IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IBRD-73960)

ON A LOAN

IN THE AMOUNT OF 214.2 MILLION EGYPTIAN POUNDS
(US$ 37.1 MILLION EQUIVALENT)

TO THE

ARAB REPUBLIC OF EGYPT

FOR A

MORTGAGE FINANCE PROJECT

January 30, 2012
ARAB REPUBLIC OF EGYPT—GOVERNMENT FISCAL YEAR
July 1st – June 30th

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of June 30, 2011)
Currency Unit               Egyptian Pound
US$1.00                      LE 5.96

WEIGHTS AND MEASURES
Metric System

ABBREVIATIONS AND ACRONYMS

ARM  Adjustable Rate Mortgage
BOP  Balance of Payments
CAS  Country Assistance Strategy
CBE  Central Bank of Egypt
CMA  Capital Markets Authority
CPI  Consumer Price Index
DPL  Development Policy Loan
EALB Egyptian Arab Land Bank
ECIM  Egyptian Cadastral Information System
EFS  Egypt Financial Services
EGP  Egyptian Pound
EHFC Egyptian Housing Finance Company
EMRC Egyptian Mortgage Refinance Company
ESA  Egypt Survey Authority
EU  European Union
FIL  Financial Intermediary Loan
FMR  Financial Management Report
FMS  Financial Management System
FRM  Fixed Rate Mortgage
FSAP  Financial Sector Assessment Report
FY  Fiscal Year
GDP  Gross Domestic Product
GSF  Guarantee and Subsidy Fund
HDB  Housing Development Bank
ICR  Implementation Completion and Results Report
LTV  Loan-to-Value Ratio
MIC  Middle-Income Country
MOIC Ministry of International Cooperation
MOJ  Ministry of Justice
MFA  Mortgage Finance Authority
MFF  Mortgage Finance Fund
MOU  Memorandum of Understanding
MSAD Ministry of State for Administrative Development
MTR  Mid Term Report
NBE  National Bank of Egypt
PML  Participating Mortgage Lender
QAG  Quality Assessment Group
RELC Real Estate Lending Company
REPD Real Estate Publicity Directorate (Ministry of Justice)
RETD Real Estate Taxation Department (Ministry of Finance)
ROE  Return on Equity
TMRC Tanzanian Mortgage Refinance Company
USAID United States Agency for International Development
VPU  Vice-Presidential Unit

Vice President: Inger Andersen
Country Director: A. David Craig
Sector Director: Loic Chiquier
Sector Manager: Simon Bell
Task Team Leader: Sahar Nasr
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ACKNOWLEDGMENTS

The Mortgage Finance Project Implementation Completion and Results Report (ICR) was prepared by a core International Bank for Reconstruction and Development (IBRD) team comprising: Sahar Nasr, Task Team Leader and Lead Financial Economist; Simon Christopher Walley, Senior Housing Finance Specialist; Santiago Herrera, Lead Country Economist; Laila Abdel Kader, Finance and Private Sector Development Analyst; and Steve Wan, Operations Analyst. Akram El-Shorbagi, Senior Financial Management Specialist; Karim Badr El-Din, Research Analyst; Georgette Mounir Ibrahim, Information Officer; Wael El Shabrawy, Financial Management Analyst; Amira Zaky, Program Assistant; and Marwan Ezz Al Arab, Program Assistant, have also provided substantial contributions.

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The World Bank Group greatly appreciates the close collaboration with the Government of Egypt. Special gratitude goes to Dr. Farouk El Okdah, Governor of the Central Bank of Egypt; and Minister Fayza Aboulnaga, Minister of Planning and International Cooperation; as well as the project main counterparts, Mr. Tarek Amer, Chairman of the National Bank of Egypt and the founder of the Egyptian Mortgage Refinance Company (EMRC); Ms. Lobna Helal, Chair of EMRC, and the Deputy Governor of CBE; Ms. May Abdel Hamid, Deputy Chair, EMRC, and the Chair of the Mortgage Finance Fund (MFF); Ms. Eman Ismail, Managing Director, EMRC; Mr. Mohamed Hammam, Assistant to the Minister of International Cooperation in Charge of International Organizations, International Regional and Arab Financing Institutions; Ms. Seham Abdel Baky, General Director of Projects Department, Ministry of International Cooperation; Mrs. Mona Zobaa, Head of Investment Policy; Ministry of Investment; and Ms. Ghada Wahid, Economist, Ministry of Investment; as well as countless other government officials and experts from the banks, mortgage companies and developers from the public and private sector who have contributed to the successful implementation of this operation.
DATA SHEET

A. Basic Information

<table>
<thead>
<tr>
<th>Country:</th>
<th>Egypt, Arab Republic of</th>
<th>Project Name:</th>
<th>EG-MORTGAGE FINANCE</th>
</tr>
</thead>
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<tr>
<td>Project ID:</td>
<td>P093470</td>
<td>L/C/TF Number(s):</td>
<td>IBRD-73960</td>
</tr>
<tr>
<td>ICR Date:</td>
<td>01/30/2012</td>
<td>ICR Type:</td>
<td>Core ICR</td>
</tr>
<tr>
<td>Lending Instrument:</td>
<td>FIL</td>
<td>Borrower:</td>
<td>GOVERNMENT OF EGYPT</td>
</tr>
</tbody>
</table>
| Original Total Commitment: | EGP 214.2 M (USD 37.1M equivalent) | Disbursed Amount: | EGP 214.2 M (USD 39.06M equivalent)
| Revised Amount:     | USD 37.1M                                                  | Environmental Category: C |

Implementing Agencies: Ministry of Investment, the Egyptian Mortgage Refinance Company (EMRC)

Cofinanciers and Other External Partners: USAID, IFC

B. Key Dates

<table>
<thead>
<tr>
<th>Process</th>
<th>Date</th>
<th>Process</th>
<th>Original Date</th>
<th>Revised / Actual Date(s)</th>
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</thead>
<tbody>
<tr>
<td>Appraisal:</td>
<td>05/10/2006</td>
<td>Restructuring(s):</td>
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<td></td>
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<tr>
<td>Approval:</td>
<td>07/06/2006</td>
<td>Mid-term Review:</td>
<td>07/04/2010</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>Closing:</td>
<td>07/31/2011</td>
<td>07/31/2011</td>
</tr>
</tbody>
</table>

C. Ratings Summary

C.1 Performance Rating by ICR

Outcomes: Satisfactory
Risk to Development Outcome: Low
Bank Performance: Satisfactory
Borrower Performance: Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

<table>
<thead>
<tr>
<th>Bank</th>
<th>Ratings</th>
<th>Borrower</th>
<th>Ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality at Entry:</td>
<td>Satisfactory</td>
<td>Government:</td>
<td>Highly Satisfactory</td>
</tr>
<tr>
<td>Quality of Supervision:</td>
<td>Highly Satisfactory</td>
<td>Implementing Agency/Agencies:</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Overall Bank Performance:</td>
<td>Satisfactory</td>
<td>Overall Borrower Performance:</td>
<td>Satisfactory</td>
</tr>
</tbody>
</table>

1 The loan disbursement was made in Egyptian Pounds (EGP). The difference between the original commitment and the disbursed amount in USD is due to the change in the exchange rate.
C.3 Quality at Entry and Implementation Performance Indicators

<table>
<thead>
<tr>
<th>Implementation Performance</th>
<th>Indicators</th>
<th>QAG Assessments (if any)</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential Problem Project at any time (Yes/No):</td>
<td>No</td>
<td>Quality at Entry (QEA):</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Problem Project at any time (Yes/No):</td>
<td>No</td>
<td>Quality of Supervision (QSA):</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>DO rating before Closing/Inactive status:</td>
<td>Satisfactory</td>
<td></td>
<td>Satisfactory</td>
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</table>

D. Sector and Theme Codes

<table>
<thead>
<tr>
<th>Sector Code (as % of total Bank financing)</th>
<th>Original</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing finance</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Theme Code (as % of total Bank financing)</th>
<th>Original</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate governance</td>
<td>33</td>
<td>33</td>
</tr>
<tr>
<td>Other financial and private sector development</td>
<td>67</td>
<td>67</td>
</tr>
</tbody>
</table>

E. Bank Staff

<table>
<thead>
<tr>
<th>Positions</th>
<th>At ICR</th>
<th>At Approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vice President:</td>
<td>Inger Andersen</td>
<td>Christiaan J. Poortman</td>
</tr>
<tr>
<td>Country Director:</td>
<td>A. David Craig</td>
<td>Emmanuel Mbi</td>
</tr>
<tr>
<td>Sector Manager:</td>
<td>Simon C. Bell</td>
<td>Zoubida Allaoua</td>
</tr>
<tr>
<td>Project Team Leader:</td>
<td>Sahar Nasr</td>
<td>Deane Jordan</td>
</tr>
<tr>
<td>ICR Team Leader:</td>
<td>Sahar Nasr</td>
<td></td>
</tr>
<tr>
<td>ICR Primary Author:</td>
<td>Sahar Nasr</td>
<td></td>
</tr>
</tbody>
</table>

F. Results Framework Analysis

Project Development Objectives

The project's development objective is for primary lenders in the financial market (both banks and non-bank lenders) to provide longer-term, market-based mortgage loan financing for residential housing. Such financing is scarce, in part because primary lenders do not have reliable access to sources of term finance on favorable terms that could help them mitigate the associated business and lending risks. The Egyptian Mortgage Refinance Company (EMRC), the liquidity facility, will provide such a source.
Revised Project Development Objectives (as approved by original approving authority)

(a) PDO Indicator(s)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Baseline Value (2006)</th>
<th>Original Target Values (from approval documents)</th>
<th>Formally Revised Target Values</th>
<th>Actual Value Achieved at Completion or Target Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth in volume of market-based mortgage loans extended by primary lenders annually (LE million)</td>
<td>300</td>
<td>07 08 09 10 11</td>
<td>NA</td>
<td>07 08 09 10 11</td>
</tr>
</tbody>
</table>

**Comments:**
- The volume of market-based mortgage loans extended by primary lenders increased at a higher rate than initially projected.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Baseline Value (2006)</th>
<th>Original Target Values (from approval documents)</th>
<th>Formally Revised Target Values</th>
<th>Actual Value Achieved at Completion or Target Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lengthening of term to maturity structure of market-based mortgage lending (number of years)</td>
<td>7 8 10 12 14 15 NA</td>
<td>9 11 14 16 16</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Comments:**
- The term extension is important because it is the major channel whereby the impact of the project on the financial intermediation process helps to improve the affordability of housing for individual households, attaining a more inclusive system.

(b) Intermediate Outcome Indicator(s)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Baseline Value (2006)</th>
<th>Original Target Values (from approval documents)</th>
<th>Formally Revised Target Values</th>
<th>Actual Value Achieved at Completion or Target Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of primary lenders extending mortgage loans</td>
<td>2</td>
<td>07 08 09 10 11</td>
<td>10 11</td>
<td>07 08 09 10 11</td>
</tr>
</tbody>
</table>

**Comments:**
- The number of primary lenders extending mortgage loans has increased beyond the projected, which is a very positive development.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Baseline Value (2006)</th>
<th>Original Target Values (from approval documents)</th>
<th>Formally Revised Target Values</th>
<th>Actual Value Achieved at Completion or Target Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume of PML borrowings from the EMRC (LE million)</td>
<td>0</td>
<td>125 300 600 800 1,200</td>
<td>250 400</td>
<td>0 131 176 289 450</td>
</tr>
</tbody>
</table>

**Comments:**
- The reason behind these adjustments was mainly due to the delay in the effectiveness of the project. While the Board approved the project in June of 2006, effectiveness was only declared in May 2007 because the Parliament was in recess. Furthermore, a number of unexpected changes in the legal and regulatory environments required two amendments to the project’s legal documents, and as a result, the project only began actual implementation in November 2007, and disbursement in August 2008—hence the delay in EMRC lending to participating mortgage lenders (PMLs).
G. Ratings of Project Performance in ISRs

<table>
<thead>
<tr>
<th>No.</th>
<th>Date ISR Archived</th>
<th>DO</th>
<th>IP</th>
<th>Actual Disbursements (USD millions)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>07/26/2006</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>0.00</td>
</tr>
<tr>
<td>2</td>
<td>10/03/2007</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>0.09</td>
</tr>
<tr>
<td>3</td>
<td>06/30/2008</td>
<td>Moderately Satisfactory</td>
<td>Satisfactory</td>
<td>0.09</td>
</tr>
<tr>
<td>4</td>
<td>01/28/2009</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>22.14</td>
</tr>
<tr>
<td>5</td>
<td>08/07/2009</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>26.52</td>
</tr>
<tr>
<td>6</td>
<td>03/02/2010</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>31.50</td>
</tr>
<tr>
<td>7</td>
<td>09/05/2010</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>34.71</td>
</tr>
<tr>
<td>8</td>
<td>05/11/2011</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>39.06</td>
</tr>
</tbody>
</table>

* The loan disbursement was made in Egyptian Pounds and hence the difference between the original commitment and the disbursed amount in USD is due to the change in the exchange rate.

H. Restructuring
Not Applicable

I. Disbursement Profile

![Disbursement Profile Graph]

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1. Program Context, Development Objectives and Design

1.1. Context at Appraisal

Macroeconomic Framework

1. The macroeconomic framework was satisfactory at the time when the project was proposed and appraised. Real Gross Domestic Product (GDP) grew by 5 percent in fiscal year (FY) 2004/2005. During that period, the Egyptian authorities were ensuring that the management of the exchange rate, monetary and fiscal policies were consistently coordinated, and appropriate tools were being developed towards this end. The Central Bank of Egypt (CBE) had to ensure a smooth functioning of the exchange rate market and develop a more comprehensive monetary policy framework. The exchange rate regime was a managed float although the pound’s nominal exchange rate with the dollar was kept within a narrow band. Inflation was low with the drop in the Consumer Price Index (CPI) from its October 2004 peak of 18.2 percent to 3.7 percent in March 2006.

2. The government of Egypt embarked on a macroeconomic and structural reform program in late 2004 that improved the investment climate and supported a growth acceleration episode that averaged over 7 percent between FY06 and FY07. This period witnessed a fall in the unemployment rate from 11.2 percent in 2005 to 8.7 percent in 2007, and gross public debt ratios fell from over 100 percent of GDP in 2005 to 75 percent in 2007. However, it is worth noting that during project implementation, the global financial crisis took hold, and economic growth started to slow down. The Egyptian financial sector has weathered the global financial crisis to a great extent, mainly due to the strengthening of the financial sector and its regulatory and supervisory framework with the reform program undertaken which enabled it to be more resilient to shocks. Despite the progress made under the reform program, a number of challenges still remain—especially the access to finance issue. Moreover, the economic growth rate was not high enough to absorb the rapidly growing labor force and continue the reduction of the public debt burden. The reform process stalled in this context, poverty increased slightly, and spatial welfare disparities remained unchanged. Economic and social progress could not keep pace with the aspirations of many Egyptians, especially the youth, creating the tension that led to the Egyptian Revolution of January 25, 2011, and accordingly a change in the regime.

3. It is important to note that the context at appraisal varied significantly from that during project implementation. In fact, the first years of project implementation were totally different from the last years. Nevertheless, the project proceeded in a smooth manner, even though it was affected by the unforeseen risks and implications associated with the unexpected changes in the global and local environments resulting from the global financial crisis and the January 25th Egyptian revolution. The revolution has put to the forefront challenges but also opportunities. Post-revolution, the macroeconomic environment has deteriorated, the economic growth has slowed down, and that had implications on the financial sector accordingly. GDP was negatively affected by the social disruptions that occurred GDP growth fell in FY11 to 1.8 percent from 5.1 percent in FY10.

4. The growth forecast for the year was revised downward to one percent and, the public deficit is estimated to be approximately 9.5 percent of GDP. The drop in GDP growth, the decline in investments, and the returning migrant workers from Libya pressured upward the unemployment rate. Given that tourism and construction are the most heavily affected sectors and both are labor intensive, it would not be a surprise to see the unemployment rate increased by two to three percentage points.

5. The lengthening of the transition period along with ongoing political turbulence, delayed economic recovery, continuous erosion of international reserves and contributed to worsened debt dynamics. Net foreign reserves had fallen to reach US $18.12 billion as of December 2011. CBE deposits in commercial banks had evaporated, due mostly to liquidation of foreigner's holding of T-
bills. In addition, Egyptian sovereign ratings and banks’ ratings have been downgraded by three rating agencies. These downgrades reflected the political uncertainty that negatively affected foreign direct investments (FDI) inflows and disrupted economic activity. FDI decreased from US$ 67.582 billion in 2010 to reach US$ 21.886 in 2011. The Egyptian Stock Exchange was deeply affected as well, as it was shut between January 27, 2011 and March 23, 2011, after it dropped 16 percent in the two days following the protests. Sharp losses have occurred in FY11 as investors pulled their money from the market amid ongoing investigations of former regime officials, and some of the country's top businessmen whose companies are listed on the stock market. Overall, the financial sector was affected by the revolution and the recent economic developments.

