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HOUSING POLICY AND FINANCE IN EGYPT: EXTENDING THE REACH OF MORTGAGE CREDIT

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ABSTRACT

This thesis attempts to address the need for a clear strategy for the supply side in the Egyptian mortgage market. The thesis focuses for the first time on the issues in relation to the role of the bank and non-bank financial institutions in the creation of an effective and sustainable mortgage market that works better for low- and moderate-income households in Egypt as well as the role of these institutions after the mortgage market has reached a certain stage of development.

The key research objectives are as follows: 1) to address why Egyptian housing co-operative societies can be seen as important policy agents to expand the mortgage credit beneficiaries base in Egypt; 2) to evaluate the effectiveness of the Egyptian housing co-operative societies as community based organisations and policy agents; 3) to identify and analyse the various economic, social and political factors influencing this effectiveness; 4) to assess the role of the banking institutions (as contextual stakeholders in the immediate environment of the Egyptian housing co-operative societies) in expanding access to mortgage credit and savings in Egypt; and 5) to identify which institutions constrain most the development of an effective and sustainable level of mortgage credit for low- and moderate-income households.

In order to address these issues and objectives, the researcher reviewed the theoretical and empirical issues associated with the assessment of mortgage credit intermediation models to identify their reach and the limit of that reach and, implicitly, to examine what needs to be done to close the gap on what would be a more accessible mortgage market. Further, from 2008 to 2010, the researcher surveyed and interviewed a group of banking, co-operative and government officers in Cairo, Egypt. Questions regarding their attitudes towards housing policy and finance in Egypt were posed, especially in relation to the provision of mortgage credit in Egypt.

The thesis found that Egyptian banking institutions, as agents in carrying out housing policies and finance, enabled the housing co-operative societies as stakeholders to form expectations towards the results of the new reforms with the same framework as they had done before. The survey and interviews showed that housing co-operative societies were dissatisfied with the expected results of recent reforms in the Egyptian housing and mortgage markets. It appears that resistance to the reforms was caused by the fact that housing co-operative societies were not interested. But the thesis found that the unfair distributive results associated with mortgage credit allocation were resented most by housing co-operative societies.

Thus, the thesis concludes that to extend the reach of mortgage credit, there needs to be a wider strategy to reform the housing and mortgage markets in Egypt that includes strengthening the role of community institutions such as Egyptian housing co-operative societies based on well defined and structured stakeholder framework.

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I originally travelled from Egypt to the United Kingdom to test my conviction and to fuel my ambition as a mid-career professional with a kind support from the United Kingdom government (under the Chevening Scholarship scheme managed by the British Council). My life and experience in the UK moved enormous energies within me and helped me understand where, if at all, I would fit into a professional career and academia.

Near 15 years ago, I met a girl. We ate Egyptian, watched movies, laughed a lot and understood one another. Each morning she and our two lovely daughters would breathe life into me, and I would rise for another day of work and academic labour. They gave me the strength and belief in myself.

This PhD is dedicated to my wife, Noha; two daughters, Farida and Noor; and also my parents. They are my reason. They are all my reason.

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1. INTRODUCTION

1.1 The Focus of This Study

Housing finance is a significant driver of economic growth in developed and developing countries alike. Any housing market includes construction, building materials, equipment, finance and labour suppliers. But the housing market flourishes only where these suppliers and institutions are effective in the provision of housing and finance (Chiquier and Lea, 2009). In terms of housing finance, a well-functioning mortgage market typically has a catalytic impact on the development of housing finance provision through several institutions, such as banking, contractual savings, capital markets and community institutions, that are channelling funds between surplus and deficit agents in the housing and mortgage markets (Sunega and Lux, 2007).

A well-functioning mortgage market should help increase access and affordability in the housing market. Its focus should include enabling adequate supply and sustainable resource mobilization and the provision of finance for housing supply and demand (World Bank, 2005). Further, it should have the ability to overcome obstacles, including lending restrictions, lack of financial infrastructure, legal and regulatory constraints, limited institutional capacity and lack of access to mortgage credit.

1.2 Why Is This Thesis Important?

While the recent reform in the Egyptian mortgage market is a positive step in the development of housing finance provision, mortgage credit should be considered a means to an end. The focus to date in Egypt has been on stimulating demand through extending mortgage credit (Eldin et al., 2004). But the Egyptian mortgage market continues to be limited in its reach, especially in the low- and moderate-income housing market (CBE, 2010). By limited reach, we mean low- and moderate-income households who have no and/or limited access to mortgage products and services. In the absence of a well-regulated, professionalized and institutionalized network of mortgage credit intermediation to serve the high-risk consumer segments in Egypt, access to housing and mortgage credit for low- and moderate-income households remains a major challenge.

On the other hand, the long-term and fundamental imbalance between supply and demand in the housing market has resulted in a dramatic increase in house prices in recent years, driving many low- and moderate-income households into the hard-pressed public housing sector or, alternatively, the informal sector (Fahmi and Sutton, 2008). Thus, more strategies are required to develop a well-functioning and effective system of housing finance provision in Egypt to improve access to housing for low- and moderate-income households. In this regard, many studies indicated that, in order to build an effective and inclusive network of financial intermediation that reaches the under-served households, other sectors would need to be integrated into the network (Torre and Schmukler, 2005, Imboden, 2005, CGAP, 2006, UNCDF, 2006, Bond, 2004, UNCHS-Habitat, 1984a). Thus, this should improve the lives of these under-served households, in particular in the developing and transitional economies (UNCDF, 2006).

This thesis responds to the need for a clear strategy in the Egyptian mortgage market, especially on the supply side. Accordingly, the thesis reviews the issues that are central to the evaluation of mortgage supply models. This review includes the theoretical and empirical issues associated with this evaluation, identifying the reach of mortgage supply models and the limit of that reach and, implicitly, examining what needs to be done to close the gap on what would be a more accessible mortgage market.

In 2004, a United Nations Development Programme (UNDP) report highlighted the important role of the non-government and community-based institutions in Egypt and the need for more co-operation between these institutions and the other agents in the housing market to achieve the desired objectives (UNDP, 2004). But the economic history of Egypt in recent years appears to tell a rather different story. Over the past two decades, the Egyptian government has undertaken an economic reform and structural adjustment programme that has achieved a remarkable transition from a centrally planned, public sector dominated economy towards a competitive, market-based economy in which the private sector, supported by the banking sector, is mainly playing the leading role (CBE, 2010). The objective of this transition is to achieve rapid, efficient and sustainable growth in the different sectors of the Egyptian economy. However, it appears that the role of the Egyptian housing co-operative societies as community-based institutions in the housing and mortgage markets does not remain equally well cited and supported (Rashad, 2008).

In view of the above UNDP report, the thesis also highlights the need for improving our understanding of the effectiveness of institutions and their role in and contribution to the development of the network of mortgage credit provision in Egypt. But why is there a need for such evaluation at all? The evaluation of institutions is neither simple nor without cost. Does Egypt really need a new strategy to extend the reach of mortgage credit through the development of certain institutions? And, if so, does it need to do it now? Could this strategy wait?

1.3 The Arab Republic of Egypt

Egypt is the most populous country in the Arab world and the second-most populous on the African continent. Nearly all of the country's 80 million people live in Cairo and Alexandria or elsewhere on the banks of the Nile delta and along the Suez Canal. These regions are among the world's most densely populated, containing an average of over 3,820 persons per square mile (1,540 per sq. km.), as compared to about 200 persons per square mile for the country as a whole.

Egypt is located on the north eastern coast of Africa, and borders the Mediterranean Sea between Libya and the Gaza Strip. The country has endured as a unified state for more than 5,000 years, and archaeological evidence indicates that a developed Egyptian society has existed for much longer. However, the fact that the country lies in the crossroads of three continents made Egypt an attractive target for many global superpowers that looked for strategic and trading advantages, hence a 5,000-year history of constant invasions, occupations and control.

Figure 1.1 Map of the Arab Republic of Egypt

In about 3,100 BC, Egypt was united under a ruler known as Mena, or Menes, who inaugurated the thirty pharaonic dynasties into which Egypt's ancient history is divided – the Old and the Middle Kingdoms and the New Empire. In 525 BC, Cambyses, the son of Cyrus the Great, led a Persian invasion force that dethroned the last pharaoh of the 26th Dynasty. The country remained a Persian province until conquered by Alexander the Great in 322 BC, ushering in Ptolemaic rule in Egypt that lasted for nearly 300 years. Following a brief Persian re-conquest, Egypt was invaded and conquered by Arab forces in 642. A process of Arabization and Islamization ensued. Although a Coptic Christian minority remained – and remains today, constituting about 10 per cent of the population – the Arab language inexorably supplanted the indigenous Coptic tongue. For the next 1,300 years a succession of Arab, Mameluke, and Ottoman caliphs, beys, and sultans ruled the country.

In 1882, British expeditionary forces crushed a revolt against the Ottoman rulers, marking the beginning of British occupation and the virtual inclusion of Egypt within the British Empire. In deference to growing nationalism, the United Kingdom unilaterally declared Egyptian independence in 1922. British influence, however, continued to dominate Egypt's political life and fostered fiscal, administrative and governmental reforms. During World War II, British troops used Egypt as a base for Allied operations throughout the region. British troops were withdrawn to the Suez Canal area in 1947, but nationalist, anti-British feelings continued to grow after the war.

On 22 and 23 July 1952, a group of disaffected army officers (the "free officers") overthrew King Farouk, whom the military blamed for Egypt's poor performance in the 1948 war with Israel. Following a brief experiment with civilian rule, the free officers abrogated the 1923 Constitution and declared Egypt a republic on 19 June 1953. Lt. Col. Gamal Abdel Nasser evolved into a charismatic leader, not only of Egypt but also of the Arab world, promoting and implementing "Arab socialism" (Campbell and Despard, 1979). He nationalized Egypt's economy. When the United States and the World Bank withdrew their offer to help finance the Aswan High Dam in mid-1956, Nasser nationalized the privately-owned Suez Canal Company (Handoussa, 1993). The crisis that followed, exacerbated by growing tensions with Israel over guerrilla attacks from Gaza and Israeli reprisals, resulted in the invasion of Egypt that October by France, Britain, and Israel. The invasion was reversed by the United States political intervention, and the Canal remained nationalized.

Nasser helped establish the Non-Aligned Movement of developing countries in September 1961; and he continued to be a leading force in the movement until his death in 1970. After Nasser's death, another of the original free officers, Vice President Anwar el-Sadat, was elected President. In a momentous change from the Nasser era, President Sadat shifted Egypt from a policy of confrontation with Israel to one of peaceful accommodation through negotiations. Domestically, he also introduced greater political freedom and a new economic policy, the most important aspect of which was the “infitah” or "open door" (Handoussa, 1993). This relaxed government controls over the economy and encouraged private, including foreign investment. Liberalization also included the reinstatement of due process and the legal banning of torture. Sadat tried to expand participation in the political process in the mid-1970s but later abandoned this effort. In the last years of his life, Egypt was racked by violence arising from discontent with Sadat's rule and sectarian tensions, and it experienced a renewed measure of repression.

On 6 October 1981, Islamic extremists assassinated President Sadat. Hosni Mubarak, Vice President since 1975, was elected President later that month. Mubarak has maintained Egypt's commitment to the Camp David peace process, while at the same time re-establishing Egypt's position as a leader in the Arab world. Mubarak continued to adopt Sadat’s free economic policy and oversaw a domestic economic reform programme to reduce the size of the public sector and expand the role of the private sector (Handoussa, 1992).

Emphasis on import substitution rather than exports, combined with a growing population, rising food subsidy costs, the inefficiencies of a centrally controlled economy and the collapse of oil prices in the mid-1980s, led to the rapid accumulation of external debt, which Egypt found increasingly difficult to service. The budget deficit, inflation and unemployment grew rapidly, while the economic growth rate declined (Galal, 2002). By the end of 1986, Egypt’s external debt had risen to over US$46 billion, inflation reached 25.2 per cent and the budget deficit represented 21 per cent of GDP (CAPMAS, 2007). In 1987, the Government entered into a stabilization agreement with the IMF; however, the agreement was not implemented due to concerns regarding the political and social consequences of the proposed measures (Handoussa, 1992).

Following Egypt’s participation in the Gulf War, various Arab states provided Egypt with approximately US$5.5 billion in grants and wrote off approximately US$7 billion in debt owed to them (CBE, 2010). The United States also forgave approximately US$7.1 billion in military and other debt. In May 1991, a Paris Club agreement was concluded pursuant to which approximately US$20.6 billion principal amount of debt was rescheduled, and a two year special drawing rights (SDR) 234.4 million standby agreement was entered into with the IMF, followed by a US$300 million structural adjustment loan from the World Bank (CAPMAS, 2007). Simultaneously, the government adopted in 1991 a comprehensive stabilization and economic reform program, which it has been reviewing and updating since that time (Handoussa, 1992). The stabilization program is broadly divided into four overlapping phases, with the implementation of the first three phases having been substantially completed (CBE, 2010):

– Phase 1 of the program focused on stabilizing macroeconomic conditions in Egypt, adopting an exchange rate anchor as a framework for its monetary policy and improving Egypt’s external position. Specific aspects of Phase 1 included expenditure reduction, rationalization of subsidies, improvements in administration and tax collection, the adoption of revenue enhancement measures and reducing inflation (Inflation declined from 14.7 per cent in fiscal year 1990/91 to 2.8 per cent in fiscal year 1999/2000).

– Phase 2 focused on further liberalizing the economy and reducing barriers to external trade as well as modernizing the financial system. Specific aspects of Phase 2 included Liberalizing Trade and Investment, Developing the Private Sector and Reforming the Financial Sector.

– Phase 3 focused on the implementation of institutional reforms. Some of the initiatives are still being undertaken by the government including the acceleration of privatization activities, continuing to promote investments and savings, developing capital markets and implementing legal reforms (the Government has submitted to Parliament a draft mortgage law, which has been adopted in June 2001).

– The goals of phase 4 include continued fiscal reform, enhancing the instruments of monetary policy available to the Central Bank of Egypt, increasing the pace of structural reform and enhancing transparency in the regulatory framework. The goals coincide with the economic program and priorities of the Government. The Government also intends to foster export-led economic growth and development. Other goals include promoting human development, improving living conditions for low income groups and developing high skill-based industries.

The 2011 Egyptian revolution and fall of Mubarak's administration, after 30 years in power, ambitious economic reforms and billions of US Dollars of foreign aid, highlighted the shortcoming of the old administration's political system. The survival of Mubarak's administration depended largely on governing Egypt a police state, inefficient and underpaid civil service with weak professional incentives and performance. The civil service not only stands out for its enormous over-staffing (the government employs roughly one-quarter of the total labour force of about 22 million) and weak productivity, but also for its immense political influence in resisting efforts to reform it.

The political status of Egypt at the present time is one of confusion and an unclear future. As a result, the Egyptian economy is going through a critical period as the country transitions to civilian led democracy. GDP has declined by almost 4 per cent and manufacturing 12 per cent. Revenue from tourism has collapsed, putting pressure on the balance of payments, which in turn has sparked a slide in foreign reserves. Spending in excess of revenue requires the state to borrow from either domestic or foreign sources. The fiscal 2013 draft budget estimates that government revenue will total 350.3 billion Egyptian pounds, with 514.4 billion in expenses. Addressing these problems to improve the economic performance and the economic well-being of citizens can facilitate a successful transition.

A positive development following the revolution is that Egyptian officials started to adopt a more participatory and transparent approach in the decision-making process. The transitional government is more open to the idea of the involvement of civil society--service users, think-tanks, private sector, women's groups, non-governmental organizations (NGOs) and other groups of citizens-in planning and decision-making. There is, however, a great deal more to be done in this whole area, especially in terms of effective decentralization of decision-making, and facilitating the role of the more than 14,000 NGOs in Egypt in providing social services and serving as a part of the country's social safety net.

The transitional government needs to support community development programmes to eradicate poverty, extend access to housing and replace the crumbling shantytowns with decent housing, sanitation, schools, and clinics. In the housing sector, given the current lack of effective and sustainable mortgage credit system for low- and moderate-income households, it is important to consider the role of the community sector in implementing a well designed mortgage system to facilitate better housing finance; introducing new financial services; introducing new instruments; and assuring more community-based credit (Li, 2010). The establishment of a community support system can help in development of community savings programs and improvement of the credit risk profile of low- and moderate-income households (United Nations Economic Commission for Europe Committee on Human Settlements, 2005). This proposition requires the transitional government to select community-based organisations and financial institutions with proven track records that may improve the effectiveness and sustainability of the mortgage credit system for low- and moderate-income households.

Based on the above, it is timely and opportune for this study to explore some of these issues and ways to increase access to mortgage credit and to expand access to savings in Egypt through community-based organisations, such as the housing co-operative societies. In over 60 years, around 3000 housing co-operative societies have been established for half million dwelling units. Almost one third of the Egyptian population are members of housing co-operatives. In 2008, the members' housing investment exceeded 17 billion Egyptian pounds. Thus, studying the strengths, weakness, challenges and opportunities of the Egyptian housing co-operative societies would provide lessons and conclusions drawn on the Egyptian experience to the other countries still in transition. As is clear, Egypt passed rapidly through several stages of economic and political transitions based on which it offers the opportunity to draw conclusions on the effectiveness and sustainability of co-operation as a tool of socio-economic development.

1.4 The Objectives of This Thesis

The overall research objective is to evaluate and explain the effectiveness of community and financial institutions in the provision of mortgage credit in Egypt. This objective helped structure the research questions with the following purposes: The key research objectives are as follows: 1) to address why Egyptian housing co-operative societies can be seen as important policy agents to expand the mortgage credit beneficiaries base in Egypt; 2) to evaluate the effectiveness of the Egyptian housing co-operative societies as community based organisations and policy agents; 3) to identify and analyse the various economic, social and political factors influencing this effectiveness; 4) to assess the role of the banking institutions (as contextual stakeholders in the immediate environment of the Egyptian housing co-operative societies) in expanding access to mortgage credit and savings in Egypt; and 5) to identify which institutions constrain most the development of an effective and sustainable level of mortgage credit for low- and moderate-income households.

In addressing the research questions, the thesis evaluates and explains the effectiveness of the current network of institutions in the provision of housing finance in Egypt. The thesis assesses the role of banking and co-operative institutions in extending the reach of mortgage credit and improving access to housing finance for Egyptian low- and moderate-income households. This is in line with the Habitat Agenda – the goals, principles, commitments and global plan of action adopted at the Second United Nations Conference on Human Settlements (Habitat II), convened in Istanbul, Turkey, 3-14 June 1996, which contains extensive references to the role of co-operative institutions:

> ‘Governments should take appropriate action in order to promote, protect and ensure the full and progressive realization of the right to adequate housing. These actions include, … (c) Adopting policies aimed at making housing habitable, affordable and accessible, including for those who are unable to secure adequate housing through their own means, by, … (iii) Supporting community-based, co-operative and non-profit rental and owner-occupied housing programmes’ (Habitat Agenda, paragraph 61).

Furthermore, the Agenda notes that co-operative institutions have an important role in terms of promoting social integration and removing barriers in the provision of housing. These concerns are highlighted in the theme of the 80th International Co-operative Day / 8th United Nations International Day of Co-operatives (6 July 2002) – “Society and Co-operatives: Concern for Community”. In his message on this day, the then United Nations Secretary-General Kofi Annan noted that:

> ‘Co-operatives support social cohesion and stability and give life to the concepts of corporate responsibility and citizenship. They provide essential services, ranging from housing to health care, that strengthen community development’.

The message of the International Co-operative Alliance (ICA) on this day reflected these views, and went on to state that:

> ‘If co-operatives are able to be concerned with and have an impact on the community, it is because they are competitive and effective enterprises. Their success in the market allows them to make a difference in people’s economic, social and cultural lives. It is for this reason too that it is in the

> interest of governments to provide an enabling environment for the development of co-operatives'.

As is clear, another objective of this thesis is to draw on the capacities and mandates of relevant organizations, such as the United Nations Human Settlements Programme (UN-HABITAT) and United Nations Development Programme (UNDP), but most of all, on the various practitioners in the field and researchers – in terms of their experiences with implementing a co-operative approach based on the principles of partnerships, participation and transparency. For this reason, the thesis also considers the effectiveness of banking institutions and their interest in what the Egyptian co-operative institutions can do to extend the reach of mortgage credit in Egypt. Thus, the thesis attempts to identify and analyse the various economic, social and political factors influencing the effectiveness of banking and co-operative institutions in the provision of mortgage credit in Egypt.

In Egypt, the research on mortgage market development has so far overlooked the evaluation of the effectiveness of banking and co-operative institutions as surplus and deficit institutions and the role of these institutions after the mortgage market has reached a certain stage of development. Accordingly, the thesis addresses this gap in knowledge to reach an understanding of the current level of institutional development in Egypt's housing and mortgage markets. This will also lead to an understanding of which institutions constrain most the development of a sustainable level of mortgage credit provision in Egypt.

1.5 Research Method

The research method adopted to achieve the research objectives includes both analysis of existing data and the collection of new data through a survey of banking and co-operative institutions. Also, the researcher makes extensive use of his own experience as a corporate banker/financier in Egypt for a number of years. The detailed methods used are outlined below.

1.5.1 Research Development

A review of the literature highlighted that the Egyptian constitution has always recognized the important role of the co-operative sector in social and economic development. Although the co-operative housing sector remains a key component of today's affordable housing supply system in Egypt, the sector lacks the necessary support from the other actors within the housing market. This is in spite of the long and major role played by the housing co-operative societies in the development of both affordable housing and financial intermediation (through the contract savings scheme) in Egypt.

A strategy to integrate the housing co-operative societies into the financial sector could improve access to housing for Egyptian low- and moderate-income households. Such a strategy can achieve a breakthrough. Direct savings from the housing co-operative societies' members can be matched with other sources of funding such as mortgage credit from socially responsible financial institutions, bank or non-bank, as well as the broader secondary mortgage markets to develop a sustainable financing system to support affordable housing programmes for low- and moderate-income households; for example building and operating halls of residence; transferring all or some public housing stocks in Egypt to newly created or existing housing co-operative societies; or providing microfinance through housing co-operative societies to support schemes for self-build and/or upgrading dwellings.

In practice, this strategy of investing in a handful of housing co-operative societies to improve access to housing is easier than making thousands of mortgage loans to untested low- and moderate-income households. It is also safer and more profitable. It can bolster the mortgage lenders' own balance sheets and also strengthens their case whenever they want to raise funds. What stands in the way is the lack of an understanding of how such an initiative can develop to fill the current gap in the provision of mortgage credit.

On the other hand, the great number of failures recorded in the Egyptian co-operative housing sector in modern history has cast doubts on the appropriateness of co-operative housing as an effective policy option. These doubts were also supported by some international research and empirical evidence on the problems of housing in the developing countries. In Egypt, however, there appears to be a general absence of any research attempting to assess the effectiveness of the housing co-operative societies' role in improving access to housing and finance. This absence may be due to the co-operative housing sector appearing not to be seen as an alternative response to the housing problem in Egypt. Further, the widely held assumption that the sector can help to build a sustainable financing system to support affordable housing programmes for low- and moderate-income households does not appear to be supported by whatever limited empirical evidence there is available. And yet the essence of co-operative housing, from a policy maker's point of view, should be its potential and resulting socio-political impact.

Failure to understand and take seriously such potential led many Egyptian policy makers to ignore housing co-operative societies as intermediaries that can improve access to housing and finance for low- and moderate-income households. Others see housing co-operative societies as important political instruments through which funds are channelled to government or party supporters only. In both cases the criterion for mobilizing low-cost funding for efficient and sustainable financing mechanism has failed.

1.5.2 Developing the Study Approach

The above background research set the banking and co-operative institutions in the context of wider housing policy, finance and institutional development. In order to analyse these issues, the researcher had to undertake a study on the effectiveness of both banking and co-operative institutions in the housing and mortgage markets in Egypt. The study provided an opportunity to examine the financial, legal and political implications of bank credit for co-operative housing purposes and the impact upon co-operative institutions, on the basis of a survey of 30 co-operative institutions drawn from a list of 75 initially approached and tracked over one year.

The study examined government documentation regulating the banking and co-operative institutions in Egypt as well as other documentation on their funding problems and how innovative bank credit and capital market funding models might help to address these problems and the role of co-operative institutions in the financial intermediation process, and it included interviews with the regulators. Board members, senior bankers and consultants involved in the management and funding of co-operative institutions were also interviewed, to have a better understanding of their business performance, funding sources, access to mortgage credit, and perception of housing finance provision in Egypt.

It is important to note, however, that there are many factors affecting the effectiveness of banking and co-operative institutions which cannot easily be comprehended by a pure research student or a banker. This is evident in many of the propositions put forward regarding the role of banking and co-operative institutions in the provision of housing finance in general and extending the reach of mortgage credit for low- and moderate-income households in particular. So much of the same kind of advice has been offered without much success that it should, by now, have become obvious that perhaps some of the fundamental assumptions underlying the various studies are incorrect (El Demery, 2002, Weis et al., 2002, El Demery, 2004, Eldin et al., 2004, Askar, 2005, Everhart et al., 2006, UNDP, 2004).

The main conclusions are as follows. First, in the same way that private corporations are reluctant to part with what they consider a high-risk line of business, banking and co-operative institutions showed that they can also be reluctant to be voluntarily involved in housing finance provision. Second, unlike profit-based corporations, co-operative institutions do not operate according to profit-making objectives but, rather, for various other motives, some of which are social and political. Not only do such motives remain unrecorded but hardly anyone has talked about the intermediary role that co-operative institutions can play in the provision of housing finance (UNDP, 2004). Third, both banking and co-operative institutions see themselves as incompatible partners and representatives of two different ideologies – capitalism and communism respectively. This created a mistrust of the actual motives of each other as often expressed during this study. This mistrust is a result of misconception that co-operation as a communist proposal has to be stopped from spreading in a transitional economy like Egypt (Moharam, 2006).

1.6 Thesis Structure

This thesis is organized in three main parts. The first part (chapters 2 and 3) provides the literature review. The broad subjects addressed include the anatomy of the Egyptian housing and mortgage markets and the international literature (and the agencies that prompt much of the literature). The second part (chapters 4, 5 and 6) explains the methodology and presents the results and analysis. The final part (chapter 7) brings together and integrates the conclusions from the core chapters and discusses the contributions of the thesis, highlights drawbacks to the research and makes suggestions for future research.

Chapter 2 presents an evaluation of the Egyptian housing and mortgage markets as a whole based on a literature review of these markets' strengths and weaknesses, and the policies required if one is to understand either individual component of the structural challenges that impede the establishment of an effective and sustainable housing and mortgage markets in Egypt. The chapter provides an early context-setting account of the extent of the current housing shortage, of unmet need, and the scope and scale of mortgage credit provision. The chapter concludes that mortgage credit in Egypt is currently of little support to Egyptian low- and moderate-income households who wish to access housing. Therefore, the relative importance of the purposes of mortgage credit in Egypt needs to be redefined. There is also a need to explore ways to extend the reach of mortgage credit to support the low- and moderate-income households, for example through community-based organizations. Thus, this requires an assessment of the stakeholder relations and the role of each participating agent in the housing and mortgage markets.

Chapter 3 reviews the international literature and agencies that prompt much of it, with particular reference to improving mortgage credit system efficiency and extending the system's reach to increase access to housing for the under-served households in developing countries. The analysis and experiences discussed in this chapter suggest that the development of mortgage systems in many developing countries is strikingly similar in their starting point. But, some developing countries appear relatively to have made major progress in extending the reach of their mortgage systems to support access to housing for low- and moderate-income households. Some of the proposed solutions based on these experiences are inapplicable to the context of Egypt at present. On the other hand, the analysis highlighted the important role of community-based organizations in improving access to housing and mortgage credit for low- and moderate-income households. Thus, the chapter concludes that the role of community-based organizations needs to be evaluated in the context of Egypt where housing co-operative societies have already been considered as a response to the housing problem in the country. This is in order to fill the gap in Egyptian literature in relation to why community-based organizations in Egypt can be seen as important policy agents to improve access to housing, the effectiveness of the existing organizations, the various factors influencing this effectiveness, and which institutions constrain most the development of these organizations.

Chapter 4 clearly states and substantiates the main objectives of the thesis in terms of understanding the nature and scale of housing co-operative societies' role as community based organizations in the Egyptian housing market and their contribution to increasing access for low- and moderate-income households. The chapter also considers the contextual stakeholders in the immediate environment of the Egyptian housing co-operative societies and selects banking institutions as important stakeholders who can provide different perspectives on which institutions limit most the development of an effective and sustainable solution. Then, the chapter outlines the methodology adopted and its aims to address the research objectives and critically reviews the research approach and data collection methods. It also provides the analytical framework and step-by-step account of the field study.

Chapter 5 presents the first part of the analysis. It begins with review of some key considerations in relation to evaluating the effectiveness of the Egyptian housing co-operative societies. Then, the results of the field study are presented and analysed to examine the challenges and opportunities for the Egyptian housing co-operative societies to provide a response that can extend the reach of the mortgage market to improve access to housing. The chapter mainly concludes that Egyptian housing co-operative societies generally enjoy stable overall financial performance when compared with other participants in the housing market. There is an opportunity for them to generate surpluses from non-co-operative housing activities that can be invested in expanding their core housing base. In addition, good relationships in the bank credit market and the ability to tap the capital markets can increase the availability of funds for business expansion needs. Thus, a significant step up in reforming the co-operative housing sector is still required.

Chapter 6 evaluates the mortgage credit market for co-operative housing purposes in Egypt and the factors hindering its growth. The chapter then compares and contrast the results in chapter 5 with the outcome of secondary data analysis as well as interviews with representatives from the Egyptian banking sector regarding their perception of and experiences with extending mortgage credit for Egyptian housing co-operative societies in Egypt. The chapter particularly explored whether demand or supply factors have contributed to reducing approved credit in recent years for Egyptian housing co-operative societies. The main conclusions are as follows. The current regulatory environment, lack of sufficient information about housing co-operative societies and their ability to service mortgages and to provide enough collateral, and the banking institutions' risk-averse attitude and preference for more liquid assets, such as government securities, are all factors behind crowding out Egyptian housing co-operative societies the mortgage market. Thus, much still needs to be done in order to increase access to mortgage credit for low- and moderate-income households through their housing co-operative societies.

Chapter 7 summarizes the results and conclusions of the thesis in relation to the relative importance of the purposes of mortgage credit in Egypt, the current level of mortgage credit provision to low- and moderate-income households, the effectiveness of the Egyptian banking and community based organisations; and the main institutions that constrain the development of an effective and sustainable level of mortgage credit for low- and moderate-income households. The chapter also highlights the main contributions and wider implications of the research.

2. HOUSING POLICY AND FINANCE IN EGYPT

2.1 Introduction

As Egypt enters the 21st century, access to housing for many Egyptian low- and moderate-income households remains a major challenge (Aziz et al., 2007, Fahmi and Sutton, 2008, Struyk and Roman, 2008). Despite the rapid development of housing policy and institutions in the recent period to address this problem, there is still only a small number of Egyptian households who are able to access housing. The purpose of this chapter is to explore the root causes of this problem, which, in turn, should help define the scope of the thesis.

In view of the above, this chapter evaluates the Egyptian housing market as a whole, its strengths and weaknesses, and policies required if one is to understand either individual component. This evaluation is important in understanding the structural challenges in the system that prevent the implementation of a fully functioning and efficient mortgage credit system that can support access to housing for the majority of the country's population (Everhart et al., 2006). Accordingly, the discussion in this chapter is divided into two main sections.

Section I provides a review and evaluation of the housing policy transition in Egypt since 1952 and the impact of this transition. Section I also highlights the different roles of the state, market and community in the Egyptian housing market, as these are the key institutions responsible for establishing the parameters of supply and demand in any housing market (World Bank, 1993, Angel and Mayo, 1996).

Section II provides an evaluation of the existing (though developing) mortgage credit system in Egypt, both policies and institutions. The evaluation is linked to the achievement of housing objectives, in terms of increasing access to housing for low- and moderate-income households. The discussion focuses mainly on the current level of efficiency and reach of the recently developed mortgage credit system. Equally important, Section II addresses what is the relative importance of the purpose of mortgage credit in Egypt. Is it to expand access to housing through direct lending to households (that is to support the demand side of the housing market)? Or is it to support the supply of affordable housing for low- and moderate-income households?

2.2 Housing Market

This section relates to the fact that understanding housing markets requires analysis of the broader political, economic and regulatory environment (Gibb, 1995, Malpezzi and Mayo, 1994). The Egyptian housing market is no exception. The section briefly attempts to follow the transition in housing policy in the modern history of Egypt. One way of doing so is to examine it according to the three administrations – Nasser, Sadat and Mubarak. During these three administrations the housing market has gone through a very dynamic and complex transition.

2.2.1 Housing Policy under Nasser (1952-1970)

Before 1952, Egypt was a cosmopolitan country with a very ethnically diverse population and free market economy led by foreign-born capitalists (Mabro, 1974). The housing market was mainly dominated by a private sector that was awarded concessions in the form of large plots of land on which they could develop neighbourhoods and become the sole provider of utilities and services in those areas, such as Heliopolis (Ministry of Housing, 1979). The main objective of the private sector was to capitalize on the growing demand in the middle to upper income housing market.

Despite the nationalist sentiment, the Egyptian government was keen to maintain healthy and functional housing and mortgage markets. Following the great depression in 1930, the government renegotiated with the foreign mortgage banks the terms and conditions for repayment of defaulted loans in foreclosure before the mixed courts, using surplus government funds as well as transferring the restructured loans into two new state-controlled mortgage banks, namely the Credit Hypothecaire Agricole and the Credit Agricole Egyptien, to relieve tenure insecurity (Peck, 2003).

By the end of World War II, almost all social layers in Egypt were seeking independence. A military coup in 1952 against King Farouk paved the way for Colonel Gamal Abdul Nasser to come to power in 1954 after a two-year interim government presided over by Mohamed Naguib. In order to strengthen his relationship with the working class, Colonel Nasser carried out a programme of economic and social reform similar to the programme that emerged in the Soviet Union following the World War II (Campbell and Despard, 1979).

Nasser's land reform policies aimed to redistribute the arable land in small parcels to the peasants who were tied into the state system and were required to form co-operatives to access cheap credit, seeds and fertilizer (Campbell and Despard, 1979). This policy, however, led many peasants to become landless and to a rapid proletarianisation of the rural layers. This forced many peasants to move to the major urban cities in search of work, leading to an increase in informal housing developments, which contravened the building and land use regulations (El Gabaly, 2004).

In the housing sector, Nasser put the housing development and building materials industries under government control and used rent control laws to achieve social equity for the majority of the population, many of whom lived in rental dwellings. These laws made it illegal for landlords to evict tenants except under the strictest circumstances and allowed for the inheritance of rental agreements (Soliman, 1996). This policy led to the freezing of rents and therefore the withdrawal of the private sector from the rental housing market due to its limited profitability as well as the deterioration of housing stock (UNDP, 2004).

Nasser's socialism was defined in the Charter of National Action (1964) as the pursuit of 'sufficiency and equity'. By sufficiency he meant the expansion of the nation's total production of wealth, and by equity he meant a fairer and more equitable distribution of income in society (Mabro, 1974). Nasser's socialism sowed confusion for which the mortgage credit system has paid dearly ever since (Peck, 2003, Allam et al., 2002). The link made between mortgage credit and tenure insecurity resulted in a significantly less favourable environment for the mortgage industry as the government imposed many restrictions on the mortgage activities to prevent foreclosures by foreign banks.

2.2.2 Housing Policy under Sadat (1970-1981)

Nasser was succeeded by President Anwar Sadat in 1970. After restoring Egypt's military creditability by scoring a victory in the 1973 War and then signing a peace accord with Israel in 1979, Sadat's next priority was to address Egypt's worsening economic and social conditions (Campbell and Despard, 1983). During his 11-year rule, Sadat proceeded to reverse almost all Nasser's socialist policies.

Sadat's so-called ''Infitah'' or open door policy was enacted in 1974. This policy called for the revitalization of the private sector, opening the door for foreign investment, revoked some aspects of land reform policies and included steps towards the devaluation of the Egyptian currency (Campbell and Despard, 1983). The introduction of these policies received the acclaim of the West and mainly of the upper middle class in Egypt. Although Sadat had promised to provide every Egyptian with economic prosperity, by the late 1970s it became obvious that ''Infitah'' had not produced the general prosperity that had been promised. These policies left the majority of the population disillusioned and dissatisfied.

For two years (1975-1976) the International Monetary Fund (IMF) and both Western and Arab creditors requested Egypt to make its economy even more accessible to the world market. After some resistance, Sadat announced in 1977 that certain food subsidies would be lifted. This announcement was received by angry demonstrations in major Egyptian cities. The 'food riots', as they were later termed, led to several days of uncertainty regarding the Sadat administration's stability (Taher, 1997). Consequently the government had to go back on its decision and resorted in later times to cutting down on subsidies gradually and without official announcement.

Other redistributive measures were also gradually withdrawn. The goal set in the 1960s to extend basic services to all Egyptians was quietly abandoned. This was seen as a neglect of basic welfare programmes, a deterioration of social services and inequity in the distribution of income (Campbell and Despard, 1983). On the other hand, Sadat was in fact unable to dispense with all of the socialist policies. The fragile political situation of Egypt dictated that a sort of uncomfortable co-existence between capitalism and socialism continued. This was one of the major criticisms of Sadat's regime by right-wing Egyptians, international lending agencies and the West in general (Handoussa, 1992).

The housing market under the Sadat administration tells another story. Major attention was first given to the reconstruction of those parts of the country destroyed during the war, as well as the restoration of Egypt's main infrastructure. Then, a national plan was developed to address the scarcity of affordable housing for low and middle income classes. The plan pledged an extensive range of technical and financial resources to reform and upgrade a number of key areas (Ministry of Housing, 1979) (see table 2.1).

Table 2.1 Sadat Administration's Housing Plan

Key Areas	**Objectives**
1) Land	Planning, appraisal and classification of land into four main categories: tourism, agriculture, military and urban development.
2) Infrastructure	Planning and development of the public physical facilities such as power supply and utility networks (water and sanitation), roads and streets, etc.
3) Materials	Upgrade the existing production capacity of the public sector companies and promote private sector production of key building materials (for example Cement, Gypsum, Iron and Steel, etc.)
4) Labour	Establishment of training centres to increase the number of skilled workers (for example building workers, plumbers, electricians, etc.) in the housing market.
5) Finance	Expanding access and affordability of mortgage credit by developing a network of mortgage credit institutions and provision of subsidized loans for construction of housing units.
6) Production	A. Institutional development: Restructuring the public sector companies as well as expanding the role of the private sector and co-operatives in the housing market. B. Regulations: Inauguration of new laws for Urban Development, Real Estate Investment, Co-operative Housing, New Communities, Rental Properties, etc.

Source: Egyptian Ministry of Housing (Ministry of Housing, 1979)

The striking feature of the above plan is its success in increasing the habitable land and expanding the national economic sector to reduce the migration to the existing urban settlements (Allam et al., 2002). The government took the initiative to implement an urban development programme to establish new communities in the arid lands to counter-balance existing overcrowded cities, and to increase opportunities for the national economy, while preserving the country's fertile agricultural land. The programme was basically designed on three principles: 1) to curb overcrowding in the Nile Valley and the Delta, with their already overloaded and mostly depleted infrastructure and services; 2) to create new, self-serviced urban centres on arid lands, with infrastructure incorporated, to alleviate pressure on existing urban areas, and abate encroachment on scarce agricultural land; and 3) to strengthen the national economy through creating job opportunities in the new urban centres. The programme was successful in establishing around seventeen new communities, some of which emerged later to become key national economic and industrial zones such as 10th of Ramadan, El Sadat, New Borg El Arab, 6th of October, and New Damietta (Allam et al., 2004, Ministry of Housing, 1991, UNDP, 2004) (see table 2.2).

Table 2.2 New Communities and the Labour Market

Number of Workers as at 30/06/2002	
10th of Ramadan	76,568
6th of October	74,112
New Borg El Arab	74,396
El Sadat	16,531
El Salhya	4,249
Badr	8,783
El Obour	31,614
Others	4,327
Total	**290,580**

Source: Central Agency for Public Mobilization and Statistics (CAPMAS, 2007)

2.2.3 Housing Policy under Mubarak (1981- 2011)

Mubarak's administration has been devoted to continuing Sadat's economic agenda and implementing policies that favour the private sector and foreign direct investments (Tesche and Tohamy, 1994). Mubarak gradually eliminated government monopolies, reduced subsidies for almost all economic activities, abolished price controls, cut corporate taxes and expanded the role of the private sector. But this led to a number of economic shocks resulting from a high inflation rate, with a negative impact on the housing market in terms of an increase in housing prices to unaffordable levels for many Egyptian households, especially those at the lower- and moderate-income end of the market. As a result, a number of negative outcomes started to dominate the housing market, including further expansion of informal housing in unauthorized or squatter settlements and increased space sharing, thereby leading to overcrowded conditions (El Batran and Arandel, 1998, Taher, 1997). A number of initiatives were taken to address these problems, most notably those described below.

A) Production

Since 1982, the Government of Egypt (GOE) has considered that the right to shelter is an explicit part of an Egyptian's social contract with the state. Thus, the GOE played a strong role in the production and regulation of housing, establishing and enforcing zoning restrictions, offering incentives to developers to build affordable housing for low- and moderate-income households, and providing subsidized loans to homebuyers (Ministry of Housing, 1991). By the end of 1990, Egypt had managed to increase housing production from 1.33 units per 1000 inhabitants in 1976 to 11 units per 1000 inhabitants in 1990 (see table 2.3).

Table 2.3 Key Comparative Housing Indicators

	House price to income[1]	Housing credit[2]	Owner occupancy[3] %	Public housing[4]	Informal housing[5]	Persons per room	Housing production[6] (per 1,000 persons)	Import share of construction[7]	Construction cost[8] (US$/m2)
Egypt (Cairo)	7	7	32	29	65	1.5	11	19	67
Algeria (Algiers)	12	0	45	25	4	2.6	3	25	500
United States (Washington)	4	44	61	1	5	0.4	7	2	500
Turkey (Istanbul)	5	3	60	5	51	2	7	10	110
Mexico (Monterrey)	4	18	83	54	16	1.2	6	---	267

Source: (Erba and Nothaft, 2002)

[1] Ratio of median free-market prices of a dwelling unit and the median household income.
[2] Ratio of total mortgage loans to total loans in commercial and government financial institutions.
[3] Percentage in total of dwellings owned by occupants.
[4] Percentage in total of dwellings owned, managed, and controlled by the public sector.
[5] Percentage in total of dwellings not in compliance with current regulations and those that occupy land illegally.
[6] Net number of units (units produced less units demolished) in both the formal and informal sector.
[7] Percentage share of residential construction materials which are imported.
[8] Present replacement cost (labour, materials, on-site infrastructure, management and contractor profits) per square metre of a median-priced unit.

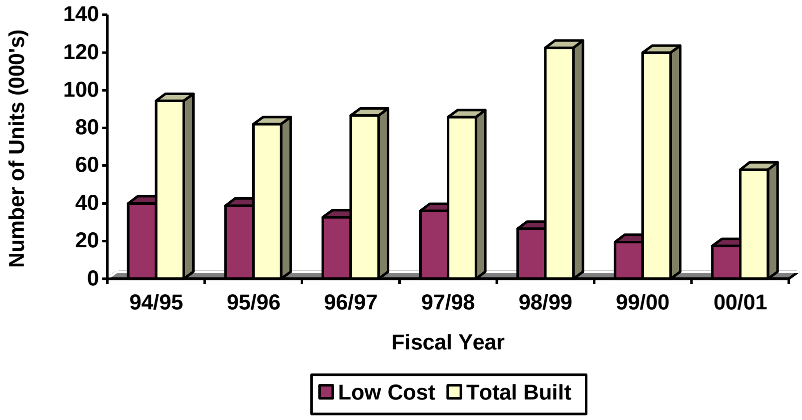
About 90 per cent of the units built during this period were low and middle income dwellings. The total subsidized loans granted by the government and state-owned institutions for the development of the low-income dwellings throughout the same period reached around 6 per cent of GDP by the fiscal year end 1991 (Planning, 1991). As a result, some local governments were able to develop a sufficient stock of low-income dwellings to reduce the long waiting lists for affordable local housing (UNDP, 2004).

However, the government remained under pressure to intensify and deploy public and private resources to increase the housing production to match the rapid population growth. Even though the government was able to slow down the population growth in the country from 3 per cent per annum to 1.9 per cent per annum (CAPMAS, 2007), the latter rate indicated that the population continued to grow, increasing the future demand for housing. In 1991, the population reached 57 million while the required number of new dwellings to the year 2000 was about 300,000 units per annum. This is in addition to the required dwellings to accommodate the population of the informal sector that continued to grow at a rate considered by the national and international development agencies as an urban crisis (Fahmi and Sutton, 2008, Fahmi and Sutton, 2006). All this was during a time when the government had to respond to other challenges.

As a condition of giving further financial support, the World Bank and IMF demanded the implementation of a Structural Economic Adjustment Programme that included the devaluation of the Egyptian currency, reduction of subsidies and privatization (Handoussa, 1992, Taher, 1997). Moreover, the government had to respond to the recommendations made by the General Assembly of the United Nations in its Global Strategy for Shelter to the Year 2000, which urged governments to shift their housing policies in order to adopt enabling policies and strategies for improving the housing delivery process instead of direct housing provision (UN-HABITAT, 1988). This called for a new approach to reinvent the role of the state as an enabling institution in the housing market (Handoussa, 1993, Ministry of Housing, 1993, Malpezzi and Vandell, 1993).

Based on the available capacity at that time, the government estimated that about 40 per cent of the required 300,000 units per annum, that is approximately 120,000 units per annum, could be built by the public sector in the local government areas and new communities to provide access to housing for low- and moderate-income households (Hafiz, 2005). The remainder, that is approximately 180,000 units per annum, could be developed by the private sector. Based on these estimates, the government started to cut its production of new housing from the mid-1990s (see figure 2.1).

Figure 2.1 Dwellings Built by the Public Sector (1994-2001)



Source: Information and Decision Support Center (IDSC, 2008)

From the above, four distinct forms of affordable housing production can be distinguished today in Egypt, namely, state-led housing, co-operative housing, private sector housing, and self-help housing.

State-led (Public) Housing

State-led housing has been one of the main sources of affordable housing provision in Egypt. Under this scheme, housing provision is managed by the central government that serves as building promoter, handling the whole process of housing construction, financing and distribution with support from local authorities (Ministry of Housing, 1979, Soliman, 1996, Taher, 1997). Since housing must be affordable for low- and moderate-income households, the building plots are made available through access to publicly-owned land at a price below market value. Building design and construction work are commonly contracted out to public and private builders under certain building codes. The price of housing is based on the cost of building. Distribution is handled by the local authorities. The rules regarding eligibility to buy a housing unit include setting an income ceiling and excluding house buyers who buy housing for investment purposes.

As far as financing is concerned, a house buyer has been able to enjoy a long-term mortgage from state-owned financial institutions at a subsidized interest rate. Between 1982 and 1993, a mortgage covered up to 90 per cent of the house’s price (Soliman, 1996). In addition, buyers of housing have also been entitled to benefit from a real estate tax exemption of the total price of the property (Askar, 2005, Ministry of Housing, 1993).

Under this model, the relationships between agents involved in housing provision have clearly required that the state, as an active housing developer, initiates, orchestrates and promotes the entire process of production from construction and financing to the distribution of housing (El Demery, 2002, El Gabaly, 2004, UNDP, 2004, Askar, 2005).

Co-operative Housing

In the modern history of Egypt, the co-operative movement has developed as a reflection of the Nationalist sentiment in 1908, to build and modernize the society and to achieve a decent standard of living for the whole Egyptian population (Rashad, 2008). This is clear from Articles 26, 28, 29 and 31 of the Egyptian Constitution that emphasized the important role of the state in the provision of the necessary support and protection for all types of co-operative ownerships and institutions as well as in guaranteeing their proper self-management (Egypt, 1996).

For more than half a century, the co-operative institutions have played a leading role in different social and economic sectors, including agriculture, rural and industrial development and consumer protection, to mention but a few. The co-operative movement began to be active in the housing market in the 1940s and the state actively addressed the funding needs for co-operative housing development, starting from the fiscal budget 1953/54 with a government loan for 2.5 million Egyptian pounds (EGP) at a low interest rate of 3 per cent (Moharam, 2006, Rashad, 2008).

The first Egyptian housing co-operative society was established on 17 November 1952 and it was named the Co-op Association for Housing Construction in Maadi (Shama-Shergy). Over the next 12 months, around twenty-one associations were established, with the majority located in Egypt's largest cities, namely Cairo (thirteen associations) and Giza (four associations), in addition to one association in each of Sharkiaha, Dakahlia, Port Said and Assuit cities (Rashad, 2008).

Although the Egyptian co-operative housing sector has been in existence for more than 60 years the development of the sector became only a national priority in the 1980s (Ministry of Housing, 1991). The then Egyptian administration considered that such a contribution was evidence of the deepening of democracy and human rights values and practice in the country (Habitat, 1989). This led to a rapid expansion of the sector under the supervision of a newly established government authority, The Public Authority for Co-operative Housing. The Authority oversaw a development programme through which individual housing co-operatives were allocated land and public finance to develop new homes (Ministry of Housing, 1993).

