The Development Challenges

Housing subsidies are commonly used by emerging market governments to improve housing conditions for the low- and middle-income population.

However, these subsidies are often poorly designed or targeted. They also copy models from other countries — countries that operate under very different circumstances. As a result, those subsidies might fail to make housing accessible and affordable for those in need and also might risk distorting the market.

Over the last decade, the government of the Arab Republic of Egypt has developed and implemented several housing subsidy programs. Those subsidies were mostly for new construction of high-standard housing, which was not affordable by the program’s targeted groups – the middle- and low-income population. Misallocating this resource caused a distortion in the market and accentuated the shortage of formal housing for the low- and middle-income groups.

Highly constrained by a weak and inadequate regulatory framework, Egypt’s former subsidy system failed to expand the formal housing market to lower income markets. The system also became a heavy burden for the government.

Smart Mortgage Subsidies are incentives used by the government to expand the housing finance system by enabling groups with lower incomes to increase their housing purchasing power and buy a house in the formal market. The ‘smart’ challenge is to ensure that lower income groups are carefully targeted and that the government creates the right incentive framework for sustainable and market-based systems.

Highlights

A loan of US$300 million has been granted to the Arab Republic of Egypt to develop an Affordable Mortgage Finance Program.

With strong partnerships established between the World Bank and the Egyptian authorities, the program aims to achieve these objectives:

- Replace the inefficient and poorly targeted subsidy program with a transparent and economically efficient subsidy for the broad middle- and low-income market.
- Create a credible legal and regulatory framework for the mortgage finance market.

The World Bank’s Response

In 2010, the World Bank approved a Development Policy Loan of US$300 million to Egypt to expand the residential mortgage market and to make housing more affordable.

This loan was part of a series of commitments to foster development in the private sector and to improve access to finance for the disadvantaged in Egypt.

The Affordable Mortgage Finance Program Development Loan is being released in three tranches. Each release comes on the condition that certain previous actions have taken place.

This loan’s objectives are the following:

- To create a workable and fair allocation system for housing subsidies.
- To leverage private sector resources for housing and to free up national and local government resources for programs for the lowest income groups.
- To expand access to mortgage finance to the lower income population.

The Housing Finance team is advising on and helping to implement reforms that will create efficient subsidy programs to sustain a viable mortgage market in Egypt.
Demonstrating Results

The project is addressing the gaps in the previous supply-side housing subsidies for the broad middle- and low-income markets.

The close collaboration between the World Bank and the Egyptian government brings the following developments:

- The introduction of new reforms and laws in the housing sector paving the way for mortgage finance.
- The improvement of the property registration system.
- The creation of the Mortgage Finance Fund to efficiently deliver subsidies.
- The adoption of a mortgage subsidy approach for low- and middle-income groups, replacing the supply-side subsidy approach used in previous programs. This approach focuses on those earning LE 1,000–2,500 a month (about US$200–$500), or the 75th to 45th percentiles of the urban income distribution.
- The increase in affordability of almost 40 percent for some categories. For example, households earning LE 1,500 a month were able to afford a LE 65,000 property. Properties in this price range were largely nonexistent. With the subsidy, they can now aspire to a LE 90,000 property, where supplies exist.
- A more transparent identification and screening of beneficiaries by a private company to ensure their eligibility for subsidies.

- A better interest rate from housing lenders because of the possibility of loan refinancing on the secondary mortgage market at normal rates.
- The leveraging of lenders' resources in the private sector, in particular, those of the Egyptian Mortgage Refinance Company.
- The expansion of subsidies to unfinished and existing housing in addition to new construction to fulfill the needs of those with lower incomes.
- The expansion of private sector housing development to lower cost units affordable for low-income earners.
- Testimony from program beneficiaries:

  [Image]

  It will mean stability for me and my family.

  Source: World Bank, Think Equal

How to Follow Up

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