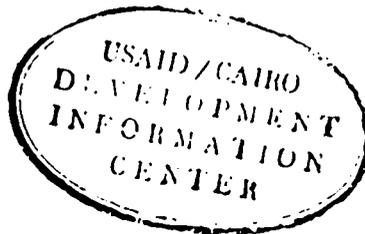


**SUMMARY REPORT:
HOUSING FINANCE, URBAN LAND USE POLICY,
HOUSING AND COMMUNITY UPGRADING FOR
LOW-INCOME EGYPTIANS**



Report of

THE JOINT HOUSING TEAMS

Ministry of Housing and Reconstruction
Ministry of Planning
Arab Republic of Egypt

with

Office of Housing
Agency for International Development
United States of America

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H.E. Hassan Mohamed Hassan
Minister for Housing and
Reconstruction
Cairo, Egypt

The Joint Housing Teams are pleased to submit this document, Summary Report: Housing Finance, Urban Land Use Policy, Housing and Community Upgrading for Low-Income Egyptians. This volume is an overview of the reports prepared by a series of teams consisting of senior Egyptian Government officials and consultants sponsored by the U.S. Agency for International Development.

These teams worked sequentially in Egypt, each for approximately three weeks, between February and April 1977. The team leaders returned to Egypt for a review of their respective draft reports for a week in July 1977. At that time, a set of overall objectives was agreed to by the joint teams, to set the broad framework for more specific program and project planning to follow.

We are pleased to note that the Egyptian Government has already taken many specific steps to implement various recommendations developed during the field work of these teams. These initial actions have established a momentum within the housing sector which bodes well for the kind of comprehensive policy changes called for by the joint teams, coupled with the ambitious and necessary capital investment program required to respond to the urgent need for shelter among the urban poor in Egypt.

Sincerely,

THE JOINT HOUSING TEAMS



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ACKNOWLEDGMENTS

THE JOINT HOUSING TEAMS

United States of America

Agency for International
Development:

Mr. George Hazel (AID)
Project Director
Mr. Alfred P. Van Huyck (Consultant)
Team Coordinator

National Savings and Loan League
JOINT HOUSING TEAM FOR FINANCE

Dr. James Christian
Team Leader
Mr. Edward Clifford
Dr. C. Wade Clifton
Ms. Sonia Hammam

PADCO
JOINT LAND POLICY TEAM

Mr. David Oakley
Team Leader
Mr. Jeffry R. Stubbs
Mr. Samuel A. Sherer
Mr. Mokhtar A. Saleh

Foundation for Cooperative Housing
*JOINT HOUSING AND COMMUNITY
UPGRADING TEAM*

Mr. Charles Dean
Team Leader
Dr. Larry Salmen
Mr. Agustin Costa
Dr. Mona Serageldin

Government of Egypt

Dr. Salah El Bindary
Undersecretary of State, Ministry of
Housing and Reconstruction

Dr. Saad El Din Hanafi
Undersecretary for Housing and Public
Utilities, Ministry of Planning

Dr. Zaki Abu El Nasr
Deputy Chairman, Board of Directors
Credit Foncier

Dr. Samir Tobar
Advisor to the Minister, Ministry of
Finance

Mr. Salib Gobran
Director, Housing and Utilities,
Ministry of Planning

Mr. Moyhi El Naggar
Director General, Ministry of Planning

Eng. Fouad El Gohary
Director General, General Organization
for Building and Housing Cooperatives

Mr. Nazmi Riad Ghabour
Director General, Ministry of Housing
and Reconstruction

Eng. Ismail Osman
Technical Director, Ministry of Housing
and Reconstruction

Eng. Nassef Hussein
Secretary General, Technical Bureau for
Housing and Public Utilities, MOHR

Counselor Kamal Ibrahim
Legal Advisor, Ministry of Housing and
Reconstruction

Eng. Gamal Zaki
General Manager, Nasr City Housing and
Redevelopment Company

Mr. Michael Rafael
Advisor to the Minister of Housing and
Reconstruction

Mr. Ramzy Shenouda Morcos
Supervision Engineer, Ministry of Housing
and Reconstruction

Mr. Tarek Selim
Technical Office, Ministry of Housing
and Reconstruction

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PREFACE

The Government of Egypt has established housing as one of the highest priorities in its development program. Early in 1976 the Government of Egypt requested technical assistance from AID to review its housing policy and to develop proposals for new housing activities.

During March and April 1976, AID funded a group of United States housing consultants who visited Egypt and worked jointly with Egyptian housing officials from the Ministry of Housing and Reconstruction (MOHR) to produce a report published in June 1976 titled Immediate Action Proposals for Housing in Egypt.

The report made major recommendations for shifting attention from middle- and upper-income housing to new programs directed at lower-income groups.

As a follow-up to the 1976 report, the Government of Egypt requested additional technical assistance. Starting in early 1977 three teams of United States housing experts visited Egypt.

Each team prepared an extensive report to document existing conditions, assemble relevant basic data, identify the most critical problems, and make recommendations for immediate- and long-term responses for government consideration. The following reports are included in the series:

Housing Finance in Egypt

Urban Land Use in Egypt (text and appendix volumes)

Housing and Community Upgrading for Low-Income Egyptians

Important Laws and Regulations regarding Land, Housing and Urban Development in the Arab Republic of Egypt

This report summarizes the central recommendations of the three team efforts. In order to achieve brevity, much of the underlying analyses and basic data have been omitted here. The reader is referred to the full reports and supplementary volumes for a full understanding of the work which has been accomplished to date.

RECENT HOUSING ACTIONS

The Government of Egypt has taken a number of important steps in the housing field during the past year. A number of these steps relate to recommendations presented in the 1976 and 1977 joint reports.

1. In the national budget for 1977, housing has been maintained at a high level, even though the overall national budget was revised and in many other areas reduced.

2. In September 1976 the National Housing Fund was established. The legislation creating the fund defines standards for low-cost housing that limit the size of individual dwelling units from a minimum of 20 square meters to a maximum of 60 square meters.

3. The MOHR has also initiated a program to convert rental public housing units to ownership on a lease-purchase condominium type arrangement.

4. The bylaws of the General Authority for Housing and Building Cooperatives (GABHC) were amended to permit a shift from its previous higher-income activities to low- and middle-income cooperatives.

5. The GABHC also has power to provide loans for repair and maintenance of existing buildings, with a consequent 15 percent increase in rents. There has also been a change in the formula used to compute allowable rent on new construction still under rent control; the new formula allows a higher return on investments.

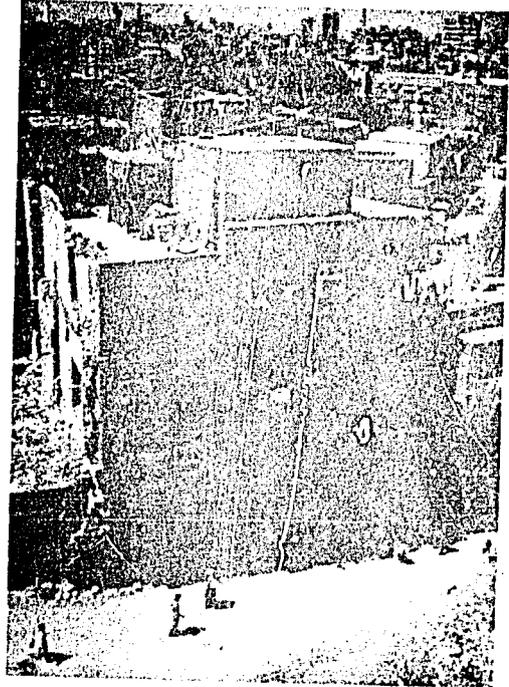
6. The building regulations have been revised to allow the use of new building materials and systems.

7. The composition of the Board of Directors of the Credit Foncier (real estate bank) has been changed to reflect recommendations of the Joint Housing Team for Finance to strengthen the institution.

All of the above actions have been taken in the past year; they indicate the importance attached to the housing problem by the Government of Egypt along with its willingness to move ahead with new approaches to solve the housing problem.