6. At the same time the revolution brought opportunities, an appetite for reform and prospects of change. The revolution has brought to the forefront the need to create job opportunities, a level playing field, transparency and accountability, and a fair and competitive environment, entailing a more inclusive system. There are potentials for reform and change, which included the provision of affordable housing. This is especially critical as a well-functioning housing system has multiple benefits including improved affordability, reduced fiscal burden, and enhanced macroeconomic stability. All this contributed to the full disbursement and the successful completion of the project in a timely manner.

Sector Background

7. Housing market. Egypt experienced very rapid urbanization until the mid-1980s, fueled by both rural to urban migration and natural population growth. The major cities and towns accounted for about 43 percent of the total population of approximately 80 million. Smaller urban villages of between 10,000 and 50,000 inhabitants account for an additional 24 percent of the population. The government of Egypt has constructed about 19 new towns and satellite cities, comprising more than 230,000 housing units. These new urban communities were intended to provide housing alternatives in the desert to contain the demand for building on agricultural land in the Delta and the Nile Valley. This activity has imposed a heavy burden on the budget, but many of the new urban communities remained sparsely populated. The overall population was growing at about 1.5 percent annually at the project appraisal, and was projected to reach about 88 million by 2021. Much of this population growth will be in the main urban centers, further fuelling pressure on the housing sector, even if the share of the urban population in the total population does not increase significantly. Accommodating the projected urban population growth in such a short period presents major challenges for the government’s housing and urban policies, infrastructure and institutions.

8. Housing is the most visible indicator of social wellbeing and it is politically important for governments to guarantee reasonable standards of housing for the majority of the population. In addition, housing is a large part of the economy, and has a strong multiplier effect. There has been a persistent gap in Egypt between incomes and the cost of new housing even at the middle income level. It is estimated that around 175,000 to 200,000 new housing units are needed annually to keep pace with household formation, but only the top 10 to 20 percent of the income distribution can afford to acquire a formal sector house. To help improve access to formal home ownership by low and middle income households, the Government of Egypt has in the past provided a range of subsidies, through a plethora of special programs. Many of these public housing schemes involved large government subsidies.

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2 Typically greater than 20 percent of GDP.
3 This is mainly due to high planning and subdivision standards of new housing, the lack of a resale market for existing housing. At the same time, household formation is high because of high urban growth rates and decreasing household size.
4 According to the estimates of the Ministry of Housing, Utilities, and Urban Development (2009).
A major challenge in the housing sector in Egypt over the past few decades was subsidies. Housing is at the forefront of most political discourse in a vast array of societies. The housing sector tends to be a large part of the economy, and is a major factor in creating stable societies, as well as, a key indicator of the standard of social conditions. This is why emphasis is placed on the housing sector, and why most governments intervene in the housing market through a wide range of policies, that are intended to increase housing consumption by various groups.5

Housing subsidies in Egypt are typically supply-side subsidies from both national and local government and are cumulative. These are: (i) direct on budget subsidies from national and local government, which includes direct subsidies to developers or local governments for units/plots constructed under the National Housing Program (NHP); direct subsidies for infrastructure and public services provision; and construction costs supplements by New Urban Committees Authority (NUCA) and local government; and (ii) indirect (implicit) subsidies, which includes subsidized state land that is desert land and is usually allocated to government authorities at zero cost and to developers at prices that are well below market for all social housing developments; and implicit housing finance subsidies through below market interest rates on mortgage loans issued by government banks. The total on- and off-budget NHP subsidies are estimated by the Ministry of Housing, Utilities, and Urban Development to be LE 2.8 billion per year, roughly 0.4 percent of nominal GDP.

Subsidy targeting and allocation procedures used for current subsidy programs are another main concern. Government implemented housing programs under the NHP are aimed at households with a current maximum income well below the median (LE 640 based on a maximum monthly payment of LE 160 per month at 25 percent of income), without a system to adjust income targets over time. This income group cannot afford a newly built house with a market rate loan, even with the typical supply-side subsidy package. Nor do private lenders serve this income level yet. The outcome has been an increase in the general level of local government subsidies, hidden subsidies by government lenders and a gross misallocation of subsidies to households who can pay cash for a large part of the house cost. Moreover, government land allocated to private developers for social housing projects is often not utilized in a timely fashion, forcing developments to go further out while large tract of serviced land remain vacant.6 Overall, housing subsidies have imposed a heavy burden on public finances, making such efforts unsustainable, while satisfying only a small part of the demand and not reaching targeted income groups.

Other factors that hindered the advancement of the housing sector were the high vacancy rates, rent control, and informality. Indeed, almost 3.7 million urban housing units are either vacant or closed, an estimated 42 percent of the housing stock in Greater Cairo is frozen under rent control, and some 45 percent of new urban housing over the past decade was produced by the informal sector. While these three distortions are not entirely additive (e.g. an informally built unit may be held vacant and/or under rent control), it could be conservatively estimated that 50–70 percent of the urban housing stock in Egypt suffers from such market constraints. These combined market weaknesses directly affect the affordability of housing (which is further compounded by the rapid rise in construction costs and property values), the success of the newly initiated mortgage system, the mobility of labor, and the government’s ability to address the shelter needs of limited income groups.

There are significant fiscal and macroeconomic consequences of a poorly functioning housing system. A well-functioning housing market produces a wide range of house types with a broad range of prices and tenure options, which reduces the demand for government subsidies. Over the past 25

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6 The government is currently working on addressing the high vacancy problem by issuing a Real Property Tax which would be an incentive to rent vacant houses.
years, the public sector in Egypt built as much as 36 percent (1.26 million units) of all formal housing units supplied in urban areas. This came at a significant fiscal cost of LE 26.4 billion, not including additional off-budget subsidies related to the cost of land and off-site infrastructure (trunk water, wastewater, power, and phone lines). Moreover, while the Ministry of Finance has allocated over LE 1 billion per year towards the NHP, it is estimated that the true direct cost of the program could reach at minimum LE 2.8 billion per year, or around 0.4 percent of GDP.

14. The establishment of the Guarantee and Subsidy Fund (GSF) was an important step in moving to a more transparent system of upfront mortgage linked subsidies and the creation of Egyptian Mortgage Refinance Company (EMRC) allowed financial institutions to enter into market-based low and middle income mortgage lending. Subsequently the Affordable Mortgage Finance Program implemented by the Mortgage Finance Fund (MFF), reformed the old system of inefficient and poorly targeted supply-side subsidies for housing embedded in NHP for the broad low and middle income segment, and replaced them with a transparent, well-targeted and economically efficient demand-side subsidy system, which would go directly to the beneficiaries rather than the developers. This new system in addition to significantly improving affordability, prevented any room for competition and conflict of interest. It is worth noting that the EMRC played a key role in the refinancing of subsidized mortgage loans for the low-income and middle-income households, contributing to attaining a more inclusive system.

15. **Housing finance system.** Access to affordable housing and home ownership for most Egyptian households at project appraisal was greatly constrained by an undeveloped housing finance system. The banking sector offered very little formal housing finance to households although a few commercial banks—both state-owned and private—have made a limited amount of loans to homebuyers, mostly as part of their retail activities or of their lending to developers, by using collateral other than mortgage pledges. A few developers have also been providing term financing under a system of deferred installment sale contracts, but these have not offered secure or favorable conditions for borrowers, and housing affordability was not improved because loan maturities are too short. Although the banks had plenty of liquidity in 2006, they have been reluctant to extend mortgage loans for two main reasons: (i) the maturity mismatch between their short term deposits and long term mortgage loans; and (ii) the lack of registered titles (in part due to the costly and time consuming process to obtain good title). At appraisal, two non-bank real estate lending companies were created but have done only a small amount of lending due to lack of long term funds.

16. To address these constraints, the government worked on developing an enabling environment for a modern residential mortgage market that will allow most of the burden of housing finance to be shifted away from the government budget and onto the financial markets and the private sector. The government started to prepare a mortgage law, setting the legal and regulatory framework. The enabling environment also included the policies, institutions and systems necessary to facilitate the emergence of an efficient, low risk residential mortgage finance system in which mortgage lenders compete on a market basis to make housing finance available to Egyptian households on economically attractive terms and conditions.

17. **Reforms undertaken by the government during project preparation and appraisal, included:**

(i) enactment of a new Real Estate Finance Law 148 of 2001 (viz., Mortgage Law) that sets out the legal foundations for market-based housing finance, building upon best practices from around the world, including improved collateral enforcement and foreclosure processes;

(ii) amending the Executive Regulation of the Real Estate Finance Law 148 of 2001 with the objective of revisiting the definition of low-income borrowers that are eligible to subsidies from LE 21,000 to LE 30,000, as well as allowing for Adjustable Rate Mortgage (ARM) and determining the indexes to be used in pricing;

(iii) strengthening the legal and institutional framework for mortgage securities through amendments to the Capital Markets Law to facilitate the issuance of alternative forms of financial instruments, such
as mortgage bonds and eventual securitization; (iv) establishment of a new regulatory institution for real estate activities, the Mortgage Finance Authority (MFA) creating a secure and strong regulatory environment to protect the interest of lenders and consumers; \(^7\) (v) establishment of a GSF\(^8\) to provide a temporary social safety for borrowers who experience adverse life events, such as a loss of employment that lead to payment defaults; and (vi) the establishment of a new Ministry of Investment with a mandate to develop the mortgage market, and encouraging the formation of new, non-bank real estate lending or mortgage finance companies.

18. Most importantly was the establishment, with the assistance of the Bank, of the first liquidity facility in Egypt for mortgage finance, the EMRC that enabled qualified mortgage lenders to access term refinancing for their mortgage loans and to better manage the risks of mortgage lending. In addition, specialized economic courts were established, and there was adequate enforcement of foreclosures. The first private credit bureau was developed and for the first time in Egypt, non-bank financial institutions, such as mortgage companies would have access to credit worthiness information in a timely manner, improving underwriting process and lower credit risk for lenders. Consumer protection and financial literacy was a priority, through setting minimum disclosure standards pertaining to loan information, and familiarizing consumers with the new financial products.

19. However, despite the considerable progress made, the market structure and infrastructure for a comprehensive, well-functioning mortgage finance system was not complete and further work was required. Key areas that needed reforms included: (i) developing EMRC into a well-functioning, financially sustainable, market-based institution; and (ii) further strengthening the regulatory and institutional framework for the mortgage market. The Mortgage Finance Project, in conjunction with other donor programs, aimed at addressing these requirements.

**Rationale for Bank Involvement**

20. Bank involvement has been fully consistent with the Country Assistance Strategy (CAS) of May 20, 2005, covering the period FY06-FY09. Since 2000, the Bank has provided the government with substantial policy and technical advice on mortgage market development issues that has been of great benefit to the authorities in its laudable efforts to develop the policy, legislative and institutional foundations for a mortgage market. This includes providing feedback on the draft Real Estate Finance Law, and its executive regulations, and bringing in the experience of other countries. The Bank also provided advisory services on the main building blocks for a well functioning mortgage market.

21. The Bank was keen on supporting the authorities in addressing a key challenge in Egypt, which is the lack of long-term funding, which made the cost of housing finance high, and inaccessible to a very large segment of society. Developing the mortgage market and improving the affordability of housing became more critical during the last year of project implementation, post revolution. Housing is the most visible indicator of social well-being and it is politically important for the government to guarantee reasonable standard of housing for the majority of the population. The transition government and in all likelihood any incoming government will have a strong focus on the provision of affordable housing for lower income groups. The EMRC will have a key role to play in providing refinancing for the loans originated under the newly launched subsidy scheme by the MFF.

22. The liquidity facility model was chosen in Egypt under this project rather than other types of funding mechanisms for several reasons. The liquidity facility can contribute to the overall mortgage market growth, and down-market expansion. A mortgage liquidity facility is really the first step in

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\(^7\) In 2010, all non-bank financial institutions became regulated by a single regulator, namely the Egyptian Financial Supervisory Authority (EFSA), under which MFA came.

\(^8\) Currently renamed to become the Mortgage Finance Fund (MFF).
developing a secondary mortgage market. There are several advantages to such a structure: (i) it effectively acts as a way to mutualize the banking sector’s access to the capital market, so that all banks can access funding at rates that none of them could obtain individually; (ii) the way the refinancing works, allows the mortgage assets to stay on the balance sheet of the bank and avoid any of the pitfalls of securitization with the misalignment of incentives; (iii) it addresses directly the main obstacle to the development of mortgages which is the maturity mismatch between the mortgage asset and the funding available; and (iv) other issues such as risk management and capital structure which securitization also tackles are not priorities in the current market.

23. The Mortgage Finance Project also brought best practice expertise and world-wide experience in alternative mortgage finance systems to the development of the emerging mortgage market. This project was part of an integrated package of World Bank Group support to develop and improve the performance of the financial sector in Egypt. This included a pragmatic series of DPL’s, aiming at reforming the financial sector, and improving the institutional infrastructure. Bank involvement also responded to a government’s request for the Bank to help play a coordinating role in channeling the support of other donors to the financial sector within a common framework.

1.2. Original Program Development Objectives and Key Indicators

24. The project’s development objective (PDO) was for primary lenders in the financial market (both banks and non-bank lenders) to provide longer-term, market-based mortgage loan financing for residential housing. The project’s primary target group are the participating mortgage lenders (PMLs) in the primary financial market. The lack of long-term funds available to primary lenders presented a major obstacle to the flow of private funds to housing. Their main source of funding was short-term deposits, which they were not able to intermediate into long-term mortgage loans without taking on unacceptable increases in their exposure to lending and other business risks. In addition, most of the primary lenders did not have sufficient market capacity to raise long-term funds in the capital market at attractive financial terms. The new EMRC that was established through this project aimed at overcoming this obstacle through the refinancing or purchase with recourse of longer-term mortgage loans originated by PMLs.

25. Key project outcome indicators comprised: (i) the growth in volume of market-based mortgage loans extended by primary lenders, rising from a base of about LE 300 million to about LE 4.5 billion over the period of the project; and (ii) the lengthening of the term to maturity structure of mortgage loans offered in the market, rising from about 7 to 16 years over the period of the project. The term extension is important because it is the major channel whereby the impact of the project on the financial intermediation process helps to improve the affordability of housing for individual households. Key intermediate outcome indicators are: (i) the number of primary lenders extending mortgage loans, rising from two to 12 over the period of the project; and (ii) the volume of PML borrowings from the EMRC, rising from nil to about LE 450 million over the period of the project.

26. The main project output is the provision by the EMRC of medium- and longer-term mortgage refinancing loans to PMLs under financially sustainable conditions and on a market basis. Output indicators comprise: (i) the growth of the EMRC’s mortgage refinancing operations; and (ii) the launch by the EMRC of bond issuances that are accepted in the market at prices favorable for EMRC operations.

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9 There is ample evidence showing a strong and causal relationship between financial sector development and economic growth. Having an efficient financial system that can deliver essential services can make a huge contribution to a country’s economic development. Greater financial development increases growth, reduces economic volatility, creates job opportunities and improves income distribution, as has been established by a large empirical literature.
27. The project is deemed successful provided: (i) the project’s base case projections for growth in mortgage lending by primary lenders and for the lengthening of the term structure of mortgage lending are realized by the closing date of the project; and (ii) the sustainability of EMRC, as an important component of the financial sector that is necessary for the mortgage market to continue on a growth path following the completion of the project, achieves financial sustainability on a market basis.

28. Given its focus on building a new financial market, the project does not incorporate any social housing finance or poverty alleviation goals or associated outcome indicators for which it would be held accountable. In particular, it will not provide or offer any support for housing finance subsidies. Sound housing finance practice dictates that housing finance subsidies should be kept separate from market finance and not allowed to distort financial market incentives. Reforming the housing subsidies was supported by the Bank under another operation.  

1.3. Revised PDO (as approved by original approving authority) and Key Indicators

29. Changes to the project involved a revision of three of the monitoring and outcome indicators that were presented during the design phase of the operation—the targets of which could not be met due to unexpected changes in the political and economic environment. The targeted projections that were revised were for the following indicators: (i) volume of PML borrowings from EMRC; (ii) volume of EMRC refinancing loans to PMLs; and (iii) EMRC launches bond operations. It is worth noting though that all indicators were met at the end of the lifetime of the project, except for the bond issuance indicator as the global financial crisis earlier, then currently the political and economic developments in Egypt post-revolution, were not conducive for bond issuance (more details in Section 2.4).