In the late 1980s, reflecting the continuing desire to see housing co-operative societies playing the main role in the provision of social housing while at the same time recognizing the pressures this put upon the budget, the government introduced a mixed funding regime. Under this regime direct public finance was progressively to be reduced and replaced by housing co-operative societies borrowing directly from the credit market at subsidized interest rates to fund their development programmes (Ministry of Housing, 1993). This regime was then completely abolished as the government progressed with its economic restructuring and liberalization programme towards the end of 1990s (Egypt, 1996, El Gabaly, 2004, Moharam, 2006).

Over the years, the co-operative housing sector rapidly developed to reach more than 3,000 associations with 2.5 million families, comprised of around 15 million members from different parts of Egypt, serving mainly the low- and moderate-income segment of the population including personnel of key government and non-government institutions such as the armed and police forces, law lords, university professors, members of professional syndicates, labour unions, as well as the wider urban and rural communities (Rashad, 2008). However, the co-operative housing sector role has dramatically declined during the economic transition in recent years.

Private Sector Affordable Housing

As is noted earlier, the government previously used to estimate that about 40 per cent of the minimum required 300,000 units per annum could be built by the public sector while the rest of 60 per cent should be developed by the co-operative and private sectors. Table 2.4 shows the target number of affordable housing units to be developed by the private sector in the recent national plan. This new target estimates the percentage of units to be developed by the private sector at more than 86 per cent alone. This increase reflects the new framework of liberal economic regime under which the Egyptian government is divesting itself of housing production role and trying to utilize the private sector resources to achieve housing policy goals.

Table 2.4 Private Sector Affordable Housing Provision

URBAN HOUSING	**2002-2004**		**2004-2007**	
	Number	**%**	**Number**	**%**
Economy Level	125,600	50.1	131,000	50.4
Medium Level	32,000	12.8	35,000	13.5
Above Medium Level	9,000	3.6	10,000	3.8
Total Urban	166,600	66.5	176,000	67.7
Economy Housing at Rural and Land Reclamation	84,000	33.5	84,000	32.3
Grand Total	**250,600**	**100.0**	**260,000**	**100.0**

Source: Central Agency for Public Mobilization and Statistics (CAPMAS, 2007) and Information and Decision Support Center (CAPMAS, 2007, IDSC, 2008)

Unlike other housing development schemes, private builders handle the whole process of housing provision (UNDP, 2004). Private promoters who are normally engaged in house construction for sale in the housing market can apply to the state housing departments and local authorities for permission to call their projects ‘affordable housing’ (Moharam, 2006). Under this scheme, building plots are made available by the state and all building activities are conducted under the market mechanism orchestrated by the promoters. The price, size and building costs are set by the promoter with the approval of the state (Fahmi and Sutton, 2008).

With regard to financing, promoters have a relatively beneficial access to development finance from the banking sector and most recently from the newly established mortgage financing institutions (EMF, 2010, Tameer, 2010). To regulate the demand for housing, household income limits for purchasing privatized affordable housing are set using the same conditions as those previously used for state-led housing, namely marital status and annual income. Eligible home buyers are entitled to mortgage loans at subsidized interest rates in addition to tax exemptions (EAL, 2010, EMF, 2010, HDB, 2010, Tameer, 2010).

Under this model, the state housing departments and affiliated housing institutions regulate prices in accordance with the prevailing market prices in the vicinity, and set the price ceiling for private sector affordable housing. This means that, in contrast to the previously state-led housing, prices are not based on the cost of construction, but rather are set at a market price level by private promoters with profit-oriented concerns.

Self-Help Housing

Self-help housing is the most recent mode of affordable housing provision in Egypt. It has recently been introduced and is designed to serve low- and moderate-income households (Taher, 1997, El Batran and Arandel, 1998). It provides financial assistance to those who are eligible and have a land plot and who will be responsible for all aspects of the self-build development. The floor area, the building's cost and the available building loan for the self-help housing are regulated by the government (MFA, 2006). Under this scheme, the role of the state is relatively minimal as it only provides households with subsidized land and loans for building purposes (El Demery, 2002, MFA, 2006).

The Characteristics of the Various Forms of Affordable Housing

In describing the different affordable housing production schemes, the characteristics of the various forms of affordable housing, as well as the mechanisms used to make decisions, can be identified (see table 2.5).

State-led and co-operative housing remain the most affordable forms, although private firms are involved in the housing construction stage. With state control over land acquisition, building construction and price setting, housing is provided and consumed on a non-market-oriented basis. By contrast, private-sector-led housing is a rather profit-oriented commodity, not only because private firms handle the whole process of housing provision but also because the provision is based on quasi market exchange relationships with regard to access to land, finances, price setting and sales.

Table 2.5 Characteristics and key actors in affordable housing provision

Form	**Initiator**	**Land**	**Construction**	**Price setting**	**Finance**
State-led	State	State	Public & Private Builders	Cost-based	Mainly public sector
Co-operative	Co-operatives	Co-operatives	Public & Private Builders	Cost-based	Mainly public sector
Self-help	Individuals	Individuals	Individuals	Not for exchange	Self-funding
Private	Private sector	Private sector	Private Builders	Profit-oriented	Both public and private sectors

Source: Literature review results

The rules in relation to affordable housing provision are set and regulated by the state. Except for those rules in relation to production, such as building cost regulations, the rules on housing finance and consumption are critical for those profit-oriented actors in the provision of affordable housing (Allam et al., 2004, Fahmi and Sutton, 2008). As part of the social policy, some rules, such as the income ceiling restriction, have been enforced and applied to all affordable housing schemes to ensure that housing is made available to low- and moderate-income households in Egypt (EMF, 2010). In addition, price setting in relation to the private-sector-led housing schemes is also under government regulation, which is critical to the distribution effect of affordable housing. Such rules remain, however, subject to change.

B) Building Materials

Although the building materials industry has recorded major development in terms of increased production capacity and improved quality, the industry is considered a key obstacle to housing affordability in Egypt (Moharam, 2006). The building materials industry was fully liberalized under the Mubarak administration, leading to consolidation in some sub-sectors, namely steel and cements. The domestic steel industry is dominated by one group that controls over 70 per cent of the market. Similarly, the domestic cement industry is dominated by a few companies, including multinational companies that managed to seal a joint agreement to try to close the gap between local and international prices without any real increase in the production costs (IDSC, 2008). In the absence of well-established anti-trust regulations, these monopolistic practices have led to significant increases in construction costs and ultimately have reduced housing affordability (Nametalla, 2005).

Table 2.6 shows the changes in the prices of building materials between 1990 and 2006. As is clear, the prices of cement and steel increased by almost 18 per cent and 19.7 per cent respectively per annum. In the meantime, since the issuance of Labor Law number 53 in 1984, the minimum wage in Egypt has increased from EGP35 per month in 1984 to EGP168 per month in the fiscal year 2005/2006 (Helmy, 2006).

Table 2.6 Prices of Building Materials in Egypt

EGP Per Ton	1990	2006	%	Change in GDP per capita (1990 – 2006), %
Cement	90	354.7	294	45.5
Steel	700	2,906	315	

Source: Information and Decision Support Center (IDSC, 2008)

C) Ownership and Management of Housing

Since 1982, the government has issued a number of laws to regulate the ownership and management of housing, the first of which was Law number 14 in 1981, as amended by Law number 15 in 1982, to organize and regulate co-operative housing and development in Egypt. This was in addition to the issuance of Law number 3 in 1982 to regulate urban planning including the division and distribution of land (Ministry of Housing, 1991, Ministry of Housing, 1993).

Over many years, the government played a key role in land management and allocation to regulate land use and housing provision (Allam et al., 2002). The government used to allocate plots of land at below market value to public sector companies and housing co-operative societies to assist them in the production of affordable housing for low- and moderate-income households (Ministry of Housing, 1993). Following the economic transition, the government changed this policy and started auctioning land (Rashad, 2008). In doing so, the government was hoping that the auction system would ensure transparency in the management and use of public land.

Although the new system increased government revenues that can be used to support the required investment in affordable housing schemes, auctions have bolstered land prices which have significantly increased the cost of housing production. Selling through auctions has also made it difficult for other affordable housing developers, such as the housing co-operative societies, to acquire new lands at affordable terms (Rashad, 2008, Moharam, 2006).

D) Finance

In 1982, the government took a business-like approach and established a new real estate bank, the Housing & Development Bank (Ministry of Housing, 1991, HDB, 2010). The government used the bank as a vehicle to develop a system of contractual savings for housing (CSH) in Egypt, similar to the Bausparkassen system in Western and Eastern Europe (Lea and Renaud, 1995). The government also used the bank to support the development of the demand side of the housing market so that a large-scale demand shift could be achieved, especially to the housing projects in the new communities. Further, the bank acted as an intermediary for cross-subsidization schemes in order to avoid the inflexibility of the state's fiscal budget. In doing so, the bank used to channel part of the revenues from urban development projects in the upper housing market (for example Marina Resort in the Northern

Coast) to the lower income end of the housing market (Ministry of Housing, 1993, El Gabaly, 2004).

However, the growth of the bank's operation ever since has been mainly fuelled by lending in the supply side of the housing market that is to lend to housing developers rather than residential mortgages for households. This fits well with the national statistics on loans and advances from the financial sector to housing developers, that registered an annual average growth rate of 136.8 per cent between 1997 and 2002 (approximately 23 per cent year-on-year) (CAPMAS, 2007). The growth reflects the relative long-standing experience of the housing finance institutions in housing development finance, extensive knowledge of the housing developers they work with, and the continued high demand for housing.

Further, since the late 1990s, many housing finance institutions (namely banks and insurance companies) have increased their exposure to the housing market through direct equity participations in housing development companies according to the Middle East Rating & Investors Service (MERIS, 2004). This increase in the exposure to the housing market coincides with the then global trends and before the recent financial crisis. Likewise, the aim of this increase is to benefit from the substantial profits that can be made at the inception stage of housing development projects. As a result, in the recent period, many Egyptian banks have rushed to fund new housing schemes on the outskirts of the major urban cities, although the effective demand is low.

There have been varying degrees of experience from one bank to another: some banks have developed well thought out strategies and have established specialized dedicated teams to control the risks which could be particularly harmful for asset quality and performance in the event of any sudden shock. In general, however, the high exposure of the Egyptian banking system to the housing market remained a major concern. To mitigate it, the CBE had to intervene during the recent past to regulate housing development finance. Accordingly, a bank cannot allocate more than 5 per cent of its assets to mortgage lending (CBE, 2010).

E) Rent Control

Rent control in Egypt was introduced following the 1952 revolution and was gradually extended to cover all the Egyptian housing market (Everhart et al., 2006, Soliman, 1996, Allam et al., 2002). The principle was to set rents throughout the lifetime of a dwelling in such a way as to cover the construction, maintenance and operating costs of the dwelling so that the owner – a non-profit company or private owner – does not make a profit. Thus, rental housing became a large component of the Egyptian housing stock compared to the other formerly socialist economies (Stephens, 2005a) (see table 2.7).

Table 2.7 Home ownership, Intermediate and Rental Housing Systems in selected transition economies

Country (year)	Home Ownership %
Super home ownership	
Armenia (2001)	96
Hungary (1994)	96
Albania (1998)	95
Romania (1999)	95
Bulgaria (1995)	93
Slovenia (1994)	88
Estonia (2000)	86
Intermediate	
Slovakia (2001)	73
Russia (c.2001)	68
Rental	
Czech Republic (2001)	59
Poland (2000)	55
Egypt (2002)	32

Source: (Stephens, 2005a), except for Egypt (CAPMAS, 2007).

However, rent control led to a major distortion in both housing market signals and consumption patterns (Soliman, 1996). It had two main effects on housing provision in Egypt. First, it reduced the quality of housing as landlords embarked on a strategy of under-maintaining their properties. Secondly, it reduced the quantity of the rental dwellings in the market since the owners of vacant properties, as well as the housing investors, had no incentive to offer their properties in the rental housing market because of the rental housing regulations.

Since the 1980s, there has been a movement to gradually eliminate rent control in the housing market through a new law to govern the landlord–tenant relationship regulation (Allam et al., 2004). The new law made it possible for the first time since 1952 for a new rental housing contract to be entered into without any form of government intervention as to the rental rate, the duration or eviction procedures. However, housing units rented prior to the issuance of the law, which represent the largest component of the rental housing stock, are still regulated by the old laws.

F) Informal Housing

The high level of poverty in Egypt and scarcity of affordable housing have resulted in a massive increase in the informal housing sector in the country (Taher, 1997, Associates, 1982, El Batran and Arandel, 1998, Fahmi and Sutton, 2008, Fahmi and Sutton, 2006, Soliman, 1996). The population of the extended informal neighbourhoods in Cairo (Egypt’s capital city) make up to 50 per cent of the total Egyptian population living in slums (Fahmi and Sutton, 2006, Fahmi and Sutton, 2008). These neighbourhoods were built in a relatively short period of time to meet the housing needs of large population migrations (Soliman, 1996). Satellite photos of these neighbourhoods show that they are spreading out across private plots of agricultural land, in contravention of laws meant to safeguard the fertile Nile valley (El Batran and Arandel, 1998). About 200,000 people have been moving into informal housing each year in Cairo (UNDP, 2004).

The problem of informal housing can also be attributed to the regulatory environment in Egypt. Around 65 per cent of the total housing stock in the country is not registered with the authorities and consequently not taxed, contributing to Egypt's fiscal challenges, and highlighting the need for property registration and tax reform (De Soto, 1997). For an Egyptian to follow legally established procedures to build and register a house would involve seventy-seven bureaucratic procedures in thirty-one offices. The process would take between six and fourteen years. As a result, many Egyptians live in properties that have never been registered or legally recognized. Such legal uncertainty of these properties decreases their values and the ability to lend or borrow against them. This represents a lost form of values; hence these properties are considered dead capital. As much as US$241bn worth of properties is considered dead capital in Egypt as they are not legally recognized. Establishing a system that would bring this 'dead capital' alive in Egypt would bring tangible benefits to the Egyptian economy as this would substantially increase the size of the national GDP. For such system to work properly, however, the imperative would be to create better conditions for property registration in Egypt (De Soto, 1997).

2.3 Mortgage Market

2.3.1 Evolution of Mortgage Credit

Mortgage financing in the modern history of Egypt has been rooted in the structure of the social security system, especially during the central planning era (1952 to 1990), which pursued 'high employment, high subsidies and high welfare' (Weis et al., 2002). In this system, the state secured low-cost funding lines for mortgage credit provision from state-owned financial intermediaries that made sure the basic needs of low- and moderate-income households were satisfied. However, mortgage financing in Egypt faced challenges when economic transition began in the late 1990s (El Gabaly, 2004). Non-government financial intermediaries started to thrive. All financial intermediaries had to compete in the market place for low-cost funding lines. The new rule within the government is that the state cannot guarantee a certain level of mortgage subsidy and bail out all poorly performing financial intermediaries by injecting more public funds. In other words, mortgage financing institutions can no longer count on the state subsidy and financial support to survive (IDSC, 2008, EMF, 2010).

Thus, there was a need to transform the mortgage market to improve the intermediary role and efficiency of the participating agents, especially non-government institutions. In 2001 a new mortgage law was passed by the parliament to regulate mortgage financing in Egypt, as a way to address the challenges in the housing market in terms of access and affordability (Egypt, 2001, Boleat, 2002, Weis et al., 2002). Without mortgage financing, low- and moderate-income households cannot afford to buy homes in the formal sector. Consequently, most of this segment of the population lives in public or informal housing sectors (Weis et al., 2002, Askar, 2005).

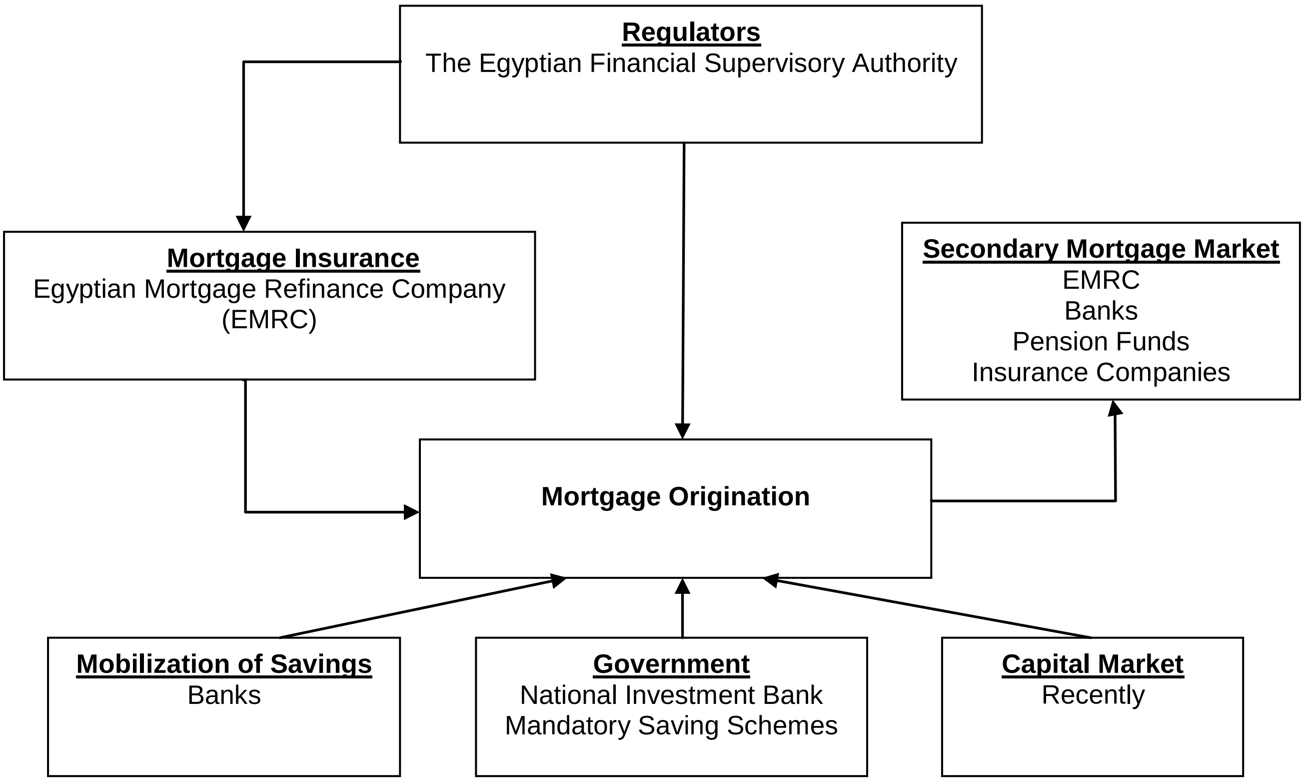
As a result, mortgage financing is sought to support access to housing for low- and moderate-income households who can turn their homes into a source of wealth (Erba and Nothaft, 2002). Though the Egyptian Parliament passed the mortgage law in 2001, there has been only limited development in the volume of mortgage financing in Egypt. The key important development, however, is the expansion of the network of mortgage financing intermediation by creating non-bank financial intermediaries specializing in mortgage lending (Struyk and Brown, 2006, Tameer, 2010).

The housing market transition has little effect on mortgage financing intermediation in Egypt. First, mortgage financing has been considered by many financial intermediaries as an objective in itself rather than a means to an end. Thus, mortgage products are offered at very high prices (EAL, 2010, Tameer, 2010). On the one hand, financial intermediaries need to use funding resources efficiently so they can only offer affordable mortgages under support from the government. On the other hand, low- and moderate-income households continue to be under-served in the mortgage market. Thus, access to housing continues to be a major expense to many low- and moderate-income households.

2.3.2 Mortgage Credit Intermediation and Participating Agents

The number of mortgage lenders in Egypt has increased recently to twenty institutions. This includes the Egyptian Mortgage Refinance Company (EMRC) and nineteen bank and non-bank financial institutions that started to offer mortgage financing services to their customers (EMF, 2009, CBE, 2010, EAL, 2010, HDB, 2010, Tameer, 2010). The bulk of the funds that are used by these mortgage lenders today comes primarily from the banking sector (CBE, 2010). However, many saving institutions, such as insurance companies and co-operative societies, are not yet directly participating in the mortgage market. Further, some of the existing financial intermediaries started to show no interest in addressing the demand at the low-income end of the housing market (HDB, 2010). Figure 2.2 reflects the current structure of the Egyptian mortgage financing intermediation system and the key participating agents.

Figure 2.2 Structure of the Egyptian Mortgage System



Source: Literature review results

A) Regulators

Egypt's mortgage financing system is regulated as part of the non-banking financial sector, which recently witnessed the unification of several supervisory authorities under one single authority, the Egyptian Financial Supervisory Authority (EFSA) (CBE, 2010). EFSA was established by virtue of Law number 10 for 2009, regulating non-banking financial markets and instruments. The Authority is in charge of supervising non-banking financial sectors (capital markets, derivative markets, insurance businesses, mortgage finance, financial leasing, factoring and securitization). The law states that the Authority shall replace the Egyptian Insurance Supervision Authority (EISA), the Capital Market Authority (CMA), and the Mortgage Finance Authority (MFA) as of 1 July 2009. The Authority shall be responsible for maintaining the soundness and stability of non-banking financial sectors, organizing and developing them and protecting the rights of market dealers on equal terms. In addition to guaranteeing the efficiency of non-banking financial markets and the transparency of their activities, the Authority shall introduce appropriate tools and systems, and set adequate rules and regulations (EFSA, 2010).

As is clear, the regulation of the mortgage market in Egypt is still evolving. The unification of the supervisory authorities should ensure predictability with respect to mortgage lending and facilitate the development of both primary and secondary mortgage markets. However, this process will take time to implement and the roles of government and business will vary over time. The mortgage market still also faces other challenges. The mortgage law changed the legal framework regarding residential property ownership. It permits deeds of trust and appears to allow property to be filed in the name of an independent trustee. According to the Mortgage Finance Authority and Egyptian Stock Exchange, this makes the foreclosure on property easier and provides increased protection to originators and potential lenders (EMF, 2009, EGX, 2010). While this is a major step forward, there is no certainty yet that the courts, administrative systems or the regulatory environment will be responsive. It is also not known if the political system will support efficient implementation of the new law. In practice, the law still needs a good test, particularly of the foreclosure provisions, to determine whether the courts are able to balance financial and social security interests.

B) Government

The Egyptian government indirectly participates in the mortgage market through the following.

Mandatory Saving Schemes

In Egypt, there is a system requiring mandatory contributions from employers into a special social insurance and pension fund (Galal, 2002). Each employer must allocate a percentage of total wages of its employees as a contribution to this fund. Such funds are pooled together and deposited in the state-owned National Investment Bank (NIB) for investment in different sectors of the national economy, including the housing and mortgage markets (Finance, 2008).

In addition to the above, the government used to encourage the state-owned banks to develop contractual savings schemes oriented to home purchase (HDB, 2010). The first contractual scheme was introduced in 1980 in the form of a special savings bank account (El Gabaly, 2004). The saver agreed to make a series of regular deposits to that account for a certain period, and the bank agreed to lend a larger amount than the contractual amount at the end of the period if the contractual amount has been saved (El Gabaly, 2004, HDB, 2010). The eventual cost of the mortgage loan to the saver is a percentage above the saving rate. As an incentive the government used to provide a bonus up to the amount of interest earned, thereby doubling the effective rate. The effective rate used to be even higher since the total interest (including bonus) is tax free (Finance, 2008).

Another scheme was later introduced, known as the house savings plan. A contract is required between the saver and lender in which the saver agrees to save for at least four years and to accumulate a certain sum (HDB, 2010, EAL, 2010). The lender is then obliged to provide either a loan amount of 2.5 to 3 times the amount of savings or allocate a housing unit in one of the bank's funded housing projects. As in the case of the account, both the saving and borrowing rate were below comparable market rates.

In both the savings account and savings plan, there is implicit agreement among savers and lenders. Savers accept a low rate on their savings for important reasons. First, the government subsidy and tax exemption increase the effective yield and secondly, the housing loan is guaranteed at a lower rate. Lenders, on the other hand, have the advantage of receiving a steady stream of low-cost funding, which can be loaned at the market rate, offering a considerable profit opportunity.

These state-sponsored contractual savings schemes used to be very popular in the 1980s and 1990s until the government decided to follow the economic structural and adjustment programme in the late 1990s (El Gabaly, 2004). The most active savings schemes at present are those offered by community-based organizations (CBOs) such as housing co-operative societies (Moharam, 2006, Rashad, 2008). These schemes are offered under the co-operative sector umbrella that continues to provide significant incentives to save for a home purchase as an alternative source of capital for housing investment. However, these co-operative saving schemes have not been properly institutionalized, professionalized and supervised.

National Investment Bank (NIB)

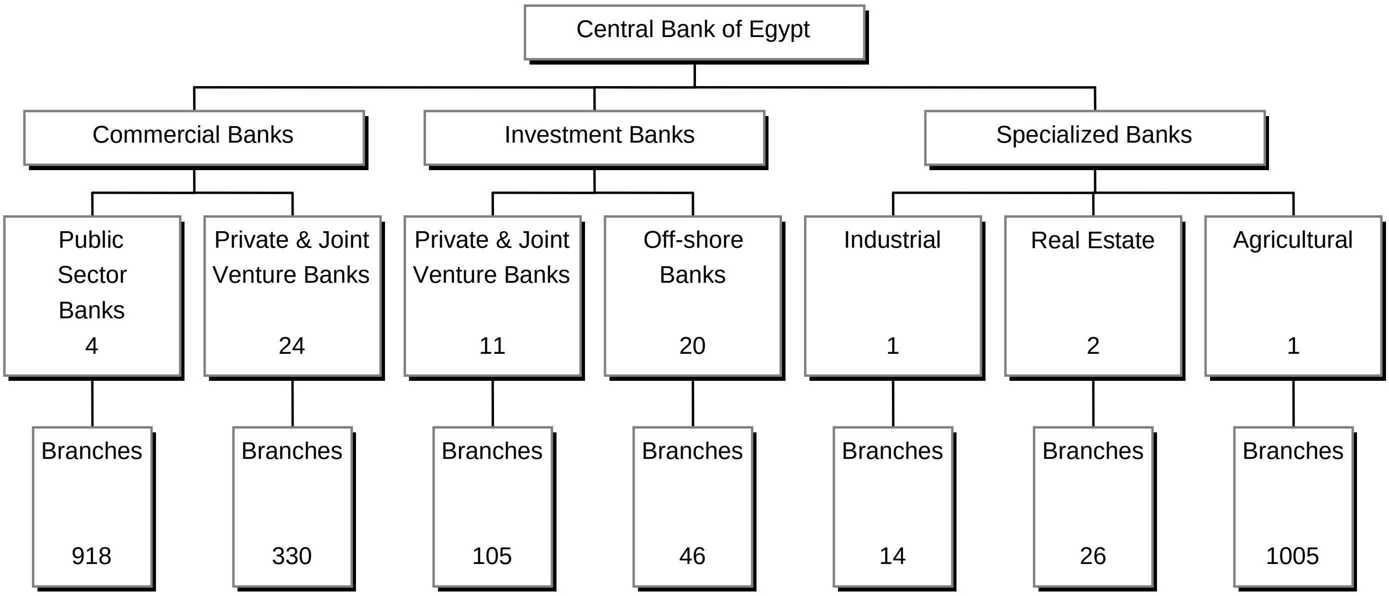
The National Investment Bank (NIB) is responsible for evaluating and financing the Egyptian government's investment programme (Finance, 2008). NIB uses pension funds to provide long-term financing to investment projects approved by the parliament, and charges interest to recover operating costs (CBE, 2010). In the 1980s, interest rates charged to public projects and enterprises were negative in real terms, because the cost of funds available through the social insurance system is negligible (Planning, 1991). However, with the increase in interest rates on social insurance schemes to positive real rates since 1992, NIB has also increased interest rates on its lending, thus raising the hurdle rates for investment projects (CBE, 2008).

In the past, NIB also supported the programmes aimed at increasing access to housing for low- and moderate-income households. For example, NIB used to extend cheap credit lines to a number of state-owned banks on-lending to their clients, whether low- and moderate-income households or community-based organizations such as housing co-operative societies. A customer interested in purchasing or developing a residential property would pay around 60 per cent of the costs, while the government through NIB provided a credit line to finance the remaining percentage. The credit was usually in the form of a subsidized mortgage loan payable over forty years at below market interest rate (Ministry of Housing, 1993). Hence, the monthly instalments are affordable. Since the adoption of Law number 203, NIB's exposure to the public sector entities and institutions has declined to almost zero (El Gabaly, 2004, Moharam, 2006, Rashad, 2008).

C) Mobilization of Savings and Allocation of Risk

The banking sector plays a crucial role in the development of the financial system in Egypt (El-Refaie, 1998). The banking sector consists of commercial banks, which are local banks, and non-local banks. It also includes specialized banks and financial institutions operating in the fields of investment and credit for industry, agriculture, real estate and rural development (see figure 2.3). In addition, there are branches affiliated to these banks and institutions all over the country with the objective of extending the reach of the banking sector (CBE, 2008).

Figure 2.3 Structure of the Egyptian Banking Sector



Source: Literature review results

Discussing the role of the banking sector and its contribution in a certain market can easily become a jumble of technical terms and conflicting theories that can confuse the reader. So it helps to focus here on the key functions to be addressed in relation to the development of the mortgage market in Egypt, that is the mobilization of savings and allocation of risk.

Mobilization of Savings

In Egypt, households who have to pay for their own houses need to save or borrow money (EAL, 2010, EMF, 2010, HDB, 2010). During the transitional period, the households can buy houses at favourable terms and receive subsidies if they are eligible, but they have to make a contribution to the housing costs. To accumulate enough savings, households need to work hard and save to ‘earn’ housing.

A variety of saving institutions exist to support the high propensity of the Egyptian to save (Boleat, 2002, CAPMAS, 2007, CBE, 2008, Struyk and Brown, 2006). However, the banking sector is the dominant player and offers saving and time deposit accounts for their corporate and retail customers (CBE, 2010). Non-bank financial institutions such as the post office have been especially popular in small villages not covered by the network of the banking sector (Vittas, 1998). Further, many community-based organizations such as housing co-operative societies offer their members saving-only services under the sponsorship of the Social Security Department (Rashad, 2008). All these saving institutions ultimately channel the majority of their funds into the banking sector, which, in turn, is being used among other things for housing investment or mortgage financing.

In the mortgage market, one important feature that stands out in this saving pattern is that the bank deposits are higher in relation to their mortgage lending business, while savings of housing co-operative societies are higher in relation to the mortgage credit. Thus, the mortgage market remains relatively small (Allam et al., 2002, Askar, 2005, El Demery, 2004, UNDP, 2004, Weis et al., 2002). Further, if savings are channelled properly and structural adjustments are successful in increasing the efficiency of risk allocation in the mortgage market, the mortgage market can enjoy sustainable growth.

Allocation of Risk

It is important to start exploring this function by first defining ‘allocation of risk’ – what it is and what is involved. A basic tenet of economics maintains that people and institutions are willing to take higher risks only if the expected return for taking those risks is, on average, higher than the return they expect to get from taking a lower risk position (Pagano, 2001). A bank, by allocating funds, is implicitly, or sometimes explicitly, allocating risks. Efficiency demands not only that the spreads for the process are as low as possible while allowing a reasonable profit, but also that the risks of the activity are properly assessed and priced. Proper risk assessment requires timely, accurate and focused information about an institution, business or household (Green et al., 2007). With that information, a bank can then allocate funds to users according to its preferred risk profile (Tra and Lensink, 2007).

To better understand these issues, one would also need to briefly review and examine these theories of financial intermediation within the Egyptian bank credit market and then focus on their impact on risk allocation and practices in the housing market, to determine what needs to be done to extend the reach of mortgage credit in the housing market.

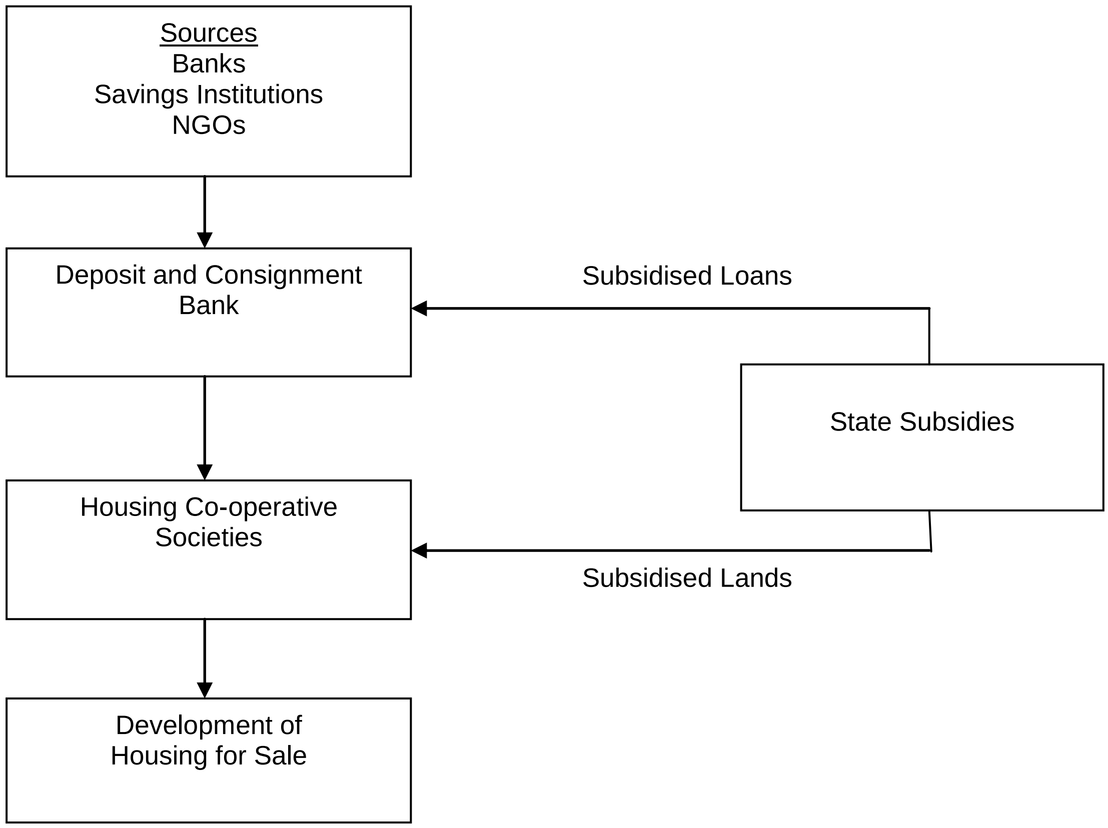
In the recent period, the bank credit conditions in Egypt have been stable. This is primarily underpinned by the considerable progress achieved in the banking sector reform programme implemented by the Central Bank of Egypt (CBE) – including sector consolidation, upgrading the CBE's supervisory and monitoring capabilities, the financial and managerial restructuring of the state-owned banks, and addressing the problem of their high non-performing loans (NPLs) (CBE, 2008). As a result, the banking sector is now more resilient and better positioned to withstand pressures. The economy is also benefiting from strong economic growth (estimated at over 7 per cent in 2009) (CBE, 2010), which has a positive impact on banks' loan growth and business generation.

These positive factors are, however, counterbalanced by a challenging operating environment, characterized by low per capita GDP, high unemployment, soaring consumer price inflation (despite slowing slightly) and the effects that the global economic slowdown may have on the Egyptian economy (Finance, 2008, IDSC, 2008). The latter may also delay the completion of certain aspects of the banking sector reform programme, including the repayment of all public sector NPLs and the recapitalization of the state-owned banks.

In the mortgage market, the Egyptian banking sector still faces major challenges, including a high historic default rate, high cost of borrowing measured by the rate of interest adjusted for tax relief/subsidy, and high loan-to-value requirements as a result of soaring house prices (El Demery, 2004, El Gabaly, 2004, Eldin et al., 2004, MERIS, 2004, Struyk and Brown, 2006, Struyk and Roman, 2008). These challenges have resulted in a low level of credit appetite as well as a high degree of bank credit rationing in the mortgage market, as demonstrated by the restrictions on bank credit to the housing market in terms of the 5 per cent ceiling on mortgage lending imposed by the Central Bank (CBE, 2008) and from the decline in the available mortgage credit in some sub-sectors.

As explained earlier, housing co-operative societies are considered key actors in the affordable housing sector in Egypt. They are community-based organizations that finance and build homes and then sell them at cost for their members. Historically, they have relied on low interest and subsidized mortgage credit from the state-owned banks as an external source of finance to keep down the cost of housing and the prices they charge (Ministry of Housing, 1993, El Gabaly, 2004, Moharam, 2006, Rashad, 2008). Low interest rate mortgages have enabled housing co-operative societies to keep their financial cost relatively low (see figure 2.4).

Figure 2.4 Mortgage Credit for Co-operative Housing Purpose



Source: Literature review results

D) Capital/Secondary Mortgage Markets

The recently enacted capital market and mortgage laws authorize the creation of securitization companies for the purpose of assembling portfolios of mortgage loans to issue mortgage-backed securities in the capital market (EMF, 2009). However, the capital market has not yet played a prominent role in the development of the Egyptian mortgage market (El Gabaly, 2004, Struyk and Brown, 2006, EGX, 2010). The secondary mortgage market, as it is practised in developed economies, is still underdeveloped in Egypt.

While the capital market and mortgage laws envision multiple companies, only one – the Egyptian Mortgage Refinance Company (EMRC) – has formed and is active thus far (EMF, 2009). The company is privately chartered. It includes among its shareholders several government institutions and major participating agents in the mortgage market. One of the company's objectives is to help standardize mortgage instruments and underwriting criteria. Thus, it is working with relevant administrative and judicial bodies to ensure fair and efficient implementation of mortgage law provisions, particularly concerning securitization and foreclosure. The company is also trying to define strategies to improve access to good information. However, economic and market conditions have prevented the company from reaching its full potential (EMF, 2010).

2.3.3 Mortgage Market Efficiency

While the Egyptian government has recently dedicated a lot of support and resources to facing the challenging task of establishing a new mortgage market, the lack of a fully functioning and efficient mortgage financing intermediation continues to constrain access to housing for many low- and moderate-income households. The key challenges are discussed below.

As is noted earlier, in relation to the problem of informal housing, one of the major challenges is the ineffective property registration system in Egypt (Galal, 2001, Askar, 2005). Over 90 per cent of all properties in the country are not registered (Finance, 2008). The registration system is characterized as burdensome, time consuming and expensive for applicants. A landlord hoping to register a property would have to pay fees of between 12 per cent and 14 per cent of the property's value, in addition to spending months dealing with red tape (EMF, 2010). The system is vastly underutilized as the administrative processes are excessively bureaucratic and complex. Property registration is also misunderstood and unpopular with the public. Until recently, the system was based on manual recording and usually the records were in poor condition.

Recent reforms, however, have cut fees to just 3 per cent while the government is endeavouring to build a national registry of properties based on clearly defined titles to privately owned property, which is an important source of capital for entrepreneurship at the grass roots level (Finance, 2008). Such reforms can help the low- and moderate-income households to access housing and enable them to turn their homes into a source of wealth, which is an important element in the development of a dynamic market economy (Steele et al., 2008).

Another major challenge is the restriction on bank credit in the housing and mortgage markets at present, as explained earlier (Boleat, 2002, Askar, 2005, Hafiz, 2005). However, the 5 per cent ceiling on mortgage lending imposed by the Central Bank of Egypt may be raised in the future (EMF, 2009). This limit applies cumulatively to both the supply and demand side of the market: to residential and commercial mortgage lending as well as mortgage credit to individuals and housing developers (CBE, 2008).

The current mismatch between supply and demand represents another major challenge. On one hand, the majority of housing developers are not committed to the idea of building sufficient quantities of affordable housing aimed at low- and moderate-income households (Aziz et al., 2007, Struyk and Roman, 2008). On the other hand, the terms and conditions for mortgage credit available to these households is not commensurate with reality. For example, an applicant for mortgage credit must have a fixed and stable income. The purpose of obtaining mortgage credit is to purchase a property. The loan-to-value should not exceed 85 per cent of the value of the property.

Credit information is another challenge. The Egyptian Household Credit Bureau is still underdeveloped, raising the risk of extending mortgage credit to a household. Lack of household credit history and behaviour towards debt make it difficult to accurately measure risk (Duca and Rosenthal, 1991). As a result the credit underwriting decision on risk is overly conservative and households face an added penalty charge on the cost of mortgage credit, ultimately increasing the cost of housing.

The inadequate legal structure in Egypt results in a lack of confidence that the courts will strictly apply and enforce judgments against households in case of default. The uncertainty of foreclosure increases the risk to mortgage lenders (Askar, 2005, Struyk and Brown, 2006). Hence, many mortgage lenders in Egypt hesitate to take more risk by expanding their mortgage lending activities.

Finally, the financing options provided by the current mortgage market in Egypt are very limited. Without financing options, Egyptian low- and moderate-income households cannot afford to access housing. Since a house is often the primary investment and savings vehicle for those households, a lack of alternative financing options constrain overall saving rates (UNCHS-Habitat, 1989, Borsch-Supan and Stahl, 1991, Scholten, 2000, Struyk et al., 2004, Keynes, 2007). Low saving and investment rates restrict economic growth and limit economic development (Keynes, 2007).

2.3.4 How Far Does the Mortgage Credit System Reach in Egypt?

In addition to the above, the final issue that requires special attention relates to the extent the mortgage financing system in Egypt reaches at present. Struyk and Roman (2008) examined the broad pattern of home purchase finance in Egypt's capital and largest city Cairo during the 2002– 2006 period, with a specific focus on understanding the determinants of the choice between all-cash payment at the time of purchase and alternative financing arrangements that involved borrowing ('instalments'). Based on their findings, true mortgage lending appears to be still in its infancy and the circumstances of mortgage financing are similar to those in a number of developing countries. Further, there is still a number of factors missing, such as proper registration, and credit assessment and scoring to ensure responsible loan underwriting in order to minimize default rates. Thus, the principal policy conclusion is the necessity to strengthen the quality of loan underwriting in Egypt by taking into account the previously mentioned factors (Struyk and Roman, 2008).

In order to address this issue, one needs to consider the Egyptian mortgage market from a broader perspective. Egypt remains an emerging economy. The challenges of unemployment, poverty, savings and investment limit the size of the current mortgage market. That is, the confidence level required for a household to apply for a mortgage depends on job security (Malpezzi and Vandell, 1993, Renaud, 1996, Feldstein, 2007, Gibb, 2003).

At present, employment in Egypt grows at a slower rate than the population and the labour force, resulting in a worsening unemployment situation (Galal, 2002, Helmy, 2006). Thus, more measures and reforms are required to improve the socio-economic condition in Egypt (Galal, 2002, Galal, 2001). However, one can classify the Egyptian population at present into a number of socio-economic household groups that are rated from A (upper middle class) through to D (lowest level of subsistence), as defined in table 2.8 below.

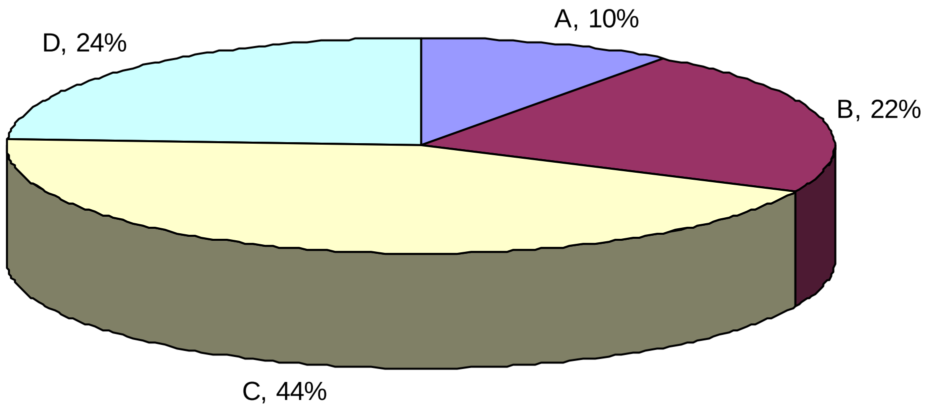
Table 2.8 Classification of Egyptian Households into Socio-economic Groups

Grade	Social Status	Occupation
A	Upper Middle Class	Higher managerial, administrative, or professional
B	Middle Class	Intermediate managerial, administrative or professional
C	Lower Middle Class	Junior managerial, administrative or professional as well as skilled manual workers
D	Lowest Level of Subsistence	Elders, widows, casual or lowest grade workers

Source: Literature review results

Generally, households in the A and B socio-economic groups comprise the housing professional classes and as such tend to have less restricted access to mainstream sources of credit. However, it is worth noting that social groupings and strong credit profiles do not automatically correlate (Buckley et al., 2003). Households who fall into the C and D categories tend to have, by virtue of their employment characteristics or personal circumstances, limited access to housing and mainstream credit in the form of mortgage credit etc., mainly because of their inability to achieve the necessary thresholds. They therefore comprise the target market for the informal financial sector (Tra and Lensink, 2007). Based on this classification and recent available statistics, Egyptian households can be distributed as follows:

Figure 2.5 Egyptian Socio-economic Structure



Source: (CAPMAS, 2007)

As is clear, around 68 per cent of Egyptian households would not qualify for mortgage credit without some form of support. The provision of government support is however uncertain in light of the recent economic transition and the boundaries to the national budget.

2.3.5 Mortgage Credit Subsidy

The state-sponsored mortgage credit schemes in Egypt were based on the social security system in which bank and non-bank financial intermediaries were chosen as agents to implement the schemes (El Demery, 2004, Askar, 2005). The bank and non-bank financial intermediaries were responsible for allocating mortgage credits to their clients. Moreover, these intermediaries could decide which clients were eligible for bank credit or mortgage loan allocation (El Gabaly, 2004). It appears that this arrangement was all about supporting access to housing for low- and moderate-income households. To the households, mortgage credit was a means to an end rather than an objective in itself.

Since the 1980s, the state-sponsored mortgage credit schemes have been the main mechanism for state supported home ownership in Egypt (Ministry of Housing, 1979, EMF, 2010). The government established the Mortgage Finance Subsidy and Guarantee Fund, which is equivalent to the Federal Housing Administration in the United States. It provides support to making mortgage credit available to low- and moderate-income households (Ministry of Housing, 1979, EMF, 2010). At present, the fund covers 15 per cent of the cost of a home purchase. It also allows for interest rate subsidy and covers mortgage loan repayments for up to two months in case of illness or job loss.

There are some programmes that are designed for low-income households whose income and situation meet certain conditions and who are buying a principal residence (EMF, 2010). Lenders under these programmes are the state-controlled institutions, including banks and mortgage finance companies. Terms offered are quite favourable, and the interest is below market rate (see table 2.9).

Table 2.9 General Conditions for Subsidized Mortgage Credit

Marital Status	**Yearly Income**	**Maximum Monthly Instalment**	**Maximum Payment Period**
Single	Less than EGP12,000 (lower income)	25% of income	30 years
Single	More than EGP12,000	40% of income	20 years
Married	Less than EGP18,000 (lower income)	25% of income	30 years
Married	More than EGP18,000	40% of income	20 years

Source: (MFA, 2006, EMF, 2010)

Eligibility is based on social characteristics and is thus universal. However, the nominal value of the mortgage credit is relatively low while purchase of a dwelling requires financial resources mobilization from private sources. Thus, it is argued that, despite government support, mortgage credit in Egypt is more accessible for the socio-economically stronger household groups (Hafiz, 2005, Nametalla, 2005, Aziz et al., 2007, Struyk and Roman, 2008).

2.3.6 Mortgage Credit Fundability

An important question remains as to how closing the current gap in mortgage credit provision can be funded. It was recently noted that a new mortgage credit bill to be introduced to parliament in 2011 is expected to boost the housing market and make mortgage credit available to a wider number of Egyptians. It will overhaul existing mortgage legislation, notably by easing conservative lending rules in the banking sector and simplifying bureaucratic procedures.

The Mortgage Finance Subsidy and Guarantee Fund, part of the key mortgage market's regulatory authorities, is preparing for the new law by signing agreements with financial firms, including three banks that are setting up new mortgage credit arms. The reduction in red tape is intended to speed up the time it takes to register a mortgage from six months to one month. In an interview with the Fund's chairwoman, May Abdel Hamid, she reported that:

> 'The new regulations should increase the number of mortgages by at least 15,000 during 2011, taking the total to at least 90,000, and double that total within two years . . . Mortgages currently amount to less than EGP4.5bn (US$785m, 0.5 per cent of GDP), much less than in

> comparable countries such as Morocco, where they represent 14 per cent of GDP. The main obstacle to mortgages, a relatively new financial instrument on the Egyptian market, has been a banking sector that was shaken by a long liquidity crisis in 2000-03 and that remains reluctant to provide long-term credit. Most Egyptian banks that provide mortgages have been doing so for only two years, with interest rates set prohibitively high (currently over 12.5 per cent). Many homebuyers in Egypt still buy property with cash or obtain medium-term payment facilities, typically for no more than seven years, from home finance companies'. (1) (see appendix 2)

Access to housing is complex for many low- and moderate-income households in Egypt. In most cases, they are not entitled to the same level of state support offered to the low income households. At the same time, they do not qualify to access the mortgage market under the current system. So, more accessible, long-term mortgages would enable more low- and moderate-income households to become homeowners and stimulate the housing market, one of the key engines of the Egyptian economy in recent years. As noted earlier, an estimated 200,000 to 300,000 new housing units are being built annually. The easing of mortgage credit availability would provide a boost to the housing market at a time when, according to the senior research analyst Mr. Walaa Yassin in HC Brokerage, a major local Egyptian investment bank:

> 'Both deliveries and prices are approaching all-time highs, while on the other side, underlying fundamentals like wage growth and replacement

costs are lagging behind. This is most apparent in land auctions with appetite appearing increasingly more subdued'. (2) (see appendix 2)

2.4 An Evaluation of the Impact of Egypt's National Housing Policy Initiatives

In sections 2.2 and 2.3, we reviewed Egypt's national housing policy initiatives since 1952. The main objective of this review is to examine what has been achieved on the ground in the Egyptian housing and mortgage markets in terms of what has been delivered and to whom. Following 2011 revolution, this section provides a formal evaluation of the success, or otherwise, of Egypt's national housing policy initiatives. The objective of the evaluation is to determine whether these initiatives: i) address a real need and are consistent with government priorities; ii) are effective in meeting their objectives within budget and without unwanted outcomes; and iii) have used the most appropriate and efficient means to achieve their objectives. The evaluation also aims to identify blockages and problem areas experienced by different parties involved - directly or indirectly - in delivery and to make recommendations with regard to their resolution.