INTRODUCTION

The 1976 joint report and numerous other studies have described housing and related problems in Egypt. Without duplicating past efforts, the Joint Housing Teams made an effort to update data from the 1976 report. A better understanding was sought of what is happening now in communities where low-income families are living. The teams' work was concentrated in the greater Cairo area, because this is where the greatest problems exist and because it has been given high priority by the Government of Egypt. However, serious housing problems exist in Alexandria and other urban areas, and the approaches suggested in this report would also apply throughout Egypt.



OVERVIEW: SOCIAL AND ECONOMIC CONDITIONS FOR LOW-INCOME FAMILIES

The people of Egypt have experienced major advances in their living standards over the past 15 years. Nevertheless, as is true in the majority of countries today, many problems remain -- chief among them are a persistently high rate of population increase, rapid urbanization, and a low level of income among large numbers of the Egyptian people.

Egypt's population is growing at a rate which makes it difficult for the country to meet the basic needs of its people. This is especially true of Egypt's cities, as they are growing faster than the country as a whole. The recent census of 1976 indicates that Egypt's population had risen to 38,228,180. Over the 10-year period 1966 to 1976, the average rate of growth of Egypt's population was 2.31 percent.

Today, roughly 44 percent of Egypt's population lives in urban areas. The Governorate of Cairo, by far the largest in the country, held 5.1 million people in 1976. Greater Cairo had a population of 8.0 million. Cairo's growth rate for the

10-year span 1966 to 1976 was 3.7 percent. A little less than half of Cairo's growth can be attributed to in-migration from rural areas and smaller towns.

While there is little open unemployment in Egypt there are many persons in the labor force who can find only part-time work. There still remains substantial illiteracy among the population in spite of dramatic improvement over the last 15 years. There are significant health problems and gastrointestinal diseases which are tied to high urban densities and insufficient public services. Cairo and Alexandria are the best served urban populations, yet substantial areas of the city still have inadequate water supply and sanitary systems.

It is against this backdrop of social and economic conditions that any housing and urban development program must be devised. The development problem is multidimensional; any approach which attempts to attack it must be comprehensive.

HOUSEHOLD INCOME AND EXPENDITURE FOR HOUSING

Based on the research undertaken in conjunction with the previous 1976 joint study, household income levels were differentiated according to earning capacities defined by occupation.

It is assumed that incomes have kept up with the consumer price index, for an upward adjustment by a factor of 30 percent to yield the following results:

<u>Income category</u>	<u>Annual Income Bracket</u>
A	LE 1,300 or more
B	LE 900 to 1,300
C	LE 700 to 900
D	LE 550 to 700
E	LE 300 to 550
F	LE 300 or less

This would place the current median income for households at about LE 550 per year, which amounts to a monthly salary of LE 45. This is a reasonable assumption in the urban context, but may overstate incomes below the median income somewhat.

Expenditures for housing decrease sharply as incomes rise. The poorest families surveyed spend close to 20 percent of their incomes for rent, twice the amount spent by

middle-income families. This characteristic would be even more striking if the floating urban population that was not covered by the survey is taken into consideration. Their shelter cost, on a per square meter basis, exceeds the rents paid by middle-income families, notwithstanding the differential in the quality of the unit, in the availability of utilities, and in the access to community services.

ESTABLISHING THE TARGET GROUPS

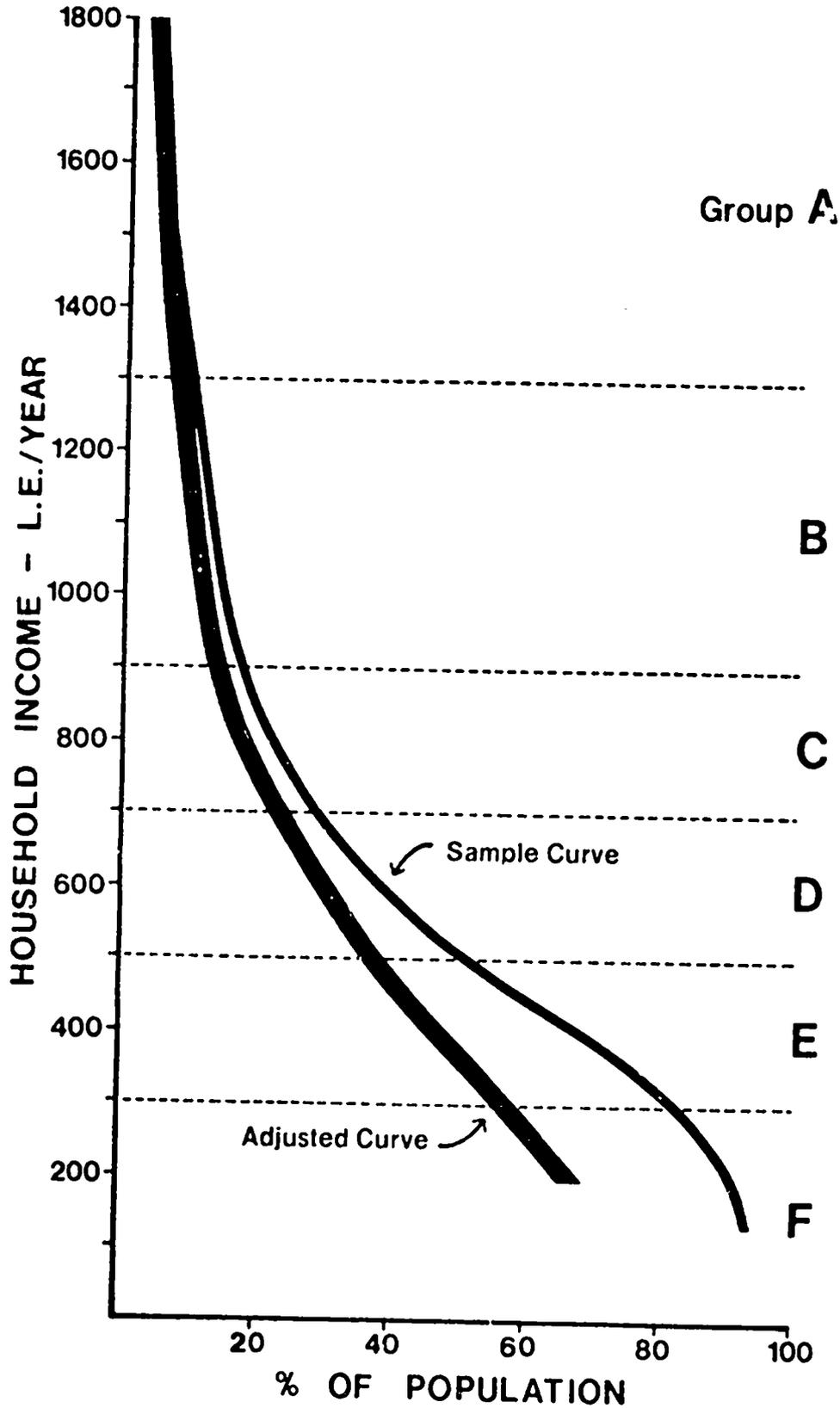
The concept of target groups is important because it permits housing planners to disaggregate housing from national statistics and to begin to focus on housing related to particular groups of people. The number and type of target groups determined to be of concern should develop as planning for housing progresses. The first and most obvious criteria for selection of housing groups is household income. However, other factors should eventually be considered, for example; special occupational characteristics which might affect the use of shelter; special infrastructure or public facility requirements; special social or cultural characteristics of particular groups; etc. These characteristics might require the establishment of subtarget groups within the overall income distribution criteria.

The chart on the following page shows the overall income distribution curve for the urban households in Egypt established by the Joint Housing Teams. Although there is undoubtedly a margin of error in the estimation, it illustrates the fundamental points which should be taken into consideration when developing a housing strategy.

It is unlikely that Cairo's income distribution curve would follow the national curve exactly. It is probable that Cairo's actual income distribution would tend to be more favorable than that of the nation as a whole.

The purpose of identifying target groups by income levels is to permit a comparison of the housing units to be provided against the abilities of the households to pay. For example, a public housing unit costing LE 2,800 can only be afforded without subsidy by families earning at least LE 1,062 per year (assuming financing for 30 years at 6.5 percent interest). Huge subsidies would be required to provide a substantial number of such housing units for most middle- and lower-income households. On the other hand, the present average charge to a household for a public housing unit is LE 3 per month (which is supposed to include maintenance as well). Some 64 percent of the households have the ability to pay more than is presently charged.

