

2005 ANNUAL REPORT

EGYPT FINANCIAL SERVICES



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ACRONYMS

ABS	Asset-Backed Securities
AI	Appraisal Institute
AMCHAM	American Chamber of Commerce in Egypt
BOD	Board of Directors
CBE	Central Bank of Egypt
CIDA	Canadian International Development Agency
CASE	Cairo and Alexandria Stock Exchanges
CMA	Capital Market Authority
DVP	Delivery versus Payment
EBI	Egyptian Banking Institute
ECMA	Egyptian Capital Market Association
EDO	Egyptian Survey Authority District Office
EFS	Egypt Financial Services Project
EHFC	Egyptian Housing Finance Company
ELF	Egyptian Liquidity Facility
EPO	Egyptian Survey Authority Provincial Office
ESA	Egyptian Survey Authority
ESOP	Employee-Owned Stock Ownership Plan
FSVC	Financial Services Volunteer Corps
GAFI	General Authority for Free Zones and Investment
GOE	Government of Egypt
GSF	Guarantee and Subsidy for Real Estate Activities Fund
IT	Information Technology
MBA	Mortgage Bankers Association
MCIT	Ministry of Communication and Information Technology
MFA	Mortgage Finance Authority
MFC	Mortgage Finance Company
MSAD	Ministry of State for Administrative Development
MOJ	Ministry of Justice
MOI	Ministry of Investment
MOU	Memorandum of Understanding
REPD	Real Estate Publicity Department
SEC	Securities and Exchange Commission
TAPR II	Technical Assistance for Policy Reform II Project
TDL	Training Development Laboratory
TOT	Training-of-Trainers
USAID	United States Agency for International Development
WB	World Bank

EXECUTIVE SUMMARY

The Egypt Financial Services (EFS) Project was established in November 2004 in response to a request from the Egyptian government to implement international best practices in real estate finance. The 5-year project is the result of an agreement between the country's Ministry of Investment (MOI) and the United States Agency for International Development (USAID). It has a budget of US \$38 million, which covers technical assistance, training programs, public awareness, and information technology (IT) equipment.

Since its inception, EFS has partnered with the Egyptian government and private sector to strengthen the institutional capacity of the country's public and private sector to launch and regulate the key components of a real estate mortgage system that meets international standards. Such standards include a redesigned and secure registration title system; comprehensive real estate mortgage lending and regulation, including appraisal, brokerage, and lending activities; creation of new financial instruments, such as a secondary mortgage market that will facilitate the development of the primary mortgage market as well as development of a collateral registry system; and development of a private credit bureau system with a suitable consumer protection mechanism that rewards those with good credit records with lower interest rates.

These objectives will support implementation of the redesigned and upgraded mortgage financing system. Through institutional strengthening, regulatory reform, and professional development, the project promotes the emergence of a modern real estate registration, mortgage, investment, and credit system in Egypt.

The project has made substantial progress this past year in meeting its objectives through technical assistance, training, introduction of IT applications, and public awareness.

SECTION I

Expanding Home Ownership Opportunities in Egypt

“Home ownership is a dream to so many people both in the U.S. and here in Egypt. USAID is proud to assist the Government of Egypt in helping this dream to come true for thousands of Egyptian families.”

USAID Director
Dr. Kenneth C. Ellis
Cairo, Egypt
November 3, 2005

Setting the Stage

Building Relationships. From the outset of the project, EFS staff cultivated collaborative working relationships with their many counterparts, an approach that helped to generate early success. Project staff in particular worked in close partnership with successive advisors to the Ministry of Investment (MOI) to determine the best approaches to achieve their respective goals. Meetings with Minister of Investment Dr. Mahmoud Mohi El Din to incorporate MOI priorities into the project work plan cemented a strong working relationship and common vision for mortgage finance in Egypt.

Mortgage Finance Authority (MFA). The project’s Mortgage Finance Team worked with Dr. Sameh Torgoman, MFA chairman, until new leadership was appointed at the authority in August. After the appointment of a new chairman, Osama Saleh, and deputy chairman, Ashraf El Kady, EFS staff brought the new executives up to speed and worked to integrate their vision and priorities into the project plans. Efforts to enhance the MFA as a regulatory institution, to train its personnel, and to introduce IT improvements have accelerated under the new appointees.