2.4.1 Rationale

For the purposes of evaluation, we first consolidate and summarize the key objectives of the national housing policy initiatives (Ministry of Housing, 1979, Ministry of Housing, 1991, Ministry of Housing, 1993, El Batran and Arandel, 1998, El Demery, 2002, MFA, 2006, Fahmi and Sutton, 2008) in the establishment and maintenance of the following:

I. *Viable households and communities:* To promote progressive access to economic opportunities, health, educational and social amenities; permanent residential structures with secure tenure and privacy and providing adequate protection against the elements; and potable water, adequate facilities and domestic energy supply.

II. *Economically, fiscally, financially and socially sustainable markets: To* ensure economical utilisation of land and services and to discourage urban sprawl, in particular through the promotion of higher densities; to be based upon integrated development planning, promoting integration with respect to social, economic, physical and institutional aspects of development; and to contribute to redressing the historically distorted racial and spatial patterns of towns, cities and rural areas.

While the national housing policy initiatives emphasise that the target group is all Egyptian households, the priority has always been claimed to be for serving the needs of the low- and moderate- income households. Based on the earlier discussion, we understand that the national housing policy initiatives are meeting the objectives as set out above. The housing units are in an acceptable state of repair. There are enough housing units to meet most of the current need, although waiting lists do exist at some times in some communities. The process for accessing housing is fair and reasonable (Erba and Nothaft, 2002, CAPMAS, 2007).

However, there is an ongoing need for adequate, suitable and affordable housing that will continue into the future as the population growth remains high (Taher, 1997, Fahmi and Sutton, 2008). So there will be need to increase the total number of housing units. Also, extending the reach of the mortgage credit will be required to meet the needs of low- and moderate- income households (El Demery, 2002, El Gabaly, 2004, Struyk and Roman, 2008).

2.4.2 Strategies

One can note that the national housing policy initiatives are still based upon a system of subsidies for low- and moderate- income groups (MFA, 2006, Tameer, 2010). In order to balance need with resource limitations the chosen focus of the initiatives was width rather than depth. As such, the initiatives can be seen as incremental approaches to housing and mortgage markets development and all policy initiatives documents stress the progressive nature of the policy initiatives and their strategies.

Since 1978 the housing policy was transformed into legislation in the form of a number of acts. These acts define what is meant by housing and mortgage development and define the role of the government, community and private sectors in its implementation (Ministry of Housing, 1979, Ministry of Housing, 1993, Moharam, 2006, Rashad, 2008, EFSA, 2010). Acknowledging the existence of legislation that complements housing and mortgage development, this section has, of necessity, concentrated on the evaluation of policies that focus specifically on housing and mortgage delivery.

As also explained, the Egyptian government has used a number of strategies to implement the national housing policy initiatives. These can also be summarised as follows:

I. *Subsidy:*

The cornerstone of these policy initiatives have always been a system of subsidy that usually takes two forms, individual subsidy and institutional subsidy (Ministry of Housing, 1979, Ministry of Housing, 1993, EFSA, 2010). The individual subsidy gives low- and moderate- income households access to a housing subsidy to acquire ownership of or to purchase or build a new property. It can be used on a non-credit linked or a credit linked basis. Institutional Subsidies are allocated to an institution, being private sector and/or community sector organisations, as opposed to an individual and provide for low-priced land.

II. *A partnership between the state and other parties:*

The implementation of the policy initiatives has evolved in the recent years to be based upon the concept of a partnership between the state and non-state sector to facilitate housing developments (El Demery, 2004, Rashad, 2008). The strategy calls for the housing challenge to be met through mobilising and harnessing the combined resources, efforts and initiatives of communities, the private, commercial sector and the state. The strategy encourages the commitment of all key players in the housing and mortgage markets – from financial institutions and community organisations to private sector developers - to play their part. The role of government is only to set policy, norms and standards; set and monitor delivery goals; assist governorates and municipalities to carry out their roles; mobilise and distribute funds to governorates and municipalities for housing, land acquisition, and infrastructure development; and to take steps to create an environment for all parties to realise housing objectives.

III. *Mobilisation of savings, credit and private sector investment:*

Another central strategy of the policy initiatives is that additional resources be leveraged to supplement the government subsidy. It is stated that these resources should include private investment, formal credit, and the contributions of individuals, for example through contractual savings and pensions schemes (El Demery, 2004, Everhart et al., 2006, EMF, 2010). To this end, a variety of initiatives aimed at extending the reach of mortgage credit to the low- and moderate- income households from the formal financial sector have been established. These include the Mortgage Finance & Guarantee Fund, the National Housing Program, and the latest initiative, Self-build Housing Project.

IV. *The allocation of low-priced and serviced land:*

In the national housing policy, facilitating access to land for housing is identified as a critical component of the housing supply process (Ministry of Housing, 1979, Ministry of Housing, 1993, Galal, 2001, EMF, 2010).

2.4.3 Achievements

Adequate, suitable and affordable housing units are not in excess supply (Moharam, 2006, IDSC, 2008). The question remains as to whether the current supply meets the demand. Some suggest that the needs of low- and moderate- income households are not being met in all cases, and the demographic projections suggest that the gap will continue to widen if changes are not made to better meet those needs (El Gabaly, 2004, Fahmi, 2008, Rashad, 2008). A challenge in accurately assessing and meeting the need is that housing initiatives do not currently have a defined standard regarding the features that are to be included in low- and moderate- income households’ housing (Allam et al., 2004, Nametalla, 2005).

There is no comprehensive housing unit stock condition tracking system or ability to flag preventative maintenance and upgrades that are required based on the age and condition of the units (Fahmi, 2006). Due to the age of a significant proportion of the housing units in Egypt, the projected costs for renovation and rehabilitation are substantial. In addition, a number of units are projected to require replacement within the next 15 years (Fahmi, 2008). These consist mainly of homes and apartment buildings in old urban cities that are anticipated to require levels of renovation that instead suggest replacement. The general state of repair of the housing units is poor due to the age of the stock, so significant upgrades and replacements are projected over the next ten years.

Despite the development of savings mobilisation, credit and private sector finance to supplement subsidy, the extent to which additional finance is being mobilised in the housing market remains limited (Eldin et al., 2004, El Gabaly, 2004). Securing additional credit from financial institutions continues to be extremely difficult and generally not taking place in some cases (for example, the non-profit/ housing co-operative societies) (Moharam, 2006, Rashad, 2008). Many experiences are cited with a great deal of disappointment as a result of the reluctance of banks to serve the lower income market and sometimes those in the higher income bands (Nametalla, 2005). When some banks agreed to come on board, the interest rates, administrative and insurance costs rendered the bank credit unaffordable (Struyk and Brown, 2006).

The extent to which land is being released for housing and the extent to which availability of well located and affordable land continue to be an impediment to housing delivery and the realisation of other key objectives of the national housing policy in Egypt (Nametalla, 2005, Fahmi and Sutton, 2008). The allocation of low-priced and serviced land significantly diminished with a consequent negative impact on affordable housing delivery. For example, the housing co-operative societies have not been able to secure state land for their housing developments in the recent past (Moharam, 2006). Non-functioning bureaucratic systems and the high competition from the private sector for valuable urban land are cited as one of the main reasons for land release being a problem (Aziz et al., 2007, Fahmi and Sutton, 2008).

As is discussed in detail later in this study, faced with the above challenges, NGOs and community sector continue to play a relatively small role in housing and mortgage delivery to the low- and moderate- income households in Egypt. They are unable to make sufficient effort to try to find additional resources to top up the subsidy. Further, there is a lack of understanding of how to actually provide a supportive, enabling environment for the NGOs and community sector to operate.

2.4.4 Impacts and Effects

Overall, there are many areas of high importance that are receiving less than an adequate level of resources. Therefore, indications are that the resources are not well aligned with the areas of highest importance to low- and moderate- income households. However, the key issue is that 40% of the population are poor and living in either social or informal housing (CAPMAS, 2007, CBE, 2010). Further, low- and moderate- income households tend to have financial limitations that are generally getting worse, and therefore are unlikely to be able to find adequate, suitable and affordable accommodation in the formal housing sector (Aziz et al., 2007). So, the next step for the majority of low- and moderate- income households is into some level of support.

While the impact and effect of the national housing policy initiatives is positive, the satisfaction is low as the needs for appropriate shelter are not being met yet. Based on objective studies, the initiatives have been successful in improving the quality of housing, but the affordability and adequacy of housing are key impediments for meeting overall needs as many low- and moderate- income households have very limited affordable options for adequate housing (Allam et al., 2004, Fahmi and Sutton, 2008, Struyk and Roman, 2008). For this reason, the key objectives of the national housing policy initiatives as stated earlier remain unfulfilled.

It appears that while subsidies have been allocated, delivery is extremely slow, and in some projects, especially in the co-op housing sector, delivery is actually not taking place (Moharam, 2006, Rashad, 2008). One outcome of this is that problems are now being experienced in accessing subsidies for new housing projects. At this stage of the study, however, we note that subsidy applications in general have proved problematic in recent years. Several applications have been rejected as the government reduced its subsidy program to meet the national economic targets in terms of cutting the fiscal budget deficit. As is explained earlier, in order to avoid this blockage, the government provided a lot of concessions to the private sector, which resulted in many corruption charges in the recent history that led to the ongoing revolution in the country.

2.4.5 Cost-effectiveness and Alternatives

If the national housing program continues to operate exactly as it does now, the shortfall in funding for the program will gradually increase in line with the decreasing value of the public funding. There is also significant risk of exposure to inflation. The annual funding shortfall will be very sensitive to the rate of inflation, because the public funding is not adjusted for inflation. Regardless of the rate of inflation, the annual funding shortfall would be significant due to other important factors, including the fast growing number of population in need of affordable and decent shelter. In addition, there is also the issue of the ongoing annual depreciation of the housing stock (Fahmi and Sutton, 2008). If this depreciation was to be recognized in the form of an equivalent to an allowance for depreciation, it would increase the annual funding shortfall.

The effectiveness and sustainability of the national housing program has not been questioned and no substantial changes have been made. The processes for gaining interdepartmental and intergovernmental collaboration and partnerships with other agents in addition to the private sector remain not well explored (El Demery, 2002, Rashad, 2008). Thus, the recommendations arising from this evaluation focuses mainly on improving the effectiveness and sustainability of the national housing program through the development of a strategy to access sustainable funding sources for housing development and mortgage credit.

Options should be explored with regard to re-profiling the current housing finance system to better meet the current and future funding requirements. A related alternative is for the financial institutions to work in partnership with the community based organisations such as the housing cooperative societies. The importance of cooperative societies has already been recognised in the Egyptian constitution, public policy in general and the Egyptian Housing Policy in particular. The cooperative societies form part of the second tier of the financial and housing market structures. It is therefore imperative that the legal framework for their formation and how they can access the fund be made clear and popularised.

This appears to be more feasible option considering the existence of housing cooperative societies in the Egyptian traditional settings and their success story in housing sector. Membership of a recognised society can be considered enough to access mortgage credit. This then can help to eliminate the bottleneck of stringent obstacles that prevent low- and moderate- income households from applying for mortgage credit. Mortgage guarantee by co-operatives should be sufficient. It is clear from the ongoing revolution in Egypt that the danger of not adopting this cannot be over emphasised. Many low- and moderate- income households have lost confidence in the government and private sector, and it will take time for the situation to be reversed. If mortgage credit continued to be not accessed, it will be a total loss to Egypt. It is better for the low- and moderate- income households to have their mortgage credit at the risk of defaulting, than for the mortgage credit to be lost to looters and embezzlers.

Thus, there is a need for a further research and analysis to determine the effectiveness and sustainability of the existing mortgage credit system from the perspectives of the low- and moderate- income households and their housing cooperative societies. Such research and analysis should focus on the current obstacles for extending the reach of mortgage credit within the Egyptian context, mainly: a) Macroeconomic obstacles (including inflation, slow economic growth and demand-side handicaps); b) Socio-economic obstacles (including unemployment, slow increase of real wages, poor affordability of mortgage credit); and c) Institutional obstacles (including the lack of a network of financial intermediation and limited variety of distribution channels at the lower income end of the housing market). Addressing these obstacles to improve the effectiveness and sustainability of the mortgage system would provide large external benefits to the national economy in terms of employment, property development, labour mobility, capital market development, efficient resources allocation and lower macroeconomic volatility.

2.5 Conclusion

The above brief, and necessarily much simplified, review and evaluation of Egyptian housing policy initiatives show that it is only in this context that the development of housing and mortgage markets in a country can really be understood. The Egyptian housing and mortgage markets today are very different to thirty years ago, reflecting a significant transition in housing policy to produce, finance, manage and regulate housing. The most radical transformation is the shift in the government's role from being a direct provider of housing and mortgage credit into an enabling role to support the other participating agents in the housing and mortgage markets, namely the private sector and community-based organizations.

In view of this policy transition, the Egyptian government has recently committed to the development of a new mortgage system with the aim of promoting access to homeownership in the country. After almost a decade, to suggest that this new system is unique in achieving its objective or that it has problems more severe than in other countries is untrue. In general, mortgage credit in Egypt remains limited in its reach. Thus, access to housing, especially for low- and moderate-income households, is still a complex public policy challenge. Strong demand and the limited reach of mortgage credit means the problem of informal housing is likely to get much worse in the country.

There are several conclusions in relation to this issue that can be drawn from the discussion in this chapter. While the government has recently initiated major legal, administrative and regulatory reforms to facilitate the development of an effective and sustainable mortgage market, the state continues to secure the survival of the market rather than encouraging the participating agents to compete and to survive in the marketplace without relying on state support. Mortgage credit in Egypt also remains ruled by the social security system set up during the central planning era, in terms of network of intermediation that still relies mainly on state departments and institutions. Mortgage lenders are still chosen by the state as agents for supporting access to housing for low- and moderate-income households. On the other hand, the majority of Egyptian households have very low incomes. Thus, they will not be able to access the mortgage market without support.

From the above account, it appears that mortgage credit in Egypt is currently of little support to Egyptian low- and moderate-income households who wish to access housing. Therefore, the relative importance of the purposes of mortgage credit in Egypt needs to be redefined. There is also a need to explore ways to extend the reach of mortgage credit to support the low- and moderate-income households, for example through community-based organizations. This would require an assessment of the stakeholder relations and the role of each participating agent in the housing and mortgage markets.

In this chapter, the role of the banking sector and housing co-operative societies as participating agents in the Egyptian housing and mortgage markets has already been acknowledged, based on the most recent literature (UNDP, 2004). It appears, however, that this role has not made a major contribution in the recent period, in terms of smoothing housing consumption over time, mobilizing savings, allocating risk, promoting community-based housing, integrating the community-based housing sector into the mortgage market, privatization of municipal and state-owned housing stock and, last but not least, providing an alternative to the inefficient mortgage market. Accordingly, there is scope for further research to investigate these issues to fill a major gap in the Egyptian literature. This scope of research already fits well with the available international literature.

A process should be developed for strategic planning and for possible alternatives or ‘add-ons’ to ensure active involvement from within the financial sector. In addition, a method for responding to community sector proposals needs to be developed to allow more latitude for working out partnership arrangements to facilitate the effective functioning of the housing and mortgage markets and taking steps to achieve equitable access for all to that market. Such partnership arrangements should focus on the establishment and maintenance of a process that allows for options in the form of tenure and funding; be the outcome of choice; be carried out in consultation with communities affected; be a process that encourages and supports empowerment of the community sector.

3. LITERATURE REVIEW

3.1 Introduction

Access to housing finance is a universal problem even in many countries that are termed ‘developed’. Governments around the world have been addressing this problem for many decades. Some progress has been made in some cases, while demographic and macroeconomic challenges have made it almost impossible in other cases like Egypt as is explained in Chapter 2. In general part of the solution is to seek a new perspective, a new policy framework and a new institutional mechanism to extend the reach of mortgage market to improve the means by which low- and moderate-income households are able to access affordable and decent housing.

As is clear from the Egyptian experience, while the early attempts to establish state-run housing banks and mortgage programmes did increase the funding devoted to improving access to housing, most schemes operated with substantial subsidies, targeted already privileged groups and failed to reach even most of the low- and moderate-income households. One response has been to deregulate the mortgage market in order to increase the participation of the private sector and the amount of funds available for mortgage credit. Nevertheless it is apparent that most mortgage lenders have been mainly targeting the upper market and reluctant (or unable) to extend mortgage credit to low- and moderate-income households.

The recent events, especially the global credit crunch and the subprime crisis in the United States and the demise of mortgage lending institutions in some other cases (for example Northern Rock in the United Kingdom), have all prompted a slow response by many governments across the globe to address the limited penetration of their mortgage systems. Yet the argument remains that efficiently operating mortgage markets and governments which adopt ‘enabling’ strategies can improve access to housing. As a result, some observers have emphasized the importance of focusing on the issues of macroeconomic stability, resource mobilization and institutional development, as well as access to mortgage credit. Others also argued that understanding the operation of, and potential for, mortgage credit is important since in many developing countries housing policy should be about establishing new and more innovative finance policies and strategies.

In view of the above, the specific objective of this chapter is to review the international literature and the agencies that prompt much of the literature in relation to the creation of an effective and sustainable mortgage market that works better for low- and moderate-income households. The recent events have demonstrated that there are some common features between developed and developing mortgage markets. Governments in both markets are still faced with almost the same challenges of developing effective and sustainable mortgage systems in terms of the chronic issues they face and the limited fiscal resources that constrain the government policy in addressing these issues for improving access to housing for low- and moderate-income households.

The development of an effective and sustainable mortgage system is a complex issue that is influenced by several and constantly changing local features and challenges. The purpose of this chapter is to improve the understanding of the prerequisites for an effective and sustainable mortgage system. Thus, the chapter tries to lay out some of the policy alternatives and models of mortgage credit intermediation (institutional network, funding, risk management, regulations, government support). The chapter is focused and takes into account only key considerations and possible first best solutions that directly relates to increasing the penetration of mortgage credit in Egypt. The aim is to provide a road map tailored and sequenced to Egypt's situation.

3.2 General Problems of Housing

The generic problem that eliminates a segment of the population in any country from the housing market is affordability. Access to affordable and decent housing is one of the most important challenges faced by any government around the world. The gap between income and housing cost has brought a number of severe social ills to many countries, including overcrowding, unsanitary living conditions, alienation, social unrest and environmental pollution (UNDP, 2004, Nametalla, 2005, Fahmi and Sutton, 2006). Thus, many governments have been trying to address the affordability problem for a number of years, based on whatever limited resources are available to them. Some progress has been made in some cases, but the challenges remain complex in other cases.

The living conditions of many low- and moderate-income households in developing countries are no exception, and are characterized by substandard housing and neighbourhoods. Initially, policies dealt with ready-made housing and the construction of houses based on government-sponsored community-based and/or self-help programmes (Sengupta, 2006). Gradually the focus shifted to extending the reach of mortgage credit, or in other words, extending credit to households who would otherwise have limited access to the mortgage credit market. Efforts are made to reach low- and moderate-income households with mortgage credit but this is only achieved with great difficulty, if at all (Tra and Lensink, 2007). Even if the efforts appear to be successful, cost recovery remains problematic.

It is well known that average household income in developing countries is usually low. If medium- and low-cost houses are meant for households earning less than the average, then affordability will become an issue. Further, if the financing cost is high, the monthly mortgage repayment is also high. This means that the minimum income is not sufficient in most cases. Even if it is sufficient, it might be difficult for many low- and moderate-income households to support their cost of living with the remaining income. So, housing is only affordable and accessible for households if, after deduction of the housing costs such as rent or the repayment of a mortgage credit, sufficient means are left over to provide the necessities of life without falling below the poverty line (UNCHS-Habitat, 1984a).

For this reason, a mortgage credit will only be provided if the lender is largely sure the credit will be repaid (Renaud, 2000). That is, the affordable size of a mortgage credit is generally determined by taking into account the capital costs required, its financing terms, the size and regularity of the household income and physical possessions, and the propensity to consume housing. Thus, it is thought that if the capital costs, financing terms and household income are known, the propensity to buy housing or the willingness to invest in the dwelling will follow automatically (Chiquier and Lea, 2009).

3.3 Economic Transition and Market Failure

The early stage of transition in the former socialist economies indicated that macroeconomic reform and privatization, while necessary, would not alone create and sustain a competitive market economy. Both internal resources and external assistance are also required to focus on strengthening institutions and on expanding market participation. Otherwise, the transition to market-oriented systems is likely to be slow, fitful, uneven and disappointing, and could lead governments to turn away from the transition process (Malpezzi and Vandell, 1993, Behrman and Rondinelli, 2000).

The transition from a command economy into a free market economy has changed the rules of mortgage credit provision, which now depend mainly on the interplay of market forces, namely demand and supply (Mints, 2004, Stephens, 2005a). As a result, mortgage credit provision in many developing countries is now based on the concept of profit maximization. Under these circumstances, if the provision of mortgage credit is left entirely to the private sector, low- and moderate-income households will continue to have limited access to the housing and mortgage markets.

Recognizing the social and economic implications of this access problem, governments usually adopt a two-pronged strategy – direct intervention in the form of public low-cost housing programmes sponsored by state governments with mortgages provided by the treasury departments, and indirect measures in the form of conditions stipulated in the approval of private sector and community housing projects and finance programmes (Van Order, 2007, Égert, 2009). The purpose of the latter approach is to ensure that the private sector and community play their role in the promotion of access to the housing and mortgage markets for the low- and moderate-income households and at the same time supplement the efforts of governments.

However, rising costs in the housing and mortgage markets usually complicate the issue. Complaints and objections become increasingly loud from the private sector and the community. They can no longer keep up with the conditions stipulated by the government in the provision of low-cost houses and mortgage credit, especially in major urban centres (Sunega and Lux, 2007). Even the practice of cross-subsidy can no longer be carried out without inflating the price of houses and mortgage credit substantially (Le Blanc, 2005). This state of affairs affects the affordability of housing. Since the provision of low-cost housing and mortgage credit can no longer be carried out commercially with the prices fixed at a certain level, the private sector looks upon the provision of low-cost housing and mortgage credit as a social obligation.

The interplay of market forces has not prevented market failures in both developed and developing countries in modern times (Hamm, 2008). Thus, the analysis of any housing and mortgage market failure needs to take into account economic, social and political factors (Gibb, 2003). It is also important to analyse the institutional capacities within the market vis-à-vis policy and delivery, in order to propose best solutions based on a balanced contribution from the state, market and community. In general, the key institutional capacities responsible for establishing the parameters of demand and supply in any market are consumers, producers, financiers and governments. Each of these institutions/actors has some desired outcomes from well-functioning housing and mortgage markets (see table 3.1).

The selection of policy instruments to achieve the above desired outcomes presents governments with a choice between two strategies that can be broadly labelled ‘supply-side’ and ‘demand-side’. Under these strategies, policymakers can opt for supporting either housing producers (formal or informal, profit-making or non profit-making) or consumers – or both. The balance between these two main strategies differs from one country to another.

Table 3.1 Desired Outcomes of a Well-Functioning Housing Market

Perspective	**Desired outcomes**
Housing consumers	Everyone is housed, with a separate unit for every household. Housing does not constitute an undue proportion of income. Living space and conditions are adequate. Location provides adequate access to employment and other service nodes. There is security of tenure and legal protection from eviction. Households are free to choose between renting and owning. Finance is available to smooth expenses over time and allow households to save and invest.
Housing producers	There is adequate supply of residential land at affordable prices. Construction materials, equipment, finance and labour are available at reasonable prices. There is no discrimination against the residential sector in the form of special tariffs or controls. Regulations concerning land development, land use, land tenure, building codes, taxation or special programmes are unambiguous, and the government's application of these is efficient, timely and uniform. Rates of return on all types of housing investment, including rental housing, are sufficient to maintain incentives for investment.
Housing finance institutions	Housing finance institutions are permitted to compete for deposits on equal terms with other financial institutions; the role of directed credit is minimized. Housing finance institutions are not forced to compete unfairly with subsidized finance. Lending is at positive interest rates with a sufficient margin to maintain institutional health. Systems of property rights, tenure security and foreclosure are such that the financial interest of lenders can be protected.
Local governments	Housing and associated infrastructure are of adequate quality to maintain public health, safety standards and environmental quality. Infrastructure networks and services are extended quickly to all communities. Land is productive and efficient. Housing provides a major source of municipal revenues for building and maintaining infrastructure services and neighbourhood amenities.
Central governments	Adequate affordable housing is available to all. The housing sector is integrated into national, social and economic planning. The housing sector contributes to the following objectives: poverty alleviation; controlling inflation; generating employment and income growth; reducing balance of payments deficits; and protecting the environment.

Sources: (Angel et al., 1993, World Bank, 1993)

The two primary instruments for pursuing a supply-side strategy are: housing and mortgage credit programmes in which the government builds and finance public housing stock for rent or sale; and subsidies to private and community based organisations to do the same. Both instruments have been used extensively in most developing countries. The universal problem of these instruments is that housing and mortgage services are at too high a standard for the low- and moderate-income households and without a clear understanding of the actual needs of these target groups. The result has been that these services have generally been too expensive and have offered very little flexibility in use. In most cases, it is also the public sector employees, trade union members, or those with appropriate political links who benefit mainly from these government-sponsored housing and mortgage credit.

As for the second major strategic option available to governments, supporting consumers in the housing and mortgage markets, the objective is to stimulate demand and access through either tax concessions, allocation of cheap (or free) urban land or extending the reach of mortgage credit.

3.4 Extending Access to Housing Finance

In general, lack of finance is one of the major problems when it comes to housing delivery (Stephens, 2005a). Access to finance for housing purposes is a cornerstone in a sustainable housing delivery process (Lee, 1996). Many governments around the world have recognized this important relationship and managed to develop a housing finance system that consists of three markets: the primary mortgage market, the secondary mortgage market, and the capital market. In the primary mortgage market, mortgages are created and funds are loaned directly to borrowers. In the secondary mortgage market, lenders and investors buy and sell existing mortgages. In the capital market, investors buy and sell long-term investment vehicles such as mortgage-backed securities (MBS), stocks and bonds. By investing in mortgages and MBS, capital market investors help increase the flow of funds available for mortgage lending.

It is quite common during the early stage of development that mortgage markets in developing countries are either not well developed or do not function efficiently in the same way as described above (Buckley and Kalarickal, 2005, Erba and Nothaft, 2005). Thus, mortgage credit in these countries has had little impact in terms of promoting access to housing. Traditionally, governments' approaches to address this problem include interest rate subsidies, special housing funds capitalized through employer/employee taxes or mandatory provident fund contributions, voluntary contractual savings programmes offering below market saving and lending rates, public sector mortgage insurance or guaranties, and/or tax deductions for home owners or certain investors (Van Order, 2007, Chiquier and Lea, 2009).

In recent times, however, many governments, especially in transitional economies, have been trying to extend the reach of their housing finance systems without subsidies. Their approach focuses more on the broader issues of ensuring macroeconomic health, efficient housing systems and overall financial systems, and housing finance system efficiency (Gibb, 2003, Stephens, 2003b, Gibb and Whitehead, 2007). In other words, the mortgage market is seen in the context of the national economy and more specifically the national financial system.

In the following sections, the above issues and approaches are reviewed and evaluated in more detail. The discussion is divided into three sections. The first section is based on the assumption that extending the reach of the mortgage market without subsidies would offer first best solutions that are more applicable to the context of Egypt. The second section evaluates the traditional approaches as additional or alternative short-term solutions. Section three concludes with a clear statement of the objective of the thesis and proposed research questions.

3.5 Mortgage Market, National Economy and Financial Systems

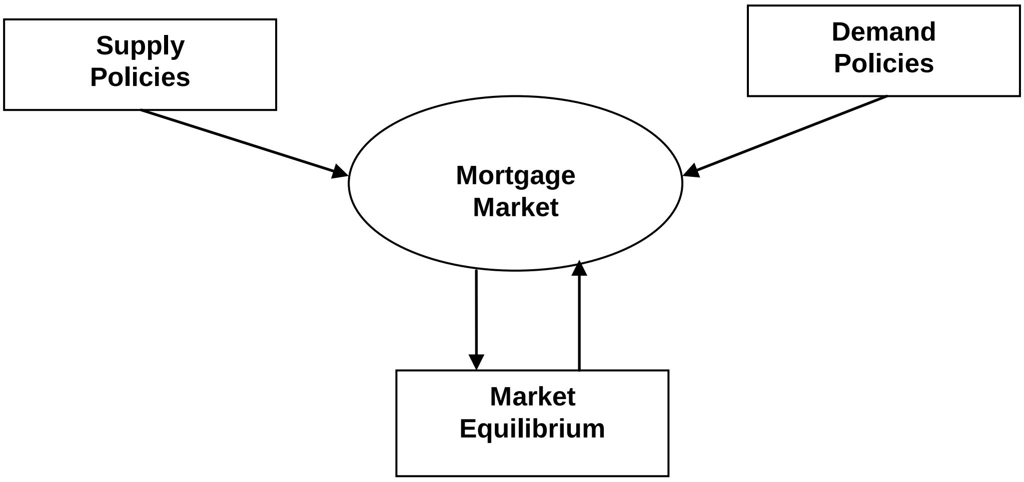
A sound macroeconomic policy environment is needed if the development of an effective and sustainable mortgage market is to succeed in Egypt. The maintenance of fiscal, monetary, and exchange rate policies that promote financial stability and an externally sustainable growth path are required. In addition, the efficient allocation of resources, furthered through the fostering of saving and credit, attainable through an efficient intermediation system, is also required. The further discussion below touches on some areas which require particular attention.

3.5.1 Macroeconomic Health

The recent evidence from the experience of many developed and developing countries suggests that there is a need to achieve low inflation, adopt radical financial reforms, and seriously reform and liberalize their financial systems, if they are to develop stable and efficient mortgage systems (Mints, 2004, Stephens, 2005b, Sunega and Lux, 2007, Chiquier and Lea, 2009). Accordingly, any discussion related to extending the reach of mortgage credit to improve access to housing should start with explaining how macroeconomic health and mortgage system efficiency impact the role of mortgage credit. Recently, mortgage systems have failed in a number of countries to promote access to housing as a result of an adverse macroeconomic environment and poor housing policies (Loutskina and Strahan, 2009, Schmudde, 2009, Solove and Richards, 2009, Hamm, 2008). On the other hand, the national economy and housing market have suffered in other cases as a result of inefficiently operating mortgage systems (Enoch and Ötker, 2007, Ben-Shahar et al., 2008, Struyk, 2010).

To explain this circular nature of the relationship, one needs first to explore the relationship between macroeconomic health and housing system efficiency in general. According to the World Bank, the housing system is connected to the broader economy through three main circuits: real, fiscal and financial (World Bank, 1993). Real circuits are those associated with investment, output, employment and prices. Financial circuits are those associated with the financing of housing and related residential infrastructure through financial intermediaries. Fiscal circuits are those associated with taxation and subsidization of housing. The literature on these circuits is very wide-ranging (Maclennan and Gibb, 1993, Gibb, 1995, Maclennan and Gibb, 1989, Eerola and Määttänen, 2005, Englund et al., 1995, Le Blanc, 2005, Gibb, 2003, Gibb, 2009). Figure 3.1 re-groups these circuits under three main headings: supply, demand and market equilibrium and link them to the mortgage market.

Figure 3.1 Mortgage Market and the Broader Economy



Source: Literature review results

A) Demand

Demand for housing is like demand for most commodities. Housing demand is therefore quite resilient with almost the same fundamental drivers as for demand on commodities, namely income growth, inflation, and interest rates (Liang and McLemore, 2004). Among the other key factors that influence demand for housing is access to the mortgage market.

The first factor, income growth, positively contributes to house price changes. Income growth is relatively predictable, and has a direct and stable influence on house prices. Inflation increases or limits this influence. In general, an increase in the inflation rate above a certain level can be regarded as a hindrance to economic growth (Fischer et al., 1996). In the context of income growth, an increase in the inflation rate results in an increase in the cost of a mortgage credit, which, in turn, reduces the number of households eligible to take a mortgage credit and have access to housing. So, controlling inflation is one of the important issues in the development of a stable and efficient macroeconomic environment for the mortgage market to grow (Sims, 2008, Sargent, 2010). There are many approaches a government can take to control inflation.

As for interest rates, they are the most volatile driver of demand and an important factor behind any boom and bust in a housing market (Albon and Piggott, 1982, Calvo, 1991). As interest rates decline, mortgage credit becomes affordable to more households, thus increasing housing demand. On the other hand, any expected rise in interest rates should put downward pressure on the mortgage market, and as a result slow down housing demand. In fact, interest rate changes have a direct influence on the average amount a household is willing to dedicate out of income towards mortgage payment.

As is clear, access to mortgage credit is a key factor for ensuring macroeconomic health and housing market efficiency (Gibb, 1996, Maclennan and Gibb, 1989). Access to mortgage credit increases the ability of households to accelerate their purchase of housing, and permits a better allocation of personal resources between housing, other goods and savings over the family life cycle. However, access to mortgage credit in itself needs to be an efficient process.

B) Supply

Unlike policies to support demand, supply policies in the housing and mortgage markets often offer the greatest scope for reform because they are strongly influenced by the government's actions in the provision of infrastructure and the regulation of housing and mortgage markets (Monk and Whitehead, 1996, Zhu, 1997, Glaeser et al., 2005, Aura and Davidoff, 2006, Glaeser et al., 2008). In general, a flexible supply policy can support economic recovery from a deep recession, while a rigid supply policy can frustrate the attempt by the government to stimulate the housing and mortgage markets.

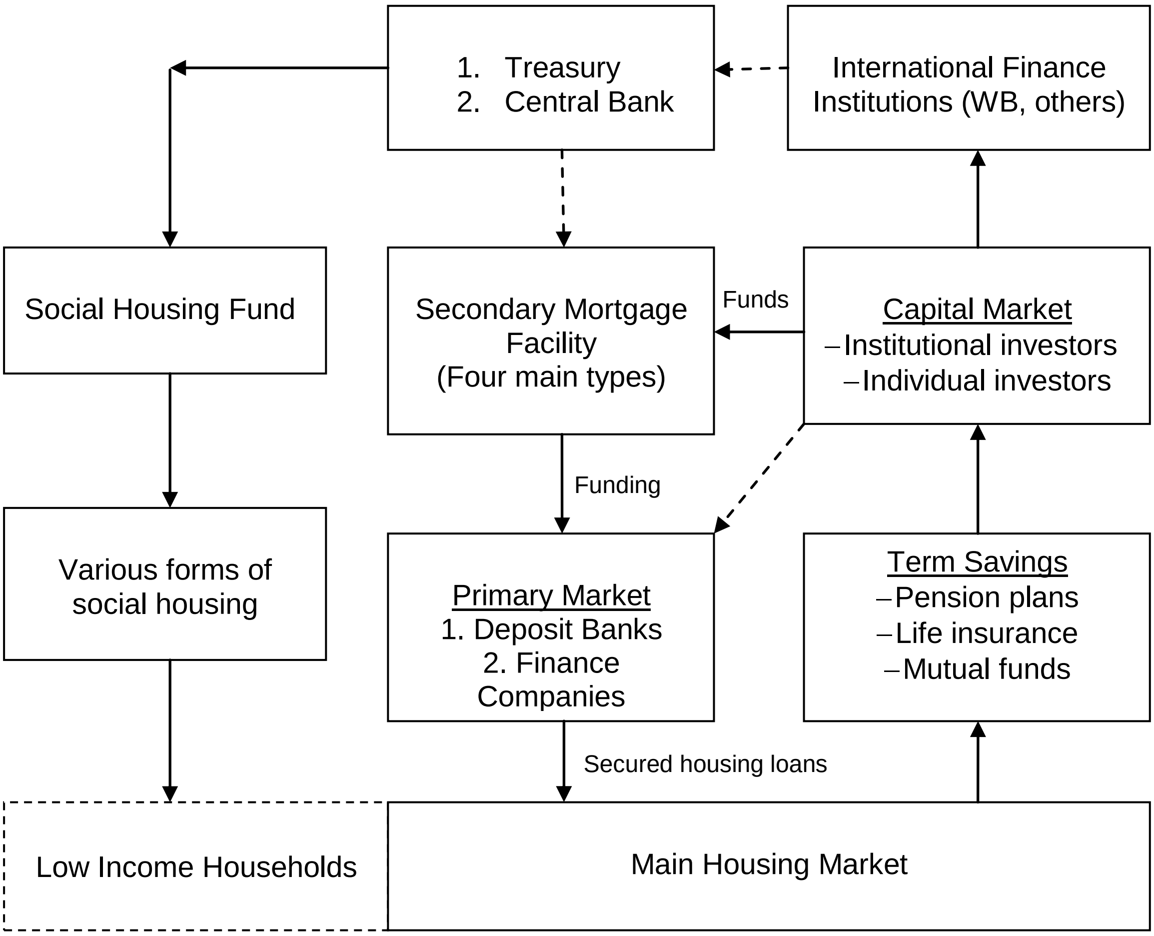
The basic assumption of neo-classical economics is that markets, including those for housing and mortgages, are driven by demand for new property and that sufficient supply should be brought forward to meet this demand (Healey, 1991, Gibb, 2003). Poterba argues that the short run supply is relatively inelastic (Poterba, 1984), while in the medium to long term the supply is relatively elastic, that is in the long term housing and mortgage markets achieve an adjustment of housing stock and mortgages supplied to its long-term demanded level. Factors such as blockages in the development process, constraints through planning, physical conditions, infrastructure provision, and valuation and ownership issues impinge upon the rate of response on the supply side (Adams, 1999, Ball et al., 1998, Healey, 1991, Monk and Whitehead, 1996).

3.5.2 Financial System Efficiency

A striking aspect of the early economic transition in most developing countries is the recurrence of a strategic gap in domestic financial reform policies. Typically, mortgage market development takes a back seat in the reform process (Renaud, 1996). This is as a result of the absence of a well-articulated framework for mortgage credit intermediation to operate efficiently in the developing countries. Thus, it is important to establish reformed and liberalized mortgage markets combined with relatively quick foreclosure processes, market valuation systems, mechanisms for credit enhancement and favourable government policies (Stephens, 2003a). Such reformed and liberalized mortgage markets should also achieve high rates of saving, separate subsidies from finance, integrate the mortgage market into the various primary and secondary funding markets, increasing competition and innovation among a variety of financial intermediaries, and develop various financial services both at the primary and secondary market levels. The key objective of enhancing the efficiency of any mortgage market should be enabling more low- and moderate-income households to benefit from the network of mortgage credit intermediation to gain access to the housing market.

In view of the above, unbundling the mortgage supply chain has been widely debated as a key step for efficiency analysis (Chiquier and Lea, 2009, Erba and Nothaft, 2005, Ben-Shahar et al., 2008, Stephens, 2005a). Figure 3.3 provides a useful starting point for elaboration. As is clear, the world trend is to move away from the role of government as direct mortgage lender to a market-based mortgage system in which the government plays a new role as an enabler and regulator to facilitate and encourage private and community-based organizations to undertake mortgage credit activities.

Figure 3.2 World Trends in Mortgage Finance



Source: (Renaud, 2000)

3.5.3 Mortgage Credit Intermediation

Mortgage intermediaries (MIs) can be defined as institutions that intermediate between providers and users of financial capital for housing purposes (FRBA, 2003, Frederiksen, 1894). Generally, there are many different types of MIs and many different ways of classifying them (Chiquier and Lea, 2009). One can classify them based on their legal structure, for example bank or non-bank (Bond, 2004). Another way is to classify them based on whether or not they finance their activities with savings. For example, MIs that finance their activities with savings are usually called saving-type or depository MIs, whereas those that do not finance with savings and deposits are called non-saving/non-depository MIs. Regardless of all these classifications, and for the purpose of this study, the key point here is that all these MIs play an important role in the support of financial system and housing finance system efficiency through the management and allocation of credit.

In any economy there are surplus and deficit sectors (Kwast, 2007). The surplus sector comprises those households and firms that are cash-rich, which they own more liquid assets than they currently wish to spend. They want to lend out their surplus funds to earn money. The deficit sector comprises those who own fewer liquid assets than they wish to spend and they are prepared to pay money to anyone who will lend to them.

In this context, an efficient mortgage system is expected to perform several functions, including the vital function of facilitating efficient mortgage credit intermediation through markets and institutions. The landscape of mortgage system is very similar to any housing finance system. It is usually dominated by the nature of financial intermediation (Kwast, 2007), in terms of how the function of intermediation is performed, who intermediates between the surplus and deficit sectors in the housing and mortgage markets, and what role the intermediary plays in the savings investment process and in mortgage credit. Also at play are the issues in financial crises associated with financial intermediation, the kind of risk management tools being offered, and the operation and regulation of mortgage credit intermediaries (Farhi et al., 2009, Buckley et al., 2003, Stephens, 2007).

MIs are special in comparison to other economic agents. The acquisition and processing of information about economic agents, the packaging and repackaging of financial claims and financial contracting are among the activities that differentiate MIs from other economic activities. MIs not only channel resources from the capital surplus agents (generally, households) to capital deficit ones (for example homebuyers, housing developers, small businesses, etc) but they also allow intertemporal smoothing of households' consumption and business expenditure and thus allow both firms and households to share risks. In recent years, the increased complexity and volatility of the financial systems have led MIs to innovate and offer products (for example residential mortgage-backed securities) to mitigate, transfer and share financial risks (Warnock and Warnock, 2008, Ben-Shahar et al., 2008, Rabenhorst and Ignatova, 2008).

A) Basic functions of mortgage credit intermediation

The mortgage market is no exception from other financial sectors. One can also consider a mortgage intermediary as an institution that raises funds from the surplus sector of the economy and lends them to the deficit sector, paying a lower rate of interest to the entity with the surplus and charging a higher rate of interest to the entity with the deficit (Rother, 2001, Bond, 2004). A mortgage intermediary's income is usually the difference between the two interest rates. Banks and non-bank saving and loan institutions and/or building societies are the best known examples.

In carrying out their main functions, mortgage intermediaries need to undertake a number of other functions in relation to asset transformation, conduct of orderly payments, brokerage and risk transformation. Asset transformation function entails the transformation of maturity, scale and place of the financial assets and liabilities of the ultimate borrowers and lenders (for example savings, equity, mortgage and insurance). The administrative function of an accounting and payments system (for example electronic funds transfer, settlement and clearing) is considered another important intermediation function.

The functions of mortgage intermediation have changed drastically over the last three decades due to the changes in macroeconomic policies, liberalization of capital markets, deregulation, advances in financial theory and breakthroughs in technology (Chiquier and Lea, 2009, Stephens, 2007). Mortgage intermediation in the form of traditional mortgage lending has declined considerably in developed countries where the market-based intermediation has become dominant (Sunega and Lux, 2007). Traditional operations of mortgage lending are being replaced by more fee-based services that bring lenders and borrowers directly into contact with each other. Some degree of disintermediation has also taken place due to the reduced role of the traditional mortgage intermediary. However, irrespective of who performs mortgage intermediation, whether bank or non-bank financial institutions, the basic function of mortgage intermediation itself has not changed.

B) Treasury and central bank interventions

A general and sufficient requirement in any financial system is to ensure central bank independence (Wagner, 1999). This is also important for maintaining a stable mortgage intermediation system. Central banks need to choose a realizable and efficient nominal anchor. The experience or advantages of exchange-rate-based stabilization have not been overwhelming. On the other hand, the success of money-based stabilization is also usually assessed to be very uncertain. For this reason, other nominal anchors, in particular inflation targeting, have been proposed as possible alternatives for transition and developing countries. In fact, inflation targeting is already being practised in the Czech Republic (Janackova, 2001). Having lost the nominal anchor of a fixed exchange rate due to the currency crisis, the Czech Central Bank changed the strategy of their monetary policies to direct inflation targeting. One of the often-cited advantages of direct inflation targeting is supposed to be increased credibility. Clearly-set inflation targets supposedly influence the inflation expectations of all economic subjects, for example wage bargaining. Good predictions are, however, a necessary part of the inflation-targeting strategy and risk management.

However, one has to admit that even with the best expert knowledge it is very difficult to predict, with the precision needed for inflation targeting, the behaviour of an emerging economy, which is undergoing rapid structural and institutional change, and, due to its small size and openness, is very vulnerable to external influences (Janackova, 2001, Masson et al., 1997). Another specific problem of direct inflation targeting in a developing market is the high vulnerability of inflation to external factors and to changes in the exchange rate (Masson et al., 1997). It is impossible to target inflation without, at the same time, having at least an implicit target for the exchange rate. The question is whether the central bank has the power to manage the exchange rate as desired against strong capital inflows or outflows, and whether it is willing to submit the exchange rate policy to the inflation target.

C) Mortgage Credit Intermediation Models

Mortgage markets are dependent on the existence of a network of intermediation (Stephens, 2005a, Chiquier and Lea, 2009). This network underpins the funding and origination of the credit, the education of the market, the division of obligations and responsibilities, and the provision of support if there is default. In most developed countries, mortgage intermediation was initially performed by a specially regulated and privileged class of institution. In the United Kingdom, it was the building society that was so privileged. In the United States, it was primarily the Savings and Loans Associations (S&Ls). Notably these institutions started as mutual societies or community-based organizations, since this was an activity driven by concern for housing for the community and not by maximizing profit for investors. These societies, organizations or institutions were given special tax and regulatory concessions on condition that they restricted themselves to mortgage lending. The result was that they developed a network of mortgage intermediation, expertise and culture appropriate to support access to housing, which was almost their exclusive preserve. The key challenge however was to make the business efficient to be sustainable in the long term.

In countries with rapid economic growth and expanding urban populations, mortgage intermediation is the most rapidly growing business, making a major contribution to financial systems and economic development. In addition, in some countries, such as the United States and United Kingdom, financial innovations undertaken with respect to mortgage lending have spread quickly to other parts of the financial system, resulting in increasing financial depth (Doling, 1997, Stephens, 2005b, Stephens, 2003b). Given the recent development of the mortgage market in Egypt, the following review of existing mortgage models and institutions might propose first best solutions for Egypt, in terms of developing origination standards and network of mortgage intermediation for offering mortgages primarily for low- and moderate-income households.

State vs. a market-based mortgage system

Privatization is very much a precondition to market-based mortgage market: where there is no housing being sold to households there will be no demand for mortgage credit, because there is no need for it (Renaud, 1996). There are three different types of financial systems with various consequences for connections between state and economy (enterprises, banks and other intermediaries) (Zysman, 1983). The first is a system based on a capital market, with resources allocated by prices established on the competitive markets where the enterprises and the intermediaries operate. The second is the state-based system with critical prices controlled by the state. The third is the credit-based system dominated by the bank and non-bank institutions. The state may appear in all three roles simultaneously, even though this brings it into conflicting situations.

One of the common problems in developing countries is the political intervention in financial markets, which is costly and has proven hard to prevent (Long, 2002). Public ownership gives financial institutions an inside track to certain types of government business. It also assists the financial institutions to win large deposits from state-run pension funds and other government bodies. State-owned housing finance institutions tend to have a monopoly, but this is usually unprofitable business in a developing economy. Contracts which are profitable today may become unprofitable if the government changes the pricing structure, and the government could decide to assist an ailing public sector institution by transferring it to a lucrative contract held by another stronger institution.

In the early literature on financial liberalization there was a notion that if markets were sufficiently competitive, owners with sufficient equity interest in their financial institutions would seek to manage those institutions so as to increase their equity over time, leading ultimately to a healthy, competitive financial system (Wilson and Caprio, 2002). Further, countries where private agents have better means to monitor financial institutions enjoy higher levels of financial sector development, because private agents have better incentives to monitor and exercise market discipline vis-à-vis financial institutions if they are not protected by too generous insurance (Beck, 2003). Some also agree that rather than investing significant amounts in state-owned financial institutions, governments would be better served by having greater investments in infrastructure, such as legal and regulatory structures, supervisory resources and practices, information provision, liquidity facilities, payments and securities settlement systems, and exchange systems (Caprio and Peria, 2000).

Building societies/state banks

Until the 1980s, mortgage activity in most European countries was dominated by specialist lenders, mainly state banks and mutual or building societies (Coles and Hardt, 2000, Chiquier and Lea, 2009). State banks dominate in countries like Germany and Austria (Hamm, 2008, Zehnder, 2005, Kretschmar and Damaske, 2003, Deutsch and Tomann, 1995, Frederiksen, 1894). Building societies are active in the United Kingdom (Stephens, 2007, Stephens, 2003b, O'Sullivan, 1994).