ESTIMATED NATIONAL ANNUAL INCOME DISTRIBUTION EGYPT'S URBAN POPULATION, 1977



It can be concluded, therefore, that the costs per dwelling unit need to be reduced and the recovery payments increased to the actual ability to pay in order to maximize the number of units which can be built with the capital investment available.

THE OBJECTIVES OF AN OVERALL PROGRAM

In response to the three reports and the general urgency of the housing problem in Egypt, a set of working objectives were agreed upon by the combined joint teams during the July 1977 review of the draft reports. These objectives were designed to guide future housing programs to be undertaken in Egypt both domestically and with international assistance by defining the broad scope, direction, and thrust of housing sector activities.

The following is a summary of the overall objectives, the program policy objectives, and the program action objectives which were agreed upon.

Overall Objectives

1. The overall objective of the Egyptian/AID program is to enhance the ability of the entire Egyptian housing sector (public and private) to respond to the shelter and community development needs of the urban population, particularly for low-income households. ^{1/}

2. The concept of relating specific housing action "projects, programs, and policies" to specific target groups will guide all joint program work and should be used by Egyptian Government agencies to define all other housing sector actions.

^{1/} "Low-income households" are defined as those below the 50th percentile on the urban income distribution curve as contained in the joint report or as modified in the future.

Program Policy Objectives

1. The use of subsidies in public-sector-financed or constructed housing projects should be reduced by:

1(a) Scaling standards of plot size, infrastructure, house construction, and related facilities to specific target group beneficiaries;

1(b) Seeking cost recovery from the target group at its ability to pay.

2. Housing subsidies should be distributed according to the ability of families to pay and should be provided in a form which clearly reveals to the beneficiaries and to government policymakers the extent of the subsidy.

3. In order to facilitate the development and expansion of the housing finance system, a rational structure of interest rates should apply to all housing finance. To accomplish this, the interest rate used in cooperatives and public-sector-financed projects for either sale, lease, or in establishing economic rents should be equal to, or at least pegged to, the mortgage rate established by the Central Bank of Egypt.

4. Public sector funds mobilized domestically and internationally to finance housing and related infrastructure and facilities should be kept separate from general public sector funds for accounting purposes. Financial recoveries from beneficiaries of public-sector housing programs should be returned to designated housing agencies for relending such funds for further housing development and related housing-sector operations.

5. Workable procedures should be established to permit and encourage the mobilization of private savings to be invested in the housing sector through formal housing finance mechanisms.

6. The programs supported should facilitate increased private-sector participation in all aspects of housing and should provide maximum opportunities for self-help, individual, and community initiative from target group households.

7. Lower and more flexible planning and building standards based on people's needs and existing social and economic conditions should be developed.

Program Action Objectives

1. The Egyptian Government will formulate a national housing and land policy incorporating the objectives.

2. The Egyptian Government will prepare, with AID technical assistance after completing its national housing and land policy, a national housing and urban land plan. The national housing and urban land plan should be coordinated with the national economic development plan.

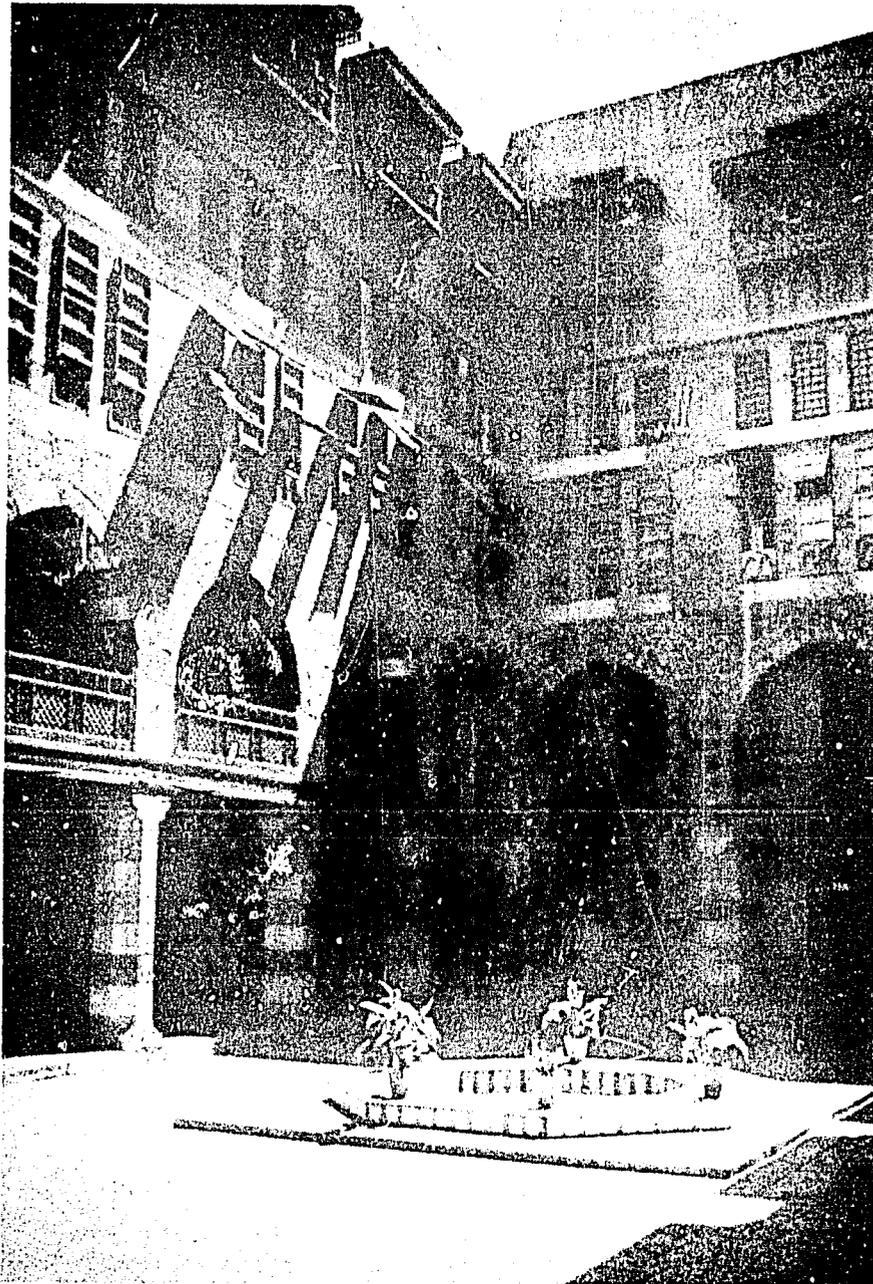
3. A specific housing program should be prepared to consist of projects in new urban settlements, the upgrading of older neighborhoods, and other related activities such as building materials and housing finance. The projects will be compatible with the objectives listed above and will:

3(a) Involve the introduction of new, innovative, site planning and physical design solutions which will substantially lower the per capita costs of infrastructure and housing below current public sector practice in Egypt, by reducing dwelling unit sizes on the average, lowering infrastructure standards, increasing densities where appropriate, and utilizing less costly construction techniques.

3(b) Introduce related social and economic programming within project areas with an objective of responding to the comprehensive needs of the neighborhood. Therefore, components to be considered for possible inclusion in some form might include: urban community development, education, health, nutrition, job generation and income enhancement, access to credit facilities, community participation and self-help.

3(c) Consider multiple delivery systems for the projects, through involvement of different public and private entities, alternative financial mechanisms, and appropriate procedures to involve the private sector, the existing and future residents, and the informal sectors of construction and commerce.

The basis for formulating these objectives were the recommendations contained within the reports on housing finance, land use policy, and housing and community upgrading for low-income Egyptians. Brief summaries of these reports are included in the remaining sections of this report.



The successful upgrading of wikala el Ghairi shows the potential for such structures. This type of effort increases and upgrades the housing stock, preserves valuable historic structures, and revitalizes the old area of Cairo.