Ministry of Justice (MOJ) and Egyptian Survey Authority (ESA). The EFS Urban Property Registration Team has helped to forge a working relationship between the project’s two key counterparts, MOJ and ESA. Early on, project staff met with members of the newly formed Ministry of State for Administrative Development (MSAD), which is closely involved in registration activities and therefore is now a key partner in achieving GOE urban registration objectives. This enduring relationship helps to ensure that EFS registration activities are consistent with GOE registration initiatives.

Capital Market Authority (CMA). The EFS New Financial Instruments Team has worked closely with the new CMA chairman, Dr. Hani Serai El Din, on restructuring to build capacity. The team also worked with Abdel Hamid Ibrahim, MOI senior advisor and former CMA chairman, on factoring with employee stock ownership plans.

Central Bank of Egypt (CBE). The EFS Credit Bureau Team forged strong ties with its primary counterpart at the CBE. This relationship helped the development of the institutional, legal and regulatory framework – essential to the operation of a broad-based credit information system – get off to a quick start. Having a strong legislative framework in place is a prerequisite for the growth and prosperity of financial markets. Toward this end, EFS’ Credit Bureau Team, supported by specialists with local and international legal and credit bureau experience, aided in the drafting of rules and regulations for credit bureau operations.



MFA Chairman Osama Saleh

EFS Accelerates the Pace of GOE Initiatives

Organizational Structure of the MFA. EFS made real progress in assisting the MFA to build capacity and supervise the mortgage finance sector this past year. Project staff helped to refine the authority's mission, functions, and organizational structure to take full advantage of human and financial resources and to maximize generation of revenue. EFS provided technical assistance to address funding options and the role of guarantee and subsidy funds for real estate activities, and helped set the stage for the development of a comprehensive business plan and a mid- to long-term MFA development strategy.

Legal and Regulatory Assistance. Project staff developed a legal and regulatory work plan for the MFA that resulted in recommendations for consumer protection and disclosure, comprehensive regulatory manuals to supervise mortgage finance companies, identification of legal issues for judges to consider under foreclosure laws, and improvements to the model mortgage contract consistent with the executive regulations of the country's Real Estate Financing Law.

Public Information Strategy. Helping the Egyptian government improve its public education and outreach capabilities, project staff prepared a consumer mortgage information booklet for the Ministry of Investment as part of a larger government public information strategy. The booklet, prepared in Arabic, sheds light on mortgages, the benefits of having one, and how to go about getting one.

Business Plans. Supporting MFA operations, EFS staff continued to make significant progress toward clarifying important distinctions between the MFA and Guarantee Subsidy Fund (GSF) roles and functions, including their different capital profiles and requirements. Project staff developed and delivered a concept paper and related presentation to MFA's executives and board of directors on a recommended organizational structure and market-based programs for the GSF, as well as a draft business plan.

The EFS Public Awareness Team completed a baseline consumer survey that provided EFS and counterparts with insights into consumer knowledge and attitudes toward mortgage finance, property registration and credit bureau operations. The survey polled more than 500 Cairo homeowners and potential homeowners representing the project target groups. Among the findings:

- Although the majority would prefer to pay cash, about one-third of respondents said buying with a mortgage "seems best" to them.
- Key mortgage concerns are financial in nature, with 58 percent of respondents focused on whether the interest rate would be acceptable and 35 percent on their ability to afford monthly payments.
- Most respondents believe that registration is an important way to protect property rights, although many do not understand what registration is.
- Of those surveyed, 67 percent said they strongly favor the establishment of a credit bureau, and 61 percent reported that they would allow the review of their personal finances by a credit bureau if the result might be a greater chance of qualifying for a mortgage or one with a lower interest rate.

Findings such as these are informing the development of public education and outreach tools.

A Push for Property Registration. The EFS property registration initiative entered an intense work phase in which business process reengineering for title registration was finalized, legal and regulatory reforms assessed in detail, cadastral survey and mapping procedures modified, sporadic and systematic adjudication procedures assessed, a work plan prepared for systems development, and procurement of equipment for the Training Development Laboratory (TDL) set in motion. Project staff provided assessments and procurement recommendations in laying the groundwork for the TDL, which will be operational by July 2006. The laboratory will be used to train personnel on the redesigned property registration system, its business processes, collection of field survey data, systematic adjudication, customer service guidelines, and system administration and maintenance.