During the 1980s, market efficiency and the more market-related allocation of capital became paramount in many countries (Paine and Kane, 1985). It was beginning to be clear that the special tax and regulatory concessions that had been given to the building societies were resulting in distortions in the allocation of capital, and dangerous systemic risks were beginning to build up. In most jurisdictions the way was opened for the building societies to convert themselves into equity based banks, or to merge with banks, because the capital base of the bank facilitated a rapid increase in the amount of mortgage business that could be carried on the balance sheet of the institution.

As a consequence of such change, the European mortgage markets have shown an impressive expansion, which can be attributed to two main factors: deregulation in the financial system and low interest rates. Deregulation has enabled non-specialized lenders to enter the mortgage market and also encouraged specialized lenders to change their legal status (Berg and Bergström, 1995, Stephens, 2007). The low interest rates resulted in greater affordability of mortgage finance, thereby creating favourable conditions for high demand for housing. This new environment has led to an increase in the variety of institutions granting mortgage loans in the EU (Zehnder, 2005). Coupled with rapid technological advances, this has pushed state banks and building societies to develop new financial products and methods to market their products to the customer (Stephens, 2007).

Another notable change is the emergence of the commercial banks as key players in the European mortgage markets (Chiquier and Lea, 2009). Unlike other models, for example mortgage credit in the United States, the European mortgage markets continue to operate with no national or European government agency support to help the mortgage lenders fund their loans, because EU regulations prohibit state aid in the form of guarantees as there may be an element of competitive distortion (Hamm, 2008). This makes it essential for any EU mortgage lender to be successful in funding the credit for the lifetime of the mortgage.

To reduce the pressure on the capital structure of the institution, as EU mortgage lenders need to hold funds of between 4 per cent and 8 per cent for mortgages on their balance sheet, most of the banks and building societies refinance their assets to a large extent through issuing mortgage bonds in the secondary market (Hagen and Holter, 2002). Although the mortgage bonds are still on balance sheet instruments, they reduce the pressure to increase the capital base to fund new business as they allow for recycling part of the mortgage credit portfolio through the secondary market, releasing part of the allocated capital (Mihaljek et al., 2002). However, one would note that this emphasis on capital adequacy based on Basle II accord has failed in the recent credit crunch (for example in the case of Northern Rock). For this reason, Basel III will tighten the requirements and try to make them counter-cyclical.

Savings and Loans

Historically, savings and loans institutions in the United States and Latin America initiated all the key functions associated with mortgages (Lea and Renaud, 1995, Chiquier and Lea, 2009). In the United States, between the 1930s and 1970s, the savings and loan associations, or ‘thrifts’, used to be the main mortgage lending institutions, funding long-term fixed-rate mortgages on the basis of variable rate deposits. For almost 50 years this system worked well, benefiting from stable interest rates in the United States. However, once the interest rates started rapidly to increase from late 1979 onwards the thrift system revealed its fundamental deficiency of borrowing short and lending long. This led to a major squeeze on interest margins and liquidity, resulting from pressure to pay increased rates on deposits while holding a portfolio of fixed-rate mortgages (Coles and Hardt, 2000). Following a very sharp increase in interest rates, the thrift system finally collapsed during the 1980s, and it became clear that the system needed to restructure its funding model to mitigate the risk associated with high and fluctuating interest rates in the future.

To support the restructuring of the system, Fannie Mae and Freddie Mac were federally chartered as government sponsored enterprises (GSEs) by the United States Congress to provide stability and on-going assistance to the secondary market for residential mortgages, and to promote access to mortgage credit and home ownership in the United States (Grebler, 1983). Since their establishment, Fannie Mae and Freddie Mac have played central role in serving the United States housing finance system. They pursue their public policy mission by purchasing single- and multi-family residential mortgages from lenders in the primary mortgage market, as well as guaranteeing the timely payment of principal and interest on mortgage-related securities. Their large aggregate size allows economies of scale which reduces the funding costs for the mortgage lenders in the United States. This enabled the S&Ls to effectively mitigate the asset liability mismatching risk and the interest rate risk while still carrying out their mortgage business.

In September 2008, following the sub-prime market crisis in the United States, Fannie Mae and Freddie Mac were placed into conservatorship by the Federal Housing Finance Agency (FHFA), because it determined that the companies could not operate in a safe and sound manner and fulfil their public mission. The FHFA has broad powers to take all actions it deems necessary and appropriate to put the two companies in a sound and solvent condition and carry on the companies' business and preserve and conserve their assets and properties. This continued government support has been widely debated as part of the GSE and mortgage market reform (Solove and Richards, 2009, Schmudde, 2009, Loutskina and Strahan, 2009).

Commercial Banks

In many developing countries, commercial banks tend to dominate the financial system (Long, 2002). In fact, it is not just a question of the commercial banks controlling the financial system in terms of intermediation between savers and borrowers. They also sometimes dominate all other areas of financial activity, such as share brokerage, fund management, leasing companies and perhaps insurance. This dominance gives commercial banks two big advantages – pricing power and ability to benefit from changes in the public's asset distribution. This, however, contributes to less than optimal competition and efficiency in the financial system, and cost inefficient banks can continue to survive in such an imperfect system where profit opportunities are abundant for all types and sizes of commercial banks(Isik and Hassan, 2002).

Examples of mortgage credit intermediation systems based on commercial banks can be found in countries such as Mexico and South Korea (Zaltzman, 2003, Blankenship, 2000, You, 2003, Lozano, 2006, Ruiz, 2005, Ossa, 2003). In Mexico, the shape of the mortgage market today reflects the chaotic history of the industry over the last several decades. In the 1980s, the banking system was nationalized and federal requirements mandated only a relatively small volume of social interest or low-income loans to be originated each year. When the commercial banks were liberalized, in the early 1990s, mortgage lending took off in response to the pent-up demand for credit – as a percentage of GDP.

However, as the markets were booming, in 1995 the value of the peso plummeted in response to a set of national macroeconomic problems. Though the effects of this devaluation were felt in all sectors, nowhere was the impact greatest than in the financial markets, and the mortgage markets in particular where the rate on adjustable rate mortgages (Mexico did not use fixed-rate mortgage products) jumped to extraordinary levels. Though most Mexican home loans had been designed to track inflation, repayment could not keep pace. Mexican households' incomes rarely experienced nominal inflation jumps comparable to that of their mortgage payments. Thus, the gap between what borrowers were paid and what was owed often became so big that the mortgage loans were negatively amortizing themselves to a point where repayment was essentially impossible.

A notable measure taken by the government was the establishment of the Federal Mortgage Bank (Sociedad Hipotecaria Federal or SHF) to fill the gap created by the exit of many banks from the mortgage sector. SHF supported the development of the

Sofols sector (Sociedad Financieras de Objeto Limitado), non-bank financial institutions authorized to originate and service mortgages and also to provide bridge financing for developers (2002). With the backing of SHF, most Sofols source in excess of 90 per cent of their funding for mortgages from SHF, and in meeting the housing finance needs especially of low-income segments, Sofols have realized market share increases.

The underlying success factor for the Sofols is their low default rates compared to both Mexican bank mortgages and international standards (Zaltzman, 2003). This is particularly noteworthy in light of the low-income market segment the Sofols target. The performance of the mortgage portfolios held by the Sofols is linked to several factors including: (1) the high level of efficiency in their collection methodologies; (2) good underwriting standards; (3) the non-conventional methods of servicing; and (4) the quality of the management teams (Ruiz, 2005). In the recent period, another interesting development has been the number of sizable Mexican mortgage-backed securities issued with support from international banks (Lozano, 2006).

In South Korea, the mortgage system provides another example for the evolution of the commercial banks' role in the mortgage intermediation process. The recent institutional reform and creation of new players in the Korean financial market, including Korea National Mortgage Corporation (KNMC), was made necessary by fundamental changes in the Korean housing finance system (Blankenship, 2000). The establishment of KNMC was deemed necessary because the government concluded that the primary mortgage market could be exposed to systemic risk due to the expansion of short-term mortgages with a variable rate after the Korean financial crisis. KNMC's main objective is to foster the secondary mortgage market, especially long-term funding instruments (for example mortgage-backed bonds and securities).

An interesting consequence of this is the increasing involvement of commercial banks in the Korean mortgage system, and the fierce competition among these banks for a larger market share that led to structural change in the primary mortgage market (You, 2003). Most banks with high deposit balances used to solve the maturity gap problem by providing retail customers with short-term mortgages and transferring interest risks to them through variable rate products. Such practice constrained the mortgage market from expanding.

Secondary mortgage markets

Countries with well-developed capital markets also have well-developed primary markets and vice versa (Demirguc-Kunt and Levine, 1996). In the recent period, the effort in many developing countries to build capital markets has been premature. Many countries have only recently become convinced of the utility of capital markets, or have liberalized their markets sufficiently to allow the creation of non-bank funding instruments such as stocks and bonds. The growth of the capital markets has a decisive impact on the primary market as well as on the emerging markets (Das, 2003). With their expansion, some of the commercial banks' financing business has started to be taken over by the capital markets.

The speed at which capital market development takes place depends on several factors, including the attitude of the regulatory authorities to licensing new institutions. It is affected by the ability of the domestic capital market to attract the attention of local financial entrepreneurs and foreign institutions seeking a part of the transition's benefits. It is also very much influenced by population ageing and the development of domestic professional investors, for example investment funds, pension funds, insurance companies and hedge funds, (Blommestein, 1998, Blommestein, 2002). All these factors reflect the pace of economic growth in developing countries, the progress made in modernizing national financial systems, and the interest from the global capital market in a national economy (Mihaljek et al., 2002, Der, 2002).

Capital markets support the development of mortgage markets. They provide capital for mortgage credit originators and they provide financial assets for investors. This can be done in a variety of ways and by a variety of institutional arrangements. Mortgage credit originators can raise funds from the capital (secondary) market through the issue of mortgage bonds and/or mortgage-backed securities. Such secondary mortgage markets have become popular in developing countries in recent years (Warnock and Warnock, 2008, Chiquier and Lea, 2009, Loutskina and Strahan, 2009). In Brazil, for example, long-term lending has traditionally been very scarce due to the very high inflation rates prevailing until not so long ago. However, with support from the IMF and the World Bank, Brazil began to issue securities in the international market (Euroweek, 2001). Until recently, these securities represented an attractive asset class for local and international investors (Euromoney, 2007).

Chile's housing experience also provides a wealth of ideas for secondary mortgage market development (Corrigan, 2001, Cruz, 2004, EIU, 2003, Rojas, 2001). Chilean housing policy, which anticipated the enabling approach in the 1990s, has succeeded in improving housing conditions in the country (Ruprah and Marcano, 2008). The analysis of Chile's experience indicates that its success only partially comes from reforms in the housing sector, and that its financial mechanisms are the result of reforms in capital markets and a stable macroeconomic environment. Lessons from this experience include the need for an integrated approach to reform both housing production and financing systems. The facilitation of private financing for housing and the reform of the secondary market are also important components of this approach.

The significant development of private mortgage financing in Chile was made possible by financial system and social security system reforms (Ruprah and Marcano, 2008). The reforms strengthened the general banking system that originates most of the mortgages. They greatly increased the supply of long-term funds for loans. Strong banks support the credit rating of mortgage-backed bonds since they are obligations of the issuing bank.

Today, the universal banking system in Chile is the main originator of mortgage loans that are securitized and sold in the capital markets. Two instruments exist. The first is the indexed mortgage-backed bond (MB) that is issued as an obligation of the originating bank and sold to investors in the stock exchange. The second is the Endorsable Mortgage Credit (EMC) issued by banks and mortgage credit companies (Corrigan, 2001, Cruz, 2004). These are financial assets backed by first mortgages endorsed by the mortgage originator that transfers to investors the principal and interest risk of the loan, with the property pledged as collateral. (All mortgage-backed loans in Chile are denominated in a unit of account, the Unidad de Fomento (UF). The value of the UF is fixed daily by the Central Bank and follows inflation very closely.) The availability of these financial instruments and the demand for them created by institutional investors (life insurance companies and private pension funds), who are the major purchasers of these long-term obligations, form the backbone of mortgage financing in Chile.

Another important feature of Chile's experience is the formation of private pension funds to administer worker and employer contributions to individual retirement funds (a private-sector-led initiative similar to the housing provident fund (HPF) in Singapore and China). These funds created powerful institutional investors in the Chilean capital markets. Together with insurance companies in Chile, these types of institutional investors have a natural appetite for long-term securities that match their obligations. Their growth ensures the availability of funds for expanding housing finance. As a result, mortgage bonds are now widely accepted in the Chilean secondary market, unlike in the early years when the Central Bank had to create a buying power for MBs due to the reluctance of investors to buy them.

International finance institutions

Events in recent history such as the Mexican crisis of 1995, those in Asia during 1997/98, the Russian default of August 1998 and the sub-prime market crash in the United States in 2008 have all led to much more thought being given to the issue of international support to troubled or developing mortgage markets. International finance institutions, such as the World Bank, International Finance Corporation or the European Bank for Reconstruction and Development (EBRD), can have an important influence on the direction which a country's mortgage market takes (Torre and Schmukler, 2005, Beck et al., 2009, Chiquier and Lea, 2009). The practices and conditions for financial support packages from international finance institutions can determine the circumstances in which support is extended to a mortgage market. Such practices are, on one hand, a major impetus for many countries to change their policies and reform their local markets. On the other hand, they can lead to severe adjustment crises, above all in those that do not have appropriate institutional structures in place to mitigate effectively the different costs associated with such transitions (Fuhr, 2001).

3.6 Theoretical Arguments for Mortgage Credit Intermediation

As is clear from the previous discussion, the simple objective of a housing finance or mortgage system is to provide the funds which are required to invest in and access housing. The essential feature of any mortgage system is the ability to effectively and sustainably channel the funds of investors to those investing in or purchasing residential properties. This requires any mortgage system to be able to attract funds from the institutions and households who have a surplus of financial assets and channel these to those who, wish to borrow.

This section provides a theoretical framework for mortgage credit intermediation and, in so doing, attempts to reduce the intermediation activities to the bare essentials. The framework developed in this section can be subsequently used to critically review the relevant mortgage models to this study. The theoretical perspectives considered here are related to the issue of creating an effective and sustainable mortgage market that is based on co-operation and that works better especially for low- and moderate-income households. In this respect, it is important to note that Adam Smith is the first scholar to explain systemically how social institutions of the free market promote the creation of wealth by encouraging people concerned with their interest to behave in a way that best serve the interest of others (Smith, 2007). Since then, a large empirical literature documenting the experiences of social institutions in the housing sector or community-based housing organizations has developed that consists primarily of individual case studies scattered in edited books, academic journals, small-circulation publications and the mostly unpublished records of non-governmental organizations (NGOs); cross-national collections of case studies; and national surveys or assessments.

Theoretical perspectives on co-operation are being developed in both the political science and economics literatures, but much of this is of questionable applicability to a discussion of community-based organizations which operate in a mortgage market at the grassroots level, often have no paid staff and operate on very small budgets. So, it is important to note that the objective of this section is not to focus on the theoretical perspectives of co-operation but to try to integrate these perspectives and theoretical perspectives from other different fields of research.

3.6.1 Theories of Financial Intermediation

A community-based NGO such as a housing cooperative society mobilizes financial resources from the "surplus" units (for example individual and institutional savers) via contract savings. Then, the housing cooperative society like any financial institutions allocates and distributes these funds to the “deficit” units (for example households, housing developers, financial institutions, etc.) after examining their creditworthiness (Kwast, 2007). In the system of financial intermediation, savings help financial institutions economize on the cost of monitoring borrowers (Fama, 1985). Economies of scale are realized both by pooling funds from the surplus units and by diversifying risk allocation among the deficit units (Benston, 1972, Hellwig, 2000). financial institutions are delegated by the “surplus” units to economize on monitoring costs (Green and Lin, 2000). Without doubt, they play an important role in a market economy. Financial institutions are believed to be particularly effective in the early stages of economic development, where efficient monitors are badly needed (Tompson, 2000).

3.6.2 Transaction Costs, Economies of Scale and the Intermediation Fee

Intermediation costs can be categorized into fixed and variable costs (Strahan, 2004). Fixed costs of financial intermediation include marketing, legal and administrative costs, while variable costs incorporate marketing, labour and other intangible costs related to the sale of financial services, for example mortgage credit. Economies of scale are achieved when the intermediary’s marginal cost of mortgage credit provision decreases at higher levels of provision. This decrease in the cost of mortgage credit provision arises because the fixed costs of mortgage credit provision become a smaller component of total costs as volume increases.

However, diseconomies of scale may emerge at very large volumes, when the marginal cost of mortgage credit provision increases. This may be due to inefficiencies of administration and agency conflicts in the intermediary (Palazzo and

Rethel, 2008). In terms of intermediation spreads, economies of scale in providing mortgage credit will lower the average costs of providing those mortgage credits as transaction size increases. With reducing costs as transaction size increases, financial intermediaries are able to charge reduced (in other words, “affordable”) interest rates (Farhi et al., 2009). There is also a possibility that intermediation costs may increase for very large volumes, reflecting diseconomies of scale. These diseconomies would then be reflected in increasing intermediation fees for very large transactions.

3.6.3 Credit Rationing

Credit rationing is defined as a situation in which a financial institution refuses to extend credit to a borrower at the price announced by the lender for that borrower class (Stansell and Mitchell, 1985, Kent, 1987, Duca and Rosenthal, 1991). Credit rationing is not a phenomenon whereby a potential borrower refuses to accept credit because the price is unfair or too high (in other words, “unaffordable”). The essential point is that credit is denied at a price selected by the financial institution itself. Even if the borrower accepts a higher interest rate than that asked for by the financial institution, credit is refused by the financial institution.

In the mortgage market, credit rationing is a puzzling practice. When mortgage credit is rationed, there is an unsatisfied demand for mortgage credit at the price announced by the mortgage lender, that is, mortgage credit demand exceeds supply at that price. Conventional economic theory, or just plain common sense, suggests that the mortgage lender could increase its profits by increasing the price of mortgage credit (Stiglitz and Weiss, 1981). Also, whenever the mortgage lender can supply more credit at a higher price, its profits should be greater. Thus it seems irrational for a profit maximizing mortgage lender to ration credit.

3.6.4 Co-operation

Emelianoff offered a number of propositions based on his theoretical analysis of the economic nature of the co-operative (Emelianoff, 1995). His theoretical approach is extremely useful as an analytical tool in trying to explain why some co-operatives fail and why others succeed. However, it will become evident later on that success or failure, even from an economic point of view; do not entirely depend on economic behaviour. Sociological and political influence may in fact be as, if not more, important in deciding the future of a co-operative or the co-operative movement as a whole.

Looking at the role of government in the success or failure of co-operatives, Davidovic claims that the initiation and financing of co-operative action by the state has proved to be effective and fruitful only when it has been organized in a way that stimulates self-help action of the people, encourages their initiative, awakens their energies, and leads to the mobilization of their efforts, their work and their resources no matter how modest they are (Davidovic, 1967). However, he warns that the dependence of co-operatives on the state brings some dangers. First, politicians are tempted to take advantage of the co-operative movement for their own political ends rather than for the economic aims of the people. Second, state officials often see in co-operative policy and co-operative activity a field for the advancement of their own careers.

Relevant to the above theoretical perspectives on co-operatives is the neo-institutional economists' work on the agency theory to define the institution as a 'nexus of contracts', and to consider agents and transactions, institutionally, socially, legally and culturally, as contingent (incomplete) constructs (Beccerra and Gupta, 1999, Heath, 2009, Ross, 1973). They argue that the institution's claimants go beyond shareholders to include others with whom the institution has any explicit and/or implicit contractual interaction. In this 'nexus of contracts' view, each community, including employees, customers, suppliers and investors, provides some asset in return for some gain. Contracts result from bargaining by these communities over the terms of their compensation, as well as the institutional arrangements that protect this compensation from post-contractual expropriation. According to this view, all stakeholders are regarded as contractors with the institution, with their rights determined through bargaining.

Stakeholder theories are also considered relevant to the analysis of co-operatives. The stakeholder theories argue that all stakeholders have a right to participate in making decisions that affect them, managers have a fiduciary duty to serve the interests of all stakeholder groups, and the objective of the institution is the promotion of all interests, not only those of the institutions' shareholders (Kaplan and Norton, 1996, Kaplan and Norton, 2001). This view is commonly referred to as the 'stakeholder model' of corporate governance, where stakeholders include customers, suppliers, providers of complementary services and products, distributors and employees. Therefore, this theory holds that institutions ought to be managed for the benefit of all who have some stake in these institutions' business.

The stakeholder model is still evolving; it is yet to find a sound theoretical foundation in co-operative economic literature. One issue is how to draw a line of distinction between a stakeholder and a non-stakeholder. Existence of a stakeholder entity and its rights are easy to recognize, but questions still remain as to who really qualifies as an actual stakeholder. The third issue deals with the stakeholders' right to influence management decision making or to participate in the governance of a co-operative. Questions arise as to why stakeholders should be given such a right and why managers should have a fiduciary duty to protect the rights of non-member stakeholders if such stakeholders have protected their rights, through bargaining, within the terms of the contracts.

Although there appears to be a consensus on identifying the rights of non-member stakeholders and an implicit agreement to protect these rights, there is still a debate about why such stakeholders should participate in the control and management processes of a co-operative. So far discussions of the stakeholder model have not been able to articulate a convincing argument on theoretical, moral or legal grounds to recognize an active role for stakeholders in the management and control of a co-operative.

3.7 Analytical Framework

Following the above theoretical arguments, it is important to turn our attention to the key issues that need to be considered when developing an analytical framework for the application of these theories, as follows.

3.7.1 Institutional Capacity

Mobilizing savings requires more stringent standards than managing mortgages, for one reason above all others: while mortgage funds come from investors or lenders, savings belong to the households (McNulty et al., 2007). This alone compels institutions to consider mobilizing savings only if their capacity and governance are clearly up to the job. For mortgage intermediation, mobilizing savings should be approached with great caution (Scholten, 2000, Struyk et al., 2004).

To be profitable, mobilized savings must usually be lent out. This process of financial intermediation is typically much more complex than managing mortgages alone. Keeping mortgage loans (or assets) well matched with savings (or liabilities) is a complex balancing act – and losing this balance puts the intermediary's operating performance at risk. To add to this challenge, management of savings is fraught with many risks including fraud, mismanagement and illiquidity.

So, the first prerequisite a mortgage lender needs to satisfy is the capacity to intermediate savings (Marini, 2008). A mortgage lender should only offer savings services if it is at break-even or very close to profitability to maintain financially viable operation. Otherwise, the lender's business will not be sustainable, exposing savers to unjustifiable risks. Accordingly, a financially viable operation is important in order to provide a minimal but essential assurance that operating cost will not be recovered from clients' savings. Second, financial viability enables the mortgage lender to bring a basic competence and efficiency to its operations. A mortgage lender is less likely to place households' savings at risk if it can competently invest them on at least a break-even basis.

As demonstrated in the recent credit crisis, the most wide-spread reason that mortgage lenders fail is that they cannot collect on their invested funds and/or extended credit (Scholten, 2000). High rates of delinquency quickly lead to default that consumes reserves, retained earnings and other capital. When the mortgage lender’s business is funded by savings, the effects for the lender can be devastating. Mortgage lenders should only intermediate savings if they have demonstrated a history of sound credit management. The savings should not be put at risk due to fund management. Viability and effective fund management ensure that a mortgage lender will continue to be profitable once it mobilizes savings.

A mortgage lender must also maintain adequate capitalization to provide a cushion against unanticipated losses, thereby protecting the savers and the intermediary (Hagen and Holter, 2002). Achieving sustainability enables a mortgage lender to build up capital. Adequate provisioning against losses protects capital. Maintaining overall institutional profitability helps ensure capital adequacy on a going concern basis. As further protection of capital adequacy, some lenders may have access to additional capital when needed, from investors, liquidity facilities or other sources.

If savings are to fund mortgage lending, responsible credit management is essential. Once a mortgage lender starts to intermediate savings, managing liquidity and balancing assets with liabilities become imperative and demanding. Ideally, the lender should have a backup source for liquidity that can help it manage external shocks. The lender must also be able to motivate its staff to make the necessary changes required to intermediate savings responsibly and profitably. Last but not least, the lender must have the physical facilities and security to afford adequate protection and inspire the trust of clients.

3.7.2 Good Governance

Effective governance and management oversight are minimum preconditions for all financial intermediaries (Farhi et al., 2009). Only if effective governance and management are clearly in place should a mortgage lender consider the demand for savings services. Some, including most financial regulators, would argue that only for-profit institutions should be permitted to intermediate savings from the public. They would cite two key advantages for profits. First, owners may be able to provide additional capital in the form of equity if necessary. Second, as owners with a direct financial interest in the intermediary's performance, they may have stronger incentives to be proactive in governance.

However, recent experience suggests that for-profit ownership is no guarantee of solvency (Schmudde, 2009). Furthermore, non-profit and community-based organizations found in the world have demonstrated their ability to play an important role in savings mobilization in many developing countries (Gugerty, 2007). Well managed non-profit organisations in some settings have proven capable of effective governance and intermediation despite the absence of owners. For these reasons, non-profit organizations and community-based organizations are considered to be important agents for extending the reach of mortgage finance if the preconditions are met. Such an approach offers a pragmatic way to balance the goals of access and protection.

3.7.3 Regulation and Supervision

The search for a proper financial intermediation model is a search for an efficient device for transmission, and for a method for outsiders to exercise control over institutions (Stiglitz, 1985, Goodhart, 1994). So, in addition to sufficient institutional capacity and good governance, mortgage intermediation should be subject to some external supervision of its operations. External supervision can further protect savers. Many experts argue that intermediation should only be undertaken by institutions that are licensed and well supervised (Farhi et al., 2009). This is the principle of security or protection. There is often conflict between a principle that protects customers and one that optimizes households' access to relatively safe and convenient financial services.

The trade-off between the principles of security and access is difficult for two reasons. First, effective supervision is a scarce resource. Those who prioritize security over access argue that regulatory authorities should only license institutions to intermediate credit to the extent that the authorities have the capacity to supervise them on an ongoing basis. In most countries, however, regulatory authorities simply do not have the capacity and, in some cases, the commitment to add the supervision of new organizations to their existing responsibilities (McNulty et al., 2007). On the other hand, regulation and supervision of financial institutions do not guarantee that customers will be safe. Failure of even large government backed financial institutions has been common in recent years. Thus, regulation can provide a false sense of security if actual oversight is stretched beyond capacity.

Ideally, financial rules and regulations should be adjusted to permit well managed non-profit and community-based organizations to become licensed, supervised financial intermediaries, empowered to offer financial services to their members and the general public. Until this idea becomes a reality, however, one must consider whether strong non-profit and community-based organizations should be able to intermediate mortgage credit if they fully disclose to their members and the public that they are not regulated, and explain in plain language their key financial ratios and conditions. Where capable supervision is not an option, financial authorities should implement a process that identifies which intermediaries are strong enough to intermediate mortgage credit based on strict criteria for financial performance, systems, security and management.

3.7.4 Financial Safety Net

In general, financial resources tend to flow away from the parts of the economy with few or no guarantees towards those with substantial coverage. The ultimate effect can be a limited reach of finance. In a mortgage finance system, many argue that a financial safety net really matters (Kane, 2009, Watson, 2008, Stephens and Quilgars, 2007, Ferguson, 1999, Nishimura, 2010). It matters because actual or perceived guarantees can impair the efficiency of the system.

State guarantees can change the way participants in a mortgage market respond to risk. This can be explained by the basic concept of moral hazard that the economists use to analyse risk-taking behaviour, explicitly the possibility that an insured financial intermediary will take excessively risky actions with little outside direct control (Mussa, 2009, Steyn, 2008). Under such conditions of moral hazard, the financial intermediary has no incentive to limit the risk of incurring the loss since maximal risk sharing leads to maximal risk taking in a situation of moral hazard.

What do these preconditions mean for mortgage intermediation? As has been demonstrated, the preconditions for offering mortgages are as follows: adequate institutional capacity (financial sustainability, credit management, staffing, systems and facilities), good governance, effective supervision that provides an ongoing supervision on mortgage finance intermediation, and a financial safety net to protect households and community-based organizations in the mortgage market. Taken together, these preconditions guard against the most important risk-loss of capital for housing. They are meant to prevent mismanagement of the mortgage lender's funding base, and a liquidity crisis, either of which can leave the lender unable to honour their customers' financial claims. These preconditions also protect the lender against the many risks it faces in introducing new products and services solely and/or jointly with other institutions (for example CBOs) to expand mortgage finance.

3.7.5 Legal Framework

The legal system is an important element in increasing the penetration of mortgage credit (McNulty et al., 2007). A legal system which is unpredictable, unenforceable, incomplete and corrupt diminishes the effectiveness of all aspects of mortgage credit intermediation. There are several ways in which a faulty legal system directly affects the effectiveness of mortgage lenders. The main question is whether mortgage lenders are able to receive redress in the courts against delinquent borrowers. The issue is not just whether the courts would ever rule in a mortgage lender's favour. There is also the need to have that judgment enforced. So a debtor's house would have to be re-possessed or their assets seized. And even if judgment and enforcement are possible, if the whole process takes years and years, it may not be worth pursuing. A mortgage lender which knows that it will take a long time to recover collateral from a delinquent debtor – even if the judgment goes in its favour – is likely to cut a deal to recover a portion of what is owed. And of course debtors know that mortgage lenders are going to face that choice.

Another main reason why relatively little mortgage credit is voluntarily supplied in developing countries is the lack of credible contracts. Williamson explains that it is the cost of post-contract governance rather than the cost of producing contracts that explains the restrained supply of mortgage credit (Williamson, 1985). Some agree with this view and provide evidence based on the experience of some developing countries (Buckley, 1994), where the eviction of a poor family that has had bad luck (for example the loss of income caused by the death of the income earner) can easily prompt sympathetic protections of the borrower in local courts.

3.7.6 Risk Management

Risk is endemic to business but central to mortgage credit. The risks in business are as diverse as life itself. Businesses face possible losses owing to flood, fire, machine failure, war or capricious acts by a government that destroys or confiscates property (sovereign risk). Mortgage lenders face all of these risks, but risks of the unavoidable variety define the business of mortgage intermediation. It is important to bear in mind that risk is not due to variability, but rather due to uncertainty. The major risks faced by mortgage intermediaries are widely debated, and are briefly discussed below

(Deutsch and Tomann, 1995, Hagen and Holter, 2002, Farhi et al., 2009, Struyk, 2010, Buckley et al., 2003, Sunega and Lux, 2007).

A) Default or credit risk

This is the risk that a borrower will fail to make the contractual payment on a timely basis (Buckley et al., 2003, Struyk, 2010, Hagen and Holter, 2002). This kind of risk is central to virtually all rental transactions, and as in the case of almost all of saving contracts, moral hazard is a key element in default risk. The availability of default risk has two aspects. Mortgage intermediaries can choose assets with little or no default risk, such as government guaranteed mortgage-backed securities. Such a strategy, however, may provide a return that is only slightly, if at all, greater than the intermediary's cost of funding, and such a low profit margin may be unattractive to the intermediary.

Given that most mortgage intermediaries choose assets with substantial default risk, their ability to control default risk derives from their ability to resolve moral hazard and other informational problems. To illustrate, mortgage intermediaries should enjoy a special advantage in screening and monitoring borrowers. However, it is virtually impossible to monitor a borrower so closely that default or credit risk can be completely eliminated.

There are two sources of default risk: cash flow variations beyond the borrower's control (physical hazard) and moral hazard. For the first source of default risk, part of the mortgage intermediary's role is to screen the borrower so that it can accurately assess the risk it is taking in lending. This involves an analysis of the borrower's financial position and other relevant non-financial information (for example health condition) about the borrower. In this capacity, the mortgage finance intermediary only assesses the risk but does not bear it, that is, it is acting as a pure broker. Thus, the mortgage intermediary should be able to efficiently generate information about default risk stemming from cash flow variations beyond the borrower's control.

For moral hazard, the mortgage intermediary's monitoring capability is important (Mussa, 2009, Steyn, 2008). The borrower has an incentive to take action after taking a risky loan that increases the mortgage intermediary's risk exposure. Thus, the efficiency with which the mortgage intermediary performs its basic functions is a key determinant of its own credit risk exposure. Moreover, loans are subject to management as a portfolio. A mortgage intermediary can control its default risk by holding in its asset portfolio many loans with imperfectly correlated prospects and thereby diversify across loans.

B) Interest rate risk

This risk derives from the variation in market prices (Struyk, 2010). If the mortgage intermediary's assets and liabilities are traded, they are subject to being valued by the market. Any such revaluation, due to changes in either the level or structure of interest rates, is described as interest rate risk. Another aspect of interest rate risk, from the standpoint of the mortgage intermediation, is prepayment risk. This risk arises from the borrower's option to prepay. If interest rates rise, there will be no prepayment. But if interest rates fall sufficiently after the loan has been taken, the borrower is likely to prepay the loan by taking advantage of refinancing at a lower rate.

In many developing countries, interest rates have been raised to, and sustained at, extremely high levels. The persistence of high interest rates signals a failure to achieve a rapid impact on either inflationary expectations and/or expectations of currency devaluation (Calvo, 1991). The central role given to tight monetary policy has allowed interest rates to rise to that extremely high level in order to restrain liquidity – a consequence of the priority accorded to commodity price inflation and to the exchange rate targets. Such standard approach, to be exact using the interest rate to control lending, is oversimplified in that not all borrowing excesses can be resolved by tightening the flow of funding alone (Roe, 2003). The bad lending and borrowing decisions of the past are already set into balance sheet structures at the point when a crisis begins. So, the mere act of making borrowing more expensive cannot alter that reality. Furthermore, policies that lead to widespread financial distress are likely to promote ‘financial innovation’ and unregulated new forms of lending activities that can substitute for formal credit that is being made more expensive. This is almost certain to be a harmful development and one that makes long-term stability harder to achieve. Hence, a sound regulatory system is essential.

C) Liquidity risk

This is the risk that a mortgage intermediary (seller of a collateral/property) will not be able to realize the full value of the collateral at the time a sale is desired to repay a mortgage credit (Sunega and Lux, 2007, Farhi et al., 2009). A mortgage intermediary also faces liquidity risk if savers unexpectedly withdraw their savings and the intermediary may be unable to replace them without impairing its net worth. This risk applies symmetrically to mortgage intermediaries in their relationship to savers. The most extreme manifestation of liquidity risk is that the mortgage intermediary is simply unable to sell the collateral at any price.

3.8 Comparative Analysis of Mortgage Systems

This section attempts, modestly, to make some comparisons in respect of housing, the savings market and mortgage systems. The discussion and data in this section are based on the available comparative literature relevant to the topic of this study. To attempt to compile compatible literature from the range of previous studies would be a monumental task. Indeed, the published international literature is very wide and it is quite possible that some of the literature is far from perfect and relevance. But, based on the earlier discussion, it has now been established that to work effectively and sustainably any mortgage system has to raise fund from those institutions and households who do not intend to borrow and be able to lend it over long periods of time.

There are several routes by which this can be achieved, some of which are partially successful in Egypt but which do not make full use of the intermediation process. For example, there is the direct route, by which those who need funds to get on to the property ladder obtain those funds directly from relatives and friends with surplus financial assets. Another option is the contractual route by which part, but not all, of the funds which an institution or a household requires are raised from the savings of other potential residential property investors or home-buyers, or from other contractual saving schemes. There is also the deposit financing route, by which short term savings of institutions and households are channelled into long term loans by intermediaries, such as banks, either generally or financial institutions which specializes in the provision of mortgage credit. Finally, it is worth noting the mortgage bank route, by which institutions making mortgage loans fund these by mortgage backed securities issues.

As is noted earlier in Chapter 2, the direct route has dominated the Egyptian economy for many years due to the lack of well-developed mortgage system following 1952 revolution. But it is not possible and feasible to say much more about the direct method of financing because, almost by definition, it represents a traditional and informal route to access housing that is very challenging to study. Given the reluctance of many Egyptian banks to have major exposure to the mortgage market following the recent global financial crisis, the deposit financing route does not also represent an attractive option for extending the reach of mortgage credit in the country. Further, the mortgage bank route in Egypt is still in its early phase of development and subject to a great funding volatility in the Egyptian capital market especially since the beginning of 2011 revolution. This leaves the study with the contractual route, which is obviously relevant at present in the current Egyptian context given the fact that the contractual system has already existed for many years but not at the desired level of effectiveness and sustainability. Formal contractual systems in a number of countries, whether community sector based or financial sector based systems, exist in a number of countries, most notably Germany and Czech Republic through special institutions, the Bausparkassen (Behrman and Rondinelli, 2000, Deutsch and Tomann, 1995, Franscini and Schillinger, 2001, Frederiksen, 1894, Hagen and Holter, 2002, Hamm, 2008, Kretschmar and Damaske, 2003, Roy, 2008, Stephens, 2003b, Zehnder, 2005), in Singapore and China through the housing provident funds, which all can be operated by a large number of bank and non-bank financial institutions (Burell, 2006, Chen et al., 1997, Davies et al., 2009, Koh et al., 2008, Lee, 2000, Linda and Aw, 1996, Lindeman, 2002, Phang, 2001, Si-Ming and Zheng, 2007, Wang, 2000, Wu and Wang, 2003, Yiu and Hui, 2005, Zhu, 1997, Zhu, 2002), and in India and Malaysia through community based organisations (Yahaya, 1989, Malpezzi, 1997, Sukumar, 2001, Mahadeva, 2006, Saravanan, 2007, Abdul-Aziz, 2009, Coontz, 2008, Salleh, 2008, Tan, 2008, Ganapati, 2010, Mohit, 2010, Ramanath, 2010, Teck-Hong, 2011).

The essence of all contractual saving schemes is almost the same in that regular savings are made over a period of years and receive an interest rate at below the market level, following which the investor or home-buyer becomes entitled to a loan, again at an interest rate below market level. Generally, government bonuses are available to those who take part in contractual savings schemes. Arguably, it is the bonuses which make the schemes attractive (Whitehead, 2000, Gibb, 2003, Stephens, 2005b). All these schemes will now be illustrated and evaluated in detail.

3.8.1 Contract Savings

Historically, the most popular system created to increase savings for housing is the Bausparkassen system that was originally developed in Austria and Germany (Zehnder, 2005, Deutsch and Tomann, 1995, Frederiksen, 1894). The Bausparkassen system has since developed in a number of Central and Eastern European (CEE) countries where its products now represent a significant portion of the mortgage markets (Mints, 2004, Sunega and Lux, 2007). Bausparkassen institutions are designed to collect savings on a regular basis at a low, below-market rate and to recycle the low rate on their funding into low rates on their mortgages. In the simplest version of such a system, there is no net gain to savers, who must forego enough interest on average during the saving part of the cycle to fund the below-market rate on a mortgage later (Deutsch and Tomann, 1995).

In principle, if individuals valued such an arrangement, either because of the low fixed rate on such mortgages or because contracting to deposit savings regularly was desirable (perhaps because it is easier to save or because it provides the mortgage intermediary with evidence that they are reliable borrowers), the public would participate in such a system set up by a mortgage intermediary. This has been tried in several countries, but generally such simple arrangements are not popular (Zehnder, 2005). Why? It appears that households do not value these advantages enough to give up the flexibility of deciding when and how much to save and when to ask for a mortgage credit.

The Bausparkassen system moves beyond this to introduce a significant government subsidy and make it attractive for savers to participate (Zehnder, 2005). The extra payments go towards making the return on savings equal to or even better than other forms of savings, so that households will want to participate even if they are not sure that they will want a mortgage credit after their savings period. If it is the case that the return on savings is just equal to the alternative market return (for example on bank deposits), households are still attracted because the system offers a significant subsidy to those who actually do borrow at the below-market rate.

A) Bausparkassen System in the CEE Countries

The Bausparkassen system in the CEE markets is comprised of financial institutions that are established for the purpose of providing mortgage credit, although their position is being challenged by retail banks offering conventional mortgage products. At present, the countries with the most developed markets for this form of mortgages are the Czech Republic, the Slovak Republic and, to a lesser extent, Hungary (Roy, 2008, Zehnder, 2005, Stephens, 2003b). All of these countries have implemented an adapted version of the German/Austrian Bausparkassen systems. However, the system in these countries is a closed, self-financing arrangement.

B) Drivers of Bausparkassen System Growth

Although mortgage products have been available in CEE markets since the early 1990s, growth in mortgages in most countries has only become significant since around 2000. In some cases, this growth area has been the single largest driver of total lending growth since 2000. A number of developments combined to create the necessary environment for the market to grow (Roy, 2008, Stephens, 2003b). The EU accession process saw the convergence of high nominal interest rates in CEE markets with much lower Euro rates. This has made mortgages considerably more affordable. In some cases where nominal short-term rates remained in the double digits by 2000 (for example Poland), aggressive marketing of foreign currency mortgages has accelerated mortgage growth; in other cases (for example Hungary), generous subsidies lowered the effective nominal rates (Duebel, 2000).

In the banking sector, few incumbent CEE banks had strong retail lending operations in the 1990s and the proper roll-out of housing credit products was delayed by the generally poor health of the banking sector, the disruption caused by bailouts, large-scale privatization and restructuring (Renaud, 1996). However, recent banking sector restructuring, including acquisitions by strategic investors with strong retail expertise combined with the unfavourable outlook for corporate banking, led to a strong push into retail banking in general, with mortgages an anchor product (Kwast, 2007, McNulty et al., 2007, Sunega and Lux, 2007).

Significant improvements in the regulatory and legal environments made financial institutions considerably more comfortable with mortgages (McNulty et al., 2007). Many of these changes came as part of the EU accession process, including strengthened and streamlined bankruptcy legislation, better protection of property rights and liberalization of real estate markets (Buckley et al., 2003). Credit bureaus help build lender confidence as the market expands. Additional improvements are also taking place, for example in relation to mortgage bond legislation and capacity constraints in court systems.

C) Bausparkassen System and Subsidy

There are several public benefits claimed for Bausparkassen systems. The simplest is the support for housing subsidy in general (Hamm, 2008, Deutsch and Tomann, 1995). The major added advantage is that, in order to receive the below market mortgage credit (which is the major source of subsidy to the participant), the beneficiary must complete a programme of savings that arguably shows that he or she has a reliable character and, even more importantly, is a good credit risk.

An additional argument is made to support the provision of sufficient subsidy so that the return on savings is even better than that available from more conventional savings vehicles (Struyk et al., 2004, Scholten, 2000, Borsch-Supan and Stahl, 1991). A savings system where the subsidy only becomes available at the end of the savings cycle produces a pool of savings that is very stable in the short run; few will find it worthwhile not to finish the savings programme once started. In theory, it is very desirable to fund a mortgage for housing out of such stable pools of resources. Although the need for artificially constructing pools through such subsidies is debatable in the modern system (there are many more efficient alternatives), this argument is still considered to be a significant advantage of the system.

Finally, it is claimed that by tying a subsidized mortgage credit to the completion of a savings programme, households are more likely to save and those that save will save more. In other words, Bausparkassen systems expand the supply of domestic household savings. It is worthwhile noting that there are somewhat different visions of the role of a Bausparkassen system in Germany and Austria (Deutsch and Tomann, 1995).

In Germany, the government bonuses are relatively small and just sufficient to compensate those savers who do not eventually borrow for the lost opportunity to get a market rate elsewhere. The focus of the programme is on encouraging good savings (and mortgage repayment) habits and on delivering a small below-market, but relatively short-term, mortgage credit at the end of the savings period.

In Austria, the system is more oriented towards creating a large pool of long-term funds for use in funding large below-market mortgages with relatively long terms for housing. To accomplish this, the subsidies to savers are set such that the return is higher than on other options, to compensate savers for the loss of liquidity resulting from saving in the Bausparkassen system. Such a system is more expensive to the government, but also conveys larger subsidies to housing, especially by permitting very long terms on the Bausparkassen mortgages.

Slovakia and the Czech Republic were the first CEE countries to adopt Bausparkassen systems, and did so early in their transition programmes, followed much later (due to longer debate) by Hungary (Roy, 2008). It is not a coincidence that these countries took this step. There are very large potential commercial rewards possible from such systems, especially in the early years when no participants qualify for a low-rate mortgage and yet the Bauspars can invest the low-cost funds at market rates. Moreover, all three countries have had high market interest rates relative to the Bausparkassen's low savings interest rates, making the potential profits that much larger. This situation was a great attraction to those with the potential to profit from it and policymakers in all the countries report that strong lobbying efforts of German and Austrian Bausparkassen interests were decisive in achieving the creation of a Bausparkassen system in their country.

Programmes such as the interest-free or low interest mortgage programmes (started up in the Czech Republic and Slovakia after the Bausparkassen systems began) provide assistance that is delivered through low-cost arrangements with private lenders, and are targeted at low- and moderate-income households building new houses. While such programmes are not necessarily the most effective (they may not help those with the greatest housing needs and many of the subsidized units would have been built anyway), the impact on actual construction activity is apparently considered to be greater than any impact so far by the Bauspars, at a much lower cost.

3.8.2 The Housing Provident Funds (or Payroll-Based Saving System)

The recent studies about increasing savings and creating a pool of stable funding for mortgage credit offer a review with a particular emphasis on the effects of the housing provident fund (HPF) (Lee, 2000, Lindeman, 2002, Burell, 2006, Si-Ming and Zheng, 2007, Davies et al., 2009, Wu and Wang, 2003, Yiu and Hui, 2005, Koh et al., 2008, Chiquier and Lea, 2009). An HPF, as an instrument of housing finance, provides an inspirational experience in extending the reach of mortgage market (Chiquier and Lea, 2009, Wu and Wang, 2003, Burell, 2006, Si-Ming and Zheng, 2007). Housing policy as effected through the HPF contributed to the overall growth and stability of the mortgage markets and associated financial institutions in countries such as Singapore and China.

But, what does HPF mean? The term housing provident fund refers to long-term housing savings paid and deposited by state organs, state-owned enterprises, collective enterprises in cities and towns, foreign-invested enterprises, private enterprises in cities and towns and other enterprises in cities and towns, institutions, co-operatives, private non-enterprise units and associations, and their on-the-job staff and workers (Lindeman, 2002).

The regulations of HPFs are usually formulated for the purpose of strengthening their management, safeguarding the lawful rights and interests of their owners, promoting the construction of houses in cities and towns, and improving housing standards of residents in cities and towns. The regulations are also applicable to the payment and deposit, withdrawal, use, management and supervision of the HPF within the country. The housing provident fund that pays out to and is deposited into by staff and workers themselves, and that buys the units for its staff and workers, is owned by the staff and workers (Wu and Wang, 2003, Yiu and Hui, 2005, Davies et al., 2009).

Management of an HPF is required to comply with the following principles: policy-making by housing provident fund management committees, operated by housing provident fund management centres, depositing in special bank accounts and supervising by finance departments. The interest rate of deposits and mortgages for a housing provident fund is usually proposed by the central bank, and submitted for approval after soliciting the opinions of the competent administrative departments of housing.

The competent administrative department of housing also formulates policies on the housing provident fund jointly with the finance department and the central bank, and supervises the implementation. The regional departments of housing, jointly with the finance departments at the same level and the branches of the central bank, are responsible for supervising the implementation of the management regulations and policies of the housing provident fund within their administrative areas.

A) Singapore

There is no doubt that development in Singapore in general and its saving and investment performance in particular were led by the government through both its policies and state institutions. Thus, the natural starting point for a discussion of Singapore's HPFs and their effects on the savings for housing in the country is the government itself.

From the early years of development, saving policy in Singapore was a central element to the country's development strategy (Linda and Aw, 1996). Beyond the government's regulatory power to create and control institutions like the Central Provident Fund (CPF) and the Housing Development Board (HDB), the provider of public housing, there were four further important roles through which the government influenced savings for housing behaviour and decided actively to do so: 1) financial intermediary through its own saving; 2) entrepreneur through its direct involvement in the Singapore economy affecting corporate saving as well as wages, which in turn influence household saving; 3) regulator of disposable income and of the welfare system; and 4) driver of attitudes towards saving (Phang, 2001, Chen et al., 1997). Through its role as a significant entrepreneur in the Singapore economy, the government also directly affected the level of corporate savings. But potentially even more importantly, it influenced wage levels, particularly in combination with its National Wage Council, setting guidelines for the whole economy.

The CPF was created by an Act of Parliament in 1953 and launched on 1 July 1955, still under colonial administration, with the objective of securing retirement incomes for the elderly (Chen et al., 1997). It functions on a provident fund principle, under which individuals can withdraw their own and their employer's contributions plus interest on retirement, rather than receiving payments to retirees from the contributions of those still working. Among the economies classified by the World Bank as high income, Singapore is unique in using the mandatory national provident fund mechanism to finance its social security.

Contributions are withheld at the source, to be precise on payment of salary, and the CPF is only allowed to invest them in government securities. Membership is mandatory for all resident workers. The self employed were not obliged to make contributions before 1992. Foreign workers and unpaid family workers have never been required to be active members. Nevertheless, the coverage of the CPF has increased gradually, from about one half of the labour force in the mid-1970s to over three quarters in the early 1990s. On top of their own contributions, children are encouraged to top up the CPF accounts of their parents and at times the government also offered top up schemes.