HOUSING FINANCE

In Egypt today, and particularly in Cairo, all indications point to a strong unsatisfied demand for housing. Whatever the housing shortage, it is clear that even when land and production bottlenecks have been removed, these families will not, in the main, be able to purchase housing without access to long-term financing.



SAVINGS MOBILIZATION

A variety of indications point to a strong potential for mobilizing private savings to provide the basis for a broad program of long-term housing finance. To illustrate, postal savings deposits have grown from LE 119.2 million in December 1974 to LE 139.4 million in September 1976, reflecting an average annual rate of growth of 9.7 percent. Similarly, savings certificates, which are in some senses equivalent to bonds, have grown from LE 236.3 million in 1974 to LE 301.5 million in April 1976. Time and savings deposits with commercial banks have also grown substantially, from LE 513.9 million in December 1974 to LE 709.2 million in June 1976.

Moreover, as the proportion of currency outstanding to the total money supply remains relatively high at 42 percent in 1976, there exists a strong potential for attracting new savings into the organized, formal financial sector.

The Central Bank and banking system law (Law No. 120 of July 1975) removed ceilings on interest rates from the legislative field and gave to the Central Bank the authority to adjust ceiling rates in light of existing market conditions.

The Central Bank has since then gradually revised deposit interest rates toward more realistic levels and the exemption from taxation of interest earnings should produce a substantial increase in the incentive to save by increasing the effective rate of return to the saver.

INTEREST RATE CONSIDERATIONS

The process of reestablishing a market system is difficult. A case in point is the relationship between reform of the financial system and the terms upon which members of housing cooperatives have been permitted to borrow for home finance through the General Authority of Building and Housing Cooperatives (GABHC).

As an inducement to the formation of housing cooperatives, the GABHC has obtained financing from commercial banks at prevailing market rates of interest for relending to housing cooperatives at a reduced rate, the difference between the two rates being absorbed by the government budget as an interest rate subsidy. In 1976 the GABHC was able to borrow at four and one-half percent and relend at three percent, but presently it has been offered only the more realistic rate of seven percent for loanable funds. Without an upward revision in the rate of interest which the GABHC charges the cooperatives, the differential between the two rates will constitute a burden on the government budget which will grow, over time, to enormous proportions as the GABHC expands its activity in the housing sector. 2/

INSTITUTIONAL MECHANISMS

The GABHC represents, at present, the principal institutional means through which middle-income families can obtain the financing to purchase a home. GABHC on-lends government budget allocations and the proceeds of commercial bank loans.

Although commercial banks do provide long-term financing to the GABHC, their direct housing loans to individuals remain inconsequential and are short-term.

Two specialized banks, the Real Estate and Credit Bank (Credit Foncier) and the Arab Land Bank, although specifically charged with the responsibility for real estate and residential

2/ For example, in 1976 under the old terms of borrowing at four-and-one-half percent and lending at three percent, the interest rate subsidy implied for a LE 5,000 loan for 15 years was LE 701. Under 1977 conditions, the interest rate subsidy borne by the government for the same LE 5,000 loan for 15 years has grown to LE 1,952. The subsidy element to government therefore has grown by 178 percent for all GABHC loans.

financing, have not responded to the need for long-term housing finance on a scale even approaching the potential demand. The assets of the Credit Foncier amounted to only LE 56 million at the end of 1976 -- the same as in 1974.

Two factors appear to have contributed to the dormant state of the Credit Foncier in the past. ^{3/} First, the Central Bank has prohibited the Credit Foncier from accepting deposits from any economic entity other than insurance companies. Second, the management of the Credit Foncier has not seen fit to expand its issuance of bonds.

A new innovation is the establishment, under the Ministry of Housing and Reconstruction, of the National Housing Fund. The National Housing Fund will obtain funds from a variety of sources for on-lending to the governorates and the housing cooperatives to finance the purchase of "economic" or "utility" housing, ranging in size from 20 to 60 square meters per unit. Chief among these sources will be the national government's budget and the issuance of bonds. For 1977, the National Housing Fund has programmed LE 15 million from the government budget and LE 10 million from the sale of bonds. Compulsory purchase of National Housing Fund bonds in an amount equal to 10 percent of the cost of construction, excluding land cost, will be required of the builders/owners of housing units costing more than LE 50,000. Moreover, insurance companies will be required to place in National Housing Fund bonds a high, but as yet undetermined, percentage of their reserves.

National Housing Fund bonds will bear a tax-exempt coupon rate of six percent over 20 years.

The Fund is to receive the proceeds of loan repayments and will, therefore, be a permanent fund for housing finance. Annual appropriations from the government budget are expected to continue for some years, so that capitalization will increase significantly in the early years, at least.

RECOMMENDATIONS

The recommendations which follow represent the best mutual judgment of the Joint Housing Team for Finance as to the means of establishing such a viable housing finance system.

^{3/} Significant changes have taken place in the Credit Foncier since the writing of the Housing Finance Report which appear to have revitalized the institution.

Credit Foncier

The Credit Foncier occupies the space in the financial system reserved for long-term housing finance specialization. This institution should therefore be an integral part of ongoing efforts to address the housing problems of Egypt.

1. It is recommended that the Central Bank lift its regulations regarding the acceptance of deposits by the Credit Foncier and permit the Credit Foncier to accept notice, time and savings deposits (but not current accounts) on the same terms and conditions offered by commercial banks. It is further recommended that the Credit Foncier be permitted to accept such deposits in foreign currency as a means of attracting savings from Egyptians working abroad. 4/

2. Pending the outcome of the public acceptance of National Housing Fund bonds, it is recommended that the Credit Foncier not undertake a new issue of its own lottery bonds, but should prepare an issue and stand ready to offer them for sale, should the combined market for savings certificates and National Housing Fund bonds remain strong after the full subscription of the Fund's bonds has occurred.

3. It is recommended that the Credit Foncier undertake the sale and administration of the proceeds of the National Housing Fund bonds in the capacity of fiduciary agent for the Board of Directors of the National Housing Fund. 5/

4. Although the Credit Foncier is presently in sound financial condition, it is recognized that its internal operating procedures should be modernized to offer maximum convenience and efficient service to its clients and customers. The key elements of such a program would include: 6/

4(a) Restructuring the Board of Directors to include representatives of the Ministry of Housing and Reconstruction, the National Housing Fund, the General Authority of Building and Housing Cooperatives, and the Central Bank.

4/ A proposal implementing this recommendation is now in preparation by the Credit Foncier.

5/ Initial steps to implement this recommendation have already been taken.

6/ Initial actions have already been taken to implement these recommendations.

4(b) Streamlining teller operations and loan processing procedures, including wider latitude in loan approval for branch managers.

4(c) Expanding the hours of operation to facilitate customer access.

4(d) Developing and implementing an advertising and promotion campaign.

4(e) Modernizing the physical facilities of the Credit Foncier.

4(f) Expanding the branch network to include one branch in the capital city of each governorate.

General Authority of
Building and Housing Cooperatives

As a developer of housing projects, the General Authority of Building and Housing Cooperatives (GABHC) represents a potential force for solving low-income housing problems in Egypt. GABHC's capacity should be directed toward low-income housing.

1. It is recommended that the GABHC establish a relationship with the Credit Foncier, through GABHC representation on the Board of Directors of the Credit Foncier and by increasing its reliance on the Credit Foncier as a source of long-term loans for housing cooperatives. 7/

2. Through an alliance of the GABHC and the Credit Foncier, it may be possible to reduce the seven percent cost of funds now being quoted to the GABHC, particularly if the Credit Foncier were to be successful in attracting deposits, the weighted average cost of which would be less than the six percent rate to be paid on National Housing Fund bonds. Under the present structure of deposit rates, however, it would not be possible to reduce the lending rate below six percent without incurring losses.

It is recommended that the three percent rate at which the GABHC currently on-lends to members of housing cooperatives

7/ Discussions to implement this recommendation are underway between the Credit Foncier and the GABHC.

be raised, in recognition of the changes which have taken place in financial markets. This action is essential to eliminate a potentially significant distortion in the structure of interest rates which would limit the flow of funds into housing.