ESA and MOJ/REPD Memoranda of Understanding. EFS drafted and facilitated memoranda of understanding with two principal counterparts, the Egyptian Survey Authority (ESA) and the Ministry of Justice/Real Estate Publicity Department (MOJ/REPD). Signed in August, the memoranda formally designated the two registration office model initiatives, which have been subsumed by a new national program under the direction of MSAD. The national program seeks to initiate title-based registration in nine urban areas. Project staff will provide technical assistance for this effort while enhancing the existing deeds system.

Cadastral-related Activities. In preparation for the introduction of title registration in the two urban districts selected, Nasr City and Maadi, EFS staff completed a prototype survey of six blocks to test and evaluate cost-effective methods of obtaining physical inventory data of structures, and related textural layers. Data such as block area, block number, parcel number, building number, floor plan, and unit numbers were collected, collated and digitized in map form. Project staff also drafted reports including options and next-step recommendations for consideration by counterparts.

Egypt's First Securitization. Project staff members have helped the CMA to design and implement securitization, a new financial instrument in Egypt. Securitization is a means for financial institutions and businesses to liquidate receivables and medium- to long-term debts owed to them. At the same time, it paves the way for mortgage-backed securities to support the secondary mortgage market. The EFS New Financial Instruments team has helped develop a plan for the issuer and the regulator to securitize portfolios. The plan includes forming a team, selecting a portfolio, and hiring accountants, lawyers, and underwriters. EFS staff also provided recommendations on how to improve the existing legal and regulatory framework and drafted the CMA rules on securitization, which guided the December 2005 CMA approval of Egypt's first securitization prospectus.

Egypt's First Credit Bureau. EFS staff made substantial headway in establishing Egypt's first credit bureau, ESTEALAM, by engaging a large number of banks, each with an equal share. After a visit to the Turkish Credit Bureau in March 2005, participants, who were mainly bankers, felt that establishing a single credit bureau would be best for the country. Project staff drafted licensing agreements in close collaboration with the CBE, and ESTEALAM obtained initial approval from the CBE in late August. The inaugural private credit bureau selected its first board of directors on September 5, 2005. Mohamed Kafafi of Banque Misr was named board chairman, and Mohamed Ashmawy of the Commercial International Bank was named vice chairman.

Credit Bureau Development

- June 2005: Change to banking law approved by Parliament
- August 2005: Licensing requirement approved by CBE Board
- August 2005: Preliminary approval given to first private credit bureau
- February 2006: Rules and regulations approved by CBE Board
- Private credit bureau preparing to start

SECTION II

Promoting the Primary Mortgage Market

Mortgage Finance

The main mission of the Mortgage Finance Authority (MFA) is to supervise the real estate mortgage market and monitor consumer protection. Moreover, the Ministry of Investment relies heavily on the MFA to coordinate key policy initiatives in the real estate sector.

The EFS Mortgage Finance Team addressed a number of areas that are critical in the development of the mortgage finance industry. Priorities identified were MFA organizational structure and operations, associations and training related to real estate, and assistance to mortgage finance companies.

The Mortgage Finance Team achieved a number of institutional and sector capacity-building objectives working with the MFA, industry associations, and stakeholders. Ensuring a professionally staffed MFA has been a focus of the team's efforts. Thus far, 12 staff members have been hired, and a number are receiving English-language training. The Mortgage Finance team also drafted the MFA business plan, including a 3-year budget, and an MOU approved by EFS and the MFA Board of Directors.

The EFS Information Technology Team completed technology and IT-training needs assessments this year. Procurement for MFA IT systems has included 5 servers, 30 desktop computers, and 3 laptop computers, as well as printers, scanners, and access to e-mail and the Internet. The MFA is operating with greater efficiency thanks in part to the networked equipment.

Under the auspices of the project, a comprehensive assessment was conducted of the existing mortgage lending institutions, El Taamir Mortgage Company and the Egyptian Housing Finance Company. Project advisors reviewed the companies' charters, loan portfolios, and loan origination and underwriting processes.

EFS staff members also prepared a number of technical reports. The deliverables included a legal concept paper that evaluated Egyptian residential model mortgage contracts and identified opportunities for improvement, an overview of the related topic of consumer disclosures, and reports on the steps being taken to develop the Egyptian legal mechanism to foreclose a mortgage.