30. The reasons behind these adjustments were two-fold; the first was the delay in the effectiveness of the project. While the Board approved the project in June of 2006, effectiveness was only declared in May 2007 because the Parliament, both Upper House and Lower House were in summer recess. Furthermore, a number of unexpected changes in the legal and regulatory environments required two amendments to the project’s legal documents in August 2007 and October 2007, and as a result, the project only began actual implementation in November 2007 and disbursement in August 2008—hence the delay in EMRC lending to PMLs. The second was the drastic change in local market condition particularly after the repercussions of the global financial crisis that hit in 2008 which led to the delay in the issuance of EMRC’s bond. The global financial crisis had implications on the macroeconomic environment (Table 1), as well as on the pace of reforms. As a result, a bond issuance at the original time projected by the project in the design phase would not have made economic sense.

31. Based on the above justification, the projections for the project’s two outcome indicators and one of its intermediate outcome indicators were revised.

1.4. Main Beneficiaries

32. Project beneficiaries, include:

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10 Building on the Mortgage Finance Project, the World Bank prepared the Affordable Mortgage Finance Program DPL for Egypt, which is a US$ 300 million loan aiming at providing affordable housing to low and middle income households. The operation was approved by the World Bank Board on September 24, 2009 and ratified by the Egyptian Parliament and declared effective on April 27, 2010. The main development objective of this DPL is to reform the current system of inefficient and poorly targeted supply-side subsidies for housing for the broad low and middle-income sectors and replace them with a transparent and economically efficient demand-side subsidy system.
33. **Banks and mortgage companies, shareholders in EMRC are the primary target group of the project.** The 24 PMLs accounting for more than 93 percent of the sector had access to longer term funding. Six PMLs, three banks and three mortgage companies that tapped on the longer term funding provided by EMRC, which allowed for the provision of market-based mortgage loans funding for residential housing. This improved accessibility, cost, and risk management of mortgage finance. This is crucial for the establishment of long-term lending and the development of a vibrant mortgage market in Egypt.

<table>
<thead>
<tr>
<th>Table 1: Selected Indicators, FY 06-FY11</th>
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<tbody>
<tr>
<td><strong>Output</strong></td>
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<tr>
<td>Nominal GDP at Market Prices (LE bn)</td>
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<tr>
<td>Real GDP annual growth rate(%)</td>
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<tr>
<td><strong>Money and Price</strong></td>
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<tr>
<td>CPI inflation rate(%)</td>
</tr>
<tr>
<td><strong>External sector(% of GDP unless otherwise mentioned)</strong></td>
</tr>
<tr>
<td>Trade deficit</td>
</tr>
<tr>
<td>Current account balance(+-surplus)</td>
</tr>
<tr>
<td>Net Foreign direct investment(FDI)</td>
</tr>
<tr>
<td>Balance of Payments (+-surplus)</td>
</tr>
<tr>
<td>Gross Foreign Exchange Reserves (billion US)</td>
</tr>
<tr>
<td>Gross Public External Debt</td>
</tr>
<tr>
<td><strong>Public Finances (Budget Sector)</strong></td>
</tr>
<tr>
<td>Total Revenues (including grants)</td>
</tr>
<tr>
<td>Of which tax revenues</td>
</tr>
<tr>
<td>Expenditures</td>
</tr>
<tr>
<td>Budget Deficit</td>
</tr>
</tbody>
</table>


34. EMRC financed the two specialized housing banks in Egypt, the state-owned Housing and Development Bank (HDB); and the private Egypt Arab Land Bank (EALB), which are the only banks that primarily deal with providing loans for houses, especially low-income housing. EMRC also provided refinancing to the National Bank of Egypt (NBE), which is the largest state-owned bank, accounting for more than 20 percent of the banking system with one of the largest branch network in Egypt reaching out to the poor villages, including those in Upper Egypt. Three mortgage companies also benefited from EMRC refinancing, namely Tamweel Company (Orascom), which is the pioneer mortgage company in Egypt, which had successfully built a full-fledged integrated community for low-income households, which in addition to housing, includes various social services, such as schools, hospitals, health care clinics, parks, and infrastructure. The second mortgage company that tapped on EMRC's funding was the Egyptian Housing Finance Company (EHFC), which was also private sector, and catered all income brackets. The third was the Taamir Company, majority owned by the public sector, which mainly financed the government subsidized low-income housing. Overall, this shows that EMRC has catered a wide spectrum of PML, and has diversified its portfolio to commercial and specialized banks, as well as to mortgage finance companies, both public and private.

35. **Egyptian households, mainly the lower income segment in society** benefited from EMRC as it was also involved in refinancing loans at concessional rates under the NHP. Egyptian households had access to mortgage finance at a better cost and longer term. PMLs, by borrowing from EMRC, or
at least by having the EMRC available when needed to serve as first resort source of finance, were better enabled to offer longer-term financing for residential housing development on market terms and conditions that are favorable for many potential home buyers. Lenders view EMRC as a source of liquidity that they can tap at short notice. The length of the term of maturity has gone up to 16 years in 2011 as opposed to 7 years only in 2006 prior to the establishment of the liquidity facility. This is critical as the term extension is the major channel whereby the impact of the project on the financial intermediation process helps to improve the affordability of housing for individual households, attaining a more inclusive system. Moreover, there was also an increase in the volume of mortgage loans by 1400 percent over the lifetime of the project—increasing from a base of 300 million to reach 4.5 billion.

**Table 2: Mortgage Refinance of EMRC by Income Brackets of Beneficiaries**

<table>
<thead>
<tr>
<th>Income Groups</th>
<th>Size of Mortgage Loan (LE)</th>
<th>Number of Mortgage Loans</th>
<th>Volume of Mortgage Loan (million LE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low income</td>
<td>0-100,000</td>
<td>12,296</td>
<td>350</td>
</tr>
<tr>
<td>Middle income</td>
<td>100,001-2,000,000</td>
<td>270</td>
<td>93</td>
</tr>
<tr>
<td>High income</td>
<td>&gt;2,000,000</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Gross Total</td>
<td></td>
<td>12,569</td>
<td>450</td>
</tr>
</tbody>
</table>

*Source: EMRC (2011).*

36. EMRC has improved affordability of housing finance. EMRC played a key role in the refinancing of subsidized mortgage loans. More than 98 percent of the refinance loans and 78 percent in terms of volume were allocated to low-income households (Figure 1).\(^{11}\) This project set the foundation for the Affordable Mortgage Finance Program, which moved the housing subsidies from supply-side to a more efficient and well targeted demand-side subsidy to the beneficiaries. The project also ensured geographical distribution, where 15 Governorates benefited from these mortgage loans, including those in upper Egypt suffering from high incidence of poverty and a large housing gap. EMRC had a positive impact on the NHP that provides loans to low-income households on a fixed rate basis. This gives a special importance to EMRC since lenders would otherwise have no way to hedge such lending, which is a major contribution to low-income housing together with the lengthening of maturities. Overall, this project has significantly benefited the low-income underserved groups.

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\(^{11}\) Defined as mortgage loans up to LE 100 thousand.
1.5. Main Outcomes

37. The following were the main outcomes of the projects that directly helped beneficiaries:

38. Encouraged the participation of numerous banks and mortgage companies in providing mortgage finance, as evident in the increase of number of primary lenders extending mortgage loans from two to 12 over the project’s lifetime. This has enhanced competition in the mortgage market, which led to an improvement in the quality of services provided at lower costs. This leveling of the playing field helped primary lenders to scale down the market and reach out to underserved segments—thus enhancing access to affordable housing.

39. Strengthened the regulatory and supervisory infrastructure for mortgage finance. The project provided advisory services and technical assistance to MFA, and later the Egyptian Financial Supervisory Authority (EFSA) and CBE on supervising and regulating the mortgage finance market. Also, the institutional and legal framework for mortgage finance was set for the first time in Egypt, during preparation phase, the Bank team of experts advised the authorities on the Real Estate Finance Law, and the required legal amendments to make the environment more conducive for developing the market and ensuring the soundness and stability of the system.

40. Improved transparency and accountability in the mortgage and overall financial sector. Posting prices of loans, and the different packages offered, helped in providing the beneficiaries with timely and accurate information before choosing the lender, and the package, in addition to protecting the consumer. The Bank provided support to EMRC in developing a clear and transparent pricing strategy which is communicated through its website with regular updates.\(^\text{12}\)

41. Consumer protection and financial literacy. Consumer protection and financial literacy was a priority for the project, through setting minimum disclosure standards pertaining to loan information, and familiarizing consumers with the new financial products. This helped in familiarizing the Egyptian consumers with the new financial product and ensured that they are aware of the terms and conditions of the product when taking out a loan. Initiating dialogue on consumer protection and setting rules was critical during the period of project implementation, at a time when there were concerns about crony capitalism and unfairness in access to markets and opportunities.

42. Enhanced robustness of specialized lenders and risk management. There has been extreme care in designing the liquidity facility, and its lending mechanism to avoid both uncertainties in financial contracts and distortions in the sector, a level, competitive playing field among primary lenders, and a reasonably efficient housing market. EMRC comforted PML and contributed to their robustness. One of the main catalytic effects of a second tier mortgage facility is the quality of the loans.

43. Improved the quality of the portfolio EMRC promoted healthy lending through an eligibly criteria advantaging underwriting standards for mortgage lending. The Bank built the capacity of EMRC to undertake the underwriting, evaluation through reviewing and providing no objections to the first seven transactions. The quality of lending was very good where the default rate is only three percent, over collateralized at 120 percent. In general, the project supported EMRC and its borrowing institutions operate on market principles.

44. Modernized the institutional infrastructure. Specialized economic courts were established, and there was adequate enforcement of foreclosures. In addition, the first private credit bureau was established and for the first time in Egypt, non-bank financial institutions, such as mortgage companies would have access to credit worthiness information, and on a timely manner, improving

\(^\text{12}\) www.emrc-online.eg
underwriting process and lower credit risk for lenders. Moreover, mortgage companies also shared their credit worthiness data to the credit bureau, which helped in developing and improving the quality of information at the credit bureau.

45. **Streamlining property registration and reduction of fees.** There has also been tangible impact and notable improvement in property registration, which goes beyond the project main objectives, but had contributed to the achievements of the key targets. This includes the fast track registration system for new houses, through the nationwide mapping and titling program, and the drastic reduction in registration fees. The government has also recently launched a systematic title-adjudication, survey, and registration process to modernize the property registration system. All this led to streamlining and improving the property registration process with costs being cut by half and steps reduced from 23 to 7; reduction in the cost of deed or title registration from 12 percent of the value of the property, to 6 percent, to a further 3 percent to its current maximum flat fee of LE 2,000; and a fast track foreclosure system has been initiated. The Bank team also worked closely with the Ministry of State for Administrative Development on the tri-partite agreement and its amendments, regarding streamlining property registration in the new urban communities.

1.6. **Original Components**

46. The project comprises a World Bank loan in local currency in the amount of LE 214.2 million (about US$37.1 million equivalent) to the Arab Republic of Egypt for on-lending to the EMRC as a line of credit, which it will utilize as one of its funding sources to provide medium and longer-term mortgage refinancing loans to PMLs on a market basis. The World Bank project supported the initial, start-up phase and the strengthening of EMRC operations. Another source of EMRC funding comprised the paid-in equity investments of shareholders.

47. The EMRC was legally incorporated as a joint stock company with the assistance of the World Bank prior to Board presentation. It is a wholesale (second tier), specialized liquidity facility operating on commercial principles to attract the equity investments of private parties. It is majority owned by the users of its financial services, mainly the PMLs (both active banks and mortgage finance companies). The CBE a strategic investor with a 20 percent ownership share initially, and the MFF has a small share of 2 percent.

48. Alternative solutions for the liquidity facility were studied and investigated. This includes the option of securitazation and mortgage bonds. The liquidity facility model was chosen in Egypt rather than other types of funding mechanisms for several reasons. The liquidity facility can contribute to the overall mortgage market growth, and down-market expansion. A mortgage liquidity facility is the first step in developing a secondary mortgage market. There are several advantages to such a structure: (i) it effectively acts as a way to mutualize the banking sector’s access to the capital market. So all banks can access funding at rates that none of them could obtain individually; (ii) the way the refinancing works, the mortgage assets stay on the balance sheet of the bank and so avoid any of the pitfalls of securitization with the misalignment of incentives; (iii) addresses directly the main obstacle to the development of mortgages which is the maturity mismatch between the mortgage asset and the funding available; and (iv) risk management and capital structure which securitization also tackles are not priorities in the current market.

49. The World Bank team has worked closely with IFC (Annex 6), which has been a major stakeholder throughout the different phases of the Mortgage Finance Project. IFC provided both an equity investment and technical assistance from IFC PEP-MENA. The EMRC is expected to develop sufficient market strength and capacity to issue bonds or other securities in the capital market on favorable terms in order to help fund its operations on a market sustainable basis. Together with IFC, the Bank provided technical support across a range of areas but in particular in defining the business model, operating procedures and risk management framework of EMRC, as well as contracting
international expert consultants, who sat on the Board. IFC as a shareholder provided substantial support in the drafting of the Operational Manual all of which supported the operationalization of EMRC.

50. The EMRC neither takes deposits nor lends directly to households. Its business is the refinancing or purchase with recourse of longer-term residential mortgage loans originated by primary lenders. The EMRC’s transparency and simplicity will also help reduce the burden of regulation by the MFA. The PMLs, by borrowing from the EMRC, or at least by having the EMRC available when needed to serve as first resort source of finance, will be better enabled to offer longer-term financing for residential housing development on market terms and conditions that are favorable for many potential homebuyers. Lenders will view the EMRC as a source of liquidity they can tap at short notice.

1.7. Revised Components

51. The project components were not revised during the life of the project.

2. Key Factors Affecting Implementation and Outcomes

52. The project has been successfully implemented and has been disbursed fully before the closing date. This is largely attributed to its innovative design and integrated approach, as well as the adequate preparatory work that was based on quality analytical work and advisory services. The government’s commitment to the project and the implementing entity EMRC, as well as its efforts in building EMRC’s capacity and in adjusting to the changing environment, contributed to this. Despite the challenging environment, ranging from legal and regulatory changes to the global financial crisis and more recently the revolution of January 2011 the project implementation was not affected, and it continued disbursing in a timely manner. This was mainly due to the responsiveness of the Bank team, along with a committed counterpart. Following the mid-term review, some of the project’s expected outcomes were adjusted taking into account these developments. Accordingly, the project succeeded in meeting most of the expected outcomes and all of the revised intermediate outcome indicators.

2.1. Project Preparation, Design and Quality at Entry

53. Sound analytical work. The design of the Mortgage Finance Project reflected lessons learned in similar projects in the Middle East and North Africa (MENA) Region and elsewhere. Similar projects implemented in Algeria, Jordan and the West Bank and Gaza in the 1990s pioneered mortgage market development in the MENA Region. The project design benefited from the findings documented in the Implementation Completion Report (ICR) for the Jordan project, that revealed that deepening financial markets, including secondary markets for loans and increasing institutional investment opportunities, depends not only on creating frameworks for new financing mechanisms, but also on conditions in the underlying market for primary lending and general economic activity. The successes of the Jordanian project were also owed to good financial and judicial fundamentals, extreme care in designing the liquidity facility and its lending and borrowing mechanisms to avoid

13 See Annex 5 on the government’s commitment to ensuring the sustainability and growth of EMRC.
14 Jordan: Housing Finance and Urban Sector Reform Project (Staff Appraisal Report 15331-JO; Loan 4071-JO approved on July 26, 1996), and West Bank and Gaza: Housing Project (Staff Appraisal Report 15926-WBGZ; Trust Fund 26052 approved on April 8, 1997), as well as the Algeria Caisse de Refinancement Hypothecaire, that issued bonds only once.
15 There are a number of international examples of liquidity facilities, including the Federal Home Loan Banks in the US, Cagamas Berhad in Malaysia, Caisse de Refinancement de l’Habitat in France, the Mortgage Refinance Company in Jordan, and the Swiss Pfandbriefe Institute in Switzerland. These institutions have similar missions but somewhat different structure, powers and privileges.
both uncertainties in financial contracts and distortions in the sector, a level, competitive playing field among primary lenders, conducive property registration and titling processes, and a reasonably efficient housing market.

54. Other lessons are that in emerging mortgage finance systems, second-tier financial institutions should start with basic financial products and narrow mandates in order for them to better manage and control risks in relatively new and untested product markets, and that their operations should be regulated or overseen by an experienced financial sector regulatory agency. Other important prerequisites for successful mortgage markets include reliable property registration systems and effective legal and judicial processes for mortgage foreclosure. Close attention has been given to these prerequisites and the lessons learnt during preparation of the Egypt Mortgage Finance Project.