It is recognized that political and economic conditions now existing in Egypt may preclude the elimination of subsidies altogether. At the very least, however, it is recommended that the form of the subsidy be changed from an interest rate subsidy to a one-time or "write-down" subsidy in the form of a cash grant to the purchaser or absorption by the government of certain costs, such as land and/or infrastructure costs, so as to reduce the effective purchase price of the housing unit.

3. It is recommended that the GABHC give priority to "economic" housing in its housing development activities so as to spread the available resources over the largest feasible number of households.

It is further recommended that GABHC loans to cooperative memberships bear a relationship to the members' ability to pay.

The National Housing Fund

The National Housing Fund represents a significant new initiative in the field of housing finance in Egypt, particularly for "economic" housing. The National Housing Fund promises to become a central element in the housing finance system of Egypt.

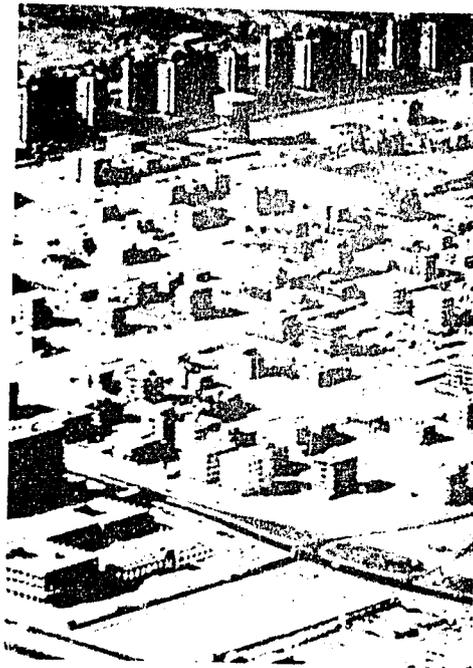
Although the Fund is to draw revenue from a variety of sources, it is fully expected that government budget allocations and the proceeds of bond issues will be the most important sources in the near term.

1. In order to both augment and diversify the major sources of funds for the National Housing Fund, it is recommended that consideration be given to allocating to it that portion of the profits of public sector enterprises which is presently withheld as a fund for workers' housing.

2. It is further recommended that the Fund's lending rate accurately reflect the cost of funds in the market to avoid distorting the interest rate structure.

URBAN LAND POLICY

Egypt is presently experiencing rapid urban growth. There is a lack of serviced land for all potential urban uses, especially for housing. The situation is intensified by the absence of an overall land use policy or a systematic approach to the present and future development of urban land. There are four major contributing factors to be considered:



1. There is a lack of an appropriate range of planning standards that would allow different standards for different uses as well as permit coordination of project preparation.

Egypt does not currently have an overall planning framework through which specific projects are related to city-wide plans for future development. Thus, urban growth occurs on an ad hoc basis. When enacted, the proposed planning law would provide such a framework. In addition, the new building regulations allow the governorates to set different building standards for different areas of a city.

2. The existence of rent controls discourages private building while encouraging relatively well-off persons to remain in subsidized apartments.

Rent control cannot be eliminated in the short run. However, the long-term effect of such controls has been to limit the supply of rental housing. The low rents and the inability to evict tenants has led to a neglect of building maintenance which is causing health and safety problems.

3. The existence of land speculation is intensified by a lack of taxes or other penalties for holding vacant or underutilized land.

The present system of urban land taxation based upon the annual rental value of all occupied buildings is related directly to rent control, and the amount of tax collected is thus small and not closely related to the present value of the

land and the building. There is no tax on the gain in value of property when it is sold although a vacant land tax has been proposed. The only fee assessed is a transfer fee for re-registration of the property. Thus, there is no major incentive to force use of developed land.

4. The availability of land for development must also be considered. Small rural villages near Cairo have been engulfed by informal settlements to the north, west and south of Cairo. Much of this encroachment has taken place on agricultural land.

Government policy is to restrict new development on agricultural land (north and west of Cairo) and to promote new development on "desert land" to the northeast and southeast.

The land tenure system in Egypt is deeply rooted in Islamic and Ottoman traditions. Foremost among these inherited institutions is the *awqaf*, which was originally a form of charitable endowments which evolved during the medieval period. The *waqf* ministry became the holder of vast properties, particularly in the urban areas. A general organization for *awqaf* was established for the purpose of administering these lands.

The significance of the *awqaf* as a key factor in urban development is highlighted by the fact that some of the most valuable urban lands in Cairo are *waqf* lands. Any development scheme which involves housing rehabilitation, street widening, establishment of community facilities and open spaces in the older areas will have to be closely coordinated with the *waqf* authorities.

The activities of the *awqaf* in the housing sector have been rather limited. Yet the mounting demand on urban land and the growing housing shortage are creating great pressure to put these resources to better use in the provision of public facilities and services, including housing in low-income areas.

The solution to these problems can only come from a well-structured national urban land policy, including short-term and long-term planning for future growth. Such a policy should emphasize the use of desert lands rather than agricultural lands. It should use policies regarding housing and water and sewer facilities to structure development and, thus, order present "informal development."

RECOMMENDATIONS

In the Ministry of Housing and Reconstruction (MOHR), an appointment should be made at deputy minister level. The duties should include: authority over the land planning, land development and housing provision process; coordination with the General Organization for Physical Planning of the Department of State Lands, and the Department of Housing Design in MOHR; and liaison with water and sewer authorities and with land development and planning operations carried out by a proposed land development agency (see below), the governorates, and the housing companies.

Given the recent formation of the Agency for Reconstruction and New Cities reporting to the Prime Minister (which includes the General Organization of Physical Planning), coordination would be required between a new deputy minister and the head of this new agency.

Land Development Agency

Early establishment of a land development agency (LDA) is a major recommendation. This agency should be specifically charged with ensuring an adequate supply of urban land in accordance with national urban settlement and urban growth policies. This agency would be responsible for coordination of the land development processes currently carried out on an ad hoc basis by the governorates, the public sector development companies, private individuals, and the national government ministries (particularly the Ministry of Housing and Reconstruction and Ministry of Awkaf).

The agency could function either as a general organization under the Ministry of Housing and Reconstruction or as a semiautonomous public corporation. The semiautonomous corporation would be the favored form, except for government regulations which require that almost all of the profits from such companies must go back to the public treasury. Pending a change in these regulations, it is recommended that a LDA be established for the present as the General Organization for Land Development under the Ministry of Housing and Reconstruction.

1. The Ministry of Housing and Reconstruction could give the LDA the authority to expropriate land, although this authority has currently been delegated to the governorates. Land can be expropriated not only for public services, such as road widening, but also for the replanning of an existing area (Law No. 27 of 1956).

The power of formal expropriation should also remain with the governorates, although the money to pay compensation for such takings might come, in whole or in part, from the General Organization for Land Development.

2. The LDA would be responsible for planning and subdividing land in coordination with the Department of Housing and Public Utilities in the governorate concerned.

3. The sale of lands to potential builders of dwellings, with restrictions on its later use, would appear preferable to long-term leaseholds.

The sale of state-owned land by the LDA administering the Land Development Fund presents a conflict with the local government law (Law No. 52 of 1975) which grants revenues from such sales to the governorate.

4. It is proposed that the LDA should solely concern itself with land and that it should leave housing construction to other public agencies, housing companies, or individuals.

5. The LDA should charge other public agencies market rates for developed land provided. Even though this represents an intergovernmental transfer, it is recommended that it be a regular cash transaction, because of the nature of LDA financing. Anything less than full market rates would lead to decapitalization of the LDA.

6. The LDA should provide land to private-sector land users for both residential and nonresidential purposes, according to overall development plans. Sales or leases to private-sector users should be oriented to generate surpluses for the LDA.

7. The low-income land users will constitute the largest group for which land should be developed. For such users, the LDA should provide developed lots ready for building. The standards for streets, lot sizes, and infrastructure should be such that the cost of the lots can be recovered from the users without undue financial hardship. Infrastructure may be improved incrementally, as the ability to pay of the resident permits.

Financing the LDA

A Land Development Fund should be established. It should be similar to the National Housing Development Fund established in 1976 under the Ministry of Housing and Reconstruction.

1. This fund should receive annual capital grants from the national budget during the first five to eight years of its operation, until its revenues exceed its outlays.