As part of the project's ongoing support of MOI/MFA public information objectives, additional public information tools were developed and delivered. Project staff members developed a flyer and poster at the request of MOI that built on the success of the Mortgage Consumer Information Guide, published on behalf of MOI last quarter. The flyer is a condensed version of the guide, and the poster contains key information on mortgage financing, participating institutions, and where to get further information. Additionally, project staff organized a media seminar on modern mortgage concepts on August 22, 2005. More than 20 journalists attended the event.

The project's Media Education Program held its first press roundtable on April 19, 2005. The event brought together more than 30 journalists to hear MFA Chairman Torgoman speak on the role of the MFA, explain its new executive regulations, and answer journalists' questions. Working with the Capital Market Authority, project staff also held a financial press forum on June 7, 2005 to further educate journalists regarding securitization of financial rights.

Aware that education is fundamental to the project's success, EFS sponsored counterpart participation in a number of events during the year, including two overseas training programs as well as on-the-job accounting software and computer training for selected MFA managers. Such training programs offer in-depth lessons on effective housing finance, requirements for secondary market development, and multiple ways of accessing capital markets. Training for mortgage bankers and appraisers served two important EFS objectives: building the capacity of professional associations, such as the Egyptian Mortgage Association and the Egyptian Association for Real Estate Appraisal, and training professionals in those fields.

Building upon work completed by the U.S.-based Mortgage Bankers Association (MBA) and the Appraisal Institute (AI), EFS staff launched two initiatives to improve training aimed at real-estate professionals and to engage real estate-related associations in the delivery of profession-specific training programs.

EFS engaged CampusMBA, the education arm of the Mortgage Bankers Association, and members of the newly established Egyptian Mortgage Association to deliver a 5-day "Primary Mortgage Lending"



A participant at the MFA Mortgage Media Forum

course in September. The program included a training-of-trainers component, followed by the new trainers delivering the program, under MBA supervision, to members of the Egyptian Mortgage Association and key MFA personnel. Mortgage lenders also were included in the training.

Project staff coordinated the pairing of the U.S.-based Appraisal Institute and the Egyptian Real Estate Appraisal Association to develop localized market analysis, highest and best use, and case study curricula. Also completed was a review of the International Valuation Standards, Code of Conduct, and Appraisal Institute Code of Ethics from which sections will be incorporated into Egyptian standards and code.

When EFS staff began work at the MFA, the organization was not properly set up to fulfill its mission. Resources were limited, the organizational structure was inefficient, and strategic planning was lacking. During the past year, the Ministry inserted new management at the MFA, enabling project staff to support a reorganization and the recruitment of 14 key managers and staff members, invest in IT procurement, develop six training courses on mortgage finance and appraisal techniques that local personnel can teach, and develop real estate associations. The improvements and new partnership between MFA's management and EFS is helping the MFA to fulfill its mission.



ESA Chairman General Hisham Nasr and Counselor Farouk Awad, Assistant Minister, MOJ, present an award to a participant at the Land Registration in the Arab World conference in Jordan in September.

Urban Property Registration

The EFS Urban Property Registration Team has achieved policy, operational, and capacity-building objectives in collaboration with project partners MOJ/REPD and ESA. Negotiations led to the development of bilateral memoranda of understanding between the project and these key partners, enabling EFS to move forward in many areas. For example, project staff completed an in-depth assessment of registration policy and operational issues presented in our Inception Report.

EFS also advocated for the establishment of a one-stop window for processing applications at registry offices. EFS staff reached an agreement with ESA and REPD to integrate service functions in the model registry offices, and as a result the Egyptian Survey Authority District Office (EDO) personnel and public notary will be assigned to new model title registry offices to facilitate the one-stop window.

ESA agreed to outsource the production of cadastral index maps to the private sector and to prepare and disseminate new technical instructions for preparation of cadastral index maps. ESA also approved implementation of quality assurance and controls guidelines in the supervision of field work for preparation of cadastral index maps.

Project staff completed business area analysis and business process reengineering technical reports, as well as an assessment of required legal and regulatory reforms for the title system. EFS also prepared the draft regulation on divided co-ownership on immovable property now under review by the MOJ, and assisted in the preparation of policy notes that resulted in the MOJ recommendation to institute flat fees for registration. Effective March 2006, the MOJ reduced registration fees for transactions to affordable levels, and a flat all-inclusive fee of LE1000.00 instead will be assessed to applicants of both deed and title systems.