55. **Coherent and Integrated World Bank Group Support.** Also, it is worth noting that the World Bank Group’s work in Egypt’s financial sector has been exemplary in the sense that support has been provided through a continuum of instruments, from analytical work (including successive FSAPs), technical assistance, and lending from International Bank for Reconstruction and Development (IBRD), to advisory services from the Consultative Group to Assist the Poor (CGAP), as well as IFC investments. The synergies between these various instruments have proven critical to the success of the overall engagement. The project received the MENA VPU Team Awards for 2011 for being exemplary in bringing the World Bank Group together.

56. Moreover, this project was part of a comprehensive package of support provided by the World Bank Group and other key development partners to support the financial sector. It was complemented by a series of Financial Sector Development Policy Loans (DPL) supporting the financial sector reform program (2004–2012) which helped in laying a firm foundation and in strengthening the legal and institutional framework of the financial sector for the mortgage market. Furthermore, with the successful implementation of the Mortgage Finance Project and its setting of the groundwork for the development of a viable mortgage market in Egypt, a DPL of US$300 million was approved in September 2009 to support the Affordable Mortgage Finance Program. This highly innovative operation in its own right aims to extend access to housing finance to those who need it most through reforming the current system of inefficient and poorly targeted supply-side subsidies for housing that were previously given to the developers and replace them with a transparent and economically efficient demand-side subsidy system targeted to the end beneficiaries. Hence, the two operations were mutually reinforcing—the first setting the institutional, regulatory and legal framework, and the second operation enhancing access to housing finance for the underserved groups.

57. **Partnership with other donors.** The excellent coordination with development partners contributed to the success of this project. The government of Egypt also received support from several other donors for financial sector reform, including the United States Agency for International Development (USAID), and the European Union (EU). Regular donor meetings helped in ensuring synergy and effectiveness in delivering technical and financial assistance.

58. **Project design.** The Mortgage Finance Project was referred to as an example of innovative and good practice in the IBRD Strategy for Engagement with Middle Income Countries (MIC) report, specifically for its innovative design and integrated approach. The Project established the first mortgage liquidity facility in Egypt, EMRC. The EMRC enhanced access to long-term funds which was crucial for the establishment of long-term lending and the development of a vibrant mortgage market in Egypt. EMRC benefited the lower income sectors of the Egyptian society as it was also

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17 The improvements in the underlying primary lending market would have been supported by the Financial Sector DPLs.
18 The World Bank has supported Egypt’s Financial Sector Reform Program through a series of Financial Sector DPLs (I, II, and III), amounting to US$ 1.5 billion.
involved in refinancing loans at concessional rates under the NHP. Also, this project followed an innovative approach in the structuring of the loan being in local currency using Egypt’s capital with the World Bank, allowing the authorities to hedge for foreign exchange risk. The project was rated satisfactory by the Quality Assessment Group (QAG).

59. **Wider project benefits outside MENA region.** Following the success of the Egypt project, the liquidity facility model has been replicated in Tanzania and there is strong interest in a number of other sub-Saharan African countries to follow a similar development route for their mortgage markets. As part of the Tanzania project, the Tanzania Mortgage Refinance Company (TMRC) was created in early 2011. A delegation from Tanzania visited Egypt on 4-8 July 2010. TMRC is still in its initial stages but was seeking to do its first transaction in 2012. The study trip to Egypt intended to help share some of the experiences of EMRC in getting ready for market and carrying out their first transactions as well as sharing lessons learnt and means of addressing challenges met in implementation. In particular some of EMRC’s software and systems which were specifically developed to meet its needs as a secondary mortgage market institution will be of great interest to TMRC. A further study trip is planned later in 2012 to further build on the learning and sharing. This is a good example of South-South cooperation in development.

60. **Government’s commitment.** Strong partnership has been established between the Bank and the Egyptian authorities over the past years through an integrated financial sector work program, reflected in an effective policy dialogue, analytical work, technical assistance, and key operations, focusing on financial sector development. The project team had a strong and professional policy dialogue with the Egyptian counterparts, namely the Ministry of Investment, CBE, EMRC, MFA, EFSA, the Ministry of Finance, the Ministry of Justice, and the Ministry of State for Administrative Development, which helped in the effective implementation of the project, with a solid impact on the ground. The authorities’ commitment to the project, and to developing the mortgage market in Egypt, helped significantly in addressing and in adjusting to the changing environment.

61. **Responsiveness to a changing environment.** As previously mentioned the team was responsive to the changing environment. A good example was when the new tax law was issued, subjecting the Treasury Bills to taxes contrary to securities, hence distorting the market. EMRC changed the benchmarking of interest rate. The CBE in many occasions showed its commitment to support the continuity and the success of the liquidity facility.

62. **Assessment of risks.** Risks identified at appraisal were relevant and have been well managed as mitigating factors were embedded in the design of the project. The project is relatively simple in structure since it comprises only one major component in the form of the EMRC’s mortgage refinancing program. However, the project entails several significant risks related to the macroeconomic framework, the policy, regulatory and institutional environment in which the EMRC operated. This included property registration, judicial enforcement of mortgage collateral, the operational policies and modalities of the EMRC itself, and uncertainties in market behavior. Due to their unexpected nature, some risks were not adequately addressed and taken into account during project design and preparation. These risks had to be mitigated by the Bank’s implementation and supervision teams.

63. **Unpredicted risks—the global financial crisis and the Egyptian January 25th Revolution.** As in the case of any complex, untested financial market with new institutions, many unanticipated

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19. Other projects are currently under preparation in Nigeria and for the West Africa Economic and Monetary Union. Preparation of these projects will draw heavily on the lessons and experience of this project in Egypt.

20. TMRC is a wholly private company owned by its shareholders has been created with the aim of providing mortgage lenders with longer term funding in an effort to stimulate the mortgage market.
policy, technical and institutional growing problems were likely to arise. In the case of this project, it is worth noting that two unexpected problems occurred: the global financial crisis and the Egyptian revolution—both had direct implications on project implementation. Some serious risks to the achievement of project outcomes were not predicted—the global financial crisis and the January 25th Revolution and the associated implications.

64. **Global Financial Crisis.** The Egyptian financial sector has managed to weather the global financial crisis. The strengthening of the financial sector and its regulatory and supervisory framework with the reform program undertaken over the past seven years enabled it to be more resilient to shocks. Moreover the continued confidence in the system has contributed to reducing the likelihood of bank runs or any herding effects. Egypt’s financial sector did not suffer any direct significant effects from the global financial crisis due to the lack of foreign borrowing or foreign capital flows in the banking sector. Banks have continued lending to each other and liquidity remained reasonable in the banking sector. The banking sector has a relatively low loan-to-deposit ratio (a bit higher than 50 per cent), which limited any propagation effect of the original shock, and hence eliminates the possibility of any systemic crisis. This was the result of conservative lending policies following the restructuring of the banking sector.

65. **Impact of the January 25th Revolution on the project.** As post-revolutionary Egypt moves forward towards a new vision, one that offers more equitable opportunities and active participation to all of its citizens, it faces a number of political and economic challenges. The revolution has had implications on the overall financial sector. Egyptian sovereign ratings and banks’ ratings (which generally must be below the sovereign rating), have been downgraded by three rating agencies. By January 27, 2011, political protests led Fitch to cut Egypt’s BB+ country ceiling to negative. And as banks closed between January 27 and February 6, Moody’s cut its ratings on January 31, 2011 on five Egyptian banks. Then shortly after, it downgraded its debt rating by one notch from Ba1 to Ba2, and also changed its country outlook from stable to negative. Similarly, Standard and Poor’s (S&P) downgraded Egypt’s long-term foreign and local currency ratings to BB and BB+, respectively, both with a negative outlook. In January 2012, Fitch Ratings downgraded the long-term foreign currency issuer default ratings for three Egyptian banks to BB-.

66. These downgrades reflected the political uncertainty that could negatively impact foreign direct investments (FDI) inflows and disrupt economic activity. In addition, the Egyptian Stock Exchange was deeply affected, as it was shut between January 27 and March 23, after it dropped 16 percent in the two days following the protests. Sharp losses have occurred as investors pulled their money from the market amid ongoing investigations of former regime officials, and some of the country’s top businessmen whose companies are listed on the stock market. The change of regime and the uncertainty surrounding the interim administration has created some difficulties.

67. Thus, the revolution clearly has a major bearing on the future prospects for the Mortgage Finance Project. Notably opportunities for fund raising in the capital markets are much more limited and likewise the mortgage market has slowed down significantly from an already low level of activity in 2010. Political uncertainty renders capital markets’ performance expectations unclear. There are still uncertainties restraining securities from a sustained and certain market recovery. A smooth and successful transition to a more stable political and economic environment would improve investor confidence and consequently, pave the way for a return of foreign capital inflows and restoration of Egypt’s capital markets position in the global arena. On the positive side, the transition government and in all likelihood any incoming government will have a strong focus on the provision of affordable

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21 These banks are: National Bank of Egypt, Banque Misr, Banque du Caire, Commercial International Bank, and Bank of Alexandria.
housing for lower income groups. EMRC will have a key role to play in providing refinancing for the loans originated under the newly launched subsidy scheme by the Mortgage Finance Fund (MFF).

68. The housing and construction sectors were adversely affected by the revolution. The supply of housing is facing difficulties as private real estate developers are facing a period of uncertainty. Several of the larger developers are currently under investigations for the terms under which they acquired land from the government over the past few years. This is not expected to have any impact on current projects or projects near to completion where buyers have already paid deposits, but does affect future projects and especially the developers’ land banks. Some developers, especially from the Gulf countries, have already decided to return some of the land to the government which was in their land banks.

69. A further impact of the revolution on real estate developers may be on their financing model. Developers had been very reliant on continually releasing new housing for sale as a way of generating cash flow for existing construction. If future flows dry up it may create a liquidity issue for financing current projects. It is possible that developers will gradually withdraw from the installment loan market as they would not have access to the long term finance to fund this. This would in turn mean that the mortgage finance companies and banks would need to provide a greater proportion of end user financing. The larger developers indicated that the sale of over 95 percent of their properties was done for cash or on installment loans with very few being sold using mortgages. Some developers indicated that they have provided mortgages compliant with the Real Estate Finance Law.

70. The regulatory and supervisory framework for the mortgage market has also been weakened, following the revolution. EFSA has seen a significant loss in senior personnel following the revolution. This could be attributed to the government announcement of maximum salaries, as well as a lack of donor funds that paid the compensations of some of the staff and consultants. This has important consequences for overall financial regulation and direction for the mortgage market. EFSA already faced significant capacity issues regarding skills and experience with its staff working on mortgage supervision. Continued turnover and loss of staff poses a major issue for EFSA and its ability to effectively perform its supervision duties.

71. The risks have to some extent been mitigated by close dialogue with Egyptian authorities. Two missions have visited Egypt following the revolution to discuss next steps. It is worth noting that the CBE enjoys great stability, as the Governor of CBE has been renewed for another term in 2012—a main counterpart, and the chair of EMRC is now the Deputy Governor of CBE. As stated above, the aims of the project and especially the follow-up Affordable Mortgage Finance Program DPL are entirely compatible with the new government priorities, which will have a stronger focus on social objectives and on attaining a more inclusive system. The overall mortgage framework is now well established and will develop further as the political situation settles.

72. However, the real estate sector has not been immune from global contagion. The Egyptian property market was one of the first casualties, with a rapid slow down in transactions and a fall in property prices. Market participants suggested that strong demand remains for real estate and that investors and buyers are just holding back waiting for the economic situation to stabilize. A property price bubble may have just been forming with a rise in speculative demand. Property prices fell by as much as 230 percent during 2009 and mortgage transactions also dropped significantly during the same period. Lastly, the large inflows of funds from the Gulf countries, which were concentrated on real estate, slowed down as investment prospects looked more uncertain.

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22 Supervision missions were held on January 10-16, 2011 and February 20-24, 2011 (post-revolution), as well as another on June 27-30, 2011.
73. **Implications on bond issuance and sustainability of EMRC.** It is worth noting that the Egypt Mortgage Finance Project has fully disbursed before the closing date, and all its indicators were met at the end of the lifetime of the project, despite the unexpected external risks associated with the global financial crisis and the Egyptian January 25th revolution, except for the bond issuance indicator. The global financial crisis earlier than currently the political and economic situation in Egypt, were not conducive for bond issuance. The global financial crisis did not allow for bond issuance, and nowadays there is no business case for EMRC to issue its bond in light of the Egyptian authorities’ decisions announced as a result of the revolution. For example, the government is currently issuing Treasury Bills with an interest rate as high as 14 percent, during the current transition phase in Egypt—which raises a cost issue on EMRC and will not allow EMRC to issue a compatible bond, desirable to investors.

74. The risks of a new institution being the main implementing vehicle EMRC for the project were mitigated in the following ways, which ensured its sustainability:

- **Capacity building of EMRC.** Close monitoring of EMRC’s activity by the Bank through regular supervision missions, in addition to day-to-day monitoring from the field with the change in task management of the project. The first seven deals made by EMRC had to be submitted to the World Bank for approval, including all risk assessments and supporting documentation. The Bank team drafted, reviewed and commented on all of the policies and manuals prepared for EMRC (Operational Manual, Business Plan, IT System, Financial Management System, Credit Policy, Asset and Liability Management Policy, and Ethics Policy). The Bank also provided support to EMRC in developing a clear and transparent pricing strategy which is communicated through its website with regular updates.

- **Non-executive Board member—international expert.** As mentioned later in Section 2.4, the World Bank is financing a non-executive director on the Board of EMRC who is able to bring considerable experience having himself been the CEO of the Malaysian Mortgage Liquidity Facility. He will also guide EMRC in supporting low-income housing, tapping on the Affordable Mortgage Finance Program DPL.

- **IFC shareholdings.** IFC as a shareholder also provided substantial support in the drafting of these documents and in designing the organizational and reporting structure of EMRC.

- **Recapitalization of EMRC** by all shareholders, private and public, as well as CBE. The recapitalization would go hand in hand with the issuance of the bond that is planned by end of 2012, once the economic and political situation stabilizes in Egypt post-elections. EMRC might also move forward with a potential follow-up World Bank operation, envisioned in the 2008 CAS Progress Report as additional financing for mortgage, amounting to US$ 50 million.

- **Government’s commitment.** The authorities’ commitment to the project, and to developing EMRC and the mortgage market in Egypt, helped significantly in addressing and in adjusting to the changing environment. Effective coordination among Egyptian authorities to further ensure sustainability and smooth implementation, as well as continuity of EMRC operations beyond the project’s lifetime, the Deputy Governor of CBE has been appointed as the Chair of EMRC, and the Chair of MFF has been appointed as the Deputy Chair of EMRC.

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23 Although EMRC has already advanced with bond issuance preparation. Details in Section 2.4.
2.2. Project Implementation

75. **Capacity building of EMRC.** As mentioned earlier, close monitoring of EMRC’s activity by the Bank took place through regular supervision missions, in addition to day-to-day monitoring from the field with the change in task management of the project. The first seven deals made by EMRC had to be submitted to the World Bank for approval, including all risk assessments and supporting documentation. The Bank team reviewed and commented on all of the policies and manuals prepared for EMRC (Operational Manual, Business Plan, IT System, Financial Management System, Credit Policy, Asset and Liability Management Policy, and Ethics Policy). The Bank also provided support to EMRC in developing a clear and transparent pricing strategy which is communicated through its website25 with regular updates.

76. **Actions taken in response to problems—amendments to legal documents.**26 The team was responsive to clients' needs and changes in the market in numerous incidents. Having anticipated a rise in international interest rates, the team approached the Treasury immediately requesting approval for amendments in Legal Agreement (replacing swap rate by average yield of 12-months Treasury Bills). In another occasion, the team was also responsive to the issuance of the new Tax Law by the Ministry of Finance, which taxed T-Bills (and not securities) based on which interest rate was determined, distorting the market; and requested immediately exemptions from the Treasury Department of the World Bank, which had approved to avoid market distortions and ensure a level playing field. All this has facilitated project implementation and timely disbursement. The team has worked closely with the Egyptian authorities to ensure smooth implementation of the project.

77. **Adjustments during project implementation—midterm review.** The revisions made during the midterm review reveals the team’s responsiveness to clients needs and the unexpected changes in the global financial environment. A World Bank midterm review mission for the Mortgage Finance Project visited Cairo from July 4–12, 2010.27 The main objective of the midterm was to reassess the project objectives, their relevance in light of the new local and global circumstances, and the likelihood of achieving them. The mission also evaluated the implementation performance and financing requirements, and discussed with the counterparts the possible, if any, need for a change in project scope, and restructuring required, as well as the disbursement projections. The mission assessed progress achieved to ensure that the required institutional and implementation arrangements of the operation are executed in accordance to the work plan. The mission looked at all aspects related to the development of the liquidity facility—EMRC, its operational activities, corporate governance, financial management policies, reporting arrangement and disbursement issues, management and regulatory environment.