Over time the CPF has been transformed from a simple pension fund to a multipurpose saving scheme, which has been used by the government both as a channel of resource allocation and as a macro-economic stabilization device (Neo et al., 2003, Wang, 2000, Wu and Wang, 2003). Among the main alterations over time was the introduction of early withdrawals for the purchase of public council housing in 1968, which was extended in 1981 to include residential properties for investment purposes.

The higher home ownership rate in Singapore is largely the result of two major policies introduced by the Singapore government in the 1960s – the sale of public housing and the establishment of the CPF. If the home ownership rate is high, most home buyers in the market are expected to be ‘second home seekers’. This means they hope to acquire a new property while reselling the one they currently own. Thus, it helps reduce the effect of financial constraints on housing consumption in Singapore.

Better still; the ability to repay a mortgage has been secured by the implementation of the CPF in Singapore. The CPF not only helps Singaporeans accumulate wealth for retirement, but also provides another means of financing the purchase of a home. According to the Central Provident Fund Board of Singapore (CPF, 2010), the financing schemes for home purchasers are as follows.

First, the Public Housing Scheme allows CPF members to use their CPF savings to buy flats built by the Housing Development Board (HDB) and to pay the instalments on their housing loan;

Second, the Residential Properties Scheme allows CPF members to use their CPF savings to buy private residential properties and executive condominiums, and to pay the instalments on their housing loan. CPF members can also use savings in their Special Accounts to help meet shortfalls in their ability to pay their housing instalments arising from a reduction in their employer’s CPF contribution.

In addition to the loan scheme, the CPF Board launched the Home Protection Scheme, which is a compulsory mortgage-reduction insurance scheme. It protects families who are using their CPF savings to repay their housing loans on HDB flats.

CPF members can use their CPF savings to pay for their insurance premiums and thus be covered for the term of their housing loan or until they reach the maximum age of coverage, whichever is the earlier. In order not to impose an additional burden on members, the CPF contribution rates are also carefully determined.

The rates of contribution are reviewed regularly and are adjusted to an appropriate level with respect to the economic situation. In addition, the contribution rates are different for different age groups. The rates are inversely proportional to age. As a result, younger members are required to save a larger portion of their income when they are more financially capable.

In 2002, about 95 per cent of employees aged twenty-one or above who owned public housing properties bought them with their CPF savings. For private properties, 70 per cent of employees did so. The statistics show that the CPF is successful at helping Singaporeans to purchase their properties. It has also helped to indirectly stabilize the housing market in Singapore.

B) China

Reforms in the Chinese housing market during the early 1980s laid the foundation for the re-emergence of a private housing market (Lee, 2000). Subsequently, the state withdrew from direct provision of housing for their employees. The existing stock of housing was sold to tenants, private developers were allowed to build new residential projects and the government allowed the formation of a secondary market in real estate.

The retreat of the state required new instruments of housing finance. China’s first specialized mortgage-financing institution for housing finance, the Yantai Housing Savings Bank, opened in 1987. This was soon followed by the introduction of a housing provident fund (HPF) in Shanghai in 1991, modelled on Singapore’s Central Provident Fund (Burell, 2006). The HPF system is one of the most important promises made by the Chinese government to address the housing problem of low- and moderate-income households. It is a compulsory housing deposit system. The provident fund is collected by the employee and the employer respectively for 5 per cent to 10 per cent of the employee's salary and it is specifically for purchasing, constructing or repairing the employee's housing. It is a compulsory policy, guaranteed with mutual benefit.

The success of Shanghai’s HPF led to its extension through the rest of the country (Burell, 2006, Si-Ming and Zheng, 2007). Today, all individuals and work units in China are required to contribute a certain portion of an employee’s salary to an HPF. The HPF provides low-rate provident fund loans to subscribers for two main purposes: 1) short-term funding to work units, housing co-operatives and developers for developing affordable housing; 2) financing households for housing, including buying a house, building a house and paying rent. Further, although commercial banks are currently the dominant lender in the Chinese primary mortgage market, they are supplemented by the HPF. As a result, China's housing mortgage industry has grown from almost nothing in 1998 to a multibillion US Dollar market in the recent past, accounting for about 10 per cent of the nation's GDP (Burell, 2006, Si-Ming and Zheng, 2007).

3.8.3 Community Based Organisations

Whatever organisational form a mortgage system takes - saving and loan association, building society, national mortgage bank, or some combination of these – no single aspect of its operation is likely to determine its success or failure than its ability to extend the reach of mortgage credit to better serve the low- and moderate-income households. For this reason, it is important to go further than figure 3.2 cited earlier. This section considers the role of community based organisations (CBOs) in the development of effective and sustainable mortgage credit systems at the lower income end of the housing market.

A) The arguments for community based organisations

In the face of the urban revolution in today's world, which promises to rival the industrial revolution of the previous century, governments everywhere are faced not only with the challenge of providing shelter for low- and moderate- income households, but with ever-decreasing resources to devote to it (Hendriks, 2008). At the same time, international donor agencies are facing the challenge of dealing with the growing global economic and financial crises (Obi, 2011). Consequently, funds earmarked for programs of affordable housing and low-cost mortgage credit are usually insufficient.

For this reason, the World Bank advocated an enabling strategy based on privatization and deregulation with the aim of improving efficiency and effectiveness of housing policy and finance (World Bank, 1993). This strategy paved the way to a shift in the role of the state from a direct provider of services to an enabler, facilitator and regulator role (Jones and Datta, 2000, Angel and Mayo, 1996). It also supported the emergence of new initiatives based on co-production and/or co-management of different institutions such as private sector enterprises, community-based organizations (CBOs) and non-governmental organizations (NGOs) (Stephens, 2005a, Clapham and Kintrea, 2000, Otiso, 2003, Silverman, 2009). Since then, the state has been expected to maintain capability, effectiveness and creditability to support these different actors. On the other hand, direct provision by the state has to be reduced (UNCHS, 1990, World Bank, 1993, Fraser and Kick, 2007, Gupta et al., 2006).

CBOs usually operate on the principle that all people have a right to control their own destiny, and have a preference for housing solutions based on their own community or neighbourhood (Skinner, 1984). In cities around the world, low- and moderate-income households and the communities or neighbourhood organizations that they form undertake most additions to the housing stock. In many countries, CBOs play the role of originators, enablers and implementers of new ideas and models for housing delivery and finance (Davidson et al., 2007).

The research on CBOs has also contributed much to the understanding of the nature and scale of housing problems and their collaborative efforts as coalition agents is now evident in many countries, as such coalitions seek to influence government policies and priorities (Sukumar, 2001). In many instances CBOs have succeeded in demonstrating alternative solutions to meeting housing and service needs through specific projects, and these in turn have sometimes pointed to approaches which have wider applications (Taher, 1997, El Demery, 2002, Mitlin, 1999, Stephens, 2005a).

It is also argued that CBOs provide effective opportunities for the implementation of community participation ideals and that these organizations are more likely to promote authentic forms of participation than the state and private sector (Davidson et al., 2007). They are more flexible as they are not restricted in their activities to a particular field of work or driven by profit maximization objectives. Housing CBOs are established in many developing countries, working together with sympathetic local elites. Where the burden of maintaining these countries' public housing has become considerable, the government is increasingly selling its public housing stock to CBO's (Andrusz, 1999).

B) Key challenges confronting community based organisations

While it is true that CBOs have played a major role in the promotion of home ownership in some countries, it cannot be claimed that their involvement has been faultless (Rahman, 2002). CBOs have been in existence in many developing countries for many years, but most have not been able to generate sufficient funding through term savings to increase access to housing for their members; usually the more successful ones consist of high income households (Rodgers, 1998, Andrusz, 1999, Conaty, 2003). Some CBOs are too ambitious; engaging in relatively expensive forms of housing development programmes and defaulting is not uncommon (Teck-Hong, 2011). Another common problem is that CBOs relatively find it difficult to acquire affordable and suitable land for the development of housing (Hendriks, 2008). Other problems with corporate governance also limit the effectiveness of CBOs (Cairncross and Pearl, 2003). All these problems are discussed separately in more detail below.

Financial Resources

The nature of the CBOs' set-up and their activities are perhaps more involved and complicated than any other type of organisations. The CBOs require substantial financial resources at their disposal for investments in housing schemes extending for considerable length of time, and such funds should be available at reasonable interest rates (Pathak, 2008). The problem becomes even more involved in view of the fact that the founding members of CBOs are of limited financial means and furthermore the funds needed are for long term investments in housing (Hendriks, 2008). Securing credit is a difficult matter and particularly credit stretching for a long period of fifteen to twenty years. There are few organisations which are interested in this type of loans (Robertsen, 2007). So, the problem of raising adequate finance at reasonable interest rates ranks among the key problems facing most of the CBOs in the housing market.

Many financial institutions are usually reluctant to consider long term loans (Hamm, 2008). The few lending institutions that accommodate CBOs with credit might decide not to do so anymore on the grounds that their funds are exhausted or need all their financial resources for the development of their own schemes or enterprises (Ganapati, 2008). So, only a few financial institutions may be prepared to give sympathetic consideration to their request provided the credit is for short term. Further, the interest rates have to be high and very heavy securities are required. Accepting credit on this basis would entail the members to make heavy monthly repayments causing hardship to them and in almost all the cases it will be almost impossible for them to meet their obligation (Robertsen, 2007).

Thus, the government has to come forward to grant credit which in many cases only in respect of CBOs where the participants are government employees (Andrusz, 1999). In view of the numerous priorities that require the attention of government involving enormous public expenditure, it is unlikely that further large credit would be available to CBOs from this source for some time until the situation improves (Sibly, 2011). The position therefore becomes increasingly difficult in the matter of raising fund.

Access to Land

CBOs need suitable land for the development of housing at a cost which will not be beyond the repaying capacity of the members (HABITAT, 1989, Rahman, 2002, Conaty, 2003). Such land should be suitable for building purposes and should be within the areas served by public transport and in which the supply of light and water and other services are available. The acquisition of land for the development of affordable housing is of paramount importance. Without suitable building land the functions of CBOs will come to a complete standstill (Agus, 1989, Pathak, 2008). Several factors have to be considered, especially matters such as cost, the availability of supply of light and water and other services, suitability of the land for development of housing, distance to the town centre, the availability of public transport system in the area, the nature of express conditions applicable to the land and the physical nature of the land to determine the cost that would be involved for development and also whether or not access to the main road would be available and finally whether the required clearances from the authorities concerned would be forthcoming in due course (Hendriks, 2008).

So, considerable care should be exercised by the CBOs when purchasing land for development of housing. Failure to do so will cause them untold difficulties and inflict unnecessary hardship to the members by way of increased cost to them (Mohit, 2010). CBOs have hitherto, in a few cases like India, Malaysia and Egypt, encountered such shortcomings that led to serious trouble, warranting the abandonment of their housing schemes midway causing substantial financial losses and undue delay in the completion of the schemes and also attracting unfavourable criticism both from the press and the public damaging the image of CBOs in the domestic housing market (Ganapati, 2008, Teck-Hong, 2011).

Corporate Governance

Having considered the two major problems, namely financial resources mobilisation and access to land, which continue to inflict the CBOs and frustrate their free operation in many countries, let us turn our attention to the other challenges facing the CBOs. Today, the CBOs have to provide the same advantages and facilities, if not better than those provided by the private sector (Salleh, 2008, Abdul-Aziz, 2010). But, the problem of not having sufficient number of trained, experienced and dedicated personnel for service is indeed a pressing one (Andrusz, 1999).

The activities of CBOs as non-profit organisations are complex in nature and problems of all sorts keep emerging from time to time. Large sums of money are generally involved in their undertakings and any slight mistake or misjudgement would render the CBOs to incur serious losses (Ramanath, 2009). Precise and correct information should be furnished to the members, failing which friction between the CBOs and their members are likely to arise.

Another issue related to corporate governance that deserves mention is that the democratic set-up of the CBOs tends to create problems between them and their members. Unlike commercial organisations, the members in CBOs have a say in their management (Rahman, 2002). It is not an easy matter to satisfy all the members and quite often conflicting ideas and opinions between the CBOs and members, tend to restrict actions and decisions of the management of CBOs (Otiso, 2003).

C) Community based organisations and extending the reach of mortgage credit

It has already been acknowledged in the international literature that community-based approaches are making a significant contribution to extending the reach of housing finance (Skinner, 1984, UNCHS-Habitat, 1984a, UNCHS-Habitat, 1984b, Clapham and Kintrea, 2000, de Wit and Berner, 2009, Silverman, 2009). So, CBO's, as non-profit organisations, appear to be attractive policy agents to enhance the development of an effective and sustainable mortgage market (Daniels, 2004, Stephens, 2005c). Their capacity to mobilize capital for mortgage credit programmes is usually supported by high levels of social motivation, supportive organizational structures and low-cost funding mechanisms (Thiripurasundari, 2004).

This has led many researchers and policy makers to experiment with more innovative credit programmes which are initiated or sustained by CBOs (Stephens, 2005c, Copestake, 1996). However, in some cases especially in the developing countries, the CBOs have played a relatively limited role in this area (HABITAT, 1989). Indeed, the idea of a partnership between mortgage lenders and CBOs such as housing co-operative societies has not been fully explored. This can be attributed to two reasons. First, in its role as provider, the government has always maintained a somewhat suspicious attitude towards the effectiveness of CBOs' role in this area. This is clear from the very limited government funding for CBOs in some developing countries (Rahman, 2002). Second, the general problems of the CBOs in developing countries have meant that there have been few of them with whom governments can engage in a dialogue (Otiso, 2003).

On the other hand, the CBOs record in some countries indicates an ability to assist in organizing a flow of capital from a group in society that has traditionally been outside of the formal financial system (Andrusz, 1999, Dwelly, 1999). The CBOs also represent a natural match to the individual or group capacity for savings (HABITAT, 1989, Conaty, 2003). In another words, integrating the activities of CBOs in the area of savings mobilisation and the activities in the domestic mortgage market would support extending the reach of mortgage credit and building inclusive housing finance system (UNCDF, 2006, Beck et al., 2009).

The following review of India's current financial co-operative movement highlights the importance of CBOs development in expanding the national mortgage credit markets, which can provide useful lessons to Egypt.

The Case of India's Financial Co-operative Movement

In the absence of commercial lending institutions catering to their financial needs, many low- and moderate-income households and their housing co-operative societies in India have to depend entirely on the co-operative movement (Mahadeva, 2006). Now more than 100 years old, India's financial co-operative system is the largest in the world in terms of households served. Credit union pioneer Edward A. Filene's visit to India's financial co-operatives in 1906 inspired him to help launch the credit union movement in the United States (UNCDF, 2006).

India's current financial co-operative movement consists of a three-tier structure of urban co-operative banks (UCBs), rural financial co-operatives and credit societies (Reserve Bank of India, 2011). The rural co-operative tier is further divided into 108,000 primary agricultural co-operatives that meet the needs of 127 million members, including small farmers and traders, and district co-operative banks that serve both individuals and other co-operatives. The country also supports 30 state-level co-operative banks.

In total, India's financial co-operatives serve an estimated 267 million to 350 million households. Table 3.2 shows the market share of India's financial co-operative movement in the domestic banking sector as on March 31, 2010.

Table 3.2 Market Share of India's financial co-operatives in the banking sector as on March 31, 2010

Indicators	**Co-operative Banks & Credit Societies**	**Commercial Banks**
Number of Banks	2,157	83
Share in Total Deposits, %	9.9	90.1
Share in Total Loans & Advances, %	8.8	91.2

Source: Reserve Bank of India, 2011

India's financial co-operatives have been operating for a long time. In early days, they were quite content in looking after the interest of their members and returning them with the highest possible dividends but were not at all concerned with the development and expansion of the other sectors of the co-operative movement (Saravanan, 2007). With the attainment of independence and with the enlarged activities of the financial co-operatives, the attitude of India's financial co-operatives began to change. They realised that they have, if not legal, at least a moral obligation to the other sectors of the movement. With this changed attitude they kept coming forward to assist whenever required and were also prepared to provide house building loans (including house repairing loans) even though more attractive investment opportunities were available outside the movement (Mahadeva, 2006). This was the turning point in the history of the financial co-operative movement in India and the housing co-operatives in particular have been benefitting from this changed attitude (Sukumar, 2001).

The financial co-operative institutions which form the backbone of the Indian co-operative movement have substantial financial resources at their disposal and their working capital remarkably grows every year. These institutions are old and efficiently managed and from the membership of these institutions have emerged the leaders of the co-operative movement who were responsible for initiating the establishment of new co-operative ventures including the housing co-operative societies (Digby, 1978). In keeping with the policy of active co-operation among co-operative institutions and to invest surplus funds as far as possible within the movement, the Indian financial co-operative institutions have been coming forward to grant credit to housing co-operative societies.

Another important factor which prompted financial co-operative institutions to do this is that a very large proportion of the members of housing co-operative societies are members of financial co-operative institutions as well (Ganapati, 2008). Rather than investing surplus funds in commercial banks and in enterprises outside the movement, India's financial co-operative institutions consider it right and proper to invest in co-operative undertakings particularly in housing co-operative societies which will go to benefit the co-operators (Mahadeva, 2006). Furthermore, the investments in housing co-operative societies yield reasonable returns and also obtain first class securities in the form of mortgages to cover the credit advanced. Lastly, India's financial co-operative institutions derive the satisfaction of contributing substantially towards the continued expansion and development of the co-operative movement (Saravanan, 2007).

It is reckoned that India's financial co-operative institutions have so far provided many credits to housing cooperative societies. The problem however was that India's financial co-operative institutions do not have the necessary machinery to supervise and manage investments of this nature and to process loan applications from housing co-operative societies as these are not their real functions (Sukumar, 2001). To overcome this problem, the financial co-operative movement established co-operative central banks and the National Cooperative Housing Federation of India. Whilst the function of the co-operative central banks is to mobilise the surplus funds available in the movement across India for the purpose of providing loan facilities to co-operative undertakings, the National Cooperative Housing Federation is to provide advisory and technical services and also to help to process applications for credit from housing co-operative societies. With the gradual development of co-operative central banking, India's financial co-operative institutions have adopted the policy of assisting housing co-operative societies through this institutional set-up rather than making direct loans (Saravanan, 2007).

The co-operative central bank have been established firstly to serve as the banking institution for the regional sector of the financial co-operative movement and to provide adequate and timely credit at reasonable interest rates to needy households or their co-operative societies to implement their schemes or expand their activities (Mahadeva, 2006). With housing co-operative societies having no other sources available to them to raise fund, the co-operative central banks would be called upon to play an increasingly major role in the provision of long term credit to them in the future. To meet this situation the co-operative central banks have reorganised themselves in a manner to be able to tap all the available financial resources in the movement speedily (Ganapati, 2010).

The Reserve Bank of India is vested with the responsibility of regulating and supervising the primary (urban) co-operative banks. Through its 17 regional offices, the Reserve Bank of India performs three main functions: regulatory, supervisory and developmental to ensure that the financial co-operative movement conduct its affairs in the best interests of the member depositors and also comply with the regulatory framework (Reserve Bank of India, 2011). The Reserve Bank of India is committed to work towards building a strong and viable co-operative banking and credit system across India.

The Reserve Bank of India recognises the useful role of the financial co-operative movement in the unbanked districts and centres. For this reason, it encourages new entrants to open co-operative banks and credit societies in states and districts which are unbanked or inadequately banked. Further, it also extends institutional credit support to small units and grants refinance facilities to urban cooperative banks.

3.8.4 Mortgage Credit Subsidy

Apart from viewing affordability as an income problem, it can also be seen as a housing market problem (Gibb, 2003). First, government intervention tends to be geared towards adjusting the denominator of the rent-to-income ratio. If access to affordable housing is considered a market problem, it refers to a government role concerning the physical provision of housing. A typical house can be made affordable by means of a subsidy, but this option is rather limited for developing countries due to the scale of their housing problems and shortage of financial means (Malpezzi and Mayo, 1987).

The earlier discussion has illustrated the role of subsidy in some mortgage systems, example the Bausparkassen systems in Western and Eastern Europe. It remains important, however, to note that subsidy programmes should be considered short-term alternatives to an efficient mortgage system. In an inefficient mortgage system, mortgage lenders may ration mortgage credit because of concern about risks and information problems.

This is known as credit rationing, whereby a borrower is refused a mortgage credit regardless of the price they are willing to pay (Stansell and Mitchell, 1985). This phenomenon has long perplexed economists, in particular because it indicates an apparent suspension of price as the arbiter of allocations (Kent, 1987, Duca and Rosenthal, 1991).

Rationing of mortgage credit is done in two ways: first, mortgage lenders limit access to credit to those able to afford to make significant down payments; and second, they limit eligibility for mortgage credit for those unable to pay more than a specific share of their income for repayments. In such a case, many governments may intervene and provide subsidies for households so that they are able to save enough in a second mortgage to top up the low loan-to-value (LTV) ratio they can get from mortgage lenders. However, such subsidies, as indicated earlier, constitute a significant portion of national budgets, and in many cases lead to deficits and considerable inflationary pressure.

Duebel (2000) reviewed a number of mortgage subsidy reform programmes in very heterogeneous markets, in terms of their overall development and macroeconomic context, the level of mortgage market penetration and the depth of public involvement in direct provision of low-income mortgage and housing services (Duebel, 2000). Table 3.3 summarizes his ratings of these reform programmes. However, one should note the shortcoming of Duebel’s review and ratings as they can be considered oversimplified and lack clear criteria for assessment and comparison.

Table 3.3 Ratings of some mortgage market and subsidy for homeowners reform programmes

Country	Subsidy Reform	Mortgage Market Reform
Sweden	Successful	Partly successful
United Kingdom	Highly successful	Partly successful
Germany	Successful	Neutral
Hungry	Successful	Partly successful
Philippines	Partly successful	Unsuccessful
Czech Republic	Highly successful	Neutral
South Africa	Partly successful	Partly successful
Chile	Successful	Neutral
Costa Rica	Partly successful	Highly unsuccessful

Source: (Duebel, 2000)

The important fact however is that subsidies can help or hinder market development (Rosen, 1983, Maclennan and Gibb, 1993, Le Blanc, 2005). Deep mortgage subsidies seem to encourage large amounts of lending, associated primarily with taking out mortgages in order to substitute for other funds that earn a higher return. Such lending activity can encourage more lenders to enter the market but, notably, there is little evidence that mortgage subsidies have much impact on lending volumes, at least in the earlier stages of market development. Common sense suggests that such subsidies should have some impact, but that impact may be overshadowed by the fact that subsidies usually undermine the development of market-rate lending (Stephens, 2005a, Gibb and Whitehead, 2007). The low-rate government mortgages made in some transitional economies (for example the Czech Republic) have almost certainly stunted demand for regular mortgages (Sunega and Lux, 2007).

Finally, subsidy usually, though not always, tends to improve access to the mortgage market and hence increase housing demand. The overall impact of subsidy programmes may be either positive or negative depending on the way they are funded and the form in subsidies are distributed. Generally, subsidy programmes are often considered inefficient in achieving their objectives. For example, some studies considered that mortgage tax relief was substantially capitalized in higher prices and failed to achieve housing policy objectives in relation to access to housing (Bramley, 1992). This explains why the World Bank favoured, for a number of years, the neo-liberalist policies that promote cost recovery and user pays principles (Pugh, 2001).

In recent years, many transition economies reduced and replaced their mortgage subsidy programmes with other instruments such as mortgage default insurance, for cost effectiveness and better efficiency. When correctly structured, mortgage default insurance programmes are more efficient than other schemes that rely on subsidies to address mortgage credit problems, for example credit rationing (Buckley et al., 2003). During the recent financial crisis, mortgage lenders in different countries significantly tightened origination standards for mortgages primarily for low- and moderate-income households. But, the creation of insured mortgage programmes, in countries such as the United States and Canada in which the governments either guarantee or purchase mortgages from the mortgage market, have supported the lenders in these markets to access low-cost funding necessary and to continue offering affordable mortgages.

3.9 Conclusion

This chapter has reviewed the international literature and agencies that prompt much of it, with particular reference to the prerequisites for the development of an effective and sustainable mortgage intermediation system that works better for low- and moderate-income households in terms of increasing their access to the housing market. Several approaches have been reviewed in search for policy alternatives and mortgage credit models. There is no doubt that some of these alternatives and models do propose ‘first best’ solutions to improve the provision of mortgage credit for Egyptian low- and moderate-income households. They also highlight several attributes required to increase the penetration of Egyptian mortgage credit market based on which the following propositions can be made.

Mortgage credit in some developing countries has received very little attention over the years. Mortgage credit has to be seen in the context of the national economy and more specifically the national financial system. The state of mortgage credit intermediation in a country reflects to some extent the state of its economy. It is not likely that the problem of limited penetration of mortgage market can be addressed without solving the economic problem first. For example, the development of effective and sustainable mortgage market requires effective inflation targeting policies.

It is also evident from the literature that household savings and government support are important factors for mortgage market development. Historically, the bulk of funding for mortgage credit usually came from the primary markets, namely various types of term saving schemes. The track record of the term saving schemes movement in the developing and transitional countries offers a number of lessons for a country like Egypt. For example, term saving is inappropriate for high inflation countries, where the bulk of the subsidy is going towards offsetting inflation, and the net rewards for saving in the system relative to a mortgage is very dependent on the course of inflation during the contract period. Moreover, the fears that term saving could be very expensive, and that the budget burden would be politically difficult to manage, have been confirmed.

The high demand for mortgage credit, coupled with low interest rates on savings, raise many questions over the continued ability of institutions to fund mortgage credit primarily through funds from the primary markets alone. Today, mortgage lenders are increasingly combining funding from the primary markets with other funding sources, such as the capital (secondary) markets, for the purpose of liquidity risk management.

Efficiency of mortgage markets is measured by funding capacity. Increasing savings and creating sustainable funding for mortgages is important for the development and effectiveness of mortgage markets. Thus, a mortgage market would largely benefit from the entry of several saving institutions, including non-profit and community-based organizations, which can mobilize savings at a low cost for mortgage lenders such as commercial banks. However, an extended network of mortgage credit intermediation has a downside. The growing involvement of savings institutions can make the mortgage market more vulnerable to speculative runs in an early stage of development.

The flow of more capital to a mortgage market is also dependent on the existence of a robust financial safety net. The resilience shown by a mortgage market and the willingness of a government and financial institutions to safeguard the network of mortgage credit intermediation should provide some support to increase the penetration of the mortgage market at the low- and moderate-income level of the housing market.

The regulation of mortgage credit and the reason for the existence of a network of intermediaries are intertwined. Regulation is not solely the outcome of a political agenda that is separate from the reasons why mortgage institutions exist. To make mortgage credit intermediation a viable business in which there is public confidence, reform of the regulatory environment is essential.

The significant social and economic benefits of developing effective and sustainable mortgage market with high penetration level can be attained quickly in the middle and later stages of transition if proper supply-side preparations have been made. Reform and development of a mortgage market is needed early on in the transition process to prepare for this outcome. The enthusiasm of mortgage credit institutions (as well as their required margin) will depend on the presence of an adequate legal and financial infrastructure for mortgage credit. Mortgage credit institutions and regulators face a steep learning curve as well; this is an area where the role of non-profit and community-based organizations is probably very important.

A continuing direct government role through subsidy programmes can distort mortgage market development and efficiency in several ways. Government-influenced institutions may fix mortgage rates too low to be commercially attractive, and then ration access to minimize the damage. Borrowers may perceive that such institutions are not free to aggressively pursue mortgage credit recovery. At the opposite extreme, consolidation of the monopoly position of the government-influenced institutions may permit charging rates that are too high, similarly stunting the market.

To sum up, the analysis and experiences discussed in this chapter suggest that the development of mortgage markets in many developing countries is strikingly similar in their starting point. But, some countries appear relatively to have made major progress in increasing the penetration of their mortgage markets to support access to housing for low- and moderate-income households. Some of the proposed solutions based on these experiences might not be applicable to the context of Egypt at present. However, the analysis highlighted the important role of community-based organizations in the development of effective and sustainable mortgage markets that can work better for low- and moderate-income households. This role needs to be evaluated in the context of Egypt where CBOs such as housing co-operative societies have already been considered as a response to the housing problem in the country. Such evaluation is important to fill the gap in Egyptian literature in relation to why community-based organizations in Egypt can be seen as an important policy instrument to deepen the mortgage credit intermediation and to improve access to housing in Egypt.

4. METHODOLOGY

4.1 Introduction

Embarking on a research project presents many challenges for the researcher right from the onset. Once the initial hurdle of defining the research topic is achieved, it is important to start the process of choosing a relevant research method or methods (Riley et al., 2000). The complex nature of firstly understanding methodologies, and secondly applying research methods and tools, can often incrementally or radically alter the initial proposed research topic.

As is clear from the review of the current Egyptian context (chapter 2) and international literature (chapter 3), mortgage credit in Egypt remains limited in its reach and this requires a clear strategy for the supply side to address this limitation. Thus, there is a need to assess the intermediary role of existing institutions on the supply side of the Egyptian housing and mortgage markets. Two of the most prominent institutions in these markets at present are the housing co-operative societies and banking institutions.

The co-operation between housing co-operative societies and banking institutions in Egypt can create an effective and sustainable mortgage credit intermediation system. This can improve access to housing for low- and moderate-income households in the country. So, this chapter explains the selected methodology and data collection methods for the assessment and studying the relationship between these institutions and the reasoning behind those selections as well as the advantages and disadvantages of such selections.

4.2 Context for Suggested Housing Policy Reforms

For more than 20 years Egypt has been in transition from central planning economy to a free market. During this time the Egyptian government has become progressively unstable due in part to the country's attempt to change simultaneously its political structure and its economic orientation. As is noted earlier, the Egyptian government has undertaken an economic reform and structural adjustment program starting from 1991 (Handoussa, 1992). In the recent past, the reform program entered a new phase, where more aggressive changes and adjustments were made to foster private sector development, as the main policy agent in the country's new development strategy to achieve rapid, efficient, and sustainable economic growth – something that the past centrally-planned system has not delivered (Moharam, 2006).

A few months before the recent revolution in Egypt at the beginning of 2011, a raft of new economic reforms was planned for 2011-12 (CBE, 2010). The government was planning to continue its programme of incremental reductions to subsidies especially on energy products in a bid to align domestic and international prices and minimise the fiscal drain. In the financial sector, the government's consolidation programme in the banking sector aimed to maintain a relatively stable and domestic liquidity at comfortable levels. The government also continued to tighten regulation and to work on improving access to finance for the private sector. Further, the objective of public private partnership (PPP) law passed in June 2010 was to facilitate the implementation of PPPs and thereby speed up the ongoing government programme to improve Egypt's infrastructure (for example: hospitals, roads, railways, ports, and wastewater treatment) and other public services such as affordable housing.

While the earlier reform program was successful in fostering private sector development, the benefits of economic growth in recent years have not been evenly spread, and despite the emergence of a growing middle class, the bulk of Egypt's 84 million population remained extremely poor (Askar, 2005, IDSC, 2008). Perhaps the most fundamental miscalculation that led to the recent revolution in Egypt is that the government has failed to address the issue of inequality in the distribution of the benefits of economic growth. The Egyptian government, which has always been controlled by authoritarian military rule since a coup in 1952, used force to address any disaffection among the population about inadequate salaries and poor living standards. Unaware of the risk of social dislocation, the government's liberalisation program that has always favoured the private sector even more than other non-governmental sectors moved too quickly, and the reforms ignored the increasingly bold demonstrations and industrial actions by labour activists, which finally developed a more overtly political tone in January 2011.

Following the revolution, the interim government has been trying to address the inherited problems from the previous government. Most notably, it is focusing on mending the relation with the public by focusing on maintaining supplies of essential goods and services and on creating jobs, for example through allocating resources for public works projects. The interim government however remains confined by the scale of economic and social challenges in the country. Further, political instability has prompted the interim government to put reforms on hold and in some cases reverse previous policies, especially in relation to privatisation.

However, Egypt is generally classified as a lower middle-income developing country by the World Bank. Table 4.1 below provides selected statistics on Egypt published by the World Bank in comparison to selected countries that made major progress in the transition and development of their national housing finance systems, as discussed in Chapter 3.

Table 4.1 A Comparison of Selected Egyptian and Transitional Economies Data

Indicators	**Egypt**	**Czech Republic**	**China**	**India**
GDP Growth, %	4.9%	-4.1%	10.3%	9.7%
GNI per Capita, US$	$2,440	$17,400	$3,650	$1,340
Gross Savings (% of GDP)	17%	27.1%	51%	28%
Population, millions	82	10.6	1,338.9	1,172.7
Population Growth,%	1.9%	0.4%	0.5%	1.3%
Youth Population, %	37%	n.a.	32%	35%
Unemployment, %	9.4%	6.7%	4.3%	4.4%
Poverty Headcount, %	22.0%	<2%	2.8%	36.0%
Bank Credit (% of GDP)	78%	58%	145%	73%
Inflation Rate, %	11.8%	2.3%	4.6%	10.9%
Overall Budget Balance, %	-6.6%	-6.1%	-2.8%	-4.9%

Source: (World Bank, 2011)

As is clear, the key issue remains that the Egyptian population continues to grow by around 1.9% per year with unemployment already high at 9.4%, so large numbers of new jobs must be created. GNI per capita is low at $2,440, and according to the World Bank’s data; the last estimated percentage of people living below the poverty line in Egypt is 22%. The successive governments have been trying to increase expenditures on social programs with an objective of alleviating poverty in Egypt. In reaction to rising inflation, the government usually expands the program of subsidizing a basket of basic goods. But, with an annual inflation rate of 11.8% as of 2010, such politically motivated subsidies cannot be sustainable as subsidies put more strain on public finances. The government's over-strained budget can ill afford more subsidies, with the overall budget deficit reaching 6.6% of GDP in 2010. Such budget deficit pressures limits the government capacity to use non-market measures particularly subsidies to improve access and affordability in the housing market.

On the other hand, there is still a strong demand for mortgage credit as evidenced by the high population growth at 1.9% and large percentage of youth population at 37%. The existing mortgage system is still limited in its reach and serves a small section of the population. Accordingly, establishing an effective and sustainable mortgage market that works better for low- and moderate- income households without increasing budget deficit pressures can make an important contribution to stability and economic growth in Egypt.

In recent years, the government has already begun to implement a major financial sector restructuring program (El-Refaie, 1998, CBE, 2010). This is in order to tackle the deterioration in commercial bank performance and develop non-bank financial services. In essence, the government started with a series of reforms and process of consolidation within the banking sector in order to create financially sound institutions. But, one can hardly note any measures taken to date to encourage the development of non-bank financial services (especially at the lower- and moderate-income end of the housing market).

A policy reform that is focusing on strengthening mortgage market infrastructure and developing the role of housing co-operative societies as market intermediaries similar to the Indian financial co-operative movement to make market resources available for housing the low- and moderate- income households would make a positive contribution in closing the current gap.

4.3 Objectives/Hypothesis Testing

Research on the mortgage market in Egypt so far appears to concentrate almost exclusively on understanding the nature and scale of the market. It overlooks many questions in relation to the effectiveness and sustainability of the mortgage system in improving the provision of mortgage credit and the role of institutions after the mortgage market has reached a certain stage of development. This overlook actually suggested the overall research objective in terms of evaluating the effectiveness and sustainability of the institutional structure and network of mortgage credit intermediation and the role of banking and community based organisations in the proposed reform. Thus, the research objective is to address the following:

- Why Egyptian housing co-operative societies can be seen as important policy agents to expand the mortgage credit beneficiaries base in Egypt;
- Evaluate the effectiveness of the Egyptian housing co-operative societies as community based organisations and policy agents;
- Identify and analyse the various economic, social and political factors influencing this effectiveness;

- Assess the role of the banking institutions (as contextual stakeholders in the immediate environment of the Egyptian housing co-operative societies) in expanding access to mortgage credit and savings in Egypt; and
- Identify which institutions constrain most the development of an effective and sustainable level of mortgage credit for low- and moderate-income households.

Addressing these objectives would contribute to filling part of the existing gap in literature regarding the limited penetration of the mortgage credit in Egypt at present, and the role of community based organisations and banks as stakeholders in the development of an effective and sustainable strategy to deal with this issue.

4.4 The Choice of Methods

After reviewing the context for suggested housing policy reforms and identifying the research objectives, we now turn our attention to the choice of methods. There are four main methods that a social researcher can use: questionnaires, interviews, observation and documents. Each method provides a tool for the collection of empirical data to help the researcher to gain a clearer picture of things; an accurate measurement of things; and facts and evidence about the subject matter. Before choosing and using any of these tools, it was important to consider five points:

• First, although certain research strategies have come to be associated with the use of certain research methods this does not rule out the possibility of choice.

• Second, each of the methods has its particular strengths and weaknesses.

• Third, when it comes to choosing a method, researchers should base their decision on the criterion of 'usefulness'.

• Fourth, research methods do not need to be seen as mutually exclusive. More than one method can be used for the research with the clear intention that weaknesses in one method can be compensated for by strengths in another method.

• Fifth, the use of more than one method allows the researcher to use triangulation. The combination of different methods can be used by the researcher to look at the research topic from a variety of perspectives, as a means of comparison and contrast, with each method approaching the topic from a different angle.

Based on these considerations, it was decided that different methods are better suited to this research. Accordingly, the four main methods (questionnaires, interviews, observation and documents) were almost all used within this research but at different degrees. Surveys and interviews were selected to be key methods for this research while documents were considered to be less reliable, especially under the authoritarian regime in Egypt since 1952 that used propaganda rather than facts to rule the country.

Surveys tend to be linked with questionnaires which were used because they are believed to be productive in this research situation: 1) there is a large numbers of respondents in many locations; 2) the required information is fairly straightforward -

relatively brief and uncontroversial; 3) there is a need for standardized data from identical questions – without requiring personal, face-to-face interaction; 4) the respondents are able to read and understand the questions; and 5) the social climate is open enough to allow full and honest answers.

While questionnaires proved to be a more cost-effective method, the collected information remained simple with some uncontroversial facts. Further, the attitude of some respondents in answering the questionnaires continued to reflect the limited openness of the social climate in Egypt, in terms of freedom of expression. Thus, the researcher still needed to gain insights into the respondents' opinions and experiences. There was a great value in establishing contact with key players in the field who can give privileged information.

Accordingly, interviews provided another suitable method. The interviews helped address procedural issues around data collection through questionnaires. Although interviews can be used for the collection of straightforward factual information, their potential as a data collection method is better exploited when they are applied to the exploration of more complex and subtle topic such as the topic being addressed in this research. The decision to use interviews for this research project, of course, needed to take account of their feasibility as a data collection method. So, before embarking on the programme of interviews the researcher needed to feel assured that:

• It is possible to gain direct access to the prospective interviewees. There is obviously no point in pursuing the idea of conducting interviews unless there are good grounds for believing that the necessary people can be accessed, and that some agreement can be obtained from all the parties involved in the research.

• The interviews are viable in terms of the costs in time and travel involved. With limited resources, the researcher needed to ensure that the people are not distributed too widely across a large geographical area and that conducting the interviews will not incur prohibitive costs.

In addition to questionnaires and interviews, reviewing Egyptian government publications and official statistics seemed to be an attractive method to be applied in the research. However, the extent to which such documents were used as authoritative, objective and factual methods depended very much on the data they contained. In general, certain types of official statistics, to all intents and purposes, provided an objective picture of reality. Unfortunately, the same cannot be said for certain other types of official statistics. For example, when Egyptian politicians debated the accuracy of unemployment figures or the significance of particular national economic figures, such as economic growth, there is clearly some doubt and controversy about the objectivity, the accuracy, the completeness and the relevance of some official statistics.

This alerted the researcher to the point that official statistics cannot always be taken as 'objective facts'. To say this is not to indicate that the use of all official statistics as a source of data was rejected for this research. But what it does mean is that before treating a set of official statistics as accurate and objective, the researcher had to consider some factors. Whether there are vested interests in the statistics that are produced.

Clearly, the Egyptian government did appear to have a vested interest in a variety of statistics, and as indicated earlier, statistics are being manipulated to support the authoritarian regime in the country. They are the outcome of a series of decisions and judgements made by the government that is not open to being challenged.

4.5 Research Methodology

Methodology is the term used to explain the author's philosophical approach and presents a list of the data collection techniques or research methods to be administered during a given research project. A methodology refers to the overall approach to the research process from the theoretical underpinning to the collection and analysis of the data (Hussey and Hussey, 1997). Methodology is thus not the methods or tools used to collect data, it is the theoretical underpinning behind the project, that guides the research. Methodology refers to the what, why, where and how you collect and analyse data (Hussey and Hussey, 1997).

Each research proposal or paper includes a significant prose on research methodology. It is this methodology that guides or even steers the research process, bringing the topic to life through the collection of data (Riley et al., 2000). The methodology hence highlights the intended or actual research methods used to enable this collection of data to occur. It is not enough just to decide which research methods are to be administered within a given research project, as not all methods are applicable or feasible within all research topics (Sarantakos, 1998).

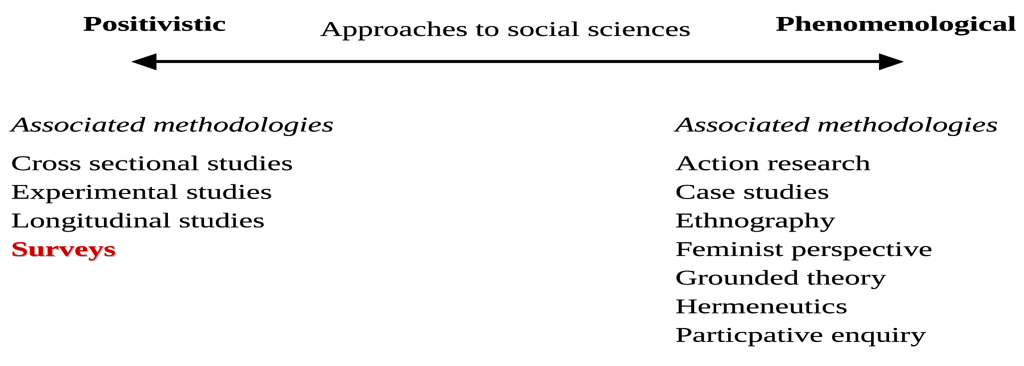
The philosophical standpoint of the researcher brings great influence to bear on the research methods adopted. Methodology should reflect or be guided by research paradigms, which are also referred to as philosophies. This may suggest therefore that methodologies can also be broadly classified under either the positivistic or the phenomenological paradigm. These are frequently also discussed as quantitative and qualitative methodologies respectively (Hussey and Hussey, 1997).

Some methodologies can be used under either the positivistic or the phenomenological paradigm depending on the assumptions of the researcher. The positivistic paradigm or positivism has a long history in philosophy but later had a considerable influence upon social research, notably in promoting the status of experimental and survey research and the quantitative forms of analysis associated with them. If the research undertaken reflects the principles of positivism, then the researcher will probably adopt the philosophical stance of the natural scientist. The researcher will be concerned with the testing of theories. Thus, for positivists, the most important feature of scientific theories is that they are open and subject to test. This requires the exercise of control over variables, which can be achieved through physical control, as in experiments, or through statistical analysis of a large number of cases, as in survey research. Without any control over variables, it is argued, one can do no more than speculate about causal relationships, since no basis for testing hypotheses is available.

On the other hand, the phenomenological paradigm is an approach that focuses on how life is experienced. It is not primarily concerned with explaining the causes of things but tries, instead, to provide a description of how things are experienced first hand by those involved. It is concerned, first and foremost, with human experience. Accordingly, it prefers to concentrate its efforts on getting a clear picture of the things in themselves – the things as directly experienced by people. The phenomenologist would argue that generalisability is not of crucial importance. Perhaps the strongest argument the phenomenologist could make is the necessity to discover the details of the situation to understand the reality, or perhaps a reality working behind them. Perhaps the clearest examples here are in the world of organizational behaviour.

The chosen paradigm determines the potential choice of the research methodology and thus the research methods. There are a number of research methodologies that lend themselves more to one paradigm than to another. The choice of a methodology should therefore reflect the research paradigm. In figure 4.1 below the main key methodologies under the two philosophies, positivistic and phenomenological, are highlighted.

Figure 4.1 Key Research Methodologies



Source: (Hussey and Hussey, 1997)

It is important to note that there is no single best methodology or way of collecting data. According to Robson (1993), the three traditional research methodologies are experimental studies, case studies and surveys. Experimental studies measure under systematic and controlled conditions predominantly causal relationships, whereas case studies concentrate on studying single cases in depth (Sarantakos, 1998). Survey research is, according to Tull and Albaum (1973), the art and the science of asking questions and/or observing behaviour to obtain information. Robson (1993) explains: ‘the term survey is used in a variety of ways but commonly refers to the collection of standardized information from a specific population or some sample from one, usually by means of a questionnaire or interview’. Questionnaires thus fall into the category of survey methods.

4.6 Developing the study approach

My approach to this study is based on a combination of historic and document research, with a cross-section of survey and in-depth interviews with key actors in the banking and co-operative sectors.

Stage 1 *Background research*

The background research sets the topic of this study in the context of wider housing policy and institutional development. As explained earlier (chapter 2), the Egyptian mortgage credit system has had to come to terms with different sets of pressures. The system has had to devise its own policies for the first time; it has had to learn about improving its services and offerings and to live with the risks involved; it has had to do this at a time of rapid expansion in the housing market; and it has had to learn to be competitive. On the other hand, the current policy reforms in Egypt support the transition from a highly centralized and subsidized system to a system driven mainly by private and community-based initiatives and delivery systems. The overall aim is to reduce the direct role of the state and increase the role of the market. This has had serious consequences for access to mortgage credit for low- and moderate-income households in general, and a knock-on effect on their housing co-operative societies in particular.

Stage 2 *Identifying the characteristics of the Egyptian housing co-operative societies*

In order to analyse the characteristics of the Egyptian housing co-operative societies, around seventy-five housing co-operative societies were selected for study from the Co-operative Housing Union data, to help our understanding of their business model, organizational efficiency and the ability of the co-operative societies to adapt to their operating environment.

This stage initially clarified the key characteristics of the Egyptian housing co-operative societies as community-based organizations with one clear mission to provide affordable and decent housing for their moderate income members by all available means, including: mobilization of their savings; provision of lands for co-operative housing developments; procurement of building materials and necessities from the primary sources at best price; contribution to the preparation of feasibility studies; benefiting from economy of scale to reduce the unit cost; raising private funds through credit and capital markets; and use of services provided by the wider co-operative sector.

However, due to the absence of many indicators – on rent collection, new development, void levels and price/rent increases – it was difficult to assess the efficiency of housing management services, both in terms of cost control and effective use of resources and procedures.

Stage 3 *Survey of thirty housing co-operative societies*

It was not possible to conduct a survey and in-depth interviews with all housing co-operatives. Thus, I studied a significant sample from the whole population of housing co-operative societies (see appendix for a copy of the survey questionnaire used in the field study). A sample survey is a method of gathering information from a number of individuals or organizations, in order to learn something about the larger population from which the sample is drawn (Barnett, 1991). One can identify several advantages to the study of a sample drawn from a population, rather than attempting to study the population in its entirety. In contrast to enumeration of the whole population, data are cheaper and easier to collect, it saves time in both collecting and analysing data and a smaller number of cases make it possible to collect and deal with more elaborate information from each (Barnett, 1991). Such an approach enables the researcher to concentrate on a specific instance or situation and to identify, or attempt to identify, the various interactive processes at work, which may remain hidden in a large-scale survey but may be crucial to the success or failure of systems or organizations (deVaus, 1996). Studying a sample of thirty housing co-operative societies drawn from the list of the seventy-five housing co-operative societies identified in stage 2 enabled me to spend more time with each organization, interviewing two representatives on average in each. This helped to produce detailed in-depth data. By also studying a sample, the process of analysing detailed qualitative material was more manageable than with a larger number of housing co-operative societies.

The sample of thirty housing co-operative societies was selected so that it was as representative of the whole population as possible, along the lines of region, size of co-operative, the nature of the area of operation and performance (see table 4.2). Random sampling was rejected in favour of quota sampling, which is described as a method that attempts to approximate or represent the population characteristics by dividing the sample along dimensions of, for example, class, race and gender (Patton, 1990). In the studied sample, such divisions would not have been appropriate. However the method was particularly suitable to ensure representation of the whole population along the lines of region, size of co-operative and performance of co-operative.

Table 4.2 Breakdown of Egyptian Housing Co-operative Societies by Geography

Municipality	No. of Operating Co-operatives	No. of Sample
1. Cairo	589	19
2. Giza	162	7
3. Kaluobiah	23	-
4. Alexandria	175	-
5. Monofiyha	20	-
6. Kafr El Sheikh	108	-
7. El Gharbiyah	38	-
8. El Sharkiyah	35	-
9. El Dakahliyah	50	-
10. El Beharah	35	-
11. Damietta	45	-
12. Port Said	125	-
13. Ismailia	117	-
14. Suez	64	2
15. Red Sea	56	-
16. North Sinai	24	-
17. South Sinai	13	-
18. Marsa Matrouh	23	1
19. El Fayoum	23	-
20. Bani Swaf	29	-
21. El Mania	29	-
22. Assiut	39	-
23. Sohag	37	-
24. Qena	61	-
25. Aswan	91	1
26. El Wadi El Gadid	49	-

Source: Co-operative Housing Union Data, 2009

Although around seventy-five potential housing co-operative societies were originally approached, only thirty co-operative societies responded (see table 4.3). This sample represents co-operative societies from a wide variety of economic sectors in Egypt.