As both a capacity-building and team-building exercise, EFS sponsored an MOJ/REPD and ESA delegation to Jordan September 1-3 to participate in “Land Registration in the Arab World,” a symposium that introduced best practices and institutional models, confirmed the international trend toward title registration, and served to emphasize the importance of the cadastre within title registration to the two “process owners.” This study tour also led to stronger personal relationships with key senior policy officials and operational support staff.

EFS also sponsored the participation of two other ministries that coordinate registration programs. The Ministry of Communication and Information Technology (MCIT) addressed the development of the rural cadastre in agricultural land titling and the Ministry for State for Administrative Development (MSAD) recently completed an initial experimental project in urban registration targeting the district of Dokki, Giza. EFS prepared functional requirements specifications for automated applications, together with specifications for hardware and software platforms for the title system.

New Financial Instruments

The New Financial Instruments Team’s most important achievement of the past year, a pilot project that sought to “test” the securitization law and associated regulations, began in March 2005 at the request of the CMA. The team devised a plan and a weekly timetable for two potential issuers on how to prepare for a securitization, including team formation, portfolio selection, the hiring of accountants, lawyers, and underwriters, and gathering of information for the prospectus. The team worked in parallel with the CMA to provide the authority with a plan for reviewing a securitization prospectus. Having the regulator and private sector work together facilitated application of the first securitization.

“We’re planning on repeatedly going back to the market to continuously finance our operation. We’re not dependent on banks for our expansion; we’re dependent on the capital market.”

Hazem Moussa
General Manager
Business Today Egypt
March 2006

Work then progressed to assessing the existing legal and regulatory framework to identify areas that warranted attention. The New Financial Instruments Team prepared a report and recommendations for the CMA, as well as a summary of the U.S. Securities and Exchange Commission rule on securitization. This rule is the international standard in that it is far more comprehensive than any of its counterparts. The materials helped to familiarize the authority with regulatory concerns and a model approach to securitization regulation. EFS then drafted the proposed CMA rules on securitization to complete the executive regulations under the Capital Market Law, and to make the regulations more transparent. The draft rules eventually served as guidelines for the December 2005 CMA approval of Egypt’s first securitization prospectus.

EFS then organized a program of workshops and conferences in June 2005 to explain the legal, financial, and securities fundamentals of securitization to specific audiences: potential issuers, potential institutional investors, the licensed custodian banks, underwriters, and members of the accounting and legal professions. EFS also sponsored a weekend retreat in Borg-el-Arab for presentations to judges and prosecutors on securitization. Additionally, a CMA press forum was held for journalists to explain securitization and how it works.

The New Financial Instruments Team researched Egyptian law doctrine and case law on assignment of rights, which is the legal basis for securitization. The team then drafted and translated into Arabic the letters of commitment and agreements to be prescribed by the CMA under the executive regulations for mandatory use by the parties to a securitization deal.

EFS staff followed up on recommendations and proposed amendments to simplify the documentation required for securitization and to lower the threshold of share ownership of an originator in a securitization company. Additionally, project staff submitted a letter of opinion on how to maintain the safety of an asset-backed security while also allowing for flexibility, a proposal retained by the CMA Board of Directors in their resolution to amend the executive regulations in 2006.

The New Financial Instruments team drafted and produced an Arabic publication titled “Securitization Guide for Issuers,” which provides introductory information on the purpose, objectives, parties, and procedures that pertain to securitized bonds.

Pursuant to the executive regulations, the team also revised the CMA fixed-income securities manual, which lists the steps or procedures to be followed by personnel in CMA departments charged with reviewing prospectuses of asset-backed securities issuers. Such reviews must be conducted prior to the approval and public release of any prospectus or related documents. Project staff will help the CMA to update the manual based on requirements of the proposed securitization rule after its adoption by the authority.

Credit Bureau

In working to refine credit bureau operations, senior managers at the Central Bank and other major banks participated in EFS’ first overseas study tour. The group traveled to Turkey, where managers observed credit bureau and regulatory operations, and discussed operational and regulatory issues with Turkish counterparts.