78. Particular attention was given to EMRC’s preparations for a first bond issuance and the possible delay due to the market developments, with an attempt to identify other funding sources, including the possible options for recapitalizing EMRC, as well as potential follow-up additional financing from the World Bank. The mission also discussed with the authorities progress made in property registration. Revised projections were set out in the restructuring paper. Some targets were altered during the midterm review based on reassessment of the project’s original development objectives, and in light of the new circumstances and changes in the environment. The changes to the project involved a revision of three of the monitoring and outcome indicators that were presented during the design phase of the operation—the targets of which would not be met (see Section 1.3 on Indicators and their revision).

25 www.emrc-online.eg
26 A number of unexpected changes in the legal and regulatory environments required two amendments to the project’s legal documents in August and October 2007.
27 Taking into account the project started actual implementation in November 2007.
**Post-revolution adjustments.** The revolution that began in Egypt in January 25, 2011, the recent economic and political developments associated with it, as well as the current uncertainty has led to a number of risks and challenges. (Section 2.1 provides details on the risks and implications of the revolution) as well as opportunities. The macroeconomic environment and a conducive business environment are critical for the stability of the financial sector and the development of the mortgage market. Hence, the faltering growth following the global crisis, the economic slowdown post-revolution, and the political uncertainty, along with the erosion of international reserves and ratings downgraded, will have implications on the mortgage market, and the project. The rise in unemployment, and the loss of jobs of those working in the sectors that were most affected, such as tourism could lead to the rise in NPLs, and deterioration in the asset quality of banks involved in mortgage finance, as well as less appetite to take mortgage loans. In addition, the banks’ purchase of bonds will crowd-out private sector lending, including that for housing loans. All this made the issuance of the EMRC bond unfeasible, although the preparation work had already been done. To help authorities mitigate the unforeseen risks associated with the revolution, two emergency missions were held.

2.3. Safeguard Compliance

80. Not Applicable.

2.4. Post Completion Operation/Next Phase

81. *Transition arrangements following project completion.* To ensure continuity and a smooth transition between the investment loan, the Mortgage Finance Project, and the follow-up Affordable Mortgage Finance Program DPL, common team members were selected. The supervision team for the investment loan that supported the establishment of the regulatory and institutional framework for an efficient mortgage finance market set the grounds for the policy team that supported attaining a more inclusive housing finance program. Given that EMRC is an integral part of this follow-up operation, the mission team will still have regular visits to EMRC and provide technical support as necessary. As part of the ongoing support, the World Bank is financing a non-executive director on the Board of EMRC who is able to bring considerable experience having himself been the CEO of the Malaysian Mortgage Liquidity Facility. So although the project is fully disbursed, the World Bank and counterparts remain fully engaged with EMRC, and will look to support it as it eventually goes to the bond market in pursuing a sustainable funding base.

82. *EMRC recapitalization and possible additional funding.* As mentioned earlier, EMRC will be moving forward with recapitalization by all shareholders, private and public, as well as CBE. The recapitalization would go hand in hand with the issuance of the bond that is planned by end of 2012, once the economic and political situation stabilizes in Egypt post-elections. EMRC might also move forward with a potential follow-up World Bank operation, envisioned in the 2008 CAS Progress Report as additional financing for mortgage, amounting to US$ 50 million—to help EMRC stay in business until such time as it is able to issues its own bonds.

83. *Performance indicators.* It is worth noting that the Egypt Mortgage Finance Project has fully disbursed before the closing date, and all its indicators were met at the end of the lifetime of the project, despite the unexpected external risks associated with the global financial crisis and the Egyptian January 25th revolution, except for the bond issuance indicator. The project is assessed as successful because all the project’s base case projections, as well as those envisioned under the midterm review, were met. Growth in mortgage lending by primary lenders and the lengthening of the term structure of mortgage lending were realized before the closing date of the project. EMRC is still continuing on a growth path following the completion of the project, and has achieved financial sustainability on a market basis. Despite market distortions caused by the new Tax Law (taxing T-bills
while exempting securities), and unexpected changes at the local and global levels (the global financial crisis and the January 25th Egyptian revolution), the project managed to proceed in a smooth manner. Effective coordination among Egyptian authorities to further ensure sustainability and smooth implementation, as well as continuity of EMRC operations, the Deputy Governor of CBE has been appointed as the Chair of EMRC, and the Chair of MFF has been appointed as the Deputy Chair of EMRC.

84. Almost all project outcome and output indicators have been met, some of which have exceeded the target figure. The targets for both of the project’s outcome indicators have been fully achieved (See Section 3.2 for details on Indicators) however; the launching of the bond did not materialize despite all the preparatory work that was done. To reach full sustainability over the long term EMRC needs to be able to raise its own funding through the issuance of corporate bonds. Several factors worked against this during the lifetime of the project. Firstly, the pricing of the World Bank loan to EMRC did not create a sufficient incentive to move to bond financing. Secondly, a steep rise in interest rates soon after project started, made bond financing very expensive. This increased the attractiveness of deposits as a funding tool as the rates on these did not alter greatly in line with the pricing of other liabilities. Lastly the revolution in 2011 made it impossible to issue any bonds during the last part of the project.

85. The sustainability of EMRC is largely assured as previously discussed. Much of the preparation work a bond issue has already been done, with an offering prospectus partly drafted. EMRC has advanced with bond issuance preparation, and is holding discussions with three investment banks, EFSA, and a local rating agency. Bond issuance is planned by end of 2012, once the political and economic environment had stabilized in Egypt, after having elected a new Parliament, Cabinet, and President. As indicated clearly in the Project Appraisal Document (PAD), EMRC’s bond issuance needs to be done at prices favorable for EMRC operations. There was no economic sense to issue the bond at the original time projected by the project in the design phase, after the repercussions of the unanticipated global financial crisis that hit in 2008. Currently, there is no business case either for EMRC to issue its bond in light of the implications of the revolution. As mentioned earlier, the government is currently issuing Treasury Bills with an interest rate as high as 14 percent, which raises a cost issue on EMRC and will not allow it to issue a compatible bond, desirable to investors. Secondly, through its own capital resources and some of the reflows from the loans it has made, it has resources remaining for refinance operations. Thirdly, the government has indicated its willingness to inject some capital into EMRC, for the purposes of supporting low-income housing. It is clearly understood though that EMRC will remain a majority owned private institution.

86. Lastly, the World Bank may be in a position to lend further funds to EMRC to support Egypt during the transition period post revolution, not only for the funding but more important for the technical assistance, advisory services and regular monitoring to EMRC to ensure a successful bond issuance to help it stay in business until such time as it is able to issues its own bonds. It is critical that the Bank provides adequate support to EMRC during the post-revolution transition period, this could be done through a new line of credit to EMRC which would support the institution until financial markets stabilize and bond issuance becomes feasible. The loan could amount to US$ 50 million or equivalent in local currency. The pricing of the loan could be based on the synthetic pricing methodology developed in the framework of the Tanzania HFP project and being applied in the framework of the UEMOA CRH project, given the weakness of the medium and long-term domestic government bond yield curve. Given the current problems in Egypt’s capital market, such a loan could be justified as ‘bridging’ the transition period post-revolution until such time as EMRC is able to tap local resources.

87. As mentioned earlier (and confirmed by the government in Annex 5), EMRC will be moving forward with recapitalization by all its shareholders to further ensure its operations sustainability and
continuity, which will go hand in hand with the bond issuance planned for end of 2012, in addition to
the proposed potential follow-up additional financing by the World Bank.

88. **Compatible operation.** Building on the Mortgage Finance Project, a follow-up operation is
already well under way in the form of the Affordable Mortgage Finance Program DPL, which has
already disbursed two tranches of US$100 million, (amounting to US$200 million) out of a total loan
of US$300 million. The main developmental objective of this DPL is to enhance access to finance for
low income housing through reforming the current system of inefficient and poorly targeted supply-
side subsidies for housing for the broad low and middle income sector and replace them with a
transparent and economically efficient demand-side subsidy system. In that context, EMRC plays a
vital role in enhancing access to housing finance as the Affordable Mortgage Finance Program has
refinancing needs.

3. **Assessment of Outcomes**

3.1. **Relevance of Objectives, Design and Implementation**

89. The relevance of objectives, design and implementation is considered satisfactory, based on:
(i) the consistency of the program with the government and Bank priorities; (ii) quality of the design;
and (iii) adequate implementation that resulted in significant achievements (listed below).

90. **Relevance of objectives.** The project’s development objective was for primary lenders in the
financial market (both banks and non-bank lenders) to provide longer-term, market-based mortgage
loan financing for residential housing. Such financing is scarce, in part because primary lenders do not
have reliable access to sources of term finance on favorable terms that could help them to mitigate the
associated business and lending risks. The EMRC objective was to provide such a source of long-term
funding.

91. The higher level objective to which the project contributes was the development of a more
competitive and efficient financial sector, which is consistent with the government and the Bank’s
priorities. According to the Egypt CAS of May 20, 2005, the advancement of the financial sector
objective is a key supporting goal for an even higher level strategic CAS objective of facilitating
private sector development. The project has helped the government to develop new financial sector
activities that are normally found in a modern, well functioning financial system. An expected CAS
outcome to be influenced by the World Bank Group is the realization of a more efficient and
responsive financial sector that includes a modern residential mortgage market, for which the CAS
envisages Bank intervention through project lending.

92. The creation of a market-based residential mortgage finance system is a high priority for the
government, and a CAS goal because of the very substantial benefits it would generate for the
economy and the population, particularly in the housing sector. Also, it would facilitate progress
towards the realization of another important strategic CAS objective of promoting social equity, by
improving access to longer-term housing finance, and, correspondingly, improving the affordability of
housing. Despite the considerable progress made in developing the housing market recently in Egypt,
there is still a major gap in the broad middle-income housing market. This is mainly associated with
high house prices relative to incomes and lack of access to mortgage finance because of high interest
rates and down-payment requirements. This middle-income group could have better access to the
housing market, if they receive some assistance to access long-term mortgage finance, which the
project achieved.

93. **Quality of the design.** The design of the operation was innovative, and at the same time
simple. It is relatively simple in structure as it comprises only one major component in the form of
EMRC’s mortgage refinancing program. As mentioned earlier, the project was referred to as an
example of innovative and good practice in the *IBRD Strategy for Engagement with MIC*, specifically for its innovative design and integrated approach. It also received the MENA VPU Team Awards for 2011 for being exemplary in bringing the World Bank Group together. The project established the first mortgage liquidity facility in Egypt, EMRC, which enhanced access to long-term funds, and benefited the lower income sectors of society as it was also involved in refinancing loans at concessional rates under the NHP and the Affordable Mortgage Finance Program. Also, this project followed an innovative approach in the structuring of the loan being in local currency using Egypt’s capital with the World Bank, allowing the authorities to hedge for foreign exchange risk.

94. The project was designed in a truly participatory way through frequent meetings with key technical counterparts in the government, market players and stakeholders, which ensured ownership and commitment, evident in the willingness of the government to support the sustainability, and growth of EMRC, as well as continuity of its operations. This was also confirmed by the change in EMRC’s management and leadership with calibers and expertise required for the current and coming period in Egypt. The project design was also based on extensive and frequent consultations with a range of developers and lenders, both banks and non-depository financial institutions, as well as beneficiaries and market players.

95. **Adequate supervision and monitoring of implementation.** Despite the delay in ratification, regular supervision had significantly helped in speeding up the disbursement and in achieving the project’s objectives. Also, since the change in the Bank’s task management from headquarters to the field in July 2006, day to day supervision helped in the provisions of advisory services, contributing to achieving the project’s intermediate outcomes, and outputs. In addition, Bank experts during periodic missions provided technical assistance, which helped in building the capacity of EMRC, and facilitated the setting up of the IT systems, the financial management system, drafting the and the operational manual and the business plan. To ensure sustainability and smooth continuity of operations, the Deputy Governor of CBE was appointed as Chair of EMRC, and the Chair of MFF as Deputy Chair of EMRC. This also ensured effective coordination among the different government bodies in developing the mortgage market further, and it also reveals the new vision and direction of EMRC to cater low-income housing.

### 3.2. Achievement of Project Development Objectives

96. The reforms implemented by the Mortgage Finance Project have yielded some of the most impressive results Egypt has seen in the financial sector. The project led to banks and mortgage companies to have access to longer term funding through EMRC, which was established and operational providing longer term funding to banks and mortgage companies. This contributed to the growth in the volume of mortgage loan portfolio. All this helped in improving access and costs of housing finance in Egypt, attaining a more inclusive system.

97. Achievements have also included:

- An increase in volume of market-based mortgage loans from LE 300 million in 2006 to LE 4.5 billion in 2011 exceeding the initial target of LE 4 billion (Figure 2).
- An increase in the length of term to maturity of a mortgage from 7 years in 2006 to 16 years in 2011, exceeding the target of 15 years.
- An increase in mortgage finance companies from 2 in 2006 to 12 in 2011 (Figure 3), much beyond the target of 6 companies.
- A rise in bank lending for mortgages from LE 12 million in 2006 to LE 2.6 billion in 2011 (Figure 4).
- An increase in the volume of PML borrowings from the liquidity facility, EMRC from nil to LE 450 million in 2011, again exceeding the target of LE 400 million (Figure 5).
3.3. Efficiency

98. The project’s financial management (FM) arrangements were consistently found to be “Satisfactory”. The establishment and maintenance of the FM arrangements were assigned to EMRC Finance Department which employs well trained staff with sound banking background in reputable banking institutions and who are paid competitively according to the private sector salary scales. Clear segregation of duties within the Finance Department was always adhered to as per the established Financial Policies and Procedures Manual. Recording and reporting was executed through sound automated accounting MIS (ORACLE) which is capable of generating the quarterly Interim Financial Reports (IFRs) and annual Financial Statements required under the loan umbrella. All of the IFRs were timely received, reviewed and found acceptable.

99. EMRC adopted the reimbursement disbursement method throughout the entire life of the project. This was possible since the EMRC is a revenue generating entity and accordingly, possesses adequate financial resources. EMRC organizational structure includes an independent Internal Audit function and adheres to sound Internal Control system and good corporate governance for financial management.
100. Within the project life all of the audit reports were timely received, reviewed and found acceptable by the Bank. All of the audit reports were unqualified.

3.4. Justification of Overall Outcome Rating

101. The overall outcome rating for the Mortgage Finance Project is “satisfactory”, based on meeting its key development objectives, and in making all the achievements listed in section 3.2.

3.5. Overarching Themes, Other Outcomes and Impacts

Poverty Impacts and Social Development

102. Although the project did not have explicit social development outcomes as objectives, it did facilitate the implementation of the newly adopted Affordable Mortgage Finance Program—considered to be the second source of new business for EMRC. This program will have refinancing needs, which would be done on a commercial basis with EMRC taking a spread over its cost of funds. Some concessions may be made on the loan documentation where loans to lower income groups may have different ways of checking income and also the seasoning requirement may be relaxed. However, this risk would be counterbalanced by a minimum deposit of 20 percent, and a portion of the loan repayment already guaranteed as it will be covered by the MFF. As recommended by the team, it is important that EMRC play an active part in supporting the Affordable Mortgage Finance Program. The program should be done in a way which ensures compliance with EMRC’s refinancing requirements and facilitates the process of using loans under the program as eligible collateral.

103. Providing a shelter for the low and middle-income households is one of the key demands of the Egyptian Revolution. Attaining a more inclusive housing finance system will be critical in the coming period in Egypt. With the current political developments in Egypt post revolution, the Affordable Mortgage Finance Program DPL, which was based on the Mortgage Finance Project and relies heavily on EMRC, becomes more crucial and instrumental in catering the demands of the Egyptian people especially the low-income segment of society. This operation in particular has a strong social objective and the way in which it caters to low and middle income households speaks to many of the concerns brought forward by the recent revolution, represented by the youth, civil society, and the Egyptian community. By reforming the housing subsidy mechanisms, the operation helps Egypt to move from an economy that has been serving a privileged few to an economy that promotes competition.

104. Finally, the Mortgage Finance Project has also contributed to the creation of jobs through public works, construction, and building houses. Housing is the most visible indicator of social wellbeing and it is politically important for governments to guarantee reasonable standards of housing for the majority of the population. In addition, housing is a large part of the economy, and has a strong multiplier effect. One of the most significant characteristics of investing in the housing sector is unlocking job creation opportunities, leading to attaining sustainable and inclusive economic growth.