2. As with the National Housing Development Fund, the Land Development Fund should have the authority to borrow from banks, to receive donations, to receive funds from international sources, and to float bonds.

3. The initial capital for the fund and revenues from additional sources, including land bonds, short-term loans, special-purpose grants, gifts of land, land readjustment and revenues from the LDA's own operations, should be used exclusively for land development. Revenues from land sales would then also be placed in the fund with the use of this money restricted to land development.

4. The administration of the fund would be under the Ministry of Housing and the General Organization for Land Development, assuming this is the name given to the LDA.

Other Recommendations

1. Pass the proposed planning law to provide the basis for development of general plans and strengthening of the General Organization for Physical Planning of the Ministry of Housing and Reconstruction. Amend the proposed planning law to provide a specific section that would allow development of a range of minimum standards for the particular types of subdivisions in a city. Establish specific building standards for different types of areas (in accordance with the new building regulations established under Law No. 106 of 1976) which allow a governor to set different standards depending on social and economic conditions.

2. Reduce land speculation through a capital gains tax on the sale of land or buildings with higher rates for land than for buildings. Enact the proposal which would allow the government the right of first refusal on land sales, as if it were the neighbor (right of *shuf'a*).

Reduce land speculation through the development of an annual property tax, in which the tax would be either a site value tax on the value of land alone or a tax in which higher rates were placed on land value than on the value of buildings. Enact the proposed two percent annual penal tax on vacant land. The assessments required to implement such a tax could later be used to carry out the property tax system.

3. Refine mechanisms available under existing law for land adjustment to allow redevelopment of existing districts where there are a multiplicity of owners.

4. Allow the real estate tax to be set higher in cities such as Cairo or Alexandria, as a method of discouraging industrial development and population increases in those cities.

5. End the public rental housing program which provides relatively larger units to a few households with a significant subsidy per person. Instead, adopt a policy of building core housing for sale to lower-income groups of the population. Such an approach would be part of a comprehensive policy of providing land and housing for each income group in the population. 8/

6. Consider procedures to simplify the process -- reducing the number of steps and reducing the fees both for land registration and for obtaining building permits. Such a step might be a requirement that a sketch of the land rather than a surveyed map is sufficient.

7. As rent control is eased, introduce an annual site value or property capital value tax to control land speculation and produce land revenue for government. When such a tax is fully implemented, it would eliminate the need for a separate penal tax on vacant land. However, the proposed capital gains tax on the sale of land and buildings should be retained as a permanent part of the tax system.

8. Strengthen the ability of the governorates to carry out development functions by providing them with sufficient administrative and financial capacities. In the long run, it is recommended that they be given all incomes from real property taxation and that the governor be encouraged to raise taxes as he is authorized to do under the new local government law (Law No. 52 of 1975).

8/ A start toward such a policy has been developed by a regulation in which 70 percent of public housing units must be 45 square meters or less in size and be targeted for households with annual incomes of LE 420 or less, while the remaining 30 percent of public housing units must be 60 square meters or less in size and be targeted for households with incomes of LE 600 or less per year.

HOUSING AND COMMUNITY UPGRADING FOR LOW- INCOME EGYPTIANS

The present need for housing in urban areas is about 1.5 million dwelling units. Another 1.6 million units will be required during the next 10 years.

The housing problem is especially severe in Cairo. Alexandria also has severe housing problems for lower-income families, as do most of the smaller towns.

The approach to the housing problem of low-income families in the past has been the construction of heavily-subsidized walk-up apartment buildings, using several standard plans for urban projects throughout Egypt. The apartments are then rented for LE 1 per room to low-income and middle-income families, frequently from the public sector. There is limited maintenance and collection of monthly rents is uneven. Many occupants of these apartments could easily afford to pay considerably more for housing.

New approaches are needed to make these scarce resources serve more people and to produce housing which responds to the needs of the occupants and fits their traditional social and cultural patterns.

The overall housing problem is further aggravated by the shortage of building materials and shortages of skilled labor.

Large areas of the central city of Cairo are extremely crowded with limited sanitary services and, as a result of rent controls and other factors, at least 30 percent of the existing housing stock is rapidly deteriorating. An estimated 12,000 units are lost each year through structural failure. On the fringes of Cairo and other urban areas, especially during the past 10-year period, there has been a development



of "informal settlements" ^{9/} as young couples move out of the central city slums and as new migrants come in from the rural areas. The "informal settlements" take the form of "squatters" on government land, or private landowners subdivide and sell small plots informally to avoid official approval from municipal authorities. Many such areas lack water and sewers, proper drainage, or necessary community facilities, such as schools and health centers.

INFORMAL SETTLEMENT PROCESS

The government, by Law 29 of 1966, legalized subdivisions and buildings in contravention with existing codes and has approved the introduction of utilities to these areas in accordance with priorities and budget limitations. However, this law has rarely been used.

This law established the precedent which allowed the informal sector to flourish, feeling as secure as the formal sector. The impact of the law in terms of providing housing for low-income people is positive.

The informal sector accounts for over half of current construction activities. It is worthwhile to review the process whereby informal housing develops, as future government housing programs should be focused on assisting this process and facilitating housing construction and repair in both new community areas and in upgrading existing settlements.

Securing the Land

The informal sector is most active along the urban periphery where vacant land is readily available. Private owners subdivide their land in contravention to existing regulations. On the average, lot sizes are about 80 square meters. Rarely do they exceed 120 square meters or fall below 65 square meters. Prices vary between LE 5 and LE 15 per square meter. Where access to water and electricity is possible or visibly forthcoming in the near future, prices are never less than LE 10 per square meter.

A convenient alternative to buying is found through squatting on government land, with the hope of ultimately obtaining title if not evicted during a 15-year period. Where uncontrolled settlements grew, land values doubled in less than

^{9/} Informal settlements are urban settlements built outside the laws and regulations concerned with urban development.

10 years. Agricultural lands which are easier to develop than desert lands experienced even greater increases in value.

Constructing the Houses

There are two types of construction activities going on in the informal settlement areas: One activity is construction of larger structures, three- to five-story walk-ups, built by local entrepreneurs who are for the most part contractors. Because of the various methods used to circumvent rent control laws, this type of investment can prove very profitable. The other activity is construction of smaller structures, one- to three-stories, at various stages of completion, built by individuals for their own shelter needs. Although rental income can be, and often is, generated at later stages through vertical and/or horizontal expansion, the primary purpose is to provide housing for the individual and his family. The method of construction is as follows: 10/

An agreement is made with a local mason to build the masonry shell for two or three rooms, a cooking area, and a bathroom. At prevailing prices, the total investment would be of the order of LE 100 to 200, according to the number of rooms erected in this first stage.

The desired roof is reinforced with concrete, but because of the magnitude of the investment involved, reinforced concrete roofs are often delayed until the owner wishes to add a second story. Alternative roofing systems are adopted in the interim. All these temporary systems rely on wood joints covered with a variety of materials -- palm, straw mats, canvas, and asbestos panels. Roofing by this method costs approximately LE 10 per square meter.

The finishing of the dwelling typically means that the outside of the structure is left unplastered and that the inside is given a brown coat and whitewashed.

Connection to utilities varies according to the location of the settlement. Generally, electricity can be secured in all but the very remote fringe areas. Water connection to a nearby main is provided by local contractors at a cost of LE 70 to 110, depending on the length of the connection. The sanitation system is usually a cesspool provided by the local contractor at a cost of about LE 100.

10/ The cost estimates are based on several interviews with residents of typical informal settlements.

Financing the Dwelling

Two methods of financing are available to the prospective home owner: 1) the accumulation of savings; and 2) the credit offered by local landowners and contractors. Home owners usually resort to both methods, according to the need, urgency and the total expenditure involved. The cost of the average 60 square meter dwelling unit is about LE 1,500.

It is apparent that few owners can finance the whole house out of savings, unless it is built in stages over an extended period of time. Financing is available for each item independently.

Landowners normally require a 20 to 25 percent down payment on the lot and extend monthly installments of LE 5 to 10 as necessary over five to six years. An effective interest rate of about 12 percent per annum is actually charged.