EFS made important headway in engaging a consortium of banks to establish Egypt’s first credit bureau. The project has received a number of requests to provide technical assistance with regard to training, IT, and legal and operational issues.

Bearing in mind best practices, project staff members have focused on legal issues pertaining to credit bureau regulation, licensing, and operations. EFS drew upon local and international legal experts in examining the legal and regulatory environment that will govern credit bureau regulations and operations.

EFS provided the CBE with a variety of sample written agreements between credit bureaus and information users or providers, helping the bank to develop a comprehensive regulatory model, determine minimum requirements, and ensure clarity in agreements that govern the relations between the credit bureau and information users or providers, as well as consumer protection safeguards.

To reduce duplication of effort and improve donor coordination, project staff collaborated with the World Bank, which is working with the CBE to enlarge its public registry, and the International Finance Corporation (IFC), which has offered to assist the private sector credit bureau. EFS and IFC are exploring ways to coordinate assistance to the newly established credit bureau.

EFS also gave a presentation to CBE and credit bureau shareholders that highlighted possible ownership and management structures, stressed the importance of an “open” credit bureau — one that is owned and used by a variety of bank and non-bank financial organizations — and shed light on the implications of a credit bureau owned by banks.

SECTION III

Learning from the EFS Experience

Lessons Learned on What Works

Mortgage Finance

- Establishing specialized work groups and meeting on a regular basis with the MFA led to sharing of critical information and prioritizing of objectives.
- Opening dialogue with the MFA board members encouraged broad acceptance of key decisions.
- Drawing on the expertise of certain task groups to support the work of others promoted efficiency and cross-task awareness.
- Coordinating with other international programs related to mortgage finance, such as those run by the World Bank and CIDA, allowed our advisors to see all perspectives.
- Involvement in efforts that impact the mortgage market, such as those begun by the American Chamber of Commerce in Egypt or the Egyptian Banking Institute, helped EFS to deliver its message and expand advocacy of key issues.
- Educating top-management bankers and government officials on mortgage finance is at an early stage – much more needs to be done.

Urban Property Registration

- Having senior project counterparts participate in a technical conference at a third-country location early in the project was highly productive. The Jordan conference enabled EFS personnel to interact with counterparts in a neutral environment. The occasion improved personal relationships and increased confidence and trust.
- PowerPoint presentations that succinctly summarized findings and recommendations contained in long and sometimes complicated technical reports were well received by project counterparts and stakeholders.
- Competent and engaged Egyptian staff – both long-term and consultants – proved to be instrumental in conveying and reinforcing messages in Arabic with counterparts.
- Formal and on-the-job training created a sense of ownership and competence in workers' delivery of registration services to the public.
- Consumer outreach and education not only informed homeowners of the benefits of property registration but also increased voluntary participation in both initial and subsequent registration processes.
- Patience and quiet persistence are required in seeking to improve urban property registration in Egypt as the system at present is supervised and regulated by senior judges within the Ministry of Justice, making the pace of reform difficult to predict.
- Promoting "outsourcing" of technical work is an appropriate preliminary phase in the deregulation of registration services. Once that foundation has been laid, then full accreditation and licensing of professional groups can be pursued more efficiently.

New Financial Instruments

- To progress efficiently, talks with senior management should emphasize program priorities, and work with other managers and staff may center on implementation.
- Pairing an EFS specialist with designated counterpart(s) has helped to transfer knowledge, skills and abilities at a rapid pace.
- Regular meetings with the minister of investment helped to overcome obstacles; facilitated major discussions, action plans, and measurable impacts and benefits; and eased endorsement of proposals by Egyptian project advisors and subcontractors.

Credit Bureau

- In working with counterparts, listening carefully and responding promptly builds trust and credibility.
- The best results are achieved when different resources complement one another.
- Lessons learned from other countries' experience should follow evaluation of contexts.
- Building teams made up of EFS staff and counterparts drives momentum and progress, especially when coupled with a consultative approach.
- Government commitment is essential. The government leads; the role of consultants must be to advise and support.