Institutional Strengthening

105. A number of institutions have benefited in particular from the Mortgage Finance Project; these are the EMRC, MFA, EFSA, MFF, the Ministry of State for Administrative Development, the Ministry of Justice, and the Ministry of Housing Utilities and Urban Development. It is worth noting that key government advisors and senior staff from several governmental institutions received training, in the context of the Mortgage Finance Project, in housing finance and housing subsidy design at the International Housing Finance Program at Wharton School, University of Pennsylvania, which facilitated constructive exchanges and cross country best practices and experiences on how to develop further the mortgage sector and expand it to reach low and middle income groups.
106. **EMRC**, in particular benefited from substantial input right from its creation. Together with IFC, the World Bank provided technical support and advisory services across a range of areas but in particular in defining the business model, operating procedures, and risk management framework. Bank experts have helped in drafting the operational manual, the business plan, setting up the IT systems, and setting up the financial management system. In addition to activating the website, and drafting the pricing strategy.

107. **MFA** also benefited from substantial inputs into the regulatory framework for mortgages. This was done in partnership with USAID, and included looking at how the Real Estate Finance Law should be implemented, as well as issues such as consumer protection,\(^{28}\) regulation of loans for construction purposes, and feasibility assessment for the development of mortgage insurance. The regulatory framework for supervising the activities of EMRC was also included and covered as part of World Bank supervision missions. The creation of MFA, in support of the Bank, was a key step in creating a secure and strong regulatory environment to protect the interests of lenders and consumers.

108. **EFSA.** Underpinning the non-bank financial sector reforms in Egypt was the strengthening of its regulatory and supervisory framework. The aim was to ensure its soundness and lay the basis for broader access to finance through non-bank financial institutions including the capital market, the stock exchange, insurance services, mortgage finance, financial leasing, factoring and securitization. The first step in this program, which has been supported by the Bank through the series of financial sector DPLs amounting to US$1.5 billion, was the issuance of Law 10 of 2009\(^{29}\) which regulates non-banking financial markets, institutions and instruments and has consolidated the regulatory bodies of non-bank financial sector through the establishment of the EFSA—the integrated non-bank financial supervisor. The unification of these regulatory and supervisory objectives under the EFSA, coupled with unifying the Auditors Oversight Board to cover all non-bank institutions, enhances the transparency and reliability of financial reporting in the non-banking sector. EFSA, became operational on July 1, 2009, replaced the three authorities regulating the main non-bank financial services, namely the Capital Market Authority (CMA), the Egyptian Insurance Supervisory Authority (EISA), and the MFA. EFSA has benefited from the Mortgage Finance Project team experts, who continually provided technical assistance and advisory services—which helped in building the capacity of the institution.

109. **MFF**, being part of the project, considerable effort was put into supporting the government’s mechanisms for creating incentives for lenders to go to lower income borrowers. The Affordable Mortgage Finance Program DPL resulted in a substantial restructuring of the housing subsidy system. A new subsidy mechanism has been created to be administered by the MFF which is the new organization born out of the ‘subsidy’ part of the GSF. MFF have been receiving capacity building from several international Bank experts. All of this work was initiated in the Mortgage Finance Project, which paved the way for later support by the Affordable Mortgage Finance Program DPL.

110. **Ministry of State for Administrative Development, Ministry of Justice, and Ministry of Housing, Utilities and Urban Development.** The Bank has been working closely with the three responsible ministries in streamlining property registration procedures. A main pillar of developing the

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\(^{28}\) The Bank team reviewed the main provisions of consumer protection measures in Egypt. Many consumer protection features are engrained in Real Estate Finance Law 148 such as a cap on payment to income, limits on the loan to value, limits on the variability of interest rates through the use of indices. The practice of using post-dated checks to facilitate payment or as a means of security should gradually be phased out. It is an extreme and archaic device which has disappeared in many countries. The terms and conditions for a mortgage loan within the contract are clear, well defined and standard. However they only become available to the consumer at the point of signing.

\(^{29}\) The issuance of the law and the establishment of EFSA were key pillars of the World Bank’s Third Financial Sector DPL supporting Egypt’s Financial Sector Reform Program.
mortality market is land titling and streamlining property registration. In partnership with the Bank, the Ministry of State for Administrative Development took the lead in coordinating efforts among all stakeholders, namely, development partners and the different governmental institutions, such as the Ministry of Justice, the Ministry of Finance, and the Surveying Authority to streamline property registration and land titling procedures. Among the efforts was a pilot project that took place in the Mokkatam registration district carried out by the Ministry of Justice with the assistance of USAID in 2006-2007, which resulted in some improvements to the procedures for registration of deeds, particularly by pioneering the concept of a one-stop-shop for registration services, simplifying some procedures and applying electronic technology to the registration process, but the results of that project were never “rolled out” to other districts because of lack of financial resources.

Other Unintended Outcomes and Impacts

111. Cross-regional benefits—exporting of project to sub-Saharan Africa. The project in Egypt has been used as the template for a similar operation, the Tanzania Housing Finance Project, which is the first such project in sub-Saharan Africa. The experience and knowledge gained in Egypt has been invaluable in setting up the Tanzania Mortgage Refinance Company and getting it operational in the minimum delay. In addition, other projects are currently under preparation in Nigeria and for the West Africa Economic and Monetary Union. Preparation of these projects will draw heavily on the lessons and experience of this project in Egypt.

112. Streamlining property registration. As mentioned above, there have also been tangible impacts and notable improvements in property registration, which goes beyond the project main objectives, but had contributed to the achievements of the key targets. This includes the fast track registration system for new houses, through the nationwide mapping and titling program, and the drastic reduction in registration fees. The government has also recently launched a systematic title-adjudication, survey, and registration process to modernize the property registration system. All this led to: (i) streamlining and improving the property registration process with costs being cut by half and steps reduced from 23 to 7; (ii) reduction in the cost of deed or title registration from 12 percent of the value of the property, to 6 percent, to a further 3 percent to its current maximum flat fee of LE 2,000 (Figure 6); and (iii) initiation of a fast track foreclosure system. The Bank team also worked closely with the Ministry of State for Administrative Development on the tri-partite agreement and its amendments, regarding streamlining property registration in the new urban communities.

Figure 6: Procedures for Streamlining and Cutting Cost of Property Registration

113. Empowering titling and land registration in new communities. A protocol was signed by the NUCA and MFA, on September 21, 2006, to stimulate registration in the new urban communities. The protocol provides for the transformation of the Takhssiss form of land allocation (a conditional transfer of ownership) into a legal instrument acceptable by lenders. This is achieved through NUCA’s authorization of landholders to mortgage their contract (in effect converting it to ownership), provided that they paid NUCA the full land price. The other measures were the cancellation by NUCA of a transfer fee equal to 10 percent of the land value, and authorizing partial registration of land in large developments, on the condition that developers have been making regular payments so far and that the
completed payments equaled the full price for the partial area that they wish to register. To facilitate implementation, the MFA worked closely with the Ministry of Justice to issue three circulars that were widely distributed to all Real Estate Publicity Directorate (REPD) offices. The first, dated January 24, 2007, lists the procedures governing the authentication of mortgage contracts, the registration of a mortgage as an encumbrance on the land, the requirement of lender approval as a precondition for registration of subsequent transactions on mortgaged properties, and procedures associated with foreclosure. The second circular, dated March 25, 2007, disseminated the protocol’s text and instructed REPD offices to facilitate block registration of NUCA landholdings (a prerequisite to the subsequent registration of Takhssiss contracts). The third was a clarification note from MFA on the tripartite contract.

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**Box 1: Developing a Mortgage Finance System in Egypt**

One of the central goals of Egypt’s Financial Sector Reform Program was to create a vibrant mortgage lending market. A number of major reforms have been undertaken to achieve this. The building blocks for housing finance which were put into place include:

- **Issuance of the Real Estate Finance Law 148 of 2001**—the basis for all the reforms, which set up the institutions to regulate the mortgage sector, creating the Guarantee and Subsidy Fund, and setting the rules for the types of loan products which banks and mortgage finance companies could offer borrowers.

- **Creation of MFA**, whose functions were incorporated in EFSA in July 2009—a key step in creating a secure and strong regulatory environment to protect the interests of lenders and consumers. The importance of strong regulation has been underlined during the current crisis.

- **Establishment of a mortgage liquidity facility**—the Egyptian Mortgage Refinance Company (EMRC), that enhances access to long-term funds which is crucial for the establishment of long-term lending.

- **Enforcement of foreclosure**—the ability to enforce the collateral is essential to lenders if they are to give value to the collateral in a secured loan. The first cases of foreclosure went through the courts in 2008, setting the necessary precedents to give comfort to mortgage lenders.

- **Streamlined property registration**—this has been significantly improved, through a nationwide mapping and titling program. In addition the time it takes to register a mortgage and the fees charged have been significantly reduced.

- **Consumer Protection and Financial Education**—minimum disclosure requirements pertaining to loan information and programs of consumer education are being run by the EFSA. This aims to familiarize Egyptian consumers with a new financial product and to ensure that they are aware of the terms and conditions of the product when taking out a loan.

- **Setting up of a private credit bureau**—i-Score to provide timely and accurate information on credit worthiness, which would improve underwriting process and lower credit risk for lenders.

These building blocks above have helped Egypt to gradually develop its mortgage sector, attracting foreign capital into the sector and a steady growth of mortgage loans both in number and geographic spread around the country.
Collateral enforcement and foreclosure procedures, the enactment of the Real Estate Finance Law has led to a series of court cases, which have started to provide precedents that can give comfort to mortgage lenders. However, it is worth noting that a great deal of work remains to be done in terms of mapping and surveying property in Egypt before the full benefits of the reforms can be appreciated and reflected in a more vibrant mortgage and property market. The project also helped in alleviating existing, serious constraints hindering reliable, easy and quick registration and transfer of property titles and mortgage liens by homeowners and mortgage lenders, particularly in the new urban communities. As a result of reforms in the judicial system, greater enforceability of contracts exists, including foreclosure procedures. In that regard, the specialized economic courts were created after a law was issued, with judges trained in economic issues.

3.6. Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

115. Not applicable.

4. Assessment of Risk to Development Outcome

116. As mentioned previously, there were two major unexpected developments during the time of the project implementation; the global financial crisis in late 2008, and the Egyptian Revolution in January 2011. The unforeseen risks associated with these developments were not taken into account (unlike other risks already foreseen during project preparation mitigation measures were considered); however, the Bank team took them into account and responded promptly to the changing environment and provided support to the authorities on means of mitigating and dealing with such unexpected risks. Some of these risks include:

117. Deteriorating macroeconomic environment: The macroeconomic environment is critical for the stability of the financial sector and the development of the mortgage market. Hence, the faltering growth following the global crisis and the slowdown post-revolution will have implications on the mortgage market, and the project. However, the authorities managed to mitigate some these risks. The rise in unemployment and the loss of jobs of those working in the sectors that were most affected, such as tourism and construction could lead to the rise in NPLs, and deterioration in the asset quality of banks involved in mortgage finance, as well as less appetite to take mortgage loans. In addition, the banks' purchase of bonds will crowd-out private sector lending, including that for housing loans.

The creation of specialized economic courts, and the issuance of the law, was supported by the series of financial sector DPLs, amounting to US$ 1.5 billion.

Post-revolution, the macroeconomic environment has deteriorated, and the economic growth has slowed down. GDP was negatively affected by the social disruptions that occurred. Tourist arrivals and hotel occupancy fell substantially in what is normally the “high” season. Construction and demand for investment goods are likely to be lower as a result of uncertainty regarding the policy stance of the new Parliament and President. In December 2010 the Egyptian economy was recovering from the effect of the global crisis: GDP was growing at a 5.5 percent (y-o-y), unemployment had fallen to 8.9 percent, international reserves reached US$ 36 billion, and CBE had US$7 billion additional deposits in commercial banks. The public deficit was forecasted to be 7.9 percent of GDP. After the January 2011 revolution, the growth forecast for the year was revised downward to one percent and, the public deficit is estimated to be approximately 9.5 percent of GDP. The projected drop in GDP growth, the decline in investments, and the returning migrant workers from Libya will pressure upward the unemployment rate. Given that tourism and construction are the most heavily affected sectors and both are labor intensive, it would not be a surprise to see the unemployment rate increase by two to three percentage points. The limited space to do any fiscal stimulus plan makes it imperative for private investment and consumption to retake their roles as engines for growth.
Erosion of international reserves and ratings downgraded. Substantial and continuous erosion of Egypt's international reserves had taken place in 2011. It accelerated in October and November 2011, along with ongoing political turbulence which is delaying economic recovery and has contributed to worsened debt dynamics. CBE has announced that net foreign reserves had fallen to reach $18.12 billion as of December 2011 (as opposed to US$ 36 billion in December 2010). CBE deposits in commercial banks had evaporated, due mostly to liquidation of foreigner's holding of T-bills. Egyptian sovereign ratings and banks’ ratings (which generally must be below the sovereign rating), have been downgraded by three rating agencies.

Non-conducive business environment that lowers appetite to borrow and extend mortgage loans. There are constraints in Egypt hindering the investment climate from being conducive to the private sector, which is characterized as being uncompetitive. This business climate might discourage private shareholders of EMRC, such as HSBC, Piraeus, CIB, NSGB, and Banque Misr to contribute in the recapitalization, making EMRC majority owned by the public sector, contrary to the ultimate goal of being private sector-led. The only way Egypt can unleash the real potential of the private sector is to move from nurturing a privileged class of entrepreneurs to allowing a level of playing field for all classes and businesses. To do so, Egypt must ensure that it creates a conducive policy environment through allowing the smooth entry and exit of private businesses, reduced red tape, speedier licensing approvals and access to land, and reduced regulatory rigidity. Also, “good governance” is central to this agenda. Transparency, accountability and quality of service in public agencies must be at the core of reform. There has also been a lingering perception, especially by the Minister of Housing, Utilities and Urban Development that the government is more efficient and committed to developing the housing and mortgage finance sectors.

Political uncertainty. The new Parliament dominated by the Islamist groups, and the change in government, and the election of the new President will have implications on the economic orientation of the country, and accordingly, on the path the mortgage finance market will pursue. There could be change in policies and strategies, as well as rules and regulations, which EMRC has to comply with. This would be a major reason why some developers and mortgage companies would be in the mood of observing before they expand their lending or make new investments. The revolution has brought tremendous political and economic uncertainty for investors, and a new government will need a clear, market-friendly strategy based on inclusive consultation to restore clarity and confidence, while enhancing opportunity for new investors.

Changes in the government and leadership at the Ministry of State for Administrative Development, the Ministry of Finance, and the Ministry of Housing, Utilities and Urban Development are likely to require further briefing on the project. Moreover, a new government will be formed following the Parliamentary elections, (both Upper and Lower House). The new government will need to also be briefed on the project and its developmental objectives.

Funding EMRC the full disbursement of the World Bank loan means that EMRC is now fully reliant on its own fundraising capabilities to continue operations. This will take the form of a bond issue and a private placement to raise further capital. Both of these initiatives are likely to be delayed as financial markets remain disrupted. This means that EMRC may not be in a position to offer refinancing until it has established an alternative source of funds, and the Bank needs to reconsider the potential follow-up operation, amounting to US$ 50 million. However, it is worth noting that in the long-run it is critical for the sustainability of EMRC to issue bonds. The structure needs to become autonomous, and should not be fully dependent on donors or the government. The former case is illustrated in Palestine and the latter in Algeria, both created in the late 1990s with Bank support. Further Banks support would be specifically to support Egypt in a period of transition, post revolution to move forward with the reforms that are critical to improving affordability of housing finance and attaining an inclusive system.
123. *Macro-financial issue of “crowding-out”* by government borrowing. The high government deficit, and the sell-off of its bonds indicate that the risk of public sector borrowing is crowding-out banks lending to the private sector. As mentioned earlier, the government is currently issuing Treasury Bills with an interest rate as high as 14 percent, during the current transition phase in Egypt—which raises a cost issue on EMRC, and will not allow EMRC to issue a compatible bond, desirable to investors.

124. *Delays in the Affordable Mortgage Finance Program* is expected, although the program in particular is at a critical launch stage which requires full support from the Egyptian government. The transition period, the interim government, changes in ministries’ leadership and its uncertainties may lead to delays in the implementation of the programs. This program is a major source of business to EMRC, as it has refinancing needs—as mentioned earlier.