Table 4.3 Summary Profile of Respondents

Co-operative Society Name	**Inception**	**No. of Members**	**Asset Size**	**Housing Stock**
6th of October	1982	30,847	EGP505million	2640
El Sharara	1982	982	EGP167million	962
Presidential	1978	3,605	EGP156million	2855
National Bank	1982	12,799	EGP147million	819
Telecom Authority	1984	611	EGP144million	850
El Noor	1982	1382	EGP130million	540
Engineers Union	1976	11,841	EGP124million	2505
Amenhotep	1982	1,476	EGP118million	1476
Republican Guards	1992	1,596	EGP113million	481
Riviera Village	1982	798	EGP97.6million	840
Central Bank	1970	5,700	EGP83million	1890
Research Centre	1982	1,680	EGP58million	360
Eltahreer	1975	1,835	EGP40million	850
Suez Gulf	1970	3,337	EGP33.4million	687
El Sha'bi	1964	2,094	EGP23million	673
Belayim	1982	1,589	EGP14million	306
El Refai	1982	1,084	EGP13million	1084
Heliopolis	1977	240	EGP13million	255
Education	1982	1,737	EGP10million	286
Commerce Union	1977	5,400	EGP9.8million	950
Co-operative Towers	1982	1,100	EGP9.6million	600
Dar El Sa'ada	1976	624	EGP8million	70
Agri-Projects	1977	891	EGP7.3million	74
Zahrat al Madinah	1982	n.a.	EGP6million	n.a.
El Remal	1981	n.a.	EGP4.8million	n.a.
El Haram	1982	n.a.	EGP3.8million	n.a.
Golf	1979	278	EGP3.3million	96
Nubian Sons	1979	1,561	EGP2.5million	374
Cairo Pharm	1982	570	EGP1.3million	463
Fashion Houses	1985	600	EGP0.09million	6

Source: Co-operatives' Data, 2009

Stage 4 *In-depth interviews*

Self-completion questionnaires are limited in scope and offer no opportunities to probe or seek clarification. For this reason, the survey was followed by in-depth interviews with key personnel in the Co-operative Housing Union, senior managers of the respondents and their bankers to verify and complete some answers. The interviews were semi-structured in order to allow the interviewee to answer more on their own terms than the standardized interview permits (Yin, 1994, Cooper and Schindler, 1998). I also used a checklist of issues to explore respondents' perceptions of the research questions. The key aspect of housing co-operative societies and of bank credit for affordable housing purposes that were examined in relation to the research objectives/hypotheses are summarized in table (4.4) below.

Table 4.4 Topic Guide

Why Egyptian housing co-operative societies can be seen as important policy agents to expand the mortgage credit beneficiaries base in Egypt?

- Respondents' views on the role of Egyptian housing co-operative societies as community agents and their policy role in addressing the housing problems in Egypt.
- Background on the co-operative housing sector, including perceptions of performance as senior manager and bank credit officer.

Evaluate the effectiveness of the Egyptian housing co-operative societies as community based organisations and policy agents.

- Respondents' views on the effectiveness of housing co-operatives' business model and systems of governance.
- How housing co-operatives operate on the ground.
- How housing co-operatives develop their business and the respondents' perception of how that approach affects the way the organizations work.
- How the respondent perceives the difference in the management and governance of co-operative housing compared to other types of housing.
- How housing co-operatives fund their operations and protect their financial resources.
- How effective the co-operative housing sector is in increasing access to housing for Egyptian low- and moderate-income households.

Identify and analyse the various economic, social and political factors influencing this effectiveness.

- Public policy and the respondents' perceptions of the reasons for the rise and decline of the role of housing co-operative societies.
- Respondents' perceptions of the reasons for the lack of government support.

Assess the role of the banking institutions (as contextual stakeholders in the immediate environment of the Egyptian housing co-operative societies) in expanding access to mortgage credit and savings in Egypt.

- Background on the banking system and its role in the housing sector.
- Funding arrangements and the influence of mortgage financing upon the institution.

Identify which institutions constrain most the development of an effective and sustainable level of mortgage credit for low- and moderate-income households.

- Respondents' perceptions of the reasons for the current low co-operation between housing co-operatives and banks, for example is it due to demand factors (credit slowdown) or supply factors (for example credit policy change, crowding out, etc.), or both?
- Which supply factor led to the decline in bank credit lines for housing co-operative societies.
- Is the decline in bank credit lines related to the bank's degree of risk aversion, liquidity preferences, problems facing the housing co-operative societies or the housing market as a whole?

Source: Interviews, 2008 and 2009

Within each of the thirty co-operative societies, I interviewed between one and two members of senior management and senior bank credit officer. In total, I interviewed forty-five individuals between March 2008 and October 2009. Respondents were notified in advance of the issues to be discussed during the interviews. Interviews were carried out either face-to-face or by telephone and lasted for approximately one hour. Tape recording of interviews was rejected due to the general connotation of that option for recording information, particularly in Egypt.

This is in addition to the many disadvantages of tape recording, especially in terms of the potential adverse effect on the relationship between interviewees and interviewer as well as possible inhibition of interviewees' responses and reduction of reliability. Instead, I relied on making notes of key words and phrases for each issue discussed during the interviews.

Each interview involved adapting the core checklist of issues mentioned above (see table 4.3) to relate them specifically to the roles of interviewees. Discussions with chairmen, for example, focused on organizational and corporate issues and discussions with finance directors and bank credit officers focused on housing finance issues. The main focus of the interviews was to examine how respondents perceived the effect of these issues upon their organizations and members, and to explore the organizational changes that housing co-operative societies and banks introduced and their impact on their decision making.

Why interview Bank Credit Officers? Historically, bank credit used to be the key external funding source for many housing co-operative societies in Egypt. The recent banking sector reform programme has led to a relatively stronger and more efficient role of banks in the financial system in general and the housing market in particular. So, it appears that banks are better positioned to address the research objectives, especially in terms of how low- and moderate-income households could be assisted through their housing co-operative societies to access affordable housing in an organized manner and based on a sustainable financing system.

The initial investigation, however, revealed a major decline in approved bank credit lines to the co-operative housing sector since the early 1990s. Thus, for a balanced perspective, Bank Credit Officers had to be interviewed. The interviewees were mainly selected from five state-owned and specialized banks whose core lines of business include property finance and who have long-standing relations with the co-operative housing sector and an interest in bank credit programmes for social development purposes.

Stage 5 *Data analysis*

The resulting data from the survey and interviewees were analysed in two stages. In the first stage, I developed a single pro forma based on the review of literature and analysis of housing policy in Egypt. The approach was piloted with eight housing co-operative societies, and amendments were made to the pro forma to rectify its limitations. The amended pro forma was then sent to seventy-five housing co-operatives for completion. But only thirty housing co-operatives responded and agreed to take part in interviews and to refer me to their bankers to elaborate more on their answers in the returned questionnaires. All data from the questionnaires and interviews were analysed using this method, with a single pro forma per housing co-operative society. All the interviews were analysed and views recorded in the pro forma. This helped to identify common themes and areas where the respondents disagreed. The questionnaire grouped the views and perspectives of all respondents in a single location on the form, which facilitated the second stage of analysis.

The second stage involved tabulating key data from the completed questionnaires. Tables for key data on organizational development, operating and financial performance and bank credit were developed. The second stage analysis also provided numerical data on the perspectives of respondents and interviewees, which was used to build the charts included in the text.

4.7 Data Collection and Analysis

Based on the above research objectives, methods and approach, this thesis includes both collection and analysis of secondary data and collection of primary data.

4.7.1 Uses of Secondary Data

Secondary data were used for two main research purposes. First, they helped to fill the need for a specific reference on some points, mainly affordable housing and finance in the developing countries in general and in Egypt in particular, to demonstrate why the research could fill the void in the knowledge base. Examples of secondary data used include the recent figures on housing production and finance in Egypt.

Second, secondary data were used to justify the costs and benefits of carrying out primary research. In essence, the researcher tried to mine existing databases to discover the patterns of housing problems, the models of finance and the environmental conditions required to increase access to affordable housing and finance for low- and moderate-income households. Each of these pieces of information was used to develop a clearer statement of the research questions and a comparative literature review to glean some relevant lessons from other experiences.

4.7.2 Collection of Primary Data

The collection of primary data initially started by testing, on a small population as explained above, a pilot questionnaire regarding the survey of housing co-operative societies, most of which are in the capital city of Egypt, Cairo, in order to detect any weaknesses in the research design and instruments. This enabled the researcher to use the suggestions of the first group of respondents to identify and change any confusing or awkward questions. During this pilot test, the researcher discovered that the wording of nearly one third of the questions was liable to confuse, especially in relation to the legal and financial profile of housing co-operative societies as non-profit organizations. Thus, testing was useful to refine the questionnaires and also the questions asked during the later interviews to obtain detailed information from the respondents.

Employing a range of methods, secondary and primary, in this study was important and contributed to reaping the benefits of such an approach in terms of a high degree of confidence about the issues being addressed and the final recommendations (Saunders et al., 2000).

A) Questionnaires

Questionnaires are a primary data collection research method and include all techniques of data collection in which each person is asked to respond to the same set of questions in a predetermined order (De Vaus, 2001). Questionnaires therefore include structured interviews, telephone questionnaires and mail questionnaires (Erdos, 1970). According to Saunders et al. (2000) questionnaires are currently the most widely used data collection technique. The collection of evidence with questionnaires falls broadly into two categories, self-completion methods and interviews. Self-completion methods include mailed and computerized questionnaires, whereas interviews include personal and telephone interviews.

I. Mail Questionnaire

The mail questionnaire is an impersonal survey method whereby the questionnaire is mailed to a predetermined set of respondents with a covering letter informing the recipient of the nature of the study. Furthermore, the time available to complete the questionnaire as well as the benefits to be gained from taking part are outlined. Mail questionnaires tend to be highly structured with predominantly closed-ended questions. They should be simple to complete and not too long. According to Remenyi et al. (1998) they should not take longer than twenty minutes to complete, to achieve a reasonable response rate.

II. Computer-Administered Questionnaire

Questionnaires are increasingly being administered electronically across the network through the use of e-mail or the internet. The structure of this type of questionnaire is very similar to the posted questionnaire (Sayre, 2001). However information and messages sent via e-mail reach their destination within minutes, rather than days as with traditional mail.

Circumstances where questionnaires apply

The circumstances under which questionnaires apply are outlined below. The discussion is subdivided into three parts, the positioning, characteristics and categories of questionnaires.

Part 1: Positioning

As questionnaires can be seen as subordinate to the positivistic paradigm one can, by identifying its key characteristics, start to explain under what circumstances questionnaires are useful and hence applicable in a research project (Sayre, 2001). The positivistic paradigm is good at collecting information on facts and opinions from a large sample (Remenyi et al., 1998; Hussey and Hussey, 1997) to draw inferences about the whole population. The data collected tends to be highly specific and precise and therefore measurement is an essential element of the research process. The researcher must apply considerable rigour to ensure the accuracy of the measurement. Validity, which measures the extent to which the research findings accurately represent what is really happening, therefore tends to be low for the positivistic paradigms (Riley et al., 2000).

Moreover, the world is considered to be objective and external to the researcher. According to Sayer (1992) in the positivistic paradigm, the researcher is independent from that being researched. The positivistic paradigm emphasis is hence not so much on the skills of the researcher as an interviewer, but more upon the research instruments employed to collect, analyse and measure data.

Besides, the quantitative paradigm is associated with hypothesis testing and tends to have a highly structured research design in comparison to the phenomenological paradigm. Finally the issue of reliability is important in the positivistic paradigm (Sarantakos, 1998). It implies that as the research findings are repeated, they will generate the same results.

Part 2: Characteristics

In the following some more explicit characteristics associated with surveys are outlined. Surveys can be carried out for any of the research purposes whether explanatory, descriptive or exploratory. In reality surveys are not particularly good at delivering exploratory research or research that requires large numbers of open questions. Questionnaires as one form of survey work best with standardized questions where the researcher can be confident that they will be interpreted in the same way by all respondents (Robson, 1993). One can ask a wide range of open-ended questions, but it is likely to be an inefficient and ineffective procedure taking a great deal of time to analyse. Hence many surveys are carried out for descriptive purposes. Descriptive or analytical research will enable the researcher to explain and examine the relationship between variables, in particular cause and effect relationships (Saunders et al., 2000).

Data concerning behaviour and attitudes within an organizational setting are not easily obtained through surveys, therefore qualitative methods such as participant observation are more viable. May (1997) states that surveys are a deductive or a static-causal snapshot of attitudes. Surveys, and hence questionnaires, do not attempt to understand how and why people change.

Moreover, in questionnaires generally a relatively small amount of information is collected from any one individual and there is no attempt to manipulate variables or control situations, as in experiments. Surveys are also more versatile than most techniques but do not have the qualitative depth of some other alternatives (Oppenheim, 1992). It depends what type of questions are asked within a questionnaire. The researcher may use open-end questions where no fixed responses are provided from which the respondent is to choose (Tull and Albaum, 1973). These questions encourage the interviewee to answer ‘what’, ‘how’ and ‘why’ questions (Saunders et al., 2000) and hence have the potential to offer a more in-depth analysis. However they have some drawbacks such as higher administrative costs and the increased possibility that interviewer bias will influence the answer (Zikmund, 1999). Closed questions may, on the other hand, be used to obtain more specific information or to confirm a fact or an opinion (Saunders et al., 2000). Depending on the research topic one can gain either more qualitative or quantitative responses and hence results.

Part 3: Categories of questionnaires

When deciding which survey method to apply, one needs to determine the most significant restrictions and criteria associated with the research project. In the table below some of the key characteristics of the different types of questionnaires are outlined in order to understand which method or combination of methods is likely to prove useful in specific situations.

Table 4.5 Key Characteristics of the Different Types of Questionnaires

Criterion	**Personal Interview**	**Mail**	**Telephone**	**E-mail**
Cost	High	Low	Moderate	Low
Response rate	High	Low	High	Low
Control of Interview situation	High	Low	Moderate	Low
Applicability to geographically dispersed populations	Moderate	High	Moderate	High
Applicability to heterogeneous populations	High	Low	High	Low
Collection of detailed information	High	Moderate	Moderate	Moderate
Speed	Low	Low	High	High

Source: (Frankfort-Nachmias and Nachmias, 1996)

Economy is the most appealing advantage of self-completion questionnaires. It does not require an interviewer to be present, but only includes the cost of planning, printing, mailing and providing stamped self-addressed envelopes for the return. In the words of Sellitz et al. (1976) “questionnaires can be sent through the mail, interviewers cannot”. Processing and analysing are also usually simpler and cheaper than for the other methods (Frankfort-Nachmias and Nachmias, 1996). Mail and e-mail questionnaires hence encourage greater accessibility and permit wider geographic contact at minimal cost.

Moreover, mail and e-mail questionnaires reduce bias error that might result from the personal characteristics of the interviewers and the variability in their skills (Sarantakos, 1998). Personal interviews, for example, due to the interaction, are likely to include a certain level of bias. Furthermore, greater anonymity for the respondent is assured, which is especially helpful if the survey deals with sensitive issues (Frankfort-Nachmias and Nachmias, 1996). In addition, mail and e-mail questionnaires are preferable when questions demand some consideration rather than an immediate answer or if answers require respondents to consult personal documents or other people to verify them (Zikmund, 1999).

One weakness of self-completion questionnaires, however, is that there is no opportunity for probing and prompting of questions (Sarantakos, 1998). Answers are final and there is no way of clarifying ambiguous answers or of appraising the non-verbal behaviour of respondents, as is possible with the other two methods. A low flexibility in the questioning process is evident and collection of supplementary information impossible (Frankfort-Nachmias and Nachmias, 1996). Moreover, mail and e-mail questionnaires tend to require simple questions as they can only be used if the questions are straightforward enough to be understood solely on the basis of printed instructions and definitions.

If it is important who fills out the questionnaire then personal interviews or telephone questionnaires are more suitable. In the case of self-completion questionnaires the researcher has no control of the respondent's environment and hence they cannot ensure that the right person completes the questionnaire. An individual other than the intended respondent may fill it out and thus cause a negative impact on the findings (Frankfort-Nachmias and Nachmias, 1996). The most crucial disadvantage of mail questionnaires, however, is the low response rate, which is lower than for other methods.

B) Interviews

Interviews have the advantage of offering opportunities for probing and clarifying, and enabling the respondent to provide sensitive information. The *in-depth interview* encourages respondents to share as much information as possible in an unconstrained environment. The interviewer uses a minimum of prompts and guiding questions. With more focused in-depth interviews, the researcher provides additional guidance by using a set of questions to promote discussion and elaboration by the respondent. In these interviews, the researcher guides the topic direction and coverage. The aim is to provide a relaxed environment in which the respondent will be open to discussing topics fully. This kind of questioning is often used in exploratory research or where the investigator is dealing with complex topics that do not lend themselves to structured interviewing. It is also useful in case research among various participants at a major event; a substantial portion of the questioning is usually unique to each respondent and benefits from an unstructured approach. Interviews can be conducted in many forms, but are mainly *personal* (that is *face-to-face*) or *telephone* interviews.

I. Personal interview

Personal interviews require a face-to-face conversation between interviewer and interviewee that can be either formal or informal. In the informal approach the interviewer is allowed to interact freely with the interviewee. Questions tend to be more open-ended and the interviewer is given the freedom to change the wording of the questions or to add questions. The formal approach on the other hand is characterized by a set of predetermined questions, which are presented in a pre-coded form, thereby ensuring that the answers are recorded in a standardized form across the entire sample. Response rates are higher than for the other survey methods. Personal interviews can be seen as in-depth surveys as they attempt to obtain detailed in-depth evidence from a small number of informants through a series of interviews (Remenyi et al., 1998).

Advantages and disadvantages of personal interviews

There are real advantages and clear limitations to personal interviewing (Patton, 1990, Cooper and Schindler, 1998, Yin, 1994). The greatest value lies in the depth of information and detail that can be secured. It far exceeds the information secured from telephone and self-administered studies via intercepts, mail surveys or computer. The interviewer can also do more to improve the quality of the information received than with other methods.

Interviewers also have more control than with other kinds of interrogation. They can pre-screen to ensure the correct respondent is replying, and they can set up and control interviewing conditions. They can adjust to the language of the interview because they can observe the problems and effects the interview is having on the respondent.

The researcher may, however, consider using another survey method. Probably the greatest reason is that personal interviewing is costly, in both money and time. Costs are particularly high if the study covers a wide geographic area for personal interviewing has stringent sampling requirements.

Finally, results of personal interviews can be affected adversely by interviewers who alter the questions asked or in other ways bias the results.

Conditions for success of personal interviewing

There are three broad conditions for the success of personal interviewing (Patton, 1990, Cooper and Schindler, 1998, Yin, 1994). They are (1) availability of the information needed from the respondent, (2) an understanding by the respondent of his or her role, and (3) adequate motivation by the respondent to co-operate.

II. Telephone interview

The telephone interview is the most applied method (deVaus, 1996, Cooper and Schindler, 1998). It requires that questions are brief, simple and focused. If open-ended questions are used, it is strongly advised that such questions do not exceed fifteen words and that the interviewee is not expected to give long answers. For closed-ended questions the number of pre-coded options presented should not exceed five.

When deciding which method best suits the research, the researcher has to determine which criteria are most significant to the research objective. The overall aim should be to obtain valid and reliable data. Each method differs in the price the researcher has to pay, in terms of potential invalidity in one area to strengthen their claim to validity in another area (Sapsford and Jupp, 1996).

Advantages and disadvantages of telephone interviewing

Of the advantages that telephone interviewing offers, probably none ranks higher than its moderate cost (deVaus, 1996, Cooper and Schindler, 1998). Much of the saving comes from cuts in travel costs and administrative savings in training and supervision. When calls are made from a single location, the researcher may use fewer yet more skilled interviewers. Telephones are especially economical when callbacks to maintain probability sampling are involved and respondents are widely scattered (Saunders et al., 2000). Long-distance service options make it possible to interview nationally at a reasonable cost.

With the widespread use of computers, telephone interviewing can be combined with immediate entry of the responses into a data file by means of terminals, personal computers or voice data entry (Saunders et al., 2000). This brings added savings in time and money.

When compared to either personal interviews or mail surveys, the use of telephones brings a faster completion of a study, sometimes taking only a day or so for the fieldwork. When compared to personal interviewing, it is also likely that interviewer bias, especially bias caused by the physical appearance, body language and actions of the interviewer, is reduced by using telephones (Cooper and Schindler, 1998).

Finally, behavioural norms work to the advantage of telephone interviewing: if someone is present, a ringing phone is usually answered, and it is the caller who decides the purpose, length and termination of the call (deVaus, 1996).

There are also disadvantages to using the telephone for research (Saunders et al., 2000, Cooper and Schindler, 1998). Obviously, the respondent must be available by phone. A limit on interview length is another disadvantage of the telephone, but the degree of this limitation depends on the respondent's interest in the topic. In telephone interviewing, it is not possible to use maps, illustrations, complex scales or measurement techniques. Telephone surveys can result in less thorough responses, and those interviewed by phone find the experience to be less rewarding to them than a personal interview. Respondents report less rapport with telephone interviewers than with personal interviewers. Finally, in telephone interviews, the researcher loses the opportunity to witness the non-verbal behaviour of the participant, which may adversely affect the researcher's interpretation about how far to pursue a particular line of questioning.

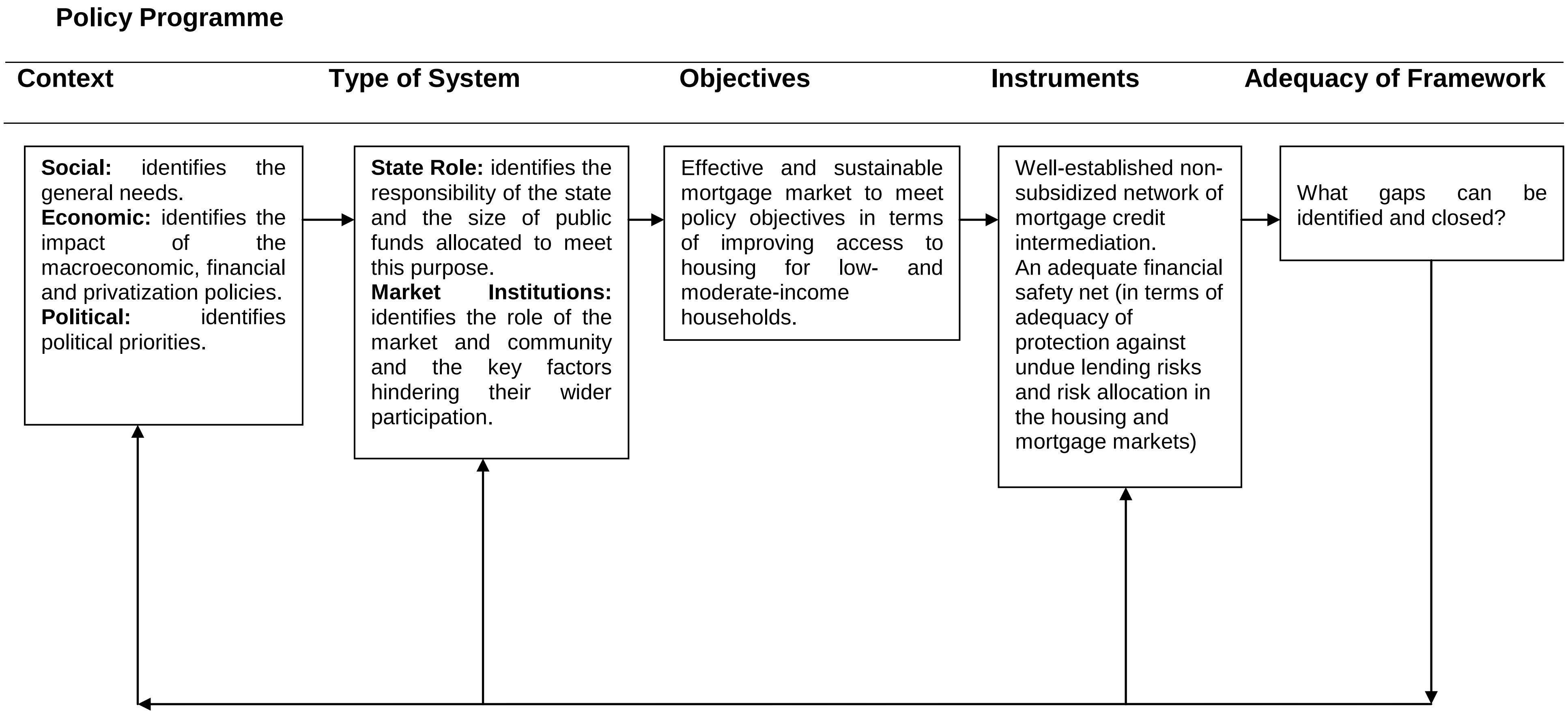
4.8 Analytical Framework

A research project with the above objectives is a major undertaking as it will have to deal with different academic languages, disciplines and styles in order to close the gap between the study of social housing policy and mortgage credit intermediation in a transitional economy like Egypt. This could make the study in places more or less challenging. So, a good starting point is to establish a framework right from the start for the researcher to follow throughout the study so as to remain within well defined boundaries.

For this reason, the analytical framework of this thesis includes macroeconomic analysis so that one can understand the prerequisites for developing an effective and sustainable mortgage system that expand the mortgage credit beneficiaries base (see figure 4.3 below). The analytical framework also considers the efficiency of the wider financial system and the role of institutions in the housing and mortgage markets, which depend on the fiscal, financial and real sector policies in a country (Angel and Mayo, 1996). The last includes those policies that determine the institutional structure of the housing and mortgage markets, whether public sector and/or private sector based markets.

All these policies determine the ability of the housing and mortgage institutions to face the challenge of resource mobilization and allocation. One can argue, however, that housing studies as a discipline usually do not adhere to one framework (Gibb, 1996, Gibb, 2009). It is also important to distinguish three main traditions of analysis: political, social and economic. The analytical framework below is no exception, in that it tries to follow the same traditions in order to address the research objectives.

Figure 4.2 Thesis Analytical Framework



The above framework supports the earlier arguments in relation to the pre-conditions for well-functioning mortgage markets (Angel and Mayo, 1996, Coles and Hardt, 2000, Renaud, 1996, Renaud, 2000). It highlights the importance of undertaking an investigation of several issues within a well-defined analytical framework that reviews, among other things, the socio-economic environment and the broader government policies, for example on subsidy, regulation and finance. The framework also fits well with the key objectives of the study.

The main debates on financial intermediation, household dynamics and affordability have all been investigated in the first part of the thesis (chapters 2 and 3) and linked to the more specific question of promoting mortgage credit for low- and moderate-income households. It also took a step forward from the grassroots level to the actual providers of housing and mortgage credit in a transitional economy like Egypt. These aspects form the basis of the existing housing policy and mortgage credit intermediaries in Egypt. However, closing the wide gap in the market at present still requires innovative solutions. The factors and conditions influencing the effectiveness of these solutions need to be carefully assessed, as well as the mismatches and matches between supply and demand for housing and mortgage credit. The individual component of the analytical framework is outlined below.

A) Context

As is clear from the discussion in chapter 3, during the three decades after World War II most mortgage credit was originated by community based organisations, such as thrifts and savings and loans (Lea, 2009). These institutions attracted a large inflow of saving deposits in part because they were legally sheltered from competition from other financial institutions. The thrift institutions were also covered by various government deposit insurance programmes.

Such community based organisations are believed to have also worked elsewhere, at least for some specific period of Egypt’s vibrant history. Egyptian housing co-operative societies are the most distinguished example of community based organisations in Egypt which are recognized by the Egyptian Constitution. Thus, they enjoy both political support and the confidence of the people despite the shortcomings in their performance in the recent past (Moharam, 2006). Further, Egyptian housing co-operative societies relate closely to their members at the grassroots level and are therefore better placed to understand their aspirations and interests (Moharam, 2006, Rashad, 2008). However, there has been no attempt to evaluate this apparent success using any kind of analytical tools, especially from social, economic and financial perspectives.

The current Egyptian mortgage market mainly supports the high income households and is concentrated exclusively on homeowners in the urban areas developed by the private sector (Struyk and Roman, 2008). Many low- and moderate-income households are unable to qualify for mortgage credit due to the stringent lending terms that include high qualifying incomes, high interest rates and short repayment periods. Thus, an evaluation of the effectiveness of the banking and co-operative institutions requires first an evaluation of the social, economic and political context.

B) Type of System

To enable greater access to housing, the World Bank advocated that innovative financial schemes and institutional arrangements should take place in the housing and mortgage markets (Buckley and Kalarickal, 2005). The challenge however is to determine the options, terms and conditions of housing finance under which the lender should be eager to provide mortgage credit and the borrower to accept it. For this reason, some know-how about the livelihood strategies of the low- and moderate-income households is important, in addition to understanding how banking and community institutions could serve them.

Knowledge of the livelihood strategies can lead to a bottom-up approach that aims at transforming informal financial organizations into regulated financial institutions to expand the network of mortgage credit intermediation. On the other hand, top-down policies, as formulated by central banks and financial authorities, provide guidelines about how formal financial institutions have to deal with low- and moderate-income households in a society (McPherson and Rous, 2010, Tra and Lensink, 2007, Beck et al., 2009, UNCHS-Habitat, 1991). Finally, innovative schemes can compete with the informal financial sector. Due to such competition informal systems can not only improve their effectiveness but can also be replaced by successful formal financial institutions when they do not succeed (Boleat, 1984, Lee, 1996, Torre and Schmukler, 2005).

The Global Strategy for Shelter

The Global Strategy for Shelter emphasized the importance of developing broad-based housing finance systems as part of the national financial sector, as well as cost recovery as an alternative to the use of subsidies (UN-HABITAT, 1988, UNCHS-Habitat, 1990). Therefore, market-based finance systems were preferred above directive credit systems, because mortgage credit institutions are required to compete in mobilizing funds at real interest rates and by offering different financial services (Marathe and Shawky, 2003, Buckley and Kalarickal, 2005, Erba and Nothaft, 2005, Rabenhorst and Ignatova, 2008). The Strategy also recommended that interest subsidies had to be replaced by cost-effective funding strategies to adequately reach the low- and moderate-income households. This suggested moving away from soft credit and encouraged economic programmes aimed at reducing government budget deficits (Gupta et al., 2006, Lee, 1996).

Economic Structural Adjustment Programs

Economic structural adjustment programs were developed by the World Bank in the 1980s with the aim of encouraging sustainable growth, restructuring public budget and social sector spending, trade liberalization, privatization, the deregulation of markets and global economic integration (Seddon, 1990). The impact of the economic structural adjustment programs on housing and mortgage markets is that governments started to have smaller budgets and had to reduce their expenditure, for example, on mortgage credit subsidy and low- and moderate-income housing development schemes. Moreover, faced with the necessity of earning foreign currencies to repay debts, governments began to steer credit to investments that were assumed to be more productive than housing. Although many developing countries cut back on mortgage credit in the 1980s, they continued to provide mortgage subsidies to make housing affordable for low- and moderate-income households (Ozanne and Malpezzi, 1985, Kaufmann, 1987, Malpezzi and Mayo, 1987, Whitehead, 2000).

Economic structural adjustment programs have generally given priority to direct investments in the economy and competition for funds. Despite an enormous housing shortage and the need to improve the existing housing stock, the mortgage market remained underdeveloped in many developing countries as it is extremely difficult to establish a well-functioning mortgage market with a shortage of funds. In addition, mortgage credit institutions have to face the conflict between short- and long-term lending (Erba and Nothaft, 2005, Vigdor, 2006, Rabenhorst and Ignatova, 2008). These issues resulted in a shift of focus towards the development and efficiency of resource mobilization and allocation in the housing and mortgage markets (Hao, 2006).

C) Objectives

It is proposed that the development of an effective institutional network of mortgage credit provision for low- and moderate-income households is necessary to meet policy objectives in terms of improving access to housing. Thus, it is important to understand why a mortgage lender might ration credit. One needs to examine the conditions under which it would not be optimal for the mortgage lender to increase its credit interest rate when faced with excess demand for mortgage credit. It is difficult to see why mortgage lenders would do this if they had as much information as the borrower. If the mortgage lender was perfectly informed, it could always set an appropriate risk-adjusted price and lend accordingly.

However, in a world of asymmetric information, mortgage credit rationing can be an optimal strategy for a profit maximizing mortgage lender. The explanation turns upon two types of information hurdles (Stiglitz and Weiss, 1981). First, a mortgage lender may not be able to distinguish perfectly between borrowers with different credit risks, even after it has analysed each borrower's financial information. This is called the pre-contract private information problem. Even if the mortgage lender knows the average riskiness of borrowers within a given risk classification, it may not be able to identify individual risks (Hagen and Holter, 2002). The mortgage lender will, therefore, charge a common price to all within the risk class, so that some borrowers are subsidizing others. A second problem is that the mortgage lender may not be able to completely control the borrower's actions. The borrower may thus be able to increase project risk, either through its choice of projects or through its expenditure of effort, without detection by the mortgage lender.

Now assuming that a mortgage credit interest rate is announced by the mortgage lender for a particular risk class (for example co-operative housing), and at that interest rate there is an excess demand for mortgage credit by borrowers (for example housing co-operatives) in that risk class, what would happen if the mortgage lender chooses to increase the mortgage credit interest rate? One possibility is adverse selection. Safer borrowers within the given risk classification may be unwilling to borrow at the higher interest rate, so that the mix of borrowers within the pool becomes riskier. If this happens, the mortgage lender's expected profit could actually be lower at the higher interest rate. A second possibility is that an increase in the mortgage credit interest rate could worsen the moral hazard problem. That is, those borrowers within the pool who have some latitude in their investment decisions may choose riskier projects at the higher mortgage credit interest rate. This again could mean a lower than expected profit for the mortgage lender at the higher interest rate. Thus, the mortgage lender may conclude that increasing the mortgage credit interest rate is not worthwhile since its expected profit is maximized at an interest rate at which credit demand exceeds supply.

Finally, a mortgage lender's capital position may also affect its decision to ration mortgage credit since different categories of credit have different capital requirements (Weber and Darbellay, 2008). For example, a mortgage lender has the necessary deposits but would need to raise additional capital to satisfy a credit request. The additional cost of raising this capital, relative to that of raising money from other sources, will then be a charge against the mortgage lender's profit from making the credit. If this additional cost is sufficiently high, the mortgage lender may prefer to invest the available deposits in more liquid assets (for example marketable securities) rather than in mortgage credit.

D) Instruments

The analytical framework suggests the need for:

A Well-established Non-subsidized Network of Housing Finance Provision

The thesis acknowledges the importance of co-operative institutions as ideal participants in such a network, for many well cited reasons. UNCHS already suggests that membership of co-operatives is usually open and voluntary, control is democratic for members, interest on the share capital may be limited, and equitable distribution of annual surpluses and the education of members takes place (UNCHS-Habitat, 1984b). Another strength of co-operatives is their ability to mobilize resources at a low-cost basis (UNCHS-Habitat, 1989). The credit delivery however is restricted to short-term purposes, while there may be considerable unused funds available. This is mainly due to a lack of opportunities for short-term investments by the members of the co-operatives. Instead of such short-term credits they are believed, rather, to need long-term finance (ESCAP, 1991).

Despite this preoccupation with long-term credits, there is a need for a finance model that advocates a combination of savings and credit to expand the provision of mortgage credit for low- and moderate-income households. Saving encourages the households to put some money aside and shows their ability and willingness to make regular payments. In order to mitigate the risk of default, a guarantee fund can be established to provide a safety net, but this only copes with the consequences of default. Ferguson (1999) argues that a guarantee fund system is not so suited for non-governmental organizations (NGOs) in the mortgage market. Lenders generally operate in different frameworks, where those waiting for mortgage credit to be funded and those having to repay mortgage credit may not know each other or come into contact with each other. Furthermore, the organization of collective action for obtaining basic facilities requires some technical assistance, which increases the costs of the scheme (Ferguson, 1999).

An Adequate Financial Safety Net

The financial safety net, as defined for the purpose of this study, consists of all explicit or implicit state guarantees of non-government institution financial liabilities. By non-government institution financial liabilities, we mean debts owed by one private sector and/or community-based mortgage market participant to another, including the contractual saving liabilities of non-bank financial institutions, for example housing co-operative societies. By state guarantees, we mean a state commitment to protect low- and moderate-income households from losses due to the default of any of these institutions. Formal programmes, such as savings insurance or microfinance guarantee programmes, form the explicit safety net. As is clear, not all types of state protection are addressed here, most notably social safety nets such as social security or disaster relief programmes. Also, the key focus here is on cases in which the state places itself between households and mortgage lenders by guaranteeing the lenders' obligations to the other stakeholders, whether households, community-based organizations or financial institutions.

E) Adequacy of Framework

The adequacy of the analytical framework depends on the success or failure of co-operatives in playing their intermediary (agency) role in the mortgage market. Most research on co-operation has concentrated on establishing the technical causes for the economic failure or success of various co-operative endeavours, paying scant attention to theory. Unsurprisingly, most of these findings seem to arrive at similar conclusions which include: lack of sufficient start-up capital, trying to do too much too soon; high levels of illiteracy; too much government interference; inappropriateness of western models of co-operation for some cultures; and failure to comply with internationally accepted co-operative principles (Habitat, 1989, Mullins, 1993, Emelianoff, 1995, Rodgers, 1998, Andrusz, 1999, Dwelly, 1999).

4.9 Research Limitations

While the need for more and better evaluation may be clear, actually carrying it out is not so easy. Many problems and pitfalls appeared which could have discouraged the research process from getting started, distorted the results it produces and led to its abandonment soon after it began. I point out below some of the problems in relation to carrying out this study.

There are a number of reasons why the impact of Egyptian housing co-operatives and their programmes is so difficult to measure. One has to do with the diversity of housing co-operatives' origin and background. Another is related to the basic technical and logic-related problems of all evaluation systems, and yet another with common human shortcomings that arise when evaluation is undertaken.

4.9.1 Diversity of background

Most of the housing co-operatives in Egypt are established by the employees of institutions operating in different social and economic sectors, including households, banking, oil and gas. So, it is important to note that the characteristics of each research subject significantly depend on the strength of the parent institution and the performance of the sector in which the co-operative operates. For example, housing co-operatives established by employees in the oil and gas sector may provide different views on the problems and challenges than those established by employees in other sectors, such as the army, education, civil service, etc. For this reason, selecting research subjects from across the different social and economic sectors was beneficial in identifying the common problems in the co-operative housing sector and consequently helped in generalizing the research outcome and recommendations.

4.9.2 Technical and logic-related problems

It is generally very difficult to directly measure the outcomes of the activities of non-profit organizations in Egypt. In many cases goals are too broad, diffuse and long-term to capture in measurable terms, with only a few indicators that produce data for immediate use. When outcomes could not be measured with confidence, an attempt was often made to measure activities on the assumption that showing improvements will cause outcomes to be achieved. Unfortunately, there were often no ways to prove that engaging in certain activities would produce particular outcomes.

When one raised the question of 'efficiency' (that is to say which organization provides the best results for a given amount of money), there were even more problems because it was like trying to compare apples and oranges. Once it is agreed *what* to measure, there was the problem of *how* to measure it. While there are many technical methods for getting information, the problem was that not all were equally appropriate, valid or reliable. Also, in the non-profit sector, in which most of Egypt's registered housing co-operatives operate, with a very small number of paid staff, many do not have the time, money or experience for developing these methods.

When measurement occurred, by whatever method, there was then the question of interpreting the data. One of the reasons interpretation was difficult was due to the lack of standards that reveal if the measurements indicate success or failure: good, average or poor results. In the non-profit sector there is a general dearth of such standards. Further, there are no industry norms or even benchmarks for comparison with other organizations.

Similarly, measurement is not used for making decisions and there is no effort to understand why the results are the way they are. Accordingly, many explanations are possible. They could be due to the poor design of the programme, incompetent staff, poor management, external conditions that could not be controlled or other variables and combinations of variables.

All these technical problems are very common and cause evaluation efforts to be rather burdensome. In spite of this, attempts were made, and the evaluation process contained explicit statements that set out why the evaluation was being undertaken, who was to be involved, what was to be measured, how the resultant data were to be interpreted and how the final results would be used in decision making.

4.9.3 Human problems

A set of factors that also created major problems when it came to clearly showing how an organization makes a difference were the very common psychological tendencies that arise frequently whenever evaluators attempt to measure the work of others. The first of these tendencies is that those being measured usually want to present their work as positively as possible, or, conversely, if things are not looking good, they want to avoid being blamed for the situation. Once this mind set is operative, the chances of obtaining a successful evaluation drop dramatically.

In addition to the above, the study encountered another human problem due to the inevitable ambiguity that occurred when it came to interpreting the meaning of some data. But, just because there was ambiguity did not mean that no interpretation occurred. People usually want answers and solutions, so every kind of subjective explanation can arise to provide them. This subjective explanation comes from the evaluator's personal pre-existing beliefs, perceptions and experiences. When this subjective explanation of reality differs from the original meanings, as it often does, conflict and political behaviour arise. Employing multi-methods in this study was beneficial in addressing this problem. The in-depth interviews helped interpret the meaning of any ambiguous data from the survey.

4.9.4 Legal and financial structures

Housing co-operatives are legally constituted as not-for-profit organizations. Some are stand-alone but the majority are part of a group structure. In the case of a group structure there is a 'parent' organization that performs different activities, for example financial, commercial, industrial or social. Housing co-operatives have their own boards and staff nominated by the parent organization. This created a challenge to negotiate and collect data at both levels, specifically the parent organization and the housing co-operatives themselves.

4.9.5 Business Model

Housing co-operatives commonly focus on the needs of their members in terms of affordable housing provision. One thing that distinguishes housing co-operatives from other affordable housing providers is the fact that they have limited access to bank credit. Their main source of funding is subscriptions and savings that they collect from their members. Housing co-operatives also receive funding from their parent organizations, principally for investment in developing new housing schemes. Peer group analysis could highlight the performance of housing co-operatives in relation to the competition.

4.9.6 Accounting standards

Most of the housing co-operatives follow a simple form of accounting, called receipts and payments. This consists of recording all the money that comes in (receipts), and all the money that goes out (payments). They use this method to draw up an income and expenditure account for each financial year. This is in addition to a balance sheet that lists all the assets and liabilities of the organization and their values, and shows its net worth. The analysis could have reviewed in more detail the reliability and prudence of such simple accounting standards compared to other local or international accounting standards, to identify best practice.

4.10 Conclusion

In this chapter, the main objectives of the thesis have been clearly stated and substantiated in terms of understanding the nature and scale of community participation in the Egyptian housing and mortgage markets and its contribution to increasing access to affordable housing and mortgage credit for low- and moderate-income households, the effectiveness of housing co-operative societies as community based organisations and policy agents, and the role of these societies after the housing and mortgage markets have reached a certain stage of development. This is in addition to the consideration of the contextual stakeholders in the immediate environment of the Egyptian housing co-operative societies, especially banks. Such consideration is thought to be important for identifying from different perspectives which institutions limit most the development of an effective and sustainable strategy that increases mortgage credit beneficiaries through their housing co-operative societies.

The selected research methods to investigate these issues include both analysis of secondary data and collection of primary data via questionnaires and interviews. In many walks of life research methods are used on a daily basis to understand and appraise in particular and gain information in general. While the objectives of research methods are different from one piece of research to another, they are common in their usage, a point which is often lost on those who concentrate solely on their validity, instead of the way they are used as instruments for gaining information and, often, employing power for the purposes of investigation and assessment.

It is also worth emphasizing that the data derived through a research method are not simply ‘accurate’ or ‘distorted’ pieces of information, but provide the researcher with a means of analysing the ways in which other people would consider the same issues and relationships, and the reason they would offer for doing so, to be precise it is their presuppositions in the interpretation of the data that should be the subject of the analysis. Quite simply, if both the strengths and weaknesses of different methods of research and the approaches to their analysis are understood, they can provide the researcher with an essential way of understanding and explaining the issues of concern.

In the following two chapters, the data collected during the field study and the results are presented and analysed. Chapter 5 focuses mainly on evaluating the effectiveness of the Egyptian housing co-operative societies as community based organisations and policy agents with a long-standing interest in increasing access to housing for low- and moderate-income households in Egypt. The chapter analyses the various economic, social and political factors influencing this effectiveness.

Chapter 6 provides different perspectives on the research topic by considering the contextual stakeholders, namely Egyptian banking institutions, and their perceptions of the Egyptian housing co-operative societies in the current context of the modern economic history of Egypt. The chapter also explores which institutions most constrain most the development of a sustainable level of mortgage credit supply from the banking sector to the low- and moderate-income households through their housing co-operative societies.

5. THE EGYPTIAN HOUSING CO-OPERATIVE SOCIETIES: ARE THEY READY TO PROVIDE AN ALTERNATIVE?

5.1 Introduction

Co-operation in Egypt developed in recent times, when the country's economy was still in a backward state and in a very similar economic position to many other developing areas around the world today. This means that lessons and conclusions drawn from the Egyptian experience could be used beyond its borders. The fact that Egypt passed rapidly through several stages of economic transition and development also offers the opportunity to draw conclusions about co-operation, both as a tool of economic development in a developing country and also as an important player in an emerging mortgage market.

In view of the above, the key objectives of this chapter are as follows: 1) to address why Egyptian housing co-operative societies can be seen as important policy agents to expand the mortgage credit beneficiaries base in Egypt; 2) to evaluate the effectiveness of the Egyptian housing co-operative societies as community based organisations and policy agents; and 3) to identify and analyse the various economic, social and political factors influencing this effectiveness.

Chapters 5 and 6 complement each other in evaluating and explaining the effectiveness and sustainability of the mortgage market and institutions in expanding the mortgage credit beneficiaries base in Egypt. Chapter 5 reviews and analyzes the results of a survey on the operational and financial performance of Egyptian housing co-operative societies to assess their effectiveness and ability to provide an alternative solution to increase mortgage credit for low- and moderate-income households. The chapter explores the key factors behind the sluggish relationship between the Egyptian housing co-operative societies and other stakeholders in the housing and mortgage markets, mainly banking institutions. It also investigates whether the decline in recent years in the volume of mortgage credit to the housing co-operative societies is due to demand factors (for example, credit slowdown). Finally, the chapter identifies the other obstacles to enhancing the effectiveness of housing co-operative societies as intermediaries. Chapter 6 focuses on evaluating the effectiveness of the banking institutions in the provision of mortgage credit in general and to the Egyptian housing co-operative societies in particular; and understanding the bank credit supply factors (for example, credit policy change, crowding out, etc.).

The remainder of the present chapter is divided into three sections. The first section addresses the first research question in relation to why Egyptian housing co-operative societies can be seen as important policy agents to expand the mortgage credit beneficiaries base in Egypt. Second, the results of the questionnaire and interviews are presented and analysed to address the research questions number two and three pertaining to the evaluation of the effectiveness of the Egyptian housing co-operative societies as community based organisations and policy agents; as well as the identification and analysis of the various economic, social and political factors influencing this effectiveness. The final section concludes and provides the basis for further investigation and analysis.

5.2 Why Egyptian housing co-operative societies can be seen as important policy agents?

As is clear from the discussion in chapter 2, the large amounts of valuable resources devoted to co-operative development, and the assumed potential of co-operation as an important economic policy tool, make it important that there is a clear understanding of the economic nature of co-operation and the various forces at play during the planning, implementation and development stage, so as to establish the real causes of success or failure and to suggest possible mechanisms for avoiding failure.

Not many decades ago Egypt was still a developing nation with an economic structure not dissimilar to that of many developing countries today. However the economic history of co-operation as discussed in Chapter 3 appears to tell a different story. In the case of Egypt, it is often claimed that co-operation has enabled the country to succeed in meeting its overall social and economic objectives (Moharam, 2006, Rashad, 2008). Surprisingly, this apparent success has not attracted any serious academic research despite the fact that other features of Egypt have repeatedly attracted the interest of political and economic scientists during the last thirty years.

The first question that needs to be addressed with regards to housing co-operative performance in Egypt is whether it has been as successful as often claimed. It is a very difficult task to define success in the context of co-operation. By successful operation of co-operatives different people mean different things. Some measures of success are said to include profitability, number of members and number of active societies, and the percentage of total and volume of housing projects handled by the housing co-operative.

An attempt to establish whether a certain line of action was successful should begin with clearly setting the objectives of that action. Success can then be measured in terms of how far those objectives have been met. Not surprisingly there can be more than one objective and therefore they should be placed in order of priority. By giving them weights, perhaps, an imaginative mathematician could work out an optimum solution. The degree of success of a specific effort can then be measured against this optimum solution.

However, housing co-operation has already been shown to aim at acting as a substitute intermediary between the housing sector, the capital markets, the input markets and the mortgage market. This does not mean that the main objective of a housing co-operative society is to get rid of all intermediaries, but rather, to eliminate any abnormal profits made by these intermediaries due to the various market imperfections so characteristic of housing markets at work. Peasant exploitation was not the result of the existence of financial institutions, but rather, the absence of competition on the supply side and very low elasticity on the demand side due to prohibitively high transaction costs, difficult access to information and various other externalities. So, any assessment should look behind the rhetoric of housing co-operative success or failure to see whether, or to what extent, co-operation managed or failed to overcome the barriers to progress.