Challenges along the Way

Mortgage Finance

- Until the last quarter of 2005, MFA lacked a capable management team. That being the case, project staff members were compelled to manage workflow and tasks, and could not adequately carry out on-the-job capacity building.
- Because of limited space, the MFA could not accommodate the Task 1 team on a full-time basis after the hiring of new authority staff.
- MFA staff, including 40 new employees and about 30 others seconded from the Ministry of Housing (MOH), lack English language skills, and many require training.
- Expectations of the counterpart at times have been higher than what the EFS budget could accommodate, such as public awareness campaigns outside of the work plan, and expanded call center operating hours.
- A greater emphasis on subsidy issues than planned has required additional LOE and other resources.
- Because legal reform is not encouraged, reforms are unlikely to occur until late 2006.
- A number of governmental entities that are not regarded as direct project counterparts in fact play an important role in mortgage finance.
- Real estate developers are not regulated by the MFA but compete against mortgage providers.
- Lenders (CBE and MFA) hold a dual supervisory role.
- Financing mortgages through financial leasing falls under the supervision of GAFI, which requires high-level coordination to obtain mortgage data.
- The impact of the MOH's role remains uncertain.

Urban Property Registration

- Policy, legal and regulatory reform and implementation are impeded by the absence of a steering committee to coordinate policy review on a project-wide basis. Such a committee is essential given that EFS faces a multi-agency, multi-task environment.
- Project staff members are still building relationships with the Ministry of Justice, REPD, and registry office staff. Effective implementation can only occur if EFS staff has day-to-day access to REPD staff and registry office records. Co-positioning EFS staff with REPD staff remains uncertain.
- Despite making a number of requests, EFS has been unable to obtain data held by new community development boards, such as subdivision maps, building unit plans, developer records of sales and sales installment contracts, and property owner lists. Access to this data would speed mass formalization and registration of ownership in new community areas and result in a dramatic expansion in the number and volume of mortgage loans.

- Inflexible procurement regulations occasionally lead to time-consuming responses to bona fide equipment requests, and other delays in procurement and delivery.
- Evolving policy mandates and fluid government consideration of property registration affect the project substantially. For instance, after project start up, the prime minister assigned a mandate to coordinate, upgrade and implement national urban registration with MSAD. In late 2005, with the advent of funding, MSAD emerged as a key EFS counterpart. Earlier on, however, a project initiative to forge a three-way agreement under MSAD went unsigned, and as such EFS entered into bilateral agreements with MOJ/REPD and ESA, the two process owners. EFS is now negotiating an agreement with MSAD that assures continued support and acceptance by MOJ/REPD and ESA. In addition, existing protocols between GOE and USAID may require revisions to reflect recent government initiatives and include MSAD as a signatory. Duplication issues between EFS and the National Urban Registration Projects have emerged that require clarification and may result in redefinition of our technical assistance, work plan and budget.

New Financial Instruments

- Changing leadership at the CMA affected the project priorities and work plan.
- The rotation of counterpart staff and judges likewise impacted work with counterparts and training.

Credit Bureau

- Despite plans for the coexistence of two credit information systems (a private credit bureau and CBE registry) and the expected flow of information between them, they serve two different purposes: bank supervision for the public registry at the CBE, and assurance of quality credit information by the private sector.
- Establishing a private credit bureau is necessary but not sufficient for successful operation of private information systems. It will take time and commitment to ready the market to provide accurate, complete, and timely credit information to meet international standards and best practices of private credit bureaus worldwide.
- More members of the credit bureau mean a greater supply of information and an increased number of users. More inquiries, in turn, should lower the costs of each inquiry. People who understand the circumstances may be prompted to act sooner rather than later.

SECTION IV

Monitoring and Evaluation Results and Project Impact

During Year 1, a comprehensive plan was developed to monitor EFS progress and impacts. The plan monitors two types of activities:

- *Capacity building*, relating to the creation, strengthening, and functioning of institutions and procedures; and
- *Societal impacts* expected to occur as a result of capacity-building activities.

Capacity Building Activities

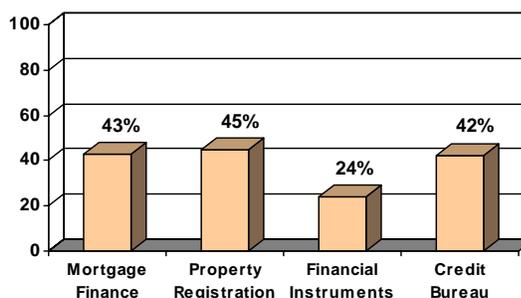
Each project team's work is monitored across seven stages of capacity building, which are:

1. Assessment of needs;
2. Development of a proposal for capacity-building activities;
3. Signing of a memorandum of understanding (MOU) with Egyptian counterpart institutions specifying capacity-building activities and timetable;
4. Development and approval of legal and regulatory reforms;
5. Infrastructure building and training undertaken, reflective of MOU, to strengthen and train staff, and to provide IT equipment and other support;
6. Official public launch of new procedures and/or offices, and of public awareness and education activities; and
7. Judicial training and review of new procedures, institutions, and rules.