5. **Assessment of Bank and Borrower Performance**

5.1. **Bank Performance**

(a) **Bank Performance in Ensuring Quality at Entry**

*Rating: Satisfactory*

125. Bank performance is rated as satisfactory, for the following reasons: (i) the project team paid particular attention to ensuring high quality at entry for this operation. The loan identification and design were consistent with the CAS, and the recommendations put forward by the 2002 FSAP; (ii) the Bank was instrumental in taking full advantage of a window of opportunity presented by the reformist government that led to this major progress in developing the mortgage market in Egypt; (iii) sound preparatory work, strong policy dialogue, good working relationships with government counterparts, high level of consultation with market participants, and stakeholders led to the design of a quality operation; and (iv) close coordination with the USAID, and other development partners as well as with IFC, helped the government build the necessary capacity to implement the project.

(b) **Quality of Supervision**

*Rating: Highly Satisfactory*

126. Bank supervisory performance is rated as highly satisfactory. The supervision has gone beyond the regular oversight of the project implementation, and provided advisory services and guidance to the government on other housing finance issue. Hence the project has delivered more than its initial development objective, and has reached out the low-income segment of the society. The Bank conducted a midterm review, and around two supervision missions every year—a total of 12 supervision missions, two of which were after the January 25th revolution. The policy dialogue continued with official counterparts throughout supervision despite change in management, government and regime.

127. Regular monitoring of the implementation of the operation was done regularly from the field after the task management was moved from headquarters to the field in July 2006. In addition periodic supervision missions equipped with high level international experts. These missions provided sound technical advice and cross-country experience to the authorities. In addition, the team was responsive to clients’ needs and changes in the market in numerous incidents, and shared their expertise with authorities to mitigate all unexpected risks—as evident earlier with amendments to legal documents and adjustments during project implementation (Section 2.2). The missions followed up on progress on the agreed indicators and discussed results with the different counterparts in the sector. The supervision provided therefore a crucial channel through which the World Bank team was able to
continue to support and advise the government on the next steps. Post-revolution, two emergency missions took place to guide authorities on means to mitigate unexpected risks associated with the revolution, and changes that emerged with the political and economic developments.

(c) Justification of Rating for Overall Bank Performance

Rating: Satisfactory

128. The rating of satisfactory is based on the following considerations: (i) the project was very well designed, its PDO was in line with the Country’s and the Bank’s priorities, the indicators were relevant, helped focus the supervision; (ii) the Bank was aware of the challenges involved in on the legal and regulatory front, which were addressed by another complementary operation, the Financial Sector Reform DPLs; (iii) from identification to closing, the team was extensively involved in a policy dialogue with the authorities and independent counterparts, collaborating to ensure that the ultimate goal of this operation would be achieved; and; (iv) the project team and the country office developed an optimal level of cooperation that played a key role in the success of the operation.

5.2. Borrower Performance

(a) Government Performance

Rating: Highly Satisfactory

129. From the design to implementation stage, the government was in the “driver seat” seeking advice from the Bank where needed to implement its strategic reform agenda. The authorities remained focused on the success of the development objective as they saw its importance in supporting the low-income housing program. In this context, the government took the initiative to seek support from other donors according to their respective comparative advantage, and was keen on ensuring good coordination between the various partners. The decision to request the Bank to play a lead role succeeded in getting the best out of each donor’s support and avoided waste that comes from unclear donors mandate and overlap. The donors coordinating committee, chaired by the Bank, also helped the Government address key financial sector issues on a timely and priority basis.

(b) Implementing Agency or Agencies Performance

Rating: Satisfactory

Implementing agencies

130. The EMRC is the main agency responsible for the design and overall implementation of the operation with support provided by the CBE and the Ministry of Investment. They were instrumental to the success of this operation, and were systematic in the way they went about the design of the operation, seeking advice from the Bank and other donors, to keep the implementation moving and get support and advice when they encountered major challenges. The reporting and coordination of actions between the concerned agencies was efficient and timely throughout the life of the project, resulting in a successful operation that went far beyond compliance with identified outcomes as can be seen. Their availability, knowledge and commitment allowed for a timely Board presentation and for an effective implementation and disbursement, despite all political and economic developments at the global and country levels. However, it is important to note that the success and sustainability of EMRC remains partially contingent on a regular mobilization of market funding.
(c) Justification of Rating for Overall Borrower Performance

Rating: Satisfactory

131. The satisfactory rating is justified by the following: (i) the government of Egypt demonstrated a clear ownership of the project. The respective responsibilities of the different stakeholders were clearly defined reducing to a minimum the opportunities for overlapping or misunderstanding; and (ii) the reform program reflected a clear and complete vision of needs of the financial sector. It was complete, comprehensive, articulated around the most important issues and sequenced according to priorities.

6. Lessons Learned

132. The main lesson learnt is that there are critical factors that contribute to the success of the operations, mainly: prior analytical work; strong policy dialogue with the authorities; prompt response to client’s needs and the changing environment; provision of technical assistance; conducive legal and regulatory framework; innovative and creative approaches; consultations with the different stakeholders; close coordination with IFC; effective cooperation with development partners; and overall flexibility in implementation of the reforms. All this was crucial to the successful implementation of the project.

133. Strong analytic underpinning. The 2002 FSAP, and its 2006 FSAP Update, helped lay a credible blueprint for the design of this operation which in turn made easier the coordination of donors’ assistance around the realization of this blueprint. Given the multifaceted nature of the financial reform effort, the contribution of many donors was needed. Also, the Mortgage Finance Project benefited throughout the implementation phase from the 2007 report on Access to Finance and Economic Growth; the 2008 IFC Financing Homes Report; and the 2007 Finance for All: Policies and Pitfalls in Expanding Access report. In addition, the project took stock of recommendations made by major studies that were also conducted by the Bank on urban development issues and the housing sector in Egypt, including: the 2006 Egypt Public Land Management Strategy, the 2007 Analysis of Housing Supply Mechanisms, and the 2007 Moving from a Program-Based to a Policy-Based Approach to Housing in Egypt. These studies helped in guiding EMRC to focus its future transactions and portfolio to low-middle income housing, as is evident in the refocus of EMRC’s loan portfolio to low-income housing.

134. Mutual and effective working relationship with the authorities. This was critical not only for EMRC’s development but for the development of the real estate finance laws, regulations and policies in the country. It required a team of professionals to go an extra mile and provide technical inputs, in some cases beyond the confines of the project, such as the work on property registration, which the team identifies as one of the hurdles in developing the mortgage market also advisory services for the authorities would be important on that front.

135. The close working relationship with the Egyptian authorities and implementing entities demonstrated that with a relatively modest loan (of US $37 million), significant reforms were implemented, being back by a strong leadership and political commitment. This was supplemented by good policy advice and coordinated sector interventions. This best practice partnership framework is among the key success factors of this operation. Indeed, the respective responsibilities were clearly defined, including giving the authorities the flexibility needed to implement the reforms. Since the Egyptian government had a clear vision of what was needed to be accomplished, cooperation and coordination of support was the best approach.

136. Responsiveness to the changing environment and provision to technical assistance when needed. Regular monitoring of the economic environment, as well as the legal and regulatory framework, helped in identifying constraints in developing the mortgage market and in project
implementation. A clear example is when the tax law was amended, removing tax performance on the return on Treasury Bills and not on securities. The project agreement was amended to address such market distortions on the benchmark that would have hindered execution. The project team also worked closely with the authorities in addressing the challenges emerging from the revolution, in ensuring a smooth implementation and timely delivery, as well as achievement of the projects’ main developmental objectives.

137. **Conducive legal and institutional infrastructure.** The project revealed that deepening financial markets, including secondary markets for loans and increasing institutional investment opportunities, depends not only on creating frameworks for new financing mechanisms, but also on conditions in the underlying market for primary lending and general economic activity. The success of the project was also owed to good financial fundamentals, as well as, an extreme care in designing the liquidity facility and its lending mechanisms to avoid both uncertainties in financial contracts and distortions in the sector, a level, competitive playing field among primary lenders, and conducive property registration and titling processes. Other lessons are that in emerging mortgage finance systems, second-tier financial institutions should start with basic financial products and narrow mandates in order for them to better manage and control risks in relatively new and untested product markets, and that their operations should be regulated or overseen by an experienced financial sector regulatory agency. One of the key lessons in that regards, is that the pre-requisites for a successful mortgage market is adequate financial institutional infrastructure, a reliable property registration systems, and effective legal and judicial processes for mortgage foreclosure. These pre-requisites should be taken into account when designing future projects.

138. **Innovative and creative approaches.** The success of the operation required the right balance between flexibility in the implementation and pro-activity in providing technical assistance and guidance where needed. This highly innovative operation in its own right aims to extend access to housing finance to those who need it most through reforming the current system of inefficient and poorly targeted supply-side subsidies for housing that were previously given to the developers and replace them with a transparent and economically efficient demand-side subsidy system targeted to the end beneficiaries. Also, this project followed an innovative approach in the structuring of the loan being in local currency using Egypt’s capital with the World Bank, allowing the authorities to hedge for foreign exchange risk.

139. **Consultations with stakeholders and market participants.** The Bank team also encouraged the Egyptian authorities to conduct consultations with the various stakeholders, banks, mortgage finance companies, regulatory bodies, CBE, and EFSA, as well as MFF. All this helped in mitigating the risks, and in responding to the changes in the macroeconomic environment. In this respect, the approach followed under this operation can be considered best practice and one that may benefit other operations outside Egypt.

140. **Close cooperation with IFC.** The loan from the bank was accompanied with technical assistance provided by the IFC, especially in the establishment of the credit bureau allowing mortgage companies to have access to timely and accurate credit worthiness information. The IFC provided equity investments in EMRC, and had an international expert sitting on the Board, guiding and advising the Board and its Chair on critical operational policy issues which were essential, given that this was the first liquidity facility established in Egypt and the local knowledge was limited.

141. **Effective cooperation with development practices.** The Bank team worked in partnership with USAID. The Financial Services Project funded by USAID played a role in building the capacity of MFA and MFF, as well as advising The Ministry of Administrative Development in property registration and titling, as well as in conducting housing surveys to better understand the challenges and distortions in the housing market. This also helped in flagging the housing gaps and the problem of access for low income households. The advisory services provided by USAID in grant form was
important as the Egyptian authorities refrain from borrowing for technical assistance, and international experts were needed to guide the Egyptian authorities to develop the mortgage markets.

142. Lessons Learnt from this operation will be disseminated at knowledge management events. The experiences preparation and the implementation of the project will be shared with other regions through various means, including the Finance and Private Sector Development (FPD) network monthly newsletter, as well as in the CMP Newsflash, as well as hosting a brown bag lunch (BBL).

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

143. The government and the implementing entity, the EMRC were appreciative of the support provided by the World Bank. The authorities rated the World Bank’s performance during the operation as overall highly satisfactory as indicated in Annex 5. The operation witnessed close coordination and communication with the implementing entity and the relevant officials, and they acknowledged that the day-to-day support and close supervision of the operation from the field has helped in ensuring successful delivery. The government’s request for potential financing is not only for the funding, but also for the technical assistance and advisory services packaged with the loan.

144. Moreover, various donors, development partners, and international institutions have been providing support for the implementation of the government’s overall financial sector reform program through the provision of technical assistance, and analytical work on reforming and restructuring the financial sector, as well as developing the mortgage market in Egypt. This required effective coordination, which the Bank took leadership in chairing the Financial Sector Donors Subgroup. This cooperation led to mutual design and agreement of conditionality issues that all donors agreed were essential for financial sector reform. In addition, donors were able to do a much better job of leveraging resources, both loan and technical assistance, when coordination is effective. The most effective and successful coordination was with USAID that provided tremendous support to the development of the mortgage market in Egypt.
Annex 1: Project Costs and Financing

(a) Project Cost by Component (in USD Million equivalent)

<table>
<thead>
<tr>
<th>Components</th>
<th>Appraisal Estimate (USD millions)</th>
<th>Actual/Latest Estimate (USD millions)</th>
<th>Percentage of Appraisal</th>
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<td>0.00</td>
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<td>0.37</td>
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<td>39.06</td>
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(b) Financing

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<tr>
<th>Source of Funds</th>
<th>Type of Cofinancing</th>
<th>Appraisal Estimate (USD millions)</th>
<th>Actual/Latest Estimate (USD millions)</th>
<th>Percentage of Appraisal</th>
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<td>Borrower</td>
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<td>29.10</td>
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<td>International Bank for Reconstruction and Development</td>
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<td>Local Sources of Borrowing Country</td>
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<td>Sub-borrower(s)</td>
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<td>38.50</td>
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Annex 2: Projected and Actual Monitoring Indicators

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<tbody>
<tr>
<td>Volume of market-based mortgage loans extended by primary lenders annually (LE millions, cumulative)</td>
<td>300</td>
<td>400</td>
<td>2,054</td>
<td>600</td>
<td>3,229</td>
<td>1,500</td>
<td>3,900</td>
<td>2,400</td>
<td>3,700**</td>
<td>4,000</td>
<td>4,500</td>
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<tr>
<td>Lengthening of term to maturity structure of market-based mortgage lending (Number of Years)</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>12</td>
<td>14</td>
<td>14</td>
<td>16</td>
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Intermediate Outcome Indicators

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<tr>
<td>Number of primary lenders extending mortgage loans</td>
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<td>3</td>
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<td>4</td>
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<td>6</td>
<td>11</td>
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<tr>
<td>Volume of PML borrowings from the EMRC (LE million) ***</td>
<td>Nil</td>
<td>125</td>
<td>NIL</td>
<td>300</td>
<td>131</td>
<td>600</td>
<td>176</td>
<td>800</td>
<td>289</td>
<td>400</td>
<td>450</td>
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Output Indicators

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</thead>
<tbody>
<tr>
<td>Volume of EMCR refinancing loans to PMLs (LE million) ***</td>
<td>Nil</td>
<td>125</td>
<td>NIL</td>
<td>300</td>
<td>131</td>
<td>600</td>
<td>176</td>
<td>800</td>
<td>289</td>
<td>400</td>
<td>450</td>
</tr>
<tr>
<td>EMRC launches bond operations (Y/N) ***</td>
<td>Nil</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>N</td>
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</tbody>
</table>

*Reduced during Mid Term Review based on reassessment of the project’s original development objectives, and in light of the new circumstances and changes in the environment post-revolution. Adjustments were documented in the aide memoires of the emergency supervision missions that took place after the revolution in February and May 2011.

** YTD June 2010 Figures

*** Revised indicators at the mid term review of the project
Although some of the assumptions made at the midterm review (above annex from the restructuring paper of the midterm review) did not materialize, the project still achieved the output indicator in terms of the volume of EMRC refinancing loans to PMLs of LE 450 million by FY11, which is beyond the projected target value.

---

## Project Development Objective (PDO): To support banks and non-bank lenders in the primary market to begin offering long-term, market-based mortgage loans or residential housing

<table>
<thead>
<tr>
<th>PDO Level Results Indicators</th>
<th>Core</th>
<th>Unit of Measure</th>
<th>Baseline</th>
<th>Cumulative Target Values&lt;sup&gt;32&lt;/sup&gt;</th>
<th>Frequency</th>
<th>Data Source/Methodology</th>
<th>Responsibility for Data Collection</th>
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</thead>
<tbody>
<tr>
<td><strong>Indicator One:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Volume of market-based</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>mortgage loans extended by</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>primary lenders (Annually)</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td><strong>Indicator Two:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Length of term to maturity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>structure of market-based</td>
<td></td>
<td></td>
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<tr>
<td>mortgage lending</td>
<td></td>
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<table>
<thead>
<tr>
<th>INTERMEDIATE OUTCOME INDICATORS</th>
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<tbody>
<tr>
<td><strong>Indicator One:</strong></td>
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<tr>
<td>Number of primary lender</td>
</tr>
<tr>
<td>extending mortgage loans</td>
</tr>
<tr>
<td><strong>Indicator Two</strong></td>
</tr>
<tr>
<td>Volume of PML borrowings</td>
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<tr>
<td>from EMRC (LE million)</td>
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<table>
<thead>
<tr>
<th>OUTPUT INDICATORS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indicator One:</strong></td>
</tr>
<tr>
<td>Volume of EMRC</td>
</tr>
<tr>
<td>refinancing loans</td>
</tr>
<tr>
<td>to PMLs (LE million)</td>
</tr>
</tbody>
</table>

| **Indicator Two** |      |                 |          |                                      |           |                        |                                   |
| EMRC launches bond  |      |                 |          |                                      |           |                        |                                   |
| operations         |      |                 |          |                                      |           |                        |                                   |

---

<sup>32</sup> Although some of the assumptions made at the midterm review (above annex from the restructuring paper of the midterm review) did not materialize, the project still achieved the output indicator in terms of the volume of EMRC refinancing loans to PMLs of LE 450 million by FY11, which is beyond the projected target value.
Annex 3: Economic and Financial Analysis

1. The project outcomes, included the following: (i) help participating mortgage lenders to mitigate important lending risks associated with housing loans and to increase their lending for housing finance; (ii) facilitate an increase in the flow of private sector funding to the housing finance sector; and (iii) improve the affordability of housing finance through a lengthening of the term to maturity of mortgage loans.