Building contractors offer financing with 20 to 25 percent down payment and installments of LE 10 per month over a maximum of four to five years. If an allowance of 20 percent is made for overhead and profit, the effective interest rate charged is of the order of 20 to 25 percent per year.

The minimum seed capital needed to allow prospective home owners to enter the informal housing market is LE 450 to 550. Given prevailing earning capacities, this represents about one year's income, implying savings that have to be accumulated over a period of five to 10 years.

Home owners who have recourse to financing seem to plan their housing expenditures so as to carry an average of LE 15 in monthly installments. Default is rare.

It is not surprising to find many home owners renting a room in their dwellings for LE 2 to 3 per month. If they are fortunate enough to front on a main street, they can rent a room as a shop for LE 5 per month. Then, as soon as they manage to add a second floor, they start earning income by renting apartments for LE 6 to 10 per month, depending on the location, size and facilities involved.

Although theoretically subject to rent control, evasion is the rule rather than the exception. Owners could not economically rent for less than LE 3 per room, while rent regulation committees would fix rent at LE 1 per room. Tenants in uncontrolled settlements expect to pay both key money and unregulated rents. Key money ranges from LE 50 to 200 for a room renting at LE 3 per month. In public housing, which rents for LE 1 per room, key money varies between LE 150 and 300.

RECOMMENDATIONS

The development of several demonstration projects directed at improving the shelter and general well-being of low-income families is recommended. The program would include upgrading of existing "informal settlements" in the greater Cairo area, upgrading and rehabilitation in central Cairo, and development of a "growth pole" project in Minya or Qena in upper Egypt.

The projects should be comprehensive in nature, including the provision of home improvement loans, water, sewers, electricity, schools, health centers, and other services of high priority to the residents. Vocational training and employment generating activities would be included, along with programs to improve nutrition, child care, and family planning services.

Successful completion of the demonstration projects should result in a shifting of national housing policy toward lower-income groups while reducing the need for heavy government subsidies. By channeling a larger share of resources into upgrading projects instead of only constructing new standard apartment units, many more Egyptians should benefit from the limited financial resources. The projects identified by the joint team are discussed below.

Helwan Upgrading Demonstration Project

Helwan is a growing industrial area south of Cairo and includes several large areas of "informal settlements" where families have squatted on government land or purchased lots from private owners. They build high-density attached housing of permanent materials, one room at a time, over a period of years. Some neighborhoods have water or sewers, but others are without services. Annual incomes are mostly in the LE 300 to LE 600 range, with most heads of households employed in nearby industries.

There is a master plan for the area and the ministry has agreed to upgrade areas on desert land. One or more of these areas should be selected for a demonstration project for the purposes of: 1) directly improving the quality of life for a large number of low-income families; and 2) demonstrating that upgrading of such areas is a more effective way to use scarce housing finances in Egypt as opposed to the present government program; and 3) providing a "training vehicle" for Egyptian housing technicians and officials in the new type of program, so they can develop similar projects in the future.

Helwan Community Demonstration Project

An estimated 80,000 workers commute to the Helwan industrial area each day from central Cairo and from the northern suburbs on the opposite side of Cairo. The master plan for the area includes four new communities on desert land east of Helwan for more than 100,000 families.

One of the four areas could be used for a new community demonstration project to provide homes for about 12,000 families. The purpose of this project should be to substantially add to the housing stock of the Helwan area for low- and middle-income families of industrial workers. It could reduce the strain on the transportation system from Cairo and the northern suburbs and could be designed in such a way as to demonstrate new approaches to responding to the needs and life-styles of the inhabitants.

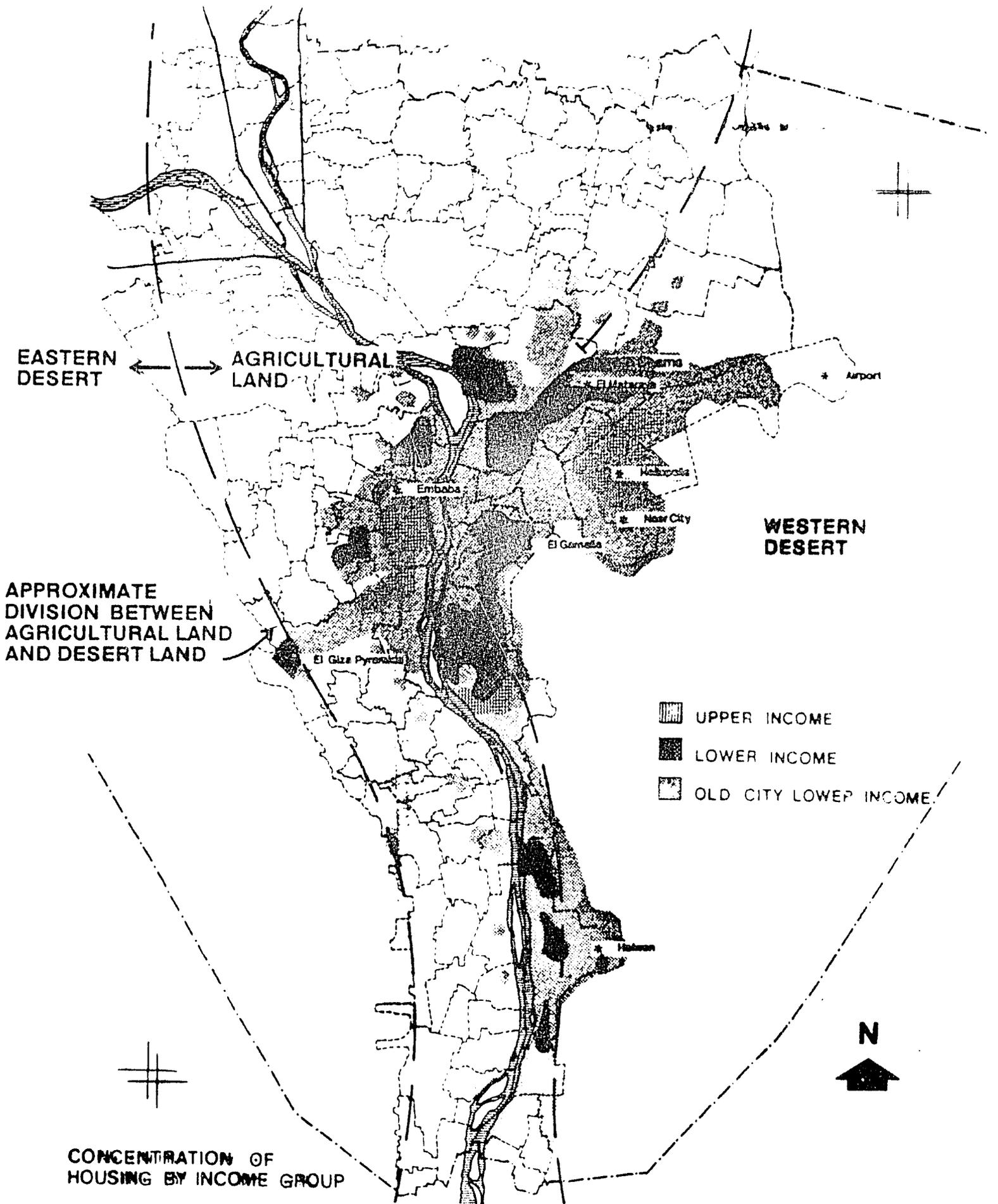
It would be developed in sections, and cooperative ownership would be encouraged as opposed to past rental projects with their inherent maintenance and administrative problems.

Ain Shams/Mataria Community Upgrading

The Ain Shams/Mataria area is located on the northern fringe of Cairo on desert land and is mostly settled by the lower-income groups. The main employment centers are the Shabra-el-Kheima area and downtown Cairo. This project should be similar to the Helwan demonstration project and contain similar components of loans for home repair and expansion, installation of water and sewer and community facilities such as schools, health centers, vocational training, family planning and nutrition. The selection of this area for upgrading would strengthen the Ministry of Housing and Reconstruction's plan to stimulate development in two satellite areas of greater Cairo at the extreme north and extreme south of the currently developed area. This project would improve the shelter and community services for neighborhoods in the area.