5.3 Survey and Interview Results

The key purpose of the survey and interviews were to evaluate the effectiveness of the Egyptian housing co-operative societies as community based organisations and policy agents and to identify the various factors influencing this effectiveness. Addressing these issues would help reach a conclusion on whether the Egyptian housing co-operative societies can provide an alternative solution for the limited penetration of the mortgage market in Egypt. Thus, the researcher had to ask a wide variety of questions in relation to the performance of the Egyptian co-operative housing sector to assess the effectiveness of housing co-operative societies' business model and systems of governance. Addressing these questions was important in understanding how housing co-operative societies operate on the ground, how they fund their operations and protect their financial resources, and how effective they are in increasing access to housing for low- and moderate-income households. It was also important to understand the reasons for the rise and decline of the role of housing co-operative societies as well as the reasons for the lack of government support in the recent period. The following discussion presents the results of the survey and interviews.

5.3.1 Public Policy Environment

Twenty-five of the thirty respondents considered the change in public policy regarding social housing provision and agreed that the change reflects the trend in the broader economic environment. The literature already suggests that after the housing boom from the late 1970s to the early 1990s dynamic economic growth came to a halt due to the worldwide economic recession, Asian economic crisis and a changing international division of labour, which, in turn, led to ever-increasing unemployment in Egypt. In response, besides lowering the interest rates on mortgage credit, the government reinstated the resettlement scheme by incorporating it into the private sector model in an effort to combat recession and, at the same time, give a boost to the major economic sectors such as the construction industry.

The chairman of a large housing co-operative society in Cairo commented:

> ‘Unlike previous developments in state-led social housing, the government revealed its intention to promote private-sector-led social housing with more financial benefits being given. On the production side, wider scope has been given to private promoters in terms of price setting. The price ceilings on private sector social housing, as regulated by the government, were relaxed, along with the restrictions on output since the beginning of the new millennium. Lifting the ceiling on the price of a social housing unit gave private promoters a wider scope in relation to their social housing investments’. (3) (see appendix 2)

In terms of social housing distribution policy, he reported that:

> ‘The restrictions on qualified would-be house buyers were relaxed to make the houses more affordable to the prospective owners from the fast growing low- and moderate-income class segment. Besides, the regulation relating to eligibility criteria was also amended, with a universal low interest rate mortgage scheme being introduced with no specific rules attached that applied to the buyers of the private sector social housing’.

This meant that private sector social housing was not limited to low- and moderate-income households, which, as a result, allowed higher-income households to enter into the social housing sub-market.

For this reason, the general notion among respondents is that social housing has been gradually privatized in the sense that there has been a shift from the domination of state-led and co-operative housing to the growth of private sector social housing. Further, private sector social housing has been promoted and has become a dominating form of development. To encourage private agents to participate, a senior government official in the Ministry of Housing agreed that:

> ‘Subsidies and initiatives were provided. In other words, the rules relating to distribution based on social considerations were relaxed, with more capitalistic relationships pervading the production and consumption aspects of the social housing market in Egypt’. (4) (see appendix 2)

A) Government Support

Although the Egyptian economy has been experiencing impressive growth in recent years, many of the responses provided clear evidence of the existing inequality in sharing the benefits from economic growth, as demonstrated by the fact that many Egyptians continue to live in poverty. Further, while government subsidies are essential for many people’s survival, they are limited in both size and reach, as shown by the fact that around half of the Egyptian population is living on just USD2 a day (Galal, 2002). The Egyptian state has been subsidizing basic goods such as fuel and bread since the 1940s, with fuel subsidies alone costing the government a significant percentage of the national budget annually. However, government subsidies remain vulnerable to corruption and have many shortcomings.

One respondent suggested that:

> 'The state used public and provident funds to provide financial support in the form of subsidized mortgage credit for the purpose of co-operative housing development. This led to housing co-operative societies becoming the main non-governmental providers of social housing since the 1980s. For some time, central and local government institutions have provided them with administrative support (through planning powers) and financial support. Today, financial support is limited because of the structural economic reform'. (5) (see appendix 2)

Another respondent endorsed this view by acknowledging that:

> 'The government also used to allocate land to housing co-operative societies at below market price, and subsidized credit facilities from public sector financial institutions. When the state budget could not sustain such spending, cross-subsidization was allowed to fund new co-operative housing projects, by the development for sale of units for the public at market rate. However, the way in which government provides support for housing co-operative societies has changed significantly since the late 1990s . . . In the recent past; the emphasis has changed from providing such direct support to providing support to the low-income home buyers. Also, as the country progressed with its liberal economic policy, the co-operative housing sector began to be perceived as an unfit model of

> social housing provision. As a result, total government spending on direct and indirect support for co-operative housing has fallen; hence, housing co-operative societies are now obliged to compete in the open market for alternative funding sources and land acquisition at the prevailing market rates. Given their status as non-profit-based organizations, this has led to a significant decline in the contribution of the co-operative housing sector in recent years'. (6) (see appendix 2)

In the last five years, however, there has been a growing pressure on the government to promote and reform the co-operative housing sector. This reflects a wish to deploy all the available resources from both the private sector and civic society to support the mortgage market development. So far, this has led to refocusing part of the attention on how to integrate co-operative housing and the mortgage market.

Twenty of the thirty respondents believe that dependence on government support inhibits the autonomy of many housing co-operative societies to choose which activities to undertake and to select the most effective intervention strategies to achieve their objectives. To a certain extent, the government has its own agenda, to be precise its own views as to which problems are important and the best intervention strategies to address these problems. They also indicate that they are compelled to follow and allow the government to dictate the scope and direction of their activities, or else receive no funds, planning and building permits.

B) Intermediary Role and Housing Mobility

One of the key objectives of any reform in the housing sector is to build a competitive mortgage credit system, with sound banking and non-banking financial institutions, able to provide efficient financial services for housing (Renaud, 1996, Renaud, 2000, Stephens, 2005a, United Nations Economic Commission for Europe Committee on Human Settlements, 2005). As noted earlier (chapter 3), the terminology of housing finance is a broad one. It not only refers to providing mortgage credit but also includes advising on, arranging, entering into, administering or agreeing to carry on contractual savings for housing and/or home purchase plans.

In a mortgage credit situation, a financial institution lends money to a consumer to help them purchase a property and the financial institution makes its money by charging interest on the sums lent. In a home purchase plan, the financial institution buys the property for the consumer and makes its profit from renting the property to the consumer. The survey and interview results provided an opportunity to understand better the business model upon which almost all Egyptian housing co-operative societies operate. As one respondent summarize it during an interview following the survey:

> 'Egyptian housing co-operative societies are in effect involved in mortgage credit intermediation activities. The housing co-operative usually enters into a contractual savings plan for housing with its member. The co-operative then invests the member's savings together with any other funds (for example grants, credit, etc.) in acquiring or developing land and becomes the freeholder. Next, the member enters into an agreement to buy the property from the co-operative at cost either by paying in full at

> the end of, or paying by instalments during the course of, a specified period. The co-operative and member enter into a rental agreement, giving the member the right to occupy the property throughout the specified period. Once all payments have been made at the end of the specified period, the co-operative transfers the freehold ownership to the member'. (7) (see appendix 2)

Looking at this dynamic, it is important to examine the factors that distinguish members who manage to own their home at the end from those who do not. An obvious reason is to understand how members fund their housing objectives. Apart from formal and informal credit suppliers – moneylenders or friends and relatives – we understand that the personal savings of the members themselves constitute a large proportion of the required finance. There is also an indication that this proportion is higher in smaller co-operative societies due to the limited potential for institutional financial support.

Even though there has been rapid progress towards economic liberalization and reform, ten of the thirty questionnaire respondents had the courage (during Mubarak administration) to criticize the process as it has mostly benefited the middle- and higher-income classes. To support their argument, they cite the private sector banks and mortgage finance companies as the most important institutions in the Egyptian mortgage market today. Further, state housing finance institutions, while not providing credit themselves as before, have also promoted lending to private housing firms. In effect, only NGOs and co-operative societies are active at the lower income end of the housing market.

The limited outreach of mortgage credit is also reflected in the answers to the questionnaire and the replies during the interviews. Nineteen of the thirty respondents believe that access to formal mortgage credit is very limited and they have to rely on their own sources to finance their activities. These sources rely solely on the contractual savings of their members. But, given the fact that such a funding arrangement is not properly regulated, it is seen as an informal non-commercial form of borrowing to finance housing purchase. Informal credit can be distinguished by transactional credit suppliers, such as money lenders or pawnbrokers, from personal loans from family or other closely related persons who do not charge interest (Tra and Lensink, 2007). Only a small number, representing mainly the major housing co-operative societies, have used formal mortgage credit to fund their activities. The majority used to have access to mortgage credit from state-owned specialized financial institutions such as the Housing & Development Bank. However, the situation is considerably worse for at least 80 per cent of the sample as they have been unable to access formal mortgage credit institutions since the beginning of the economic transition process in the late 1990s.

From one respondents' point of view, 'another important reason is related to the failure of mortgage credit institutions in marketing their services' (8) (see appendix 2). This might be due to the difficulty in obtaining verifiable information on the size and stability of many housing co-operative societies' financial positions. This failure also suggests that lack of credit or financial-related information for housing co-operative societies means that lenders require collateral, which makes the credit market fail for co-operative societies without sufficient assets. Even with the requisite collateral, limited enforcement of foreclosure laws makes most mortgage institutions wary of marketing mortgage credit. Given the current limited outreach of the mortgage market, contractual savings or liquidating other assets therefore remain the only options for many housing co-operative societies. In the meantime, housing development represents a significant lumpy expenditure for most co-operative societies.

Accordingly, contract savings of members represent the main way for most housing co-operative societies to fund activities. Among the sample co-operative societies, some manage to mobilize savings regularly, either through account fund savings or other forms. The proportion is higher in the better-off sectors. For instance, the housing co-operative societies in sectors such as oil and gas and financial services usually mobilize more savings from their members who save regularly, while housing co-operative societies established by key workers, such as teachers and civil servants, and cannot mobilize similar levels of savings from their key worker members. Obviously, this reflects the variation in household income and the ability to save regularly for housing purposes across the different economic sectors.

In this regard, it is important to note that our analysis of the contract savings behaviour of the housing co-operative societies' members is taken as given. The analysis does not attempt to explain explicitly the motives of different members for saving or the factors that allow them to do so, except to the extent that they are used as controls in this analysis. There is a very large literature on these issues, some of it focusing on contract savings for housing in transition economies (UNCHS-Habitat, 1989, Borsch-Supan and Stahl, 1991, Scholten, 2000, Struyk et al., 2004, Chiquier and Lea, 2009, Lea and Renaud, 1995).

However, some of the motivations for saving suggested by Keynes in 1936 – the precautionary motive, life cycle considerations and saving to make a major purchase – are most relevant to the savings behaviour of low-income households (Keynes, 2007). However, this is less relevant in a traditional society like Egypt where there are strong family ties and where consumption appears to be much more linked to income.

In the context of housing mobility, members of Egyptian housing co-operative societies appear to be relatively willing to save to accumulate funds to purchase or make a deposit on a dwelling unit. As noted earlier, among low-income Egyptian households, formal saving mechanisms and access to credit are often out of reach. Thus, housing co-operative societies can be considered as part of the solution. But the potential for utilizing savings among members of the housing co-operative societies has not been explored yet. In rotating savings and credit, in fund savings schemes, members of the housing co-operative societies can regularly make a contribution to a common fund which is then made available to another co-operative or member in turn.

While low transaction costs make this type of funding a cheaper source of finance, the enforcement of fund rules is difficult – especially under the present regulatory settings that do not recognize Egyptian housing co-operative societies as financial intermediaries. There is nothing to suggest that the Egyptian housing co-operative societies carry on financial intermediation. But, as is clear from the above, one can certainly recognize the key strength of the Egyptian housing co-operative societies and their pivotal role as financial intermediaries not only in attracting low-cost funding from their members, which provides a stable source of funding and support for developing specialized financial services for affordable housing, but also in extending the reach of the mortgage market at the middle and lower income end of the housing market. The majority of the respondents already supported this view and one of them confirmed during the interview 'the need to integrate the co-operative housing sector into the formal financial system to enhance its financial intermediation capabilities through organization and regulation of their contract savings mobilization activities, risk management, standards and home purchase plan offerings'.

5.3.2 Business Model and Strategy

The survey and interviews have confirmed the status of the Egyptian housing co-operative societies as not-for-profit organizations that invest for social purposes and therefore invest in a different way to other housing firms. As the president of the Central Co-operative Housing Union illustrated:

> 'Private sector housing developers usually acquire land and build, redevelop, refurbish or improve properties so that they create added value by selling the properties immediately after the works are completed or at a future date, to maximize the return for shareholders. Egyptian housing co-operative societies follow a similar path in that they acquire land and build, redevelop, refurbish or improve properties. However, they usually sell properties at cost to achieve social objectives'. (9) (see appendix 2)

The largest housing co-operative societies in the sample (to be exact those with an asset base of more than EGP25million) appeared confident in their business strategies that are primarily focused at present on core social housing activities as well as the maintenance of a strong business profile and good financial performance. In keeping with the Egyptian government's housing development plan, they also intend to help build new communities and regenerate areas, while at the same time increasing housing choice for their members. On the other hand, the smaller housing co-operative societies did not appear to have a clear strategy for expansion and becoming a 'one-stop-shop' to create mixed-tenure neighbourhoods and provide a range of related services that can enable them to respond to the government's policy of area regeneration, provision of affordable homes, and large-scale development investment in places where the housing shortage is most severe.

Structure and Development Strategy

The structure and development strategy of the selected sample varies for different geographical areas, adapting to local housing market conditions: more housing for sale to be developed, for example, and less emphasis given to rental housing and regeneration projects. The development aspirations are ambitious; large housing co-operative societies aim to develop thousands of new units per year in the next couple of years. The pace of development is not monitored carefully at present, although these housing co-operative societies have previously demonstrated their ability to be flexible about their plans, having cut back on their development programmes where projects have not been sufficiently funded, or where market conditions have deteriorated.

While the housing stock of the selected sample is widely dispersed throughout Egypt, a significant percentage is in and around the major Egyptian cities, for example Cairo and Giza, where certain areas have been in decline and there have been consequent demand issues, which have led to large-scale co-operative investment in infrastructure development. But the housing co-operative societies' exposure is relatively small as the developments are phased over several years (six to seven years). Their current strategies pay no attention to the potential for increasing development activity in some markets, such as housing for rent, with any surplus income from property sales funding additional growth. On the other hand, they continue to work alongside other agencies and developers, public and private, and play an important role in the economic development of local governments through the deployment and investment of household savings, the provision of affordable housing and development of new communities.

5.3.3 Governance and Management

Twenty-one co-operatives agreed that governance and management issues have affected their organizations over the last three years. During the interviews, it was made clear by the management of the Central Co-operative Housing Union that:

> 'The co-operative housing sector in Egypt is required to adhere to certain rules, in terms of: volunteering and opening of membership; democratic management; independent self-governance; learning, training and awareness; and community care. These rules are considered the backbone of the co-operative movement and represent the co-operative structures that distinguish the co-operative movement and its role and objectives from other movements'. (10) (see appendix 2)

This is in addition to the strict regulatory environment for co-operative housing activities based on the Co-operative Housing Law number 14/1981 through the Central Co-operative Housing Union and the Public Authority for Co-operative Construction and Housing (Egypt, 1996).

A supervisor in the Central Co-operative Housing Union also noted that:

> ‘The Directors of housing co-operative societies are required to observe these rules. Further, the Directors exercise ultimate control but should set their co-operative societies’ strategies in consultation with representatives of the members, to work towards their strategic objectives. They should be all elected members. The management teams should also be selected based on their good track record in terms of managing development projects, serving members, and working with the government’. (11) (see appendix 2)

In practice, however, it seems reasonable to assume that not all housing co-operative societies are managed by people who have proven ability to consolidate resources and processes to provide support for the achievement of their co-operative societies’ business objectives.

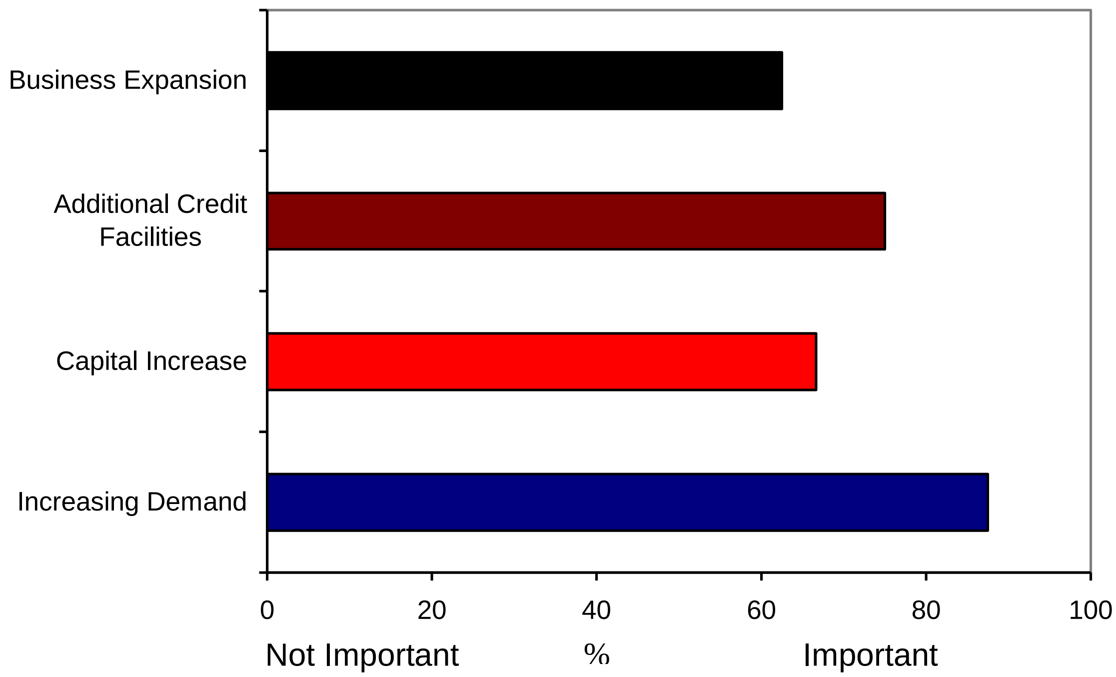
5.3.4 Operational Performance

As noted earlier, Egyptian housing co-operative societies have existed for many years and grew significantly between 1980 and 1995 as major social housing investors. This led to housing co-operative societies becoming the main non-governmental providers of affordable housing and developing a more businesslike and less charitable approach during this period of time. However, since the late 1990s, it was noticeable that the role of housing co-operative societies declined.

Many respondents attributed this decline to ‘withdrawal of government support under the Structural Economic Reform Programme, which resulted in reducing subsidized loans and the allocation of new land at affordable terms’. It was also noted that ‘private funding witnessed a significant drop in order to promote the private sector role in the economy in general and in the housing market in particular’.

Despite this change in public policy, the co-operative housing sector generally continued to enjoy good performance for a number of reasons including increasing demand from the fast growing low- and moderate-income segments of society and business expansion to accommodate the growing demand for affordable housing (see figure 5.1).

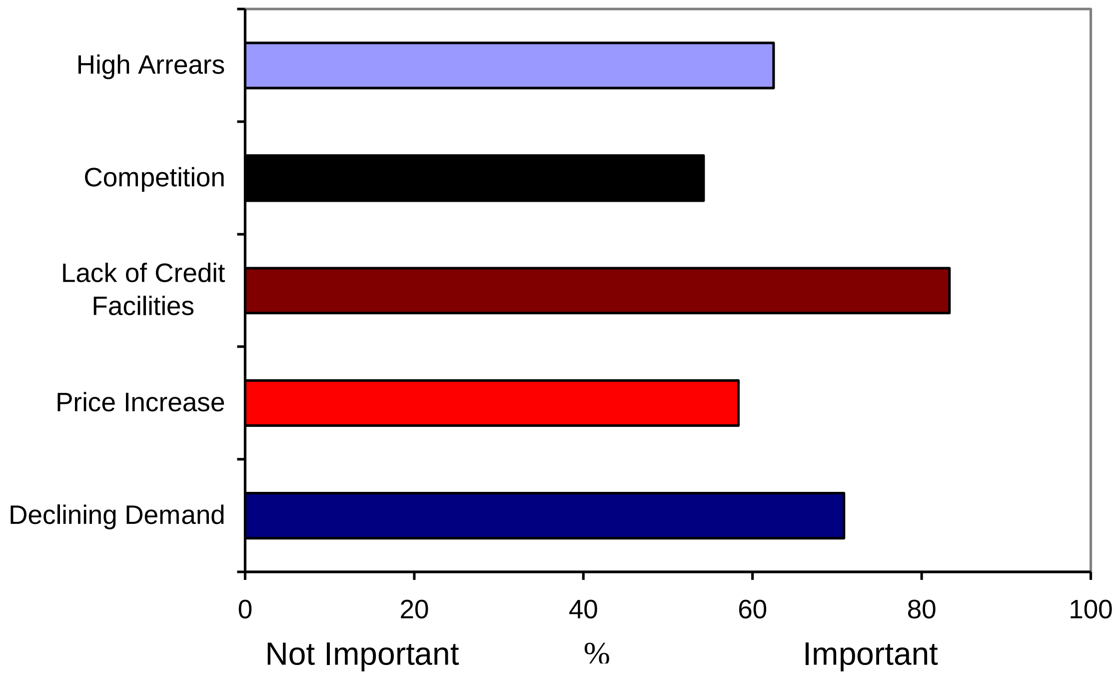
Figure 5.1 Reasons for Housing Co-operative Societies’ Good Performance



Source: Survey results, 2009, n = 21

According to the Finance Manager of a large housing co-operative society in Cairo, ‘such positive operating performance is credit strength as it generally tends to result in cash being added to the bottom line’ (12) (see appendix 2). On the other hand, he reported that ‘housing co-operative societies that experienced difficulty cite opposite factors, including an upsurge in the prices of building materials, declining demand, lack of credit, competition [from the private sector], and high arrears [members failing to adhere to their contractual obligations]’ (see figure 5.2).

Figure 5.2 Reasons for Housing Co-operative Societies’ Bad Performance



Source: Survey results, 2009, n = 9

Some interviewees also indicated that ‘the current operating environment has largely been irrelevant in terms of allowing the co-operative housing stock to respond to the demand from many low- and moderate-income households. As a government official in the Egyptian Ministry of Housing explains:

> 'Housing that is delivered within the confines of a co-operative housing framework is only affordable to those earning at or above the median household income. Thus, those households earning less are forced to look elsewhere for shelter. In virtually all cases, their search leads them to the other alternatives including the informal sector where government rules and regulations associated with formal housing production are ignored'. (13) (see appendix 2)

5.3.5 Regulatory Framework

During the interviews, 'the adverse change in the regulatory environment' was widely noted as a 'negative factor affecting performance in the co-operative housing sector'. The Egyptian housing co-operative societies used to be solely regulated by the Ministry of Social Affairs, based on Co-operative Law number 317 issued in 1956. In 1960, the Egyptian state enacted Law number 267 to establish public co-operative organizations for agriculture, housing, vocational industry and water resources. Also, separate laws for each of these activities were enacted and allocated by the Ministry of Social Affairs to the appropriate ministries of agriculture, housing, supply, rural development, domestic trade, industry and trade.

Law number 14/1981 stipulated that to be authorized as a housing co-operative, societies, the entities must satisfy a number of conditions and provide ongoing information relating to these conditions and to financial and management performance, including:

- Non-distribution of surpluses, which are retained by the organization to be applied to social housing purposes;
- Setting of rents/prices that are affordable to their members; and
- Embracing social objectives and using all resources to promote these objectives rather than making payments to members.

The law also paved the way to the inauguration of the Co-operative Housing Union and the Public Authority for Co-operative Construction and Housing to supervise and regulate the housing co-operatives' activities.

Today, all housing co-operative societies in Egypt are regulated under government statute and are subject to the authority of the above two institutions as well as several other government agencies and unions. While these regulatory settings promote best practice, the common perception among most of the interviewees however is that 'co-operative housing regulatory environment is chaotic' as a result of 'excessive supervision by different authorities in some areas' (for example, 'building permits'). There is a general consensus among the senior managers of the housing co-operative societies in the sample regarding 'the need to reform regulations and policies to recognize co-operative housing as a valuable asset class and to make the sector work more efficiently'.

This view offered some insights into the costs of the current high level of regulations, especially in certain areas. Like many governments around the world, the central and local authorities in Egypt are required to use master plans, zoning, subdivision regulations, and building codes to control development, and to regulate financial resources mobilization. These regulations were enacted to help protect the urban and natural environment, to gear development with infrastructure capacity, to maintain and enhance the property values of Egyptian neighbourhoods, and to mitigate financial risks. Many interviewees agreed that ‘quite often the planning systems and regulations are excessive and dictate practice’. As a president of housing co-operative society explains:

> ‘In the course of adopting these excessive regulations, little if any thought is given to the potential cost effects of the controls. Thus, this drives up housing costs and thereby lowers affordability for many housing co-operative societies and their members’. (14) (see appendix 2)

In order to get a better understanding of the main issues, the interviewees were asked to note the government regulations that are considered as burdensome. These can be identified in four broad ways: (1) land supply constraints, (2) excessive plot size standards and subdivision design, (3) procedural delays and red tape, and (4) restrictions on financial resources mobilization. The following sections take up these key constraints.

A) Land supply constraints

Restrictions on the supply of land and the density of residential development greatly affect land costs. As the president of one housing co-operative society explains:

> ‘The supply of land by the government has recently become limited as the government attempts to maintain its fiscal position by designating land for the more fiscally desirable upper residential market, as well as commercial and industrial activities. These policies have constrained the

> supply of developable land for middle- and low-income housing. Further strong zoning policies in some areas to block the further outward expansion of the city, and land readjustment methods linked with monopolistic administrative practices, have all forced up land price in Egypt in recent years'. (15) (see appendix 2)

The sharp increase in land price and housing prices already challenges the stability of the present regime. Despite the fact that 90 per cent of the land is in public ownership, the supply of serviced plots is constrained due to the lack of infrastructure provision. As a consequence, land and housing prices have increased in real terms far faster than household income. This has resulted in the acceleration of informal sector settlements as more and more low- and middle-income households are priced out of the housing market.

A government official in the Ministry of Housing believes that 'past urban land management strategies have relatively been more successful in meeting the more important objectives of providing adequate quantities of urban land at reasonable prices and safeguarding the rights of the underprivileged'. (16) (see appendix 2)

B) Subdivision standards

It was also noted that housing authorities and municipal governments usually set very high regulations for subdivision layouts that influence the cost of plots. As illustrated by a manager of housing co-operative society:

> 'While narrow plots assigned for co-operative housing development reduce the per plot costs of streets and infrastructure, housing blocks

developed on narrow plots produce houses with narrow rooms. On the other hand, given the high prices of land and building materials, prices for narrow houses remain quite high and less affordable for potential buyers. This is in addition to the adverse impact of the regulations of infrastructure provision in Egypt on the costs of co-operative housing developments'. (17) (see appendix 2)

An assessment of the impact of these regulations on the economies of co-operative housing development could have illustrated how costs can be dramatically reduced by lowering standards. However, it was difficult to obtain specific information and data on co-operative housing projects from the surveyed housing co-operative societies. But, as is clear, these regulations limit the ability of housing co-operative societies to respond to rising land costs by altering the design of subdivisions. As land prices increase, strict plot size or circulation requirements make it difficult for them to build at higher densities. Co-operative housing developers in Egypt, like elsewhere, are socially rather than market driven. They do not build housing that is profitable to provide.

C) Procedural delays and red tape

Regulation and governance are important issues for many co-operatives in the selected sample. Housing co-operative societies are currently supervised and regulated by several organizations. These organizations play similar roles in terms of producing notes of guidance for housing co-operative societies to follow and requiring them to submit reports on their operational and financial activities for review and approval. Some also have relatively wider and more diverse roles, including the mobilization and provision of financial and non-financial resources as well as technical support to the housing co-operative societies. Further, they are also involved in acquiring land for the development of co-operative housing compounds, and investing in the planning, preparation and infrastructure of the land before it is finally allocated to the housing co-operatives for the development of new co-operative dwelling units. In recent years, their role has significantly evolved in the value chain to include the development of co-operative housing compounds, putting them in direct competition with the housing co-operative societies which led to a major divergence in their original enabling and regulatory role. This resulted in a number of constraints and confusion for many housing co-operative societies, especially in terms of issuing planning and building permissions.

A senior manager of housing co-operative society outside the capital city Cairo reported that ‘complicated procedures for obtaining development permission make it difficult for housing co-operative societies to respond quickly to changing housing demands and they create barriers to new projects’. Thus, an analysis of the system of co-operative housing development approval would be instructive. According to the management of another housing co-operative society:

> ‘The reason for the rise in Egypt’s housing prices is the combination of overly complex and time-consuming housing project approval procedures, the sluggish response of the housing industry to increases in housing prices, and high housing demand. For example, it might take years to obtain all the necessary permits from several government agencies to allow development permission. This leads to a delay in co-operative

housing supply response that increases the co-operative housing prices with the growth in demand'. (18) (see appendix 2)

D) Financial resources mobilization

The final way in which government regulations influence co-operative housing development is through financial regulation. The work of Egyptian housing co-operative societies – the provision of financial services such as contract savings for housing and the home purchase plan – is, under the terms of their objectives, 'unprofitable'. Traditionally, these co-operative societies rely on their members' contributions to cover the costs of their activities. Today, many co-operative societies often find such limited traditional funding sources insufficient to meet rising costs. On the other hand, restrictions on borrowing make it more difficult to do long-term planning, improve services or reach full potential, especially in terms of extending the reach of the home purchase plan.

As the Finance Manager of a large housing co-operative society in the city of Alexandria discussed:

> 'When the costs of a co-operative's core activities exceed the inflow of funding from members, it is forced to either reduce the size and/or quality of its housing scheme, or to find new sources of funds to cover the difference. Reaching out to new sources of funds with innovative fund-raising approaches, for example through commercial ventures, remains one of the key challenges for many Egyptian housing co-operative societies'. (19) (see appendix 2)

5.3.6 Financial Performance

The table below provides key financial information for some of the housing co-operative societies in the selected sample:

Table 5.1 Housing Co-operative Societies' Key Financial Information

(In EGP millions)

Name	Total Assets[1]	Total Liabilities[2]	Total Capital[3]	T. Liab/ T. Capital[4]	Surplus/ (Deficit)[5]
6th of October	505	9.5	495.5	0.02 : 1	2.50
El Sharara	167	22.3	144.7	0.15 : 1	0.12
National Bank	147	25.5	121.5	0.20 : 1	0.55
Telecom Authority	144	8.7	135.3	0.06 : 1	0.04
Engineers Union	124	31.2	92.8	0.33 : 1	-0.26
Amenhotep	118	38.2	79.8	0.47 : 1	0.14
Republican Guards	113	77.3	35.7	2.16 : 1	-0.15
Riviera Village	97.6	87.6	10	8.76 : 1	-1.18
Central Bank	83	2	81	0.02 : 1	0.03
Research Centre	58	23.3	34.7	0.67 : 1	0.05
Eltahreer	40	33.5	6.5	5.15 : 1	-0.17
Suez Gulf	33.4	2.2	31.2	0.07 : 1	0.00
El Sha'bi	23	18.8	4.2	4.47 : 1	0.43
Belayim	14	2.2	11.8	0.18 : 1	0.03
El Refai	13	1.1	11.9	0.09 : 1	0.00
Heliopolis	13	1.77	11.23	0.16 : 1	-0.25
Education	10	2.6	7.4	0.35 : 1	0.00
Commerce Union	9.8	3.8	6	0.63 : 1	0.31
Co-operative Towers	9.6	1.6	8	0.20 : 1	-0.17
Dar El Sa'ada	8	7.88	0.12	65.7 : 1	0.00
Agri-Projects	7.3	2.1	5.2	0.40 : 1	-0.38
Zahrat al Madinah	6	0.09	5.91	0.015 : 1	0.05
El Remal	4.8	1.2	3.6	0.33 : 1	-0.01
El Haram	3.8	0.34	3.46	0.09 : 1	-0.02
Golf	3.3	2.97	0.33	9 : 1	-0.09
Nubian Sons	2.5	0.04	2.46	0.016 : 1	0.016

[1]In financial accounting, assets are economic resources. Anything tangible or intangible that is capable of being owned or controlled to produce value and that is held to have positive economic value is considered an asset. Assets also represent ownership of value that can be converted into cash.
[2]Total liabilities represent the sum of all monetary obligations of a co-operative and all claims creditors have on its assets.
[3]Total capital of a co-operative is the total of all ordinary capital, reserves, preferences and minorities.
[4]A ratio of a co-operative's financial leverage calculated by dividing its total liabilities by total equity capital. It indicates what proportion of capital and debt the co-operative is using to finance its assets.
[5] This reflects the net result after comparing the co-operative's funding sources against housing programme expenses, administrative costs and other operating commitments.

Source: Co-operatives' data, 2009

A) Financial Policy and Accounting Standards

According to Law number 14/1982 and its executive regulations, housing co-operative societies have to prepare income and expenditure accounts to demonstrate whether they are operating at a surplus or a deficit, balance sheets to demonstrate the value of their assets and liabilities and cash flow statements to show whether they can afford to meet their financial obligations as they fall due.

The review of the respondents' financial statements has shown that there is no unified standard for financial reporting. Further, there is a lack of a well-developed evaluation system within the sector to assess the efficiency and creditworthiness of housing co-operative societies based on performance indicators (PIs). Thus, a comprehensive review to develop these reporting standards and PIs is required.

On the positive side, the majority of housing co-operative societies remain self-funded. Therefore, they are relatively very low geared, calculated as total debt over total debt plus equity, compared to the other participants in the housing market. According to the finance manager of a housing co-operative society, however:

> 'The low geared financial position is mainly due to supply factors rather than conservative financial policy. The banking sector is thought to be in favour of extending more bank credit to the private sector'. (20) (see appendix 2)

B) Operating Cost

Overall, cost pressures and expansion into lower margin businesses put pressure on the financial performance of the majority of the surveyed housing co-operative societies. Failure to maintain an appropriate level of financial cushion during a period of business growth and change was noted as another challenge. Further, the financial performance of many surveyed co-operative societies has weakened in recent years, reflecting the limited support to grow and compete in the marketplace.

Some surveyed co-operative societies show relatively stable financial performance, well-managed operations, clear growth strategy, good liquidity, financial flexibility and good quality asset base. But, these strengths remain offset by tightly controlled finances and an inability to mobilize sufficient financial resources. Accordingly, they are unable to grow their balance sheets by acquiring new land and development of new affordable housing for either home ownership or rental housing schemes.

What provides some satisfaction, however, is that some co-operative societies have been historically major providers of contract savings schemes and affordable housing investments. Accordingly, they still have the know-how to manage and use properties in the housing sector that cannot be marketed, for example in expanding their social rental housing activities. In this regard, a finance manager of a housing co-operative society noted ‘the very limited scope of the relationship between housing co-operative societies and local authorities’ (21) (see appendix 2). This is in spite of the fact that most local authorities in Egypt struggle with managing and maintaining their housing stock. Although this represents a gap that can be filled by the housing co-operative societies, the same finance manager believes that ‘this could have negative cash flow implications as property sale income would be replaced by much lower rental income’.

C) Efficiency and Economies of Scale

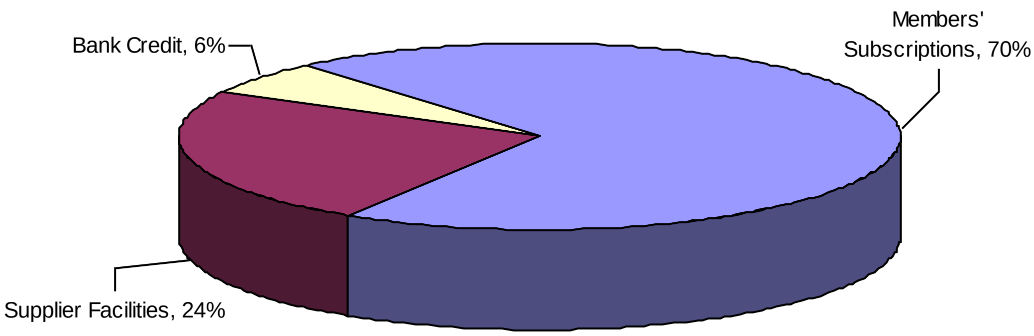
The financial structure of the housing co-operative societies in the sample varies. Some are stand-alone and others are part of a group structure. In the case of a group structure there is a parent that does not necessarily perform similar activities and an affiliated co-operative owned by the parent’s employees. The affiliated co-operative usually has its own independent board and staff elected by the members through a voting process. It is noteworthy that the board and staff represent the employees of the parent and commonly negotiate and buy support from the parent when needed.

Further, large co-operative societies in the selected sample have managed to develop their in-house capabilities better to manage and control their activities. In doing so, they achieved significant cost savings over time by eliminating external contractor margins. However, most of the representatives of these co-operative societies highlighted that they have never known or experienced the creation of group structures where several co-operative societies merge together to achieve economies of scale (for example higher level of co-operative housing provision at a lower funding cost).

D) Funding Structure

As noted earlier, the investment in the asset base of the housing co-operative societies has been financed largely by funds contributed by their members, who represent a core component of their funding structure. In conducting their business, most of the co-operative societies in the selected sample adopt similar funding structures. Around 70 per cent use their own funds (members’ contract savings) as the main source of financing (figure 5.3). Supplier facilities are the main source of external financing (24 per cent), followed by bank credit (6 per cent). This implies that bank credit is a minor source of external funding at present. According to one interviewee, who is representing a small housing co-operative society, the use of members' contract savings is considered cheaper and easier to mobilize than bank credit (22) (see appendix 2).

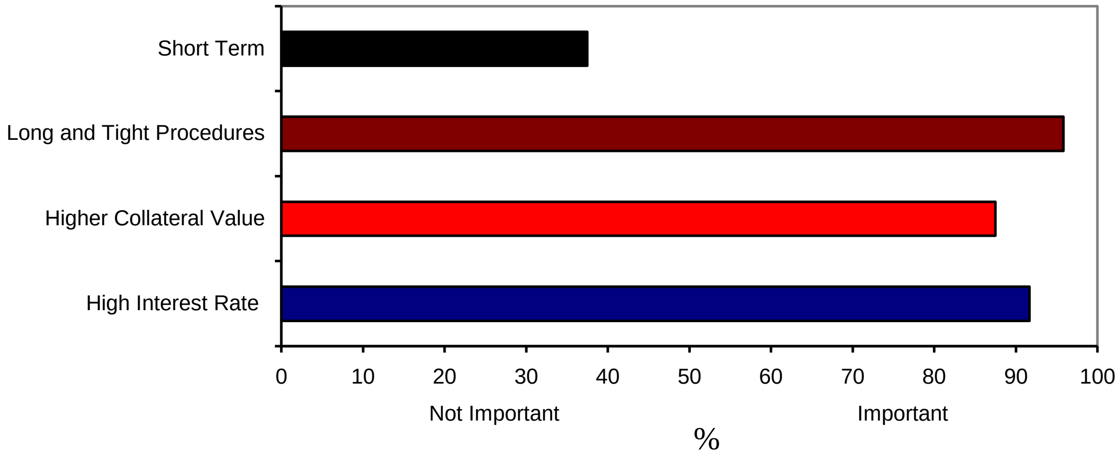
Figure 5.3 Housing Co-operative Societies' Main Sources of Funding



Source: Survey results, 2009

In the last three years, the majority of the co-operative societies in the sample did not apply for bank credit due to high interest rates, low loan-to-collateral value, long and tight procedures, and short maturity profile of available bank credit facilities, which all suggest the existence of credit rationing in relation to co-operative housing lending (figure 5.4). This is also evidenced by the other survey results that showed a major decline in the approved bank credit applications made by these co-operative societies during the last three years. Further, small housing co-operative societies in the sample faced more difficulties in obtaining bank credit than large co-operative societies.

Figure 5.4 Reasons for Housing Co-operative Societies' Avoiding Mortgage Credit



Source: Survey results, 2009

E) Cash Flow

Cash generated from operations of most of the co-operative societies in the sample are adequate in comparison with the sector norms. Net cash flow from operations after almost nil interest and tax is usually positive, which is viewed as credit strength. This supports the capacity of these co-operative societies to acquire and service external funding such as bank credit. But repayments could be less relevant where self-funding capacity is expected to grow to fund new investments in housing development. Some co-operative societies managed to increase their operating surpluses, which were reinvested, reducing the need to fund new development by bank credit. They managed to achieve that by focusing on cost control and efficient management of the business to enhance their cash generative position.

Other co-operative societies engaged in some sort of cross-subsidy programme to fund new affordable housing development projects from the profits of non-co-operative housing activities. While this increased their market exposure, it allowed them to see their funds from operations trending upwards. Any increasing reliance on cross-subsidy from unusual business, however, remains subject to changing market conditions, which could be outside the control of these housing co-operative societies, therefore such programmes need to be closely monitored.

The above also highlights that some housing co-operative societies are increasingly subject to systemic market risk as they expand their business. While these co-operative societies' cash positions are generally stable, small co-operative societies could not demonstrate an ability to start building their cash cushion to protect against cyclical downturns in the property market and the economy, to which they are increasingly exposed. This supports the earlier finding in relation to the difficulty experienced by small co-operative societies in raising funds from sources other than their members' contract savings (for example bank credit).

F) Cash Management

In managing their cash, some finance managers pointed out that their housing co-operative societies face a number of challenges in terms of the provision of the financial resources necessary to achieve their purposes: management of associated risks (organizational and financial) that might threaten their ability to achieve these objectives; management of their financial assets in a way that ensures that they maintain their value; and management of the financial liabilities in a way that ensures that they remain affordable.

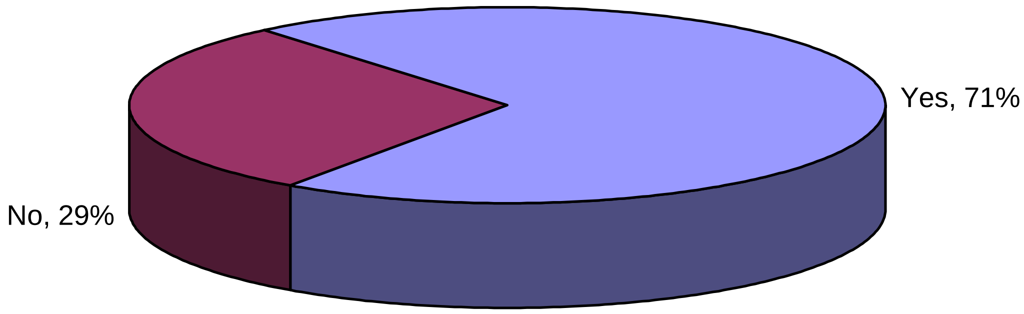
Some finance managers also confirmed that the members of housing co-operative societies usually agree the following: cash management policies, including the limits of the approved treasury management activity; how the financial management strategy is formulated; the approved methods of fund raising; approved sources of finance; delegated powers; and review and reporting arrangements. However, the success of these policies depends on balancing the need to optimize the position on paying or receiving cash with the need to have sufficient funds available to finance new projects. Cash reserves are held to enable the co-operative societies to fund transactions and to cover an unforeseen contingency.

G) Tightening of Credit Conditions

The marked rise in a sector's debt level and the increase in institutions' uncertainty about the economic outlook are among the main factors that could lead to a contraction in credit demand (Stansell and Mitchell, 1985, Kent, 1987, Duca and Rosenthal, 1991). From a macroeconomic perspective, credit slowdown due to demand factors may occur because of weak investment opportunities. From a microeconomic perspective, a structural problem such as adjustments by firms to reduce the debt-equity ratio may also be a factor.

It was noted during the analysis that access to credit of many of the co-operative societies in the sample is relatively not adequate for these co-operative societies to achieve their full potential (figure 5.5). Generally, Egypt scores very low in terms of the ease of getting credit, one of the most problematic factors in doing business in Egypt (CAPMAS, 2007, CBE, 2010, UNDP, 2004, Weis et al., 2002). The tight credit conditions are not only experienced by new housing co-operative societies but also by some co-operative societies that have long-term relationships with their banks.

Figure 5.5 Is It Difficult for Housing Co-operative Societies' to Obtain Mortgage Credit?



Source: Survey results, 2009

As indicated in table 5.2 below, around 67 per cent of the respondents think that performance problem is not considered an important obstacle to obtaining bank credit. However, the majority reported that inadequate collateral is a major obstacle as banks are not usually flexible in negotiating collateral value, while around the same percentage said the same of interest rates on credit. In this regard, it was noted that small housing co-operative societies face tighter collateral requirements than large co-operative societies, which is probably because small housing co-operative societies lack bargaining power compared to large co-operative societies.

Despite high interest rates on loans and tight credit requirements, most of the interviewees indicated that preferences for bank credit remains strong as the majority still prefer bank credit as a source of external funding, due to the underdevelopment of the other external funding sources such as the capital market.

Table 5.2 Key Obstacles to Obtaining Mortgage Credit

Obstacle		**%**
Performance Problem	Important	33.33
	Not Important	66.67
Inadequate Collateral	Important	79.17
	Not Important	20.83
High Interest Rate	Important	66.67
	Not Important	33.33
Risk at Business Sector	Important	33.33
	Not Important	66.67
No Obvious Reason	Important	79.17
	Not Important	20.83
Terms and Conditions	Important	12.50
	Not Important	87.50
Laws and Regulations	Important	20.83
	Not Important	79.17

Source: Survey results, 2009

H) Capital Market

Although securing funding by issuing housing securities in the capital market is usually less costly than bank credit, only a very few Egyptian housing firms (mainly large private sector companies) are able to sell them, while small- and medium-sized housing firms find it difficult to issue and sell fixed income securities. Social housing securities traded on the Egyptian stock exchange represent a relatively small percentage of the total number of registered securities in the market. This fact seems to corroborate the respondents’ argument that capital market investors usually have a significant risk perception of social housing securities, especially following the recent sub-prime crisis in the United States, as well as strong liquidity preference and prefer to invest in highly performing securities in order to realize quick gains by selling them quickly. Thus, according to many interviewees, this makes bank credit more attractive and desirable.

I) Financial Safety Net

There is a general consensus among the finance managers of the housing co-operative societies in the sample that the solidarity system among Egyptian housing co-operative societies is not legally binding. Nevertheless cohesion is assured by the existing two regulatory institutions that mainly handle the co-operative housing strategic planning and external relations with the government and wider community. Accordingly, the housing co-operative societies are not supported by any financial safety net, such as a financial guarantee scheme, to protect their members' contract savings in case of any default at the co-operative level or in case of an economic shock. Several interviewees cited as an example the case of Sakr Quriesh Housing Co-operative (discussed below) that defaulted more than two decades ago and its members and customers remain with no access to compensation.

5.4 Co-operative Failure in Egypt

5.4.1 State Bureaucracy

Co-operatives have been used by the Egyptian government as instruments for development. As a rule, these organizations are started by the government, the initial investments and a part of the current expenditures are provided from public funds, and state employees are frequently given management jobs. State bureaucracy therefore plays a very important role as a variable in the co-operative function.

The existence of a body of public officials with its own professional standards is said by Albrow to create sectional interests. A sharing of values between officials and the public cannot be expected and the problem of bureaucracy is inherent in the situation. Based on this line of thinking, Marxist and sociological analyses of bureaucracy see the conflict between democracy and public administration as inevitable in differentiated societies with distinct administrative staffs (Albrow, 1970).

Traditional theoretical analysis has shown an inherent tendency of bureaucracy to accumulate power until it reaches the point where it controls the policy and action of the organization it is supposed to serve. Writing about the role of co-operative housing organizations, some earlier scholars emphasize the apparent impossibility of reducing government control at a later stage through developing participation, self-help, self-responsibility and autonomy of the land recipients' organization. They almost all agree that government bureaucracy dislikes vacating its spheres of influence and action (Digby, 1978, Gesamtverband Gemeinnütziger Wohnungsunternehmen., 1969, Goodlad, 2000, Warbasse, 1922, Andrusz, 1999).

State involvement in the affairs of co-operatives in Egypt has come under strong criticism by nearly every interviewee. State agents are sometimes accused of misappropriating co-operative funds for their own advantage or mishandling co-operative affairs to enhance their own career prospects. What appears to be missing from these criticisms is any attempt to explain these observations in an analytical way, making use of existing theories on bureaucratic behaviour, corruption and corporate governance. What is also apparently missing from the large volume of media headlines dealing with the abuse of powers of the state in relation to co-operatives is an analysis of co-operative legislation to explain how state agents find themselves in such powerful positions of control over the affairs of co-operatives, and what the effect would be of introducing a different co-operative legal environment.

The analysis of the pre-1981 co-operative legislation in Egypt and the consequent empowerment of state agents should be preceded by a clear understanding of the two existing types of memberships, emphasizing the distinction between primary and non-primary co-operative societies. A primary society is one whose membership consists exclusively of natural persons. In the case of non-primary co-operatives, membership consists mainly of primary and other non-primary societies. The distinction between a primary and a non-primary society is a very important one with respect to defining the distribution of power over the affairs of the society, between state, political parties, members and co-operative agents.

Although co-operative legislation recognizes the General Meeting of members as the highest authority within a co-operative, the right to take strategic and operational decisions is usually reserved for the elected committee and the appointed management of a co-operative. This feature is not unique to Egyptian co-operative legislation, but found in corporate legal environments in most parts of the world which adhere to the principle of corporate governance. This means that where a senior co-operative officer was able to exercise a controlling influence over the management of co-operative societies he or she was also able to influence important decision making in these co-operative societies.