2. The term finance provided to PMLs by the EMRC helped them in reducing the liquidity risk (i.e., the risk that the money will be needed before it is available) incurred in their provision of long term loans for housing. Housing is a long-lived, durable good. In order for housing to be affordable to households, the payment stream should be spread out over a number of years, facilitating a match between the benefits received and the costs of the dwelling. Most PMLs in Egypt are commercial banks that rely on abundant short-term deposits for their funding. They are reluctant to extend long-term (e.g., over 5 year) loans for housing because of the liquidity risk inherent in funding such loans with short-term deposits. The mortgage finance companies, the newly licensed non-bank primary lenders, had no access to cheaper deposits and depended more critically on long-term external refinancing. The PMLs were able to utilize EMRC to improve the efficiency of their portfolio and risk management activities, which helped to lower financial spreads in the market to the benefit of all borrowers of credit, especially homebuyers.

3. The EMRC also helped in facilitating increased competition in the mortgage market by creating a funding source for non-depository lenders, promoting the development of safe and sound mortgage credit standards, and helping fixed-income securities markets in Egypt to further develop. At a later stage of development, likely well beyond the period of this project, the EMRC may gradually be transformed into a securitization company capable of purchasing mortgage loans without full recourse, which would help to further expand the scope and depth of the mortgage market, and/or it may be combined with a mechanism for partial credit insurance in order to help expand household access to mortgage finance from primary lenders while also providing credit enhancement for bond investors.

4. The project has also generated indirect benefits including increase in housing supply. The project has also contributed in inducing further expansion of direct foreign investment in housing and of rental markets for real estate, especially from the Gulf Cooperation Council (GCC) countries. However, new housing construction facilitated by the project would be in established population centers which the beneficiaries themselves would select, and therefore displacement and relocation of residents would not be an issue.

5. In terms of the financials, EMRC was modestly profitable in year two and remained so during its first five years. EMRC provided a LE 185 million of PML refinancing during its first five years with its target spread falling to 50 basis points in the fifth year. The low volume resulted in a relatively high ratio of expenses to assets (reflecting a high proportion of fixed to total cost although the level of expenses in Egyptian pounds does not exceed LE 5 million until the fifth year) and a low ROE. As a result there is little room for further reductions in EMRC spread.

6. The commercial viability of EMRC, as indicated in the financial analysis, does not by itself ensure that the EMRC generated net economic and social benefits. However, at a minimum, economic benefits are accrued to: (a) mortgagors (households), from a combination of lower costs of funds and a longer term on the mortgages being offered, as well as from greater interest in lenders to pursue housing finance lending; (b) lenders, from a reduction in the risks associated with longer-term housing loans, thereby enabling a reduction in the price and non-price barriers to longer-term borrowing; (c) the capital market, from improved information on term structures and risks that should reduce the cost of issuing medium- and long-term debt. The project is also expected to generate significant social benefits, described below. These benefits however have not been quantified.
Annex 4: Bank Lending and Implementation Support/Supervision Processes

a) Task Team members

<table>
<thead>
<tr>
<th>Names</th>
<th>Title</th>
<th>Unit</th>
<th>Responsibility/Specialty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deane N. Jordan</td>
<td>Task Team Leader</td>
<td>CMPNB</td>
<td></td>
</tr>
<tr>
<td>Loic Chiquier</td>
<td>Manager</td>
<td>CMPNB</td>
<td></td>
</tr>
<tr>
<td>Stephen B. Butler</td>
<td>Consultant</td>
<td>MNSPR</td>
<td></td>
</tr>
<tr>
<td>Mahmoud Gamal El Din</td>
<td>Senior Operations Officer</td>
<td>MNSHE</td>
<td></td>
</tr>
<tr>
<td>Michael J. Lea</td>
<td>Consultant</td>
<td>CMPNB</td>
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<tr>
<td>Hovsep M. Melkonian</td>
<td>Consultant</td>
<td>WBGSA</td>
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<tr>
<td>Sahar Nasr</td>
<td>Lead Economist</td>
<td>MNSF1</td>
<td></td>
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<tr>
<td>Hisham Ahmed Waly</td>
<td>Sr Financial Management Specialist</td>
<td>OPCFM</td>
<td></td>
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<tr>
<td>Steve W. Wan Yan Lun</td>
<td>Operations Analyst</td>
<td>MNSF1</td>
<td></td>
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<tr>
<td>Ghada Youness</td>
<td>Senior Counsel</td>
<td>LEGEM</td>
<td></td>
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<tr>
<td>Sydnella E. Kpundeh</td>
<td>Program Assistant</td>
<td>MNSSD</td>
<td></td>
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<tr>
<td>Amira Fouad Zaky</td>
<td>Program Assistant</td>
<td>MNC03</td>
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Supervision/ICR

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<tr>
<td>Sahar Nasr</td>
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<tr>
<td>Simon Christopher Walley</td>
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<tr>
<td>Laila Ashraf AbdelKader Ahmed</td>
<td>E T Consultant</td>
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<tr>
<td>Steve W. Wan Yan Lun</td>
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<tr>
<td>Wael Elshabrawy</td>
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<td>AFTFM</td>
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<td>MNAFM</td>
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<tr>
<td>Georgette Mounir Ibrahim</td>
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<tr>
<td>Amira Fouad Zaky</td>
<td>Program Assistant</td>
<td>MNC03</td>
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(b) Staff Time and Cost

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<tr>
<td></td>
<td>No. of staff weeks</td>
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<td>Lending</td>
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<td>FY05</td>
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<td>FY12</td>
<td>5.38</td>
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<tr>
<td>Total</td>
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</table>
A. Introduction

Mortgage sector reforms in Egypt have helped build a vibrant and competitive mortgage market that caters to all segments of the Egyptian population including the low and middle-income sectors. The Mortgage Finance Project focused on setting the legal and institutions framework for the mortgage finance market in Egypt. This entailed the issuance of Real Estate Finance Law, the establishment of a mortgage finance regulator, the creation of specialized mortgage finance companies, the formation of the EMRC—the first wholesale, market-based liquid facility in Egypt, and the streamlining of property registration procedures. As a result, the volume of mortgage lending in Egypt has increased from LE 300 million to LE 5 billion in just five years.

B. Assessment of the operation's objectives, design, implementation, and operational experience:

The project’s development objective was for primary lenders in the financial market (viz., both banks and non-bank lenders) to provide longer-term, market-based mortgage loan financing for residential housing. Such type of financing was scarce, in part because primary lenders did not have reliable access to sources of term finance on favorable terms that could help them to mitigate the associated business and lending risks. EMRC was established to provide such a source.

This project followed an innovative approach being in local currency (US$ 37.5 million equivalent), allowing the authorities to hedge for foreign exchange risk, especially when extending funding to mortgage lenders catering low-income households.

The Mortgage Finance Project established the first mortgage liquidity facility in Egypt—EMRC. EMRC enhanced access to long-term funds which was crucial for the establishment of long-term lending and the development of a vibrant mortgage market in Egypt. EMRC was also involved in refinancing loans at concessional rates under the National Housing Program which benefited the lower income sectors of the Egyptian society.

Furthermore, with the successful implementation of the Mortgage Finance Project and its setting of the groundwork for the development of a viable mortgage market in Egypt, an additional US$ 300 million was approved in September 2009 for an Affordable Mortgage Finance Program. This highly innovative operation in its own right aims to extend access to housing finance to those who need it most through reforming the current system of inefficient and poorly targeted supply-side subsidies for housing that were previously given to the developers and replace them with a transparent and economically efficient demand-side subsidy system targeted to the end beneficiaries.

C. Assessment of the outcome of the operation against the agreed objectives:

The loan objectives were satisfactorily met. The reforms implemented by the Mortgage Finance Project have yielded some of the most impressive results Egypt has seen in the financial sector. These have included:

- An increase in volume of market-based mortgage loans from LE 300 million in 2005 to LE 5 billion in 2010.
- A rise in bank lending for mortgages from LE 12 million in 2005 to LE 2.7 billion in 2010.
- An increase in mortgage finance companies from 2 in 2005 to 12 in 2010.
An increase in the length of term to maturity of a mortgage from 7 in 2005 to 15 years in 2010.

Streamlining and improving the property registration process with costs being cut by half and steps reduced from 23 to 7.

A reduction in the cost of deed or title registration from 12 percent of the value of the property, to 6 percent, to 3 percent to its current maximum flat fee of LE 2,000.

Initiating the fast track foreclosure system.

There has also been tangible impacts and notable improvements in property registration. This includes the fast track registration system for new houses, through the nationwide mapping and titling program, and the drastic reduction in registration fees. The government has also recently launched a systematic title-adjudication, survey, and registration process to modernize the property registration system. On collateral enforcement and foreclosure procedures, the enactment of the Real Estate Finance Law has lead to a series of court cases which have started to provide precedents that can give comfort to mortgage lenders.

Finally, this operation has also contributed to the creation of jobs through public works, construction, and building houses. Housing is the most visible indicator of social well-being and it is politically important for governments to guarantee reasonable standards of housing for the majority of the population. In addition, housing is a large part of the economy, and has a strong multiplier effect. One of the most significant characteristics of investing in the housing sector is unlocking job creation opportunities, leading to attaining economic growth.

D. Evaluation of the borrower's own performance during the preparation and implementation of the operation, with special emphasis on lessons learned that may be helpful in the future:

The operation witnessed a series of reform measures that focused on developing the mortgage market and setting the regulatory and legal framework for a sound sector. The majority of the concluded reforms were thoroughly discussed with the World Bank on various occasions.

Building on the achievements of the overall comprehensive 2004-2008 Financial Sector Reform Program and core objectives focusing on (i) deepening the Egyptian banking sector, enhancing its efficiency, competitiveness, transparency and risk management practices to ensure that it will effectively conduct its role in financial intermediation to sustain domestic economic growth and development; (ii) restructuring the Insurance Sector; (iii) deepening the Capital Market; (iv) developing the Mortgage Finance Market; and (v) enhancing other Financial Services, a new phase of the Financial Sector Reform Program (2009-2012) was launched in January 2009.

A strategic pillar of the Financial Sector Reform Program was strengthening the regulatory and supervisory framework in the non-bank financial sector via the establishment of the EFSA consolidating the regulatory bodies of non-bank financial services, markets, institutions, and developing the regulatory framework for the non-bank financial institutions to ensure the stability of the financial sector, by moving from a rule-based to a risk-based regulatory framework.

E. Evaluation of the performance of the Bank, any co-financiers, or of other partners during the preparation and implementation of the operation, including the effectiveness of their relationships, with special emphasis on lessons learned:

The World Bank's performance during the operation was overall highly satisfactory. The operation witnessed close coordination and communication with the relevant bank officials, and special acknowledgment should be given to the efforts of the field team, especially the Task Team Leader during the preparation and supervision.

The team was responsive to clients' needs and changes in the market in numerous incidents. Having anticipated a rise in international interest rates, the team approached the Treasury immediately requesting approval for amendments in Legal Agreement (replacing swap rate by average yield of 12-months Treasury Bills). The team was also responsive to the issuance of the new Tax Law by the Ministry of Finance, which taxed T-Bills (and not securities) based on which interest rate was determined, distorting the market; and requested immediately exemptions from Treasury, which she had gladly approved to avoid market distortions and ensure a "level playing field". All this has facilitated project implementation and timely disbursement.

The team showed a remarkable deal of diligence and technical support for the responsible authorities throughout the operation. The presence of the TTL on the ground during supervision provided effective communication and ensured all required and expected outcomes where duly met.
The World Bank also conducted close coordination efforts with other donors and development partners who are actively involved in mortgage market development in Egypt including IFC and USAID.

F. Description of the proposed arrangements for future operation of the project:

The government of Egypt is committed to ensure the sustainability of EMRC. As a result of the successful cooperation with the World Bank in the preparation for and disbursement of the Egypt Mortgage Finance Project, the Egyptian Government requested later the Affordable Mortgage Finance Program DPL, and is keen on further cooperation with the World Bank on developing further the mortgage market in Egypt, through other follow-up operations.

To further ensure sustainability and continuity of EMRC’s operations, EMRC will be moving forward with recapitalization, which will go hand in hand with the bond issuance planned for end of 2012, in addition to the proposed potential follow-up additional financing by the World Bank as outlined in the 2008 CAS Progress Report, amounting to US$ 50 million or equivalent in local currency. Also, there has been a change in management and leadership of EMRC, with calibers and expertise required for the coming period in Egypt. The Deputy Governor of CBE has been appointed Chair of EMRC, and the Chair of MFF has been appointed Deputy Chair of EMRC. This would ensure good collaboration between CBE, the Ministry of Investment, the Ministry of Housing, Utilities and Urban Development and EMRC—which is critical to mortgage market development as well as affordable housing development.
Annex 6: Comments of Cofinanciers and Other Partners/Stakeholders

Various donors, development partners, and international institutions have been providing support for the implementation of the government’s Financial Sector Reform Program through the provision of technical assistance, and analytical work on reforming and restructuring the financial sector, as well as developing the mortgage market in Egypt. This required effective coordination, which the Bank took leadership in. A Financial Sector Donors Subgroup, chaired by the World Bank was formed in mid 2005, to coordinate efforts related to both technical and financial support provided to the government and to ensure that borrowed funds are used in the most effective manner. This cooperation led to mutual design and agreement of conditionality issues that all donors agreed were essential for financial sector reform. In addition, donors were able to do a much better job of leveraging resources, both loan and technical assistance, when coordination is effective.

A major stakeholder that has been working closely with the Bank throughout the different phases of the Mortgage Finance Project is IFC. IFC provided equity investments and technical assistance to the liquidity facility—EMRC. Together with IFC, the Bank provided technical support across a range of areas but in particular in defining the business model, operating procedures and risk management framework of EMRC, as well as contracting international expert consultants, who sat on the Board. IFC as a shareholder provided substantial support in the drafting of the Operational Manual. A five-year business plan with projections under high and low growth scenarios, process flow charts and an IT plan. IFC appreciates the Bank’s efforts in processing such an operation. Overall, IFC has commended the Bank’s efforts in moving forward with the implementation of the Mortgage Finance Project and the establishment of the first liquidity facility in Egypt.

Donors have benefited from the analytical work that was undertaken by the Bank, especially the 2002 joint IMF-World Bank FSAP. Most of the recommendations put forward by the FSAP were used in drafting the Memorandum of Understanding (MOU) between the government of Egypt and USAID. All major elements required for financial sector reform as identified by the FSAP were used in drafted the conditionality that appears in the MOU. Moreover, technical assistance to support the financial sector reforms was jointly discussed, designed and deployed, with USAID, with an understanding that the different donors would support various activities, but attempting to promote complimentarily.

USAID have been actively involved in mortgage market development in Egypt, which have commended the World Bank’s financial sector work, and especially the Mortgage Finance Project. The Bank and USAID have collaborated closely during the preparation of this project. This collaboration has continued during project implementation as well. USAID implemented a complementary project, Egypt Financial Services (EFS), launched in November 2004, that comprised a five year program of technical advisory services and institutional capacity building to help strengthen the regulatory framework for the mortgage market, the property registration system, and dispute resolution and enforcement of mortgage collateral. The close collaboration between the Bank and USAID seeks to eliminate duplication, emphasize the respective strengths of the two institutions, and make more optimal use of available grant and loan resources available to the Government of Egypt.

From the USAID perspective, the strong relationship with the Bank was unique in that it was mutually reinforcing. USAID acknowledges such close cooperation that helped them in designing assistance strategies to effectively respond to the needs of Egypt. They appreciated the sharing of information and the close contact to advance in addressing major constraints. This close working relationship helped to ensure that activities of respective organizations did not conflict with each other. Both parties had a common objective to support the government of Egypt’s efforts to implement financial sector reforms. It is much easier for USAID to provide long-term technical assistance rather than long-term finance, whereas the World Bank is well positioned to address financing issues, a key component to help the authorities implement their financial sector reforms. Supporting common objectives helped the government in advancing with its reform agenda. This was really a three-win situation for the World Bank, USAID and most importantly for the government of Egypt.

Donors and development partners continue their efforts to support the financial sector in Egypt, especially through supporting inclusive finance, and low-income housing—a government’s priority in the wake of the revolution.
Annex 7: List of Supporting Documents

1. Project Appraisal Document
2. Loan Agreement (November 2006)
4. Amendment Letter to the Loan Agreement (October 2007)
5. Amendment Letter to the Project Agreement (August 2007)
6. Mid Term Review (July 2010)
7. World Bank Missions Aide Memoires