For each activity, progress at building capacity is measured as a percentage of stages completed in relation to the total number of stages. The percentage indicates progress at capacity building as opposed to LOE expended. Year 1 results show 43 percent completion for mortgage finance, 45 percent for urban property registration, 24 percent for new financial instruments, and 42 percent for credit bureau. These percentages indicate that capacity-building activities have moved through needs

assessment, proposal development, and MOU stages. Legal and regulatory reforms also have been launched in some cases. In Year 2, activities will focus on stages five and six.

Percentage of Stages Completed



Societal Impacts

For each project area, indicators have been developed that will help monitor the project's societal impacts. Indicators include:

- *Mortgage Finance* – the number of real estate mortgages issued by mortgage finance companies and banks;
- *Urban Property Registration* – the number of titles issued under the new urban property registration program;
- *New Financial Instruments* – the trading volume and/or outstanding value of new financial instruments, such as government bonds, corporate bonds, mutual funds and financial derivatives; money market; leasing and factoring; and stock options granted.
- *Credit Bureau* – the total number of names in the private credit bureau system; the number of inquiries; and the number of complaints, with the proportion resolved.

Because societal impacts occur toward the end of capacity-building activities or after their completion, no Year 1 figures are reported. Figures will be reported in the next annual report.

SECTION V

Recommendations

- Establish a high-level advisory committee to help navigate bureaucracy and speed the flow of mortgages. *USAID assistance would be required.*
- Create more direct contacts and activities with commercial banks to introduce mortgage finance to organizations that have substantial market presence and outreach. *EFS would take this action in collaboration with the MFA.*
- Greater emphasis must be placed on public education, including a larger number of initiatives as well as more precise audience targeting. *EFS would take this action in collaboration with counterparts.*
- More work must be done directly with property developers with the objective of getting them out of the business of real estate financing, as banks and mortgage finance companies assume this role. *EFS would take this action.*
- Circumstances may require EFS to work with the Ministry of Housing. *EFS would define specific activities in consultation with MOH after receiving USAID guidance.*

Looking Forward

Having made real progress in Year 1, EFS expects substantial outcomes for Year 2, including:

- Continued institutional strengthening at both public and private partner institutions.
- An improved regulatory framework with market regulations and best practices strengthened in all areas.
- An enhanced mortgage industry consumer protection and credit information system.
- EFS partner associations with improved credibility and expanded membership to drive training and best practices.
- Increased professionalism of industry stakeholders through a variety of targeted and relevant training programs.
- Improved IT capacity at key institutions, such as the MFA and private credit bureau.
- A communication strategy in place to shed light on mortgage, registration, new financial instruments, and credit bureau initiatives for stakeholders and the public.
- Title registration introduced in urban areas through the creation of two model registry offices, and the installation of automated registry and cadastral systems.
- The establishment of an operational mortgage finance liquidity facility in collaboration with the World Bank.
- Introduction of the concept of a modernized collateral registry.
- More than 120 training programs conducted. The programs, covering policy issues and technical areas, will be attended by at least 2,000 employees of the Government of Egypt, private sector companies, and private real estate professionals.

TASKS AND TRAINING PROGRAMS	TASK 1		TASK 2		TASK 3		TASK 4	
	Yr 1	Yr 2	Yr 1	Yr 2	Yr 1	Yr 2	Yr 1	Yr 2
OST		1		1		1	1	1
Seminar/ Workshop	2	18	1	1	1	10		5
Short Courses	6	22		10				3
On-The-Job								
IT		14		2				
English	2	4						
Total Events	10	59	1	14	1	11	1	9
Participants Attended/Enrolled	139	~1,000	14	~500	4	~300	8	~150

Note: In all, 139 people have attended 15 EFS-sponsored training programs, workshops, and conferences.