In many Egyptian co-operatives, senior co-operative officers were in a position to exercise significant influence over the Secretaries of the general meeting of members, therefore, where managerial power lay mainly with the Secretary, the senior executive officer could exert significant influence over the affairs of the co-operative. This influence became very strong in the case of second and third tier co-operative societies since their members were usually represented at the Annual General Meeting by those societies' Secretaries, which meant that elected committees were also made up of Secretaries. In other words, in the case of non-primary co-operatives both elected and appointed management was made up of co-operative employees who saw their career prospects very much dependent upon their relationship with the senior co-operative officer.

In the case of primary societies the influence exercised by the senior co-operative officers appears to have been far less effective although still significant, as a result mainly of the composition of elected committees and membership. Members of primary societies were ordinary citizens outside any system of dependency in relation to their co-operative's association with the senior co-operative officers. Committee members were elected by these members and performed their duties without any monetary compensation. Losing their place on the committee would merely have meant losing a certain amount of power of patronage which that place provided them with. The amount of influence the senior co-operative officers were able to exercise over these committees depended therefore on how important such patronage power was to the committee members and also on the distribution of power between Secretaries and committee members.

It is hardly surprising that in the absence of an independent system of accountability, second and third tier co-operatives were managed as if they were the private business of the senior co-operative officers. It was only natural that non-primary co-operative committees made up mainly of primary co-operative societies' Secretaries became obedient servants to the wishes of the senior co-operative officers and looked upon them as their real bosses. The same did not hold true in the case of primary co-operative committees. Members of these committees were directly elected by the user-members and being unpaid officers of the society their main objective was to maximize members' economic surplus, including their own. The degree of their obedience to the senior co-operative officers depend very much on the distribution of power between Secretary and elected committee members. In societies with a very powerful Secretary, the senior co-operative officer must have been able to exercise a much greater amount of influence over the affairs of the society than in the case of co-operative societies under the strong influence of committee members. But even where the Secretary was the most influential person on the scene, the mere existence of five committee members, elected through a procedure outside the control of the senior co-operative officer, listening and being informed about the affairs of the society, meant that some degree of accountability did exist. The powers of the senior co-operative officer were therefore somewhat restrained and this may explain why no serious malpractice was reported by the Egyptian investigating authorities in the case of the sample of primary co-operatives whose affairs were investigated.

5.4.2 The Sakr Quariesh Affair

Relevant to the analysis of the various factors influencing the effectiveness of Egyptian housing co-operative sector is the consideration of a real example for a co-operative failure as a result of the influence of these factors. Sakr Quariesh is a large housing co-operative society in Cairo City, Egypt. It is a non-profit membership society established for the purpose of aiding and encouraging the creation of adequate and affordable housing accommodation for its low- and moderate-income members. It was responsible for initiating and sponsoring the development of two co-operative housing projects on the outskirts of Cairo. As part of its support to the co-operative housing projects, the government provided Sakr Quariesh with large long-term, low-interest mortgage loans and substantial tax exemptions. The society also benefited from a large member base, totalling around 40,000 members who used a great deal of their life savings to support the development of the society's projects.

As noted earlier, co-operatives like Sakr Quariesh are registered pursuant to the Co-operative Housing Act, which contains many controls and guidelines applicable to the organization, finance and construction of co-operative housing projects. These include a requirement to have Directors and to lodge annual returns. In the case of Sakr Quariesh, however, the Directors replaced the committees that previously ran the co-operative, and the Directors gained complete control of the co-operative's finances, directions and selection of tenants.

Following the receipt of statements and considerable documentation in 1984, it was determined that the current disclosures regarding the Sakr Quariesh amounted to 'public interest disclosures'. Accordingly, the co-operative authorities wrote to the

Minister for Housing and the Minister for Social Affairs, formally notifying them of the intention to conduct an investigation into the matters raised. They were informed that the allegations to be investigated included alleged improper conduct on the part of the Directors of the Sakr Quariesh.

Due to the financial nature of the complaints, an accountant reviewed the accounts and administrative procedures at Sakr Quariesh. The review covered the period of the financial years immediately prior to the allegations being made in 1984. In summary, the investigation indicated serious financial mismanagement by the Directors of Sakr Quariesh. As a result of the investigation, the Minister for Housing decided to fire the Directors and place the co-operative under administration to protect the members' funds. However, as a result of the long investigation, the development of the co-operative's two projects had almost stopped, which, in turn, increased the cost of the projects to a level beyond the control of the co-operative's members and other creditors, namely banks. This led to the failure of the co-operative to meet its contractual and financial obligations.

Rose-Ackerman discusses corruption in the context of political economy. She proposes that both an informed electorate and comprehensive set of interest groups must be present in order to provide sufficient protection against corrupt activity (Rose-Ackerman, 1996). The Sakr Quariesh affair may be assessed based on Rose-Ackerman's theoretical analysis; the threat of legal and administrative sanctions is likely to encourage secrecy and may convert corrupt transactions into bilateral bargains. Shopping around will often be costly because bureaucrats will need to develop trusting relationships with customers before making play-off requests (Rose-Ackerman, 1996).

On the basis of this analysis, secrecy is an inverse function of the number of people involved in the corrupt arrangement. What is more, payoffs are also inverse functions of the number of people involved in the deal. This explains why the committees of different non-primary societies involved in the Sakr Quariesh affair were made up of a small number of the same co-operative agents. The media reports do in fact point out that as these agents were simultaneously members of a large number of co-operative committees, they had no time to exercise properly their duties as members of management. These reports also blame poor management on these agents' lack of any relevant qualifications, calling them mere decorative elements.

Regarding the public policy consequences of corruption and political payoffs, Rose-Ackerman concludes that bureaucrats will design programmes in ways that permit them to appropriate the gains that would otherwise be received by nominal beneficiaries. Thus corrupt bureaucrats will favour programmes with complex, special-purpose inputs that cannot be bought off the shelf in competitive markets, making it difficult for outsiders to determine whether costs have been padded by kickbacks. Similarly, they are likely to favour more capital intensive inputs if they believe that suppliers of capital are more likely to have excess profits to use for payoffs than the suppliers of labour (Rose-Ackerman, 1996).

This analysis explains some of the empirical evidence from the Sakr Quariesh affair. It is clear from the available information that most of the misappropriation of funds must have taken place during the purchase of land and building materials. This became evident once the investigating authorities asked for an independent valuation of a number of purchased fixed assets which showed that on certain occasions land and building materials had been bought at grossly overvalued prices.

From another perspective, there are many cases in the Egyptian co-operative housing sector in which co-operative societies are not adequately covered by a formal guarantee scheme; thus, they cannot receive public assistance in paying their debts including the members' contractual savings. But, the government's interference provides an example of the state's interest in extending implicit state guarantees to support the uninsured savers of failed housing co-operative societies. Such an example creates a public perception that similarly situated contractual savers will be assisted if problems arise in the future.

5.5 Conclusion

Policy makers, but also scholars of co-operation generally, appeared to believe that co-operative societies may be appropriate policy vehicles for housing and credit distribution among various classes of income groups but have so far ignored their potential as appropriate intermediaries in expanding the penetration of the financial services, such as mortgage lending. The main objective of this chapter has been to test the effectiveness of co-operation as an instrument of housing policy in the context of the current liberal economic policy of Egypt, identifying and analysing the role of the various economic, social and political factors influencing the co-operative operation. This analysis has led to a number of interesting conclusions regarding both the primary objective of the thesis, extending the reach of housing finance, but also in relation to the determinants of success and failure in the creation of an effective and sustainable housing and mortgage markets.

A very important conclusion is that despite the pivotal role played by the housing co-operative societies in the mobilization of resources and alleviating the housing problem, their role has been scaled back in the recent past by the increasing land prices, reducing subsidies, and crowding out the low-cost housing producers from having access to the mainstream mortgage system. Accordingly, there is little evidence to support their success as community based organisations in improving access to housing and credit for low- and moderate-income households.

The effectiveness of the Egyptian housing co-operative societies' role as community agents continues to be negatively influenced by various factors. Housing co-operative societies rely heavily on contributions from their members. Also, government support is limited by the available fiscal space. Subsidies (in the form of subsidized building materials, allocation of low-priced land as well as low interest loans) used to enable the sector in the past to keep its prices and rents relatively low. However, in recent years, the sector started to face a number of major challenges, mainly as a result of the economic transition and regulatory environment in Egypt.

Another conclusion is that Egyptian housing co-operative societies are constrained by weak institutional capacity and limited exposure, in terms of saving mobilization, financial management and credit counselling. Also, their role in Egypt as an effective mechanism of housing policy created too great a burden on the national budget, at least during two of the most critical stages of the country's socio-economic development. The role of housing co-operative societies is not only to support the development of affordable housing over time but also to extend the reach of mortgage system through their contract savings schemes. The evidence from the questionnaires and interviewees indicates, however, that there are a number of challenges restricting the housing co-operative societies from playing a more important role in the process.

These challenges can be summarized as follows. First, there are long and complicated procedures required for the approval of the applications presented by the housing co-operative societies to their regulators and the government in general. Almost all decisions made by the senior management of the housing co-operative societies have to be pre-approved by the Central Housing Co-operatives Union before they become effective, which is usually a time-consuming process. Second, on many occasions, the housing co-operative societies have to deal with conflicting decisions made by the different government departments concerned. Third, there is a restraint on the housing co-operative societies' development in terms of allocation of new lands and planning permissions. Fourth, the operating costs are rising faster than co-operative housing rents and prices. This is at a time when the level of support from the central government is sharply declining due, as noted earlier, to the national budget inflexibility. In addition, there is increased competition from the private sector in the social housing sector. As a result, there is a need for the management of housing co-operatives to become increasingly organizationally and financially sophisticated to meet the growing challenges within the social housing sector.

The analysis also highlights the nature and implications of housing policy in terms of the change in the actual combinations of agents in relation to the provision of social housing in Egypt. It shows how changing public policy in favour of the private sector throws new light on the underdevelopment of the co-operative societies' role in the housing and mortgage markets. The analysis suggests that members' savings and government support are inadequate to meet current programme needs, or to expand the co-operative housing sector's activities. With so many worthy causes that address genuine needs, even major housing co-operative societies lack the resources needed to fund every worthwhile effort. Further, affordability-related problems still demand urgent attention and require substantial solutions. Meanwhile, Egyptian housing co-operative societies face rising costs for staff and other inputs (for example building materials), straining even more their limited resources.

Interestingly, even those housing co-operative societies fortunate enough to be fully funded in their current operations face uncertainty over future funding. This creates further questions relating to the possibility that the same challenges will remain in the coming years. Will the housing co-operative societies be able to keep up with the increasing costs? Or as Egypt develops economically, will co-operative activities be diverted to other areas? Could local political or social problems lead to a further cut in public support? What if the parent company itself goes out of business as in the case of Sakr Quariesh affair? The uncertain continuity of funding, be it contract savings or bank credit, makes it extremely difficult for housing co-operative societies to plan and manage their operations. It may also force many of them to live a project-to-project existence, being unable to make long-term plans to expand core activities or to improve the quality of their services for members.

Thus today's Egyptian housing co-operative societies' managers face an increasing need for their organizations' services, increasing costs for providing those services, and an increasingly competitive and restrictive environment for obtaining funds. At best, these problems prevent their organizations – and those they serve – from reaching their full potential; at worst, the very survival of many housing co-operative societies is at stake. The challenge facing housing co-operative societies' managers is to find ways to increase financial security without sacrificing the mission of their organizations.

To sum up, a significant step up in the reform process is required and more importantly the focus should be on reforming the co-operative housing sector to increase the effectiveness of their role as community agents and intermediaries in the housing and mortgage markets. Egyptian housing co-operative societies generally enjoy stable overall financial performance when compared with other participants in the housing and mortgage markets. There is an opportunity for them to generate surpluses from non-co-operative housing activities that can be invested in expanding their core housing base. In addition, good relationships in the mortgage credit market and the ability to tap the capital markets can increase the availability of funds for the development of a sustainable business model with adequate capital levels to meet the different needs of their low- and moderate-income members.

6. MORTGAGE CREDIT FOR CO-OPERATIVE HOUSING PURPOSES IN EGYPT

6.1 Introduction

Based on the results and discussion in chapter 5, housing co-operative societies can be seen as an important policy agent for improving access to housing and mortgage credit for low- and moderate-income households in Egypt. However, the effectiveness of the Egyptian housing co-operative societies is constrained not only by demand factors but also supply factors. According to the literature, a decline in credit to the sector could result from supply factors such as credit rationing or crowding out (Duca and Rosenthal, 1991, Kent, 1987, Stansell and Mitchell, 1985). Thus, it is important to consider the contextual stakeholders in the immediate environment of the Egyptian housing co-operative societies who have an interest in what they are doing and are capable of acting as intermediaries in the current context of the modern economic history of Egypt. This chapter is to identify and analyse these supply factors and their influence on the provision of housing finance.

For this reason, the purpose of this chapter is: 1) to assess the role of the banking institutions (as contextual stakeholders in the immediate environment of the Egyptian housing co-operative societies) in expanding access to mortgage credit and savings in Egypt; and 2) to identify which institutions constrain most the development of an effective and sustainable level of mortgage credit for low- and moderate-income households, through their housing co-operative societies. In view of these objectives, it is important to start with an assessment of the Egyptian banking system as a whole and its role in the housing and mortgage markets.

A group of banking officers from both public and private sector banks were interviewed to investigate which supply factor led to the decline in mortgage credit provision in the co-operative housing sector in the recent period. The interviews also tried to explore whether the reason for the decline is related to the banking sector's degree of risk aversion, liquidity preferences and problems facing the housing co-operative societies, or the housing and mortgage markets as a whole. The interviews' results are analysed and presented below.

6.2 Egyptian Banks as Contextual Stakeholders: Key Performance

The purpose of this section is to review and assess the key drivers of the Egyptian banks' performance (as contextual stakeholders in the immediate environment of the Egyptian housing co-operative societies) in the mobilisation of savings and extending credit in Egypt.

6.2.1 Franchise Value

In 2004, the CBE took over the responsibility for restructuring and reforming Egypt's banking sector, and established a dedicated Banking Reform Unit (BRU) responsible for implementing its banking sector reform programme (CBE, 2010). The programme was based on four pillars: (1) consolidation and privatization of the banking sector; (2) financial and managerial restructuring of the state-owned banks; (3) solving the problem of high non-performing loans – specifically at the state-owned banks; and (4) upgrading the supervisory and monitoring capabilities of the CBE.

Implementation of the second and third pillars is having a major positive impact on the state-owned banks, which have in the past faced problems relating to their overall competitiveness and financial strengths. These included material asset quality problems in relation to their low capitalization, weak recurring earnings, entrenched bureaucracy and challenges in raising staff calibre and modernizing operations. The public sector banks have also been burdened by an inefficient corporate customer base, which mainly comprised public sector entities and companies with longstanding financial problems.

The situation as described above has been in the process of being fundamentally changed over the past five years. Under the auspices of the CBE and in collaboration with external consultants, restructuring is under way in the areas of risk management, human resources and information technology. Significant progress has been noted on all three fronts: experienced bankers were recruited in key positions, early retirement schemes were offered to reduce employee numbers, new policies were introduced for selection, recruitment and appraisal, and numerous training programmes have been taken; new banking information technology systems have been implemented; new risk management policies and procedures were introduced. At the same time, the banks' medium-term strategic initiatives were re-defined, and this included a 'front-office' restructuring aimed at redefining processes, focus on client service, and expanding their product base and expertise to include Small and Medium Enterprise (SME) and retail banking.

The operational restructuring of the state-owned banks, combined with their financial restructuring –specifically addressing the asset quality issues and low capitalization – and their significant market share which exceeds 40 per cent, should allow these banks to strengthen their franchises, which already benefit from a strong retail funding base, extensive branch network, and high single-obligor limits that allow them to serve Egypt's largest firms.

However, the implementation of the whole restructuring programme is expected to take longer than many envisage. On the one hand, changing the 'public sector mentality' and shaking off bureaucratic habits remains one of the state-owned banks' most challenging tasks, while their levels of IT automation, operational re-organization and risk management capabilities still lag behind those of the leading private sector banks. The global credit crunch and deteriorating macro/market conditions may also delay their financial restructuring.

6.2.2 Competitiveness

The recent industry consolidation – triggered by the authorities' decision to raise the banks' paid-up capital requirements, the sale by state-owned banks of their stakes in joint-venture banks, and privatizations – has led to the number of banks operating in Egypt falling from fifty-seven in 2004 to forty currently. This process is making the bank credit market in Egypt more competitive. The consolidation has also led to the entry/strengthening of foreign banks (for example Intesa Sanpaolo, Societe Generale, Calyon and Barclays), bringing expertise, capital and an extended product range to the Egyptian bank credit market, while the concentration of population in Cairo and Alexandria makes it relatively inexpensive to develop a branch network with decent demographic coverage. Nonetheless, the sector may still be considered under-banked given that only 10 per cent of the eighty million population have a bank account, and the loans-to-GDP ratio of 45 per cent in June 2008 indicates that there is a significant growth potential available to local banks (CBE, 2008).

6.2.3 Risk Positioning

Overall, Egyptian banks maintain a weak risk positioning constrained by high credit concentrations – their top twenty group exposures typically exceed 200 per cent of their capital, even before taking into account their sovereign exposures (CBE, 2008). With the exception of a small number of private sector banks, Egyptian banks' risk management systems and corporate governance culture have historically been weak. This is reflected in the high level of non-performing loans and significant related-party transactions to state-owned enterprises, whose ability to honour their commitments has proven questionable.

One can acknowledge, however, that as part of the banking sector reform programme there is evidence of substantial improvements in both the risk management systems and corporate governance culture of the state-owned banks. The banks are redefining their credit risk management processes by strengthening their origination, underwriting and monitoring procedures, introducing internal rating systems, centralizing credit procedures and establishing a credit committee to review and approve loan requests. These new processes and systems should improve the banks' risk management capabilities but a successful track record needs to be built before their positive impact can be confirmed.

6.2.4 Profitability and Efficiency

The profitability of the state-owned Egyptian banks remains weak, with a 2008 return on average equity of 4.1 per cent and return on average assets of 0.16 per cent. The banks' low profitability levels are mainly the result of low net interest margins – of under 1 per cent, partly because the banks have stopped accruing interest on non-performing loans – and high provision charges that absorbed more than 75 per cent of pre-provision income (CBE, 2008). Efficiency indicators at the state-owned banks are also weak given their still low levels of automation and centralization, public sector mentality, and overstaffing (although salary levels remain low). On the other hand, private sector banks continue to record a much stronger performance. This is a result of their focus on better-quality customers and more efficiency.

6.2.5 Liquidity Management

Liquidity management capabilities in the Egyptian bank credit market depend partly on the CBE's reserve requirements. The CBE usually requires banks to maintain with it cash reserves equal to 14 per cent of local currency deposits (excluding deposits with a maturity exceeding three years) and 10 per cent of foreign currency deposits. In addition, the banks are required to maintain liquid reserves of no less than 20 per cent of their liquid liabilities (25 per cent for foreign currency), and also have the ability to raise additional funds through facilities offered by the CBE.

Egyptian banks maintain strong liquidity reserves and funding bases, comfortably meeting these minimum reserve requirements. Liquid assets account for more than 50 per cent of total assets, while government exposures (to be precise balances with the central bank and government bonds) are estimated to exceed 25 per cent of total assets. Egyptian banks rely almost exclusively on customer deposits to fund their activities, as these account for approximately 70 per cent of total assets, while the banks' aggregate loans-to-deposits ratio stood at under 55 per cent (CBE, 2008).

Egyptian banks do, however, run large mismatches in the maturity profile of their assets and liabilities, but the risks are partly mitigated by their sizeable liquidity reserves as well as the ‘stickiness’ of customer deposits and lack of investment alternatives for the retail depositors (for example pension, money market funds). The ‘credit crunch’ has also increased the cost of funding. Hence, Egyptian banks currently have a moderate market risk appetite, primarily confined to interest and exchange rate risks, but – given relatively strict internal and regulatory limits – these are usually not excessive. The Egyptian banks have no material exposures to structured products, but the state-owned banks in particular are exposed to substantial equity/valuation risks because of their sizeable equity investment portfolios.

6.2.6 Capitalization

According to CBE data, the sector’s capital adequacy ratio for 2008 stood on average at 14 per cent (against the 10 per cent minimum), with core capital representing approximately 10 per cent and supplementary capital approximately 4 per cent. More recent data show the ratio of shareholders’ equity to total assets at around 6 per cent (CBE, 2008). Although the ratios appear adequate, one can consider that – at least for the public sector banks – capitalization levels are low. On the other hand, following sector consolidation and the entry of stronger regional and international banks, many of the private sector banks are now better placed to raise additional capital if and when required.

Egyptians banks have not yet implemented Basel II. The CBE is, however, in negotiations for the signing of a new three-year protocol with the European Central

Bank to assist with Basel II implementation. It is expected that Basel II implementation will help strengthen Egyptian banks' risk management processes by recruiting specialized risk professionals, acquiring new systems to measure and monitor risk, and improving their public disclosures on risk issues.

6.2.7 Systemic or Other External Support

The potential for external support – systemic or other external support – usually improves the creditworthiness of financial institutions and their obligations. However, such support is often uncertain. With regard to systemic support, Egypt is considered as a 'high' support country, taking into consideration the history of support for banks, and the size, strength and degree of fragmentation of the Egyptian banking system. Although there is no deposit insurance scheme in place, the Egyptian authorities have historically demonstrated both their willingness and their ability to intervene and prevent the system from defaulting. Therefore, the probability of systemic support is very high for Egyptian banks with any existing and/or potential exposure to sector such as social housing.

6.3 Interview Findings: Which Institutions Constrain Most the Development of an Effective and Sustainable Level of Mortgage Credit for Low- and Moderate-Income Households?

6.3.1 Network of Financial Intermediation

A) Banks

Despite recent reforms, a senior credit officer in National Bank of Egypt, the largest Egyptian banking institution, pointed out that:

> 'The Egyptian banking sector continues to suffer a very high degree of concentration; its structure approaches an oligopoly. Product diversification (long-term finance, small business lending, mortgage finance, etc.) is limited, pricing is not yet completely competitive, and the market is segmented. These features are a result of prudential regulations that are unjustifiably restrictive, and restrictive especially for real estate finance, reserve and liquidity requirements that inflate the cost of funds for all banks, and a government fiscal policy that discourages banks from taking risks with social purpose lending. In addition, Egypt's legal and judiciary systems reportedly cause uncertainty regarding debt recovery, accentuate the risk of doing business, and inflate transaction costs for banks and other businesses like'. (23) (see appendix 2)

Regulatory barriers to competition include administrative restrictions on the licensing of new banks and restrictions on the types of activities that banks are allowed to undertake. The CBE requires a minimum authorized capital for new banks of EGP500million fully paid. Banks are also barred from extending to a single client a credit facility of any kind that exceeds 25 per cent of their paid in capital and reserves.

Another issue is the severe shortage of long-term credit. While three quarters of the credit extended by the domestic, commercial, investment and specialized banks is short term (one year or less), historically the government and the state-owned enterprises enjoyed monopoly access to long-term finance provided by the international funding agencies and donors – a situation which resulted from the past policy of administering credit and allocating priority quotas for public sector firms.

This system was in theory dismantled as part of Egypt's economic reform and structural adjustment programme, but it still persists. There is no conclusive analysis as to why the banking sector has not as yet been prompted to offer long-term credit to some sectors in Egypt, especially housing co-operative societies. A housing finance officer in Housing and Development Bank, the largest real estate specialised bank in Egypt, reported a number of reasons which include:

> ‘The lack of access to the types of savings that would allow longer-term matching maturities (a problem which could be addressed if banks are allowed to bid freely, for example for social security funds or other long-term sources, for example contractual savings in the community sector); the weak state of contract enforcement institutions, which heightens risks for long-term lending; the problematic securitization regulations; and the lack of competitive pressure on banks, which others advocate is a case of market failure . . . Banks' lending activities are also severely hampered by the provisions of Egypt's outdated civil and commercial codes. The lack of a system that organizes non-possessory securities is the most pronounced impediment to extending credit. There is a pressing need to

> introduce simpler and less expensive forms of registering mortgages and security interests'. (24) (see appendix 2)

B) Contractual Savings Institutions

During the interview, it was clear that many interviewees believe that the contractual savings sector (CS) in Egypt can cause a shift in favour of long-term financial resources that could be used to promote the development of the housing market. As a senior dealer in National Bank of Egypt explains:

> 'Housing equities, as well as longer-term debt securities, can be developed to complement the short-term instruments available in the local banking and money markets. By investing in housing stocks and long-term bonds, CS could change wealth composition in favour of housing assets that can be intermediated locally to expand the supply of reproductive capital. CS may also play an important role in increasing the demand for long-term housing bonds. This is important, especially since the maturity of newly issued housing debt in Egypt is limited to short- to medium-term securities'. (25) (see appendix 2)

The social insurance programmes that cover public and private employees were also cited by a number of the bank officers interviewed. As one of them, who is working for the second largest Egyptian bank, Banque Misr, notes:

> 'We understand that the contribution rates are high while current benefit payouts are relatively low, and the operating surplus is healthy. The fiscal position of the large social insurance programmes is reasonably secure over the short and medium terms. The major problem for the SI programmes, however, is the investment of their surpluses. All operating

> SI surpluses are deposited in the National Investment Bank (NIB) where they are credited with very low nominal rates of return'. (26) (see appendix 2)

Historically, interest rates were as low as 5per cent as compared to the 13per cent (still a negative real rate of return at that time) which was offered by commercial banks. Subsequently, the NIB raised the rate on new deposits to close this large gap. The raise applied only to new deposits; old deposits are still earning the extraordinarily low rates. Inflation has substantially eroded the real value of the SI reserves. It is clear that the SI funds provided a substantial net subsidy to the NIB and the state, while none of these funds have been accessed by the private and community sectors in the housing market in the recent past.

C) Capital Market

According to a senior research manager in Concord International Investments, a leading investment banking firm in Egypt:

> 'The issuance of housing securities in the capital market is a relatively new trend. Historically, the public sector, which dominated the economy, generated very little demand for securities because it relied on bank credit from public sector financial institutions to satisfy its funding requirements. During the past decade, the Egyptian government's privatization strategy relied, inter alia, on the sale of public enterprise shares in the stock exchange. In 1992 the People's Assembly passed the new Capital Market Law number 95, which introduced important improvements and paved the way for both privatization through public offerings and greater access by

> the private sector to capital raised in the capital market'. (27) (see appendix 2)

There remain, however, some impediments to expanding access for other sectors, such as social housing, to the capital market.

6.3.2 Systemic Problems

The interviewees highlighted two key issues that arise in assessing the efficiency of allocating risk in the Egyptian credit market. Here we sketch the two: first, asymmetric information and second, the legal and regulatory structure of the system.

Asymmetric information:

A supervisor in Central Bank of Egypt agrees that:

> 'The first major problem area in extending bank credit is asymmetric information. Bankers naturally know less about the borrowers' prospects in the housing market than the borrowers themselves. Furthermore, borrowers with riskier projects are willing to pay higher interest rates [on the assumption that riskier projects come with higher returns]. Adverse selection then results, whereby the quality of the pool of borrowers declines as banks raise interest rates. As banks' profits depend not on the interest rate charged, but on the interest collected, profits fall if credit quality declines fast enough as interest rates rise. With adverse selection and high enough interest rates, bankers would not want to make a loan to any borrower who would take it'. (28) (see appendix 2)

One suggested solution to asymmetric information is for bankers to develop long-term relationships with their borrowers, in an effort to increase the chances that borrowers will value the prospects of future credit when deciding to borrow for any particular project. It is, however, unclear whether relying on long-term relationships to overcome asymmetric information problems is a reliable strategy (see chapter 5). The literature on corporate governance from the late 1980s and early 1990s was generally positive about long-term relationships as a means of allowing banks to smooth lending, through more intimate knowledge of their borrowers and through leverage gained as the chief source of finance (Mayer, 1988).

A credit officer in National Bank of Egypt suggests that:

> ‘Another way to deal with asymmetric information is to put more information into the public’s hands. But, if information on a borrower is entirely public but costly to generate, and the loan made to the borrower is tradable, then bankers will under-invest in information. Bankers can simply lend to the same receiving credit from the institutions that take the trouble to invest in information collection. One solution to the problem is to force the monitoring costs onto the firms, with verification through a public regulator [for example the Central Co-operative Housing Union]’. (29) (see appendix 2)

Legal infrastructure, market structure and prudential regulation:

A board member in the Egyptian Financial Services Authority (EFSA) noted that:

> ‘Financial intermediation by its very nature is an activity in which resources are given today conditional on outcomes in the future. In the

> event that a co-operative's project is unsuccessful, the issues surrounding bankruptcy law, liens and dispute resolution come squarely into view. Collateral may be an elegant solution to the problem of adverse selection, but only if the banker can effectively take control of the collateral in the event of default. Antiquated or inadequate laws and capricious adjudication in Egypt have undermined the value of collateral as protection against bad credit'. (30) (see appendix 2)

Indeed, the issue of dispute resolution can be seen as a sub-set of a larger issue: the degree of legal protection for financial intermediaries. Without effective protection for financial intermediaries, be they bank or non-bank financial institutions, the scope for saving and credit market development, and with it overall financial intermediation development, is impaired (Porta et al., 2000).

A partner in a leading Egyptian legal firm claims an important subset in the Egyptian legal environment for extending credit, between supervision and regulation'. Barth, Caprio, and Levine (2000) have studied the issues about the optimal regulatory structure by using a database on banking supervision and regulation in over 100 countries. They reported the following conclusions:

> 'Government ownership of banks is associated with sub-par financial development, as measured by the extent of private credit to GDP, overhead, interest margins or the chance of a credit crunch... Restrictions on financial intermediation activities do not improve the stability of financial systems or their efficiency... Foreign financial institutions' presence, while enhancing volatility, fosters growth through reduced

> fragility and greater cost and allocative efficiency, Regulatory structures that rely on private market forces lead to more stable financial systems' (Barth et al., 2000).

A) State Domination of the Credit Market

A senior manager in Commercial International Bank, the largest private sector bank in Egypt, believes that:

> 'The main opportunity undermined by state ownership is not the slack it can provide in capital standards but rather the ability to directly control the allocation of credit. . . This has been a power that the Egyptian government used [other interviewees said abused] in forcing corporate restructuring. Further, it is something the government is using in focusing on selected industry credit constraint, chiefly by the large commercial banks (National Bank of Egypt, Bank Misr, Bank Du Caire and Housing & Development Bank). Wider state ownership of assets through institutions like these banks has allowed the establishment of special foreclosure authorities in an effort to speed debt restructuring'. (31) (see appendix 2)

Unfortunately, the chief challenge of state ownership is direct control of credit. The highest loan losses are uniformly found in state-dominated institutions in the developing countries, but the government is thought to have a poor track record in allocating credit (Porta et al., 2000). Indeed, the major challenge facing Egypt's banking system today is the effort to improve the lending practices of its state-owned banks that collectively control most bank assets, with a collective NPL ratio of roughly 25 per cent.

B) Structural Changes in Bank Credit

Several interviewees agreed that the change in the volume of bank credit in the social housing market reflects a wider change in the share of bank credit directed towards several activities. For example, the relative share of bank credit directed towards manufacturing firms began to decline in the second half of the 1990s, just before the government started its programme of economic liberalization and financial deregulation. The share of bank credit supplied to manufacturing firms declined from about 50 per cent to 30 per cent in the late 1990s. This decrease has been particularly substantial since 2000. By contrast, non-manufacturing firms were still depending on bank credit.

Thus, after Egypt's major economic growth came to a halt in the mid-2000s, the major part of bank credit shifted from the manufacturing sector to such non-manufacturing industries as housing, construction and services. A supervisor in Central Bank of Egypt, asserts that:

> ‘It was these non-manufacturing firms that the banks should have monitored and disciplined for inefficient management. However, Egyptian banks were not prepared to be effective monitors. Thus, the rapid increase in bank credit directed to non-manufacturing firms during the late 1990s uncovered the weak point in Egypt's bank credit market, specifically its lack of monitoring capacity. The problem of non-performing loans that surfaced in the housing market recently was a consequence of this weakness’. (32) (see appendix 2)

C) Secondary Market Development

A senior officer in the Egyptian Mortgage Refinance Company (EMRC) acknowledges that:

> 'No major experienced secondary market institutions exist in Egypt. No fully developed primary mortgage market has evolved in the country. Financing for social housing has traditionally come from the state Social and Pension Fund, a compulsory contract savings scheme absorbing up to 10 per cent of wages, and from voluntary savings accounts in savings and loan institutions [for example, housing co-operative societies]'. (33) (see appendix 2)

A number of problems have also been noted as well in relation to these schemes:

> 'State, private and voluntary savings deposit loans have varied considerably over the years. The schemes have not reliably provided banks with sufficient housing capital...Savings deposits have been and remain extremely sensitive to general economic conditions and government policies...For the most part savings accounts in Egypt reflect very short-term liabilities while housing credit, despite their relatively short terms, are for longer periods. At times, disintermediation – resulting from general interest rate increases – place banks at risk'.

Thus, failure to develop a secondary market limits the bank credit market's ability to easily increase lender liquidity as well as the overall supply of funds for housing production and rehabilitation. Absence of a secondary market denies the bank credit market the capacity to readily access capital for housing. Very few secondary market institutions exist to efficiently link lenders to domestic and international investors.

Lack of a secondary market impedes the bank credit market's efforts to reduce the capital disparities between its diverse regions; disparities that result from economic as well as social differences. Lack of a secondary market also frustrates the bank credit market's ability to reduce and fairly allocate the risks associated with providing housing credit and it impedes development of diverse funding structures responsive to the need of consumers, lenders and investors.

In view of the above, almost all of the housing credits that are made in Egypt remain on the balance sheet of the originating bank. A very limited number of banks have had experience with mortgage bonds based on their portfolio. Bad credits in the past have made it difficult to securitize their current portfolio and secure easy market acceptance of their bonds.

With support from the banking sector, some housing developers have attempted to issue debt notes based on real estate receivables or the cash flow from their projects. Their experience to date has not been extensive and has been very expensive. Housing developers have been required to accept relatively high interest rates and relatively short terms. Most of the securitizations do not reflect true sales or transfer of the property.

Absence of a secondary market has muted the willingness and/or desires of new banks to enter the housing market. The small size of the primary mortgage market has also impeded development of a secondary market. Mortgages are long-term investments. Lenders in Egypt have a more reasonably-priced way to share their risks with capital market investors. But they cannot lay off debt easily. Credits also remain on lenders' balance sheets. Lenders, of necessity, have to assume and retain all the key functions – origination, servicing, risk management, finance, etc.

Several additional factors have also been noted as limiting the evolution of an efficient market in Egypt. The cyclical nature of the Egyptian economy, combined with government stabilization policies, has muted investor interest in housing. There has been too much uncertainty in the economy. Interest and inflation rates have remained volatile. Other competitive investments, both in the public and private sectors, offered investors what appeared to be safer alternatives to housing (as an asset class).

The existing housing finance system may have contributed to difficulties associated with the development of a primary system. In some respects, the state part of the system competes with the private sector. It provides implicit and explicit subsidies to participants in the system. It may have narrowed the market for private sector housing loans and impeded the establishment of fully-developed primary markets.

Moreover, until recently, Egypt lacked a legal or regulatory framework to encourage lenders and investors. Assets could not easily be transferred. There was no assurance that lenders could foreclose on property in a timely and cost-efficient manner. Egypt then still lacked standardized underwriting criteria. It also still lacks good accessible information systems concerning housing values, housing markets, credit, liens, portfolio history, etc.

A senior real estate equity analyst in HC Securities, a leading Egyptian investment bank, reports that:

> ‘Developers have partially filled the housing finance void. They have pre-sold units before construction and they have provided instalment loans to buyers. Developer credits generally are not secured by the property. Construction of pre-sold units is often delayed until the payments from buyers equal the costs. Precise estimates are not available, but usually developers finance approximately 70 per cent of all units. . . While some developers have attempted to secure funding for pre-sold units and future projects by securing debt based on receivables, this has not been easy, given the cost of funds and the lack of a certain and predictable legal and administrative framework. Banks and other investors have not been forthcoming, in part because of the perceived weakness of the portfolio of receivables. Construction firms are not always best suited to evaluate the credit risks of potential borrowers’. (34) (see appendix 2)

A housing finance officer in Housing and Development Bank argued that ‘fewer risks would be involved if there was a separation of construction finance and buyer finance functions’ (35) (see appendix 2). Developers tended to agree but noted that financial institutions generally will not provide credit directly to a developer. A finance director of a listed housing company accepts that:

> 'Discounting of instalment loans to secure funds has become more common than securitization. But it is very costly for developers. They pay a real premium for risks assumed by banks. Developers have also tried to form partnerships with local governments to lessen their financial burden and to join in joint ventures with willing investors'. (36) (see appendix 2)

According to the same source:

> 'Developer financing of instalment credit has inadvertently made the task of creating a bank credit market for a social housing purpose more difficult. Buyer expectations have been changed. Home buyers seem to like instalment sales. They think it poses less risk than mortgage financing. Some do not like the idea of mortgage financing and foreclosure possibilities. Thus, the public will have to be re-educated regarding housing credit, deeds of trust, legal obligations etc. To develop a primary market for social housing will require that the consumer understands laws related to foreclosure etc'. (37) (see appendix 2)

Social housing developer-based financing has been a necessary way to keep the industry going and to provide consumers with an option in the light of the limitations associated with the existing finance system. But it is not sufficient to respond to Egypt's immense housing needs. The amount of funds that has been and can be provided by developers is limited and the criteria imposed by developers on their loans are restrictive. If funds are tied up in loans related to construction and sale and if the developers do not have an easy and economically effective way to sell or lay off loans, they are limited as to how many units they can build or provide to consumers.

6.3.3 Creation of a New System

Most of the interviewees agreed on the need for Egypt's government and private sector to grant priority attention to the development of fully-functioning primary and secondary markets. Some interviewees generated a discussion concerning various functions that they believe must be performed by an efficient mortgage system. They recognized that some of the particular approaches used in the developed countries to develop and sustain primary and secondary markets may not fit Egypt because of its different economic, political and social characteristics (see comparative analysis in Chapter 4). However, they agreed that some experience in developing strategic primary and secondary market functions can offer many practical lessons for Egypt. They also discussed several major functions or activities related to the unbundling of integrated mortgage activities or services.

A) Origination

In the Egyptian Financial Services Authority, they endorses that it is important to have a broad range of originators with specialized institutions in social housing finance. Regular banks have many other issues to deal with. Housing finance intermediation in Egypt needs competition and the geographical choices that come with diversity of originators. It needs many different types of structures. It needs different products to fit consumer needs. It needs to separate origination from funding if it ever is to achieve specialization and an increase in liquidity, as well as total housing funds.

Unbundled originators have more flexibility. They can decide to keep mortgage loans in their portfolios or sell to a secondary market institution. If originators successfully transfer loans to varied secondary market institutions, they will be able to replenish their funds for additional housing loans. They are able to allocate much of the credit risks first to a secondary market facility (for example the Egyptian Mortgage Refinance Company) and subsequently to diverse investors associated with mortgage lending.

B) Insurance

A senior officer in the Insurance Supervision Department of the Egyptian Financial Services Authority believes that:

> ‘Egypt should address credit or default risk through the development of the insurance sector. While laws make it easy to fairly and efficiently foreclose on property in the case of default, on most occasions neither portfolio lenders nor investors in single or pooled mortgages want to take possession of and liquidate foreclosed properties. They much prefer liquid assets. Mortgage insurance remains underdeveloped in Egypt. There are hopes that private businesses will develop relevant insurance products’. (38) (see appendix 2)

As for the idea of a single government insurer:

> ‘This is an idea for the 1960s not the new millennium. We want private companies to provide mortgage insurance. However, we think that Egypt should explore government insurance and other ways government can

> help to develop a well-functioning and efficient market'. (39) (see appendix 2)

While private sector entities might be able to provide insurance and otherwise handle risks associated with mortgages for the upper income segment of the market in Egypt, it is likely to require government insurance to broaden the reach of the financing system to low- or moderate-income population.

C) Loan Servicing

In Egypt, loans are now serviced, more often than not, by financial institutions that provide loans and bear direct risks in case of default. Separate servicing entities are not common in Egypt. In Housing and Development Bank, a senior manager acknowledged that:

> 'The development of a capable servicing industry in Egypt is critical. State and private financial institutions should develop and foster fair and effective reimbursement schedules. They should assure transparent regulations and ground rules concerning servicing functions. They should stimulate relevant information systems. They should standardize loan and security instruments as well as related underwriting criteria'. (40) (see appendix 2)

D) System Recognition

Some interviewees acknowledged the difference between mortgage banking systems, secondary mortgage market facilities and a secondary mortgage market system. Most discounted the long-term ability of mortgage banking systems and secondary mortgage market facilities to meet Egypt's long-term needs for social housing capital. Both systems involve institutions that principally rely on general obligation bonds to access capital markets. Both generally require lending institutions to retain mortgages as balance sheets investments.

Mortgage banks and/or secondary mortgage market facilities are used extensively in a number of countries. They generally have developed in situations where there is relatively minimal specialization. The absence of asset-backed securities limits capital market opportunity. While there are cost savings, they do not seem to match the savings in interest and transaction costs accorded to secondary mortgage market systems.

Egypt has created the legal framework and is now developing the mechanism to put in place a comprehensive secondary mortgage market system. Its domestic capital market is potentially relatively large, and with effective strategies, it can begin to penetrate regional capital markets. The United States experience of a secondary mortgage market seems more relevant to Egypt at the present time than the experience of other nations with mortgage banking and secondary mortgage market facilities. This opinion actually explains why the Egyptian Mortgage Refinance Company (EMRC) remains the only institution in the market created to perform secondary mortgage market functions within the framework of the mortgage law number 2001. Much discussion focused on clarifying the present and future character of EMRC. The officers interviewed in the EMRC were asked several questions. Is EMRC a private company or a GSE? Is it or will it become a monopoly and, if so, what precautions are in place to prevent abuse? What is the present relationship of EMRC to government and what should it be in the future? How does EMRC compare to the secondary market system institutions that have developed in the United States?

It was indicated that EMRC is mostly a private sector entity. It is not a government-sponsored enterprise even though the government is one of its shareholders. Its financial products do not carry any explicit or implicit government guarantee. The fact that government and major banks are shareholders, however, should increase investor confidence in the mortgage-backed securities that are issued in Egypt. However, there is a general preference for a securitization entity completely independent from the government. This is viewed as a better way to let private entities set the rules rather than the government. This reflects a willingness to see the mortgage market operate without too much government regulation. In other words, Egypt should be able to build on the understanding of market mechanisms and products that have been developed elsewhere. Further, Egypt may not need a government guarantee for any of the government-supported secondary market institutions that developed in countries like the United States. It is conceivable that if the Egyptian policy makers are able to secure an even playing field concerning the legal framework, as well as the tax and regulatory system, the private sector will respond without significant government enhancements.

However, two of the EMRC's officers suggested the need, at least at the outset, for greater government involvement. They also challenged the assumption that EMRC was independent of government. Government's role as a board member and shareholder may create at least an implicit government guarantee – a moral or practical obligation to back securities.

> ‘EMRC should think through its present mission and structure. Its ties to government could well be an asset as Egypt moves towards the development of a secondary market. EMRC could become a GSE – Egyptian style – and help lead efforts to establish a vigorous security market. As a GSE like Freddie Mac it could help make the market’. (41) (see appendix 2)

It was also indicated during the interviews with the EMRC’s officers that at a minimum, government must create effective oversight mechanisms for EMRC, particularly if EMRC remains a monopoly. It is necessary to have proper risk management and independent oversight of capital. EMRC is not currently regulated as a financial institution. It will operate responsibly, because of the active involvement of its board.

> ‘While EMRC is now the only securitization entity resulting from law number 2001, it is not a permanent monopoly . . . There is some value in having EMRC operate as the sole secondary market entity initially. . . It will make it easier to achieve levels of standardization which are critical to market functioning. It will permit achievement of volume and scale’. (42) (see appendix 2)

Some interviewees from the banking sector were somewhat uneasy about a single entity dominating the market – even if mostly private. One of them argued:

> ‘This is against fair and effective monitoring and regulatory system. Also, competition will lead to lower costs, more varied products and more efficiency. If ERMC were able to secure a very large share of the market, it would begin to act like a monopoly and freeze out potential competitors’. (43) (see appendix 2)

At the end, it appears that the government should consider the benefits and costs of an Egyptian variation on this theme. Government ownership of a secondary market facility and government enhancements, including guarantees of mortgage-backed securities, would probably help Egypt to develop both a primary market for mortgages and a secondary market for securitized mortgage pools directed at expanding housing opportunities for low- and moderate-income groups. Properly designed and regulated, a government-owned facility like EMRC could make a difference. It would not compete, except at the margin, with the market. Indeed, it may help foster the growth of relevant private entities by making a secondary market and by building investor confidence in securities.

6.3.4 Bundling to Unbundle

Most of the interviewees acknowledged Egypt's efforts to develop sound and stable depository and non-depository institutions for credit origination purposes, as well as the country’s need to secure a critical mass of stable institutions engaged in the secondary market. According to a fixed income broker in National Bank of Egypt:

> ‘The capital market initially may not be responsive in a significant manner to housing sector debt and equity requirements. . . Egypt's economy, while apparently emerging, is viewed by many investors as uncertain.

Further, the legal framework for housing, while improving, is still basically untested, particularly with respect to use of property as collateral for housing-related mortgage pools and securitization. Moreover, EMRC is the only secondary market institution to date and government bailouts and restructuring already resulting from high inflation and loan delinquencies/defaults led to a shrinking market for housing finance and resulted in the ultimate transfer of billions in housing loans from banks to the Central bank. Investors at the present time are not overwhelmed by the prospect of housing investment. Also lack of government credit enhancement mutes their willingness to significantly invest in housing loans'. (44) (see appendix 2)

In the Egyptian Financial Services Authority, a senior officer noted that:

> 'Egypt may need and may be able to initiate something unique to accelerate the development of its primary and secondary markets. . . Why not build a new government entity or add to the functions of an existing experienced organization or system? The new or restructured group would combine insurance of primary loans and a secondary market guarantee. As an option, it could be granted powers to restructure present non-performing loans. Thus, the new organization or system would have four separate unbundled departments within its bundled structure: insurance, guarantee, restructuring and lending'. (45) (see appendix 2)

A board member of the Egyptian Financial Services Authority supported this view and indicated that:

> ‘The ability of the new or restructured organization to provide insurance would help increase the size and the liquidity of the primary market. Similarly, the ability of the new organization or system to guarantee security backed by insured credits will help ensure liquidity in the secondary market. Finally, the ability of the new organization or system to provide their conduit for the restructuring of non-performing loans held by the Central bank of Egypt and by savings institutions would increase the overall efficiency of the mortgage market and the related ability of savings institutions to also extend mortgage loans to the under-served’. (46) (see appendix 2)

Clearly, if such a new organization is established along the lines suggested, it will be powerful enough to force the standardization of mortgages and underwriting at the lower income end. Although this proposal may not be endorsed by many members of the government, it was met with interest by some of the bankers interviewed some of whom think that, at a minimum, the proposal helps in understanding the relationship between unbundled activities and the market. It also suggests Egypt needs to take bolder steps. Further, the proposal illustrates a comprehensive approach.

On the other hand, those bankers who did not endorse it were concerned that if Egypt included lending, insurance, guarantees and restructuring under one roof in one government supported group, it would create a dominant market institution; one able to crowd out many of the country’s fledgling primary and secondary market institutions. ‘It would initially limit or impede competition. Investors and originators as well as other market participants would move to secure the visible advantages of the government supported enterprise. Egypt might find it difficult to establish private insurers, private securitization firms, etc.', a property finance officer in Banque Misr said.

6.3.5 Adequacy of Legal Framework

Banks need a legal framework that recognizes and respects the various contractual relationships required to create an efficient mortgage market. The court system must act in a timely and predictable manner to enforce contractual relationships and the provisions in the law. The law must provide the banks with an enforceable claim on the property which comprises the collateral for the loan in the event that the borrowers default on payments. It was noted that the existing legal framework provides for a deed of trust. Based on this, creditors may take possession of a property using an administrative process that is outside the court's remit. The security interests, ostensibly, will be fully transferable and creditors' interests will be protected in the event of bankruptcy or insolvency of the originating institution. However, some interviewees expressed concern that 'politics and political pressures will not permit the legal chances concerning foreclosure, for example, to be easily converted to reality'.

There also seems to be a general consensus that it is important for the housing and mortgage markets to proceed in a socially responsible fashion. In Central Bank of Egypt, they believe that

> 'Public education regarding social housing and related responsibilities is an important function that must be performed by some entity. With appropriate public education and good underwriting standards, it is

> possible to minimize hardships . . . Sometimes well-intended actions designed to protect the banks from adverse effects of market transactions can have the opposite effect’. (47) (see appendix 2)

A supervisor in Central Bank of Egypt also cited a past instance when protection against evictions was strengthened in the law, ‘while it may have made eviction difficult, it raised the cost of housing for all and reduced its availability for the low income consumers’. Laws and related regulations are required that acknowledge both the lenders’ rights to periodic payments on housing loans and their rights to efficiently secure property used as collateral for loans. Protections, while necessary, should not impede fair and efficient enforcement of the rights of lenders and investors. If they do