Central Cairo Upgrading Project

An estimated three million people live in the central city areas of Cairo in some of the highest density tenement-like structures found anywhere in the world. Little has been done to improve these areas. Major constraints to any improvement in the older areas of Cairo are the rent control laws, the high cost of land, and a lack of vacant land. One area of old Cairo was selected for a preliminary study which indicates that it may be possible to begin an upgrading activity which, if successful, could be repeated throughout the central city.

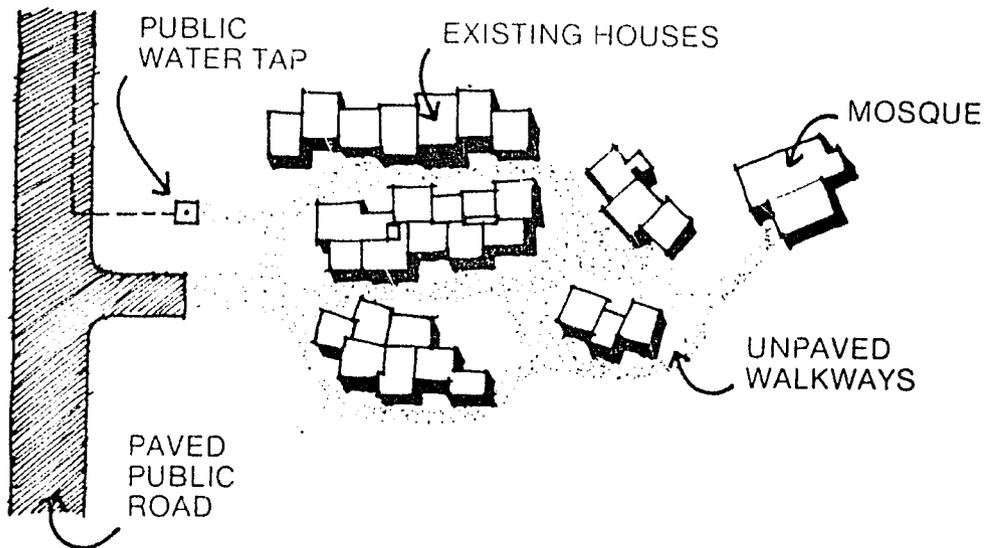


GREATER CAIRO
LIMITS OF URBANIZATION 1977

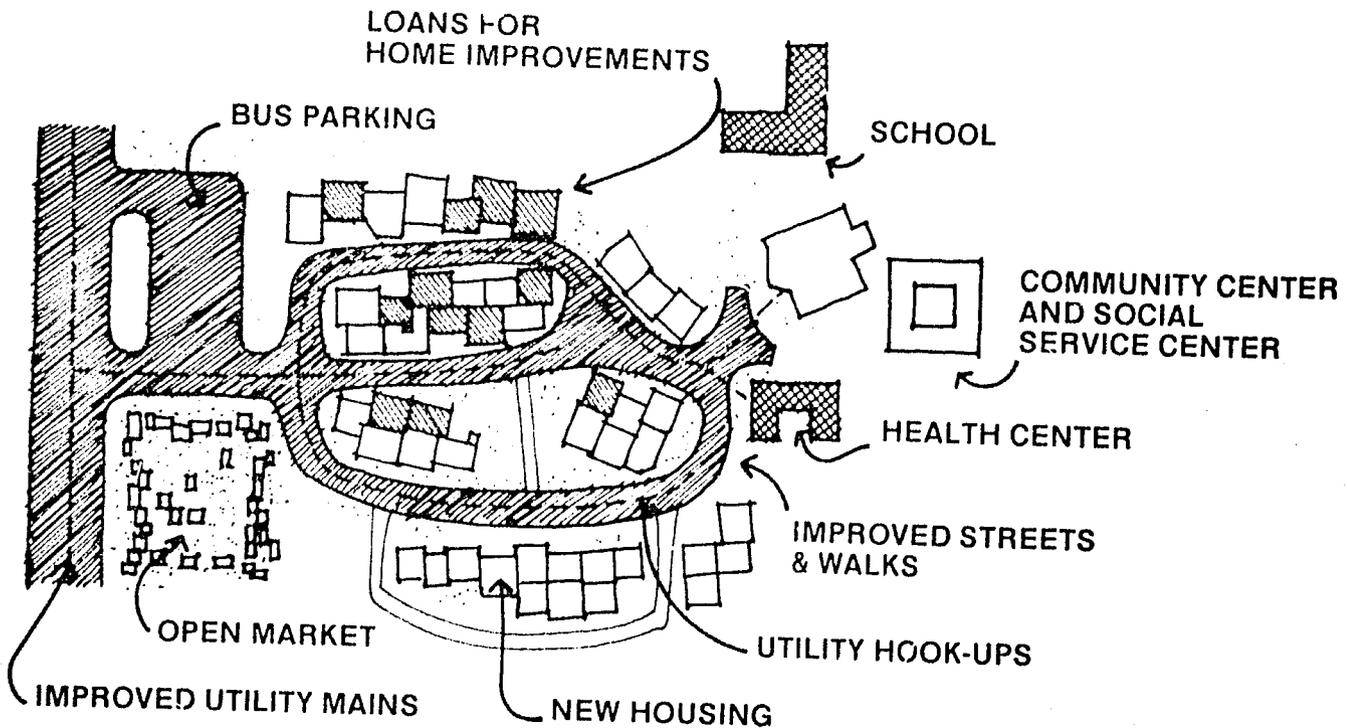


HELWAN UPGRADING PROJECT

TYPICAL VILLAGE/EXISTING CONDITIONS



ILLUSTRATIVE COMMUNITY IMPROVEMENTS



The area selected is a section of the Gamalia area which is one of the poorest and most overcrowded. The larger demonstration project area also includes bazaar areas and many small commercial shops and "back alley" factories that produce handicrafts and other small consumer items. The area also contains some of the most important historical monuments and mosques, many of which have great potential as tourist attractions if they were more accessible and if some restoration were arranged.

At present the overall area is characterized by congested vehicular and pedestrian traffic, overcrowded housing, minimal utilities and community services, and a deteriorating housing stock. On the positive side, it retains a social and commercial vitality and the residents of each subarea have a strong sense of community.

The proposed project would include the following components: water and sewer improvements; loans for repair and expansion of residential structures; construction of new multi-family dwelling units; additional community services -- health, family planning, nutrition, improved circulation for vehicles and pedestrians, restoration of monuments, small-scale tourist facilities -- restaurants; and rest areas.

The approach on the residential repair and construction element would be to convert rental units to ownership by cooperatives or condominiums starting with buildings presently owned by government. There is also some vacant government land which could be used for new construction.

Because of the complexity of this project, it would require an intensive feasibility study before actual funding could be approved.

Growth Pole Projects

The Government of Egypt desires stimulated development of smaller towns in upper Egypt as an effort to reduce migration to Cairo and the delta areas. Two towns were tentatively selected as possible growth pole demonstration areas -- Minya and Quena. Both are located in areas where new industry is being developed. In Minya about half of the total population of 150,000 is presently living in older, deteriorating housing similar to units found in downtown Cairo. An upgrading program would be effective in this area.

The new University of Minya is interested in an outreach program to assist various community activities in the Minya area. It has proposed a type of multi-service community

development center which would be operated by the university to provide health services, child care, and a number of other services to low-income families. It is also interested in vocational training activities. If a project is developed in Minya, the university could play an important role in project implementation.

Building Materials and Construction Equipment

There is a shortage of some basic building materials such as cement, bricks, and pipe. These shortages cause construction delays and encourage higher prices. The feasibility of assisting with the development of plants for "desert clay" bricks, sand bricks, and polyvinyl chloride should be considered. There may be potential as well for simple improvements in traditional brick-making, using asphalt emulsion to stabilize sun-dried clay bricks. It is especially important to develop new types of brick produced from desert sand and clay, to eliminate the current practice of stripping the Nile Valley's agricultural lands for "red brick" production. There is also a shortage of all types of construction equipment from small cement mixers to heavy earthmoving equipment.

Technical Collaboration

The Joint Housing Teams agreed that a technical exchange and training program should be an important part of the development of the programs for housing finance, urban land policy, and housing and community development for low-income Egyptians.