.8	100.00
DLI 6: Number of new households participating in renal subsidy program in each fiscal year.		1,931	5,500	20,460	20,500	26,500	27,509
	11.5 (+ 47.8 remaining from parent Program)		3.3	12.1	12.1	15.6	16.2
DLR 6.1: Establishment of a functioning Rental Unit and a Digital Platform within SHMFF linking private landlords and eligible tenants		No	Yes	Yes	Yes	Yes	Yes
	8		4	1	1	1	1
DLR 6.2: Implementation of a Rental Incentive Package including a rental risk insurance product for landlords, and direct subsidies for tenants		No	Yes	Yes	Yes	Yes	Yes
	10.25		2.25	2	2	2	2

DLI 8.1: Development and implementation of new PPP guidelines addressing key bottlenecks expressed by private sector		No	Yes	Yes	Yes	Yes	Yes
	17		17	0	0	0	0
DLI 8.2: Call for proposals under new PPP guidelines		No	Yes	Yes	Yes	Yes	Yes
	17		17	0	0	0	0
DLI 8.3: Rollout and implementation of 3 PPP pilots representing 10,000 units		0	0	1,000	2,000	3,000	4,000
	50			5	10	15	20
DLI 9: Development, adoption and implementation of an alternative scheme that progressively phases out the interest rate subsidy		No	Yes	Yes	Yes	Yes	Yes
	50		10	10	10	10	10
DLR 10.1: Adoption of a real estate developer's law (including implementing regulations; and related regulatory authority)		No	No	Yes	Yes	Yes	Yes
	25		0	10	5	10	0
DLR 10.2: Adoption of regulations on installments sales post construction, including supervisory regime		No	No	Yes	Yes	Yes	Yes
	25		0	10	5	10	0
DLI 11: Operationalization of an Environment Unit at SHMFF		No	Yes	Yes	Yes	Yes	Yes
	4		2	0.5	0.5	0.5	0.5
DLI 11.1: Number of housing units with entry level GPRS certification from NBRC as per the Operations Manual		0	1,000	2,500	6,000	7,500	8,000
	10		0.4	1	2.4	3	3.2
DLR 12.1: Improve the efficiency of the subsidy application and issuance process		No	Yes	Yes	Yes	Yes	Yes
	7.5		7.5	0	0	0	0
DLR 12.2: Pilot delegation of underwriting and subsidy eligibility checks to selected banks		0	500	750	1,250	1,250	1,250
	7.5		0.75	1.14	1.87	1.87	1.87

ANNEX 12: NEW MORTGAGE INITIATIVE FOR MIDDLE-INCOME HOMEBUYERS

1. In December 2019, the CBE announced a new mortgage finance initiative which will allow middle-income homebuyers access to LE 50 billion in subsidized mortgages at a preferential 10 percent interest rate. Key characteristics of this program include:

- A broadly defined target income group consisting of individuals earning between LE 4,200 and LE 40,000 per month, and households with incomes between LE 4,700 and LE 50,000 per month.
- Boundaries set by limits on house size (150sqm) and house price (upper limit of LE 2.25 million), with a minimum down-payment of 20 percent. Subsidized mortgages will be offered to finished units and serving middle and upper middle-income households.
- The beneficiaries should not have received a housing subsidy before or benefited from any previous mortgage finance programs.
- The mortgages will be financed from participating banks' own resources.
- Banks to have at least 200 bps of margin when they loan out to homebuyers.

2. The CBE will cover the difference between the 10 percent subsidized rate offered to borrowers and what is currently the 12.75 percent discount rate, and then give banks an extra 2 percent. Therefore, banks will be lending at 14.75 percent with current interest rates (in December 2019). It is unclear whether the new CBE initiative will have implications on the SHMFF program. In the initial years, the initiative's focus will be on excess stock by NUCA and other developers who are limited in further expansion of installment sales. Therefore, there will be no supply-side competition with the SHMFF program in the short run. Under current interest rate conditions, the SHMFF program offers more advantageous terms for bankers than the new CBE program, so cannibalization of lenders and lenders' funding resources should be limited. However, lenders may prefer to deal with middle-income families and larger loans, and give lending to this segment priority, despite solid NPL performance of SHMFF programs.

3. The targeted income level for the middle-income program overlaps with the highest income levels proposed for beneficiaries under the SHMFF program (maximum household income of LE 5,700 per month). However, the conditions of the program related to house prices and size limit the overlap in target groups between SHMFF and this initiative. In addition, the subsidized interest rate of 10 percent is within the range set by SHMFF for the phasing out of the interest rate subsidy, which will start at 8.5 percent and increase gradually to 12 percent. Another issue of concern is whether these overlaps between the two programs will lead banks to favor the CBE's middle-income program over the SHMFF program.

4. SHMFF's program is known to be non-speculative and loan performance is excellent (below 0.38%). However, the middle-income program does not require income checking and other details (fees, insurance, etc.). This may be more advantageous than SHMFF's program. If the trend of decreasing interesting rates continues, interest rate subsidies for both programs will be reduced. When the SHMFF is phasing out the interest rate subsidies in the future, the competition between the CBE initiative will be immediate and severe. The preference of financial institutions to finance more expensive houses and more affluent customers will likely impact the interest of lenders in the SHMFF's program. Since both the CBE and SHMFF programs stipulate that houses have to be owner-occupied, the appetite for both programs will depend on the demand for the product and the enforcement of occupancy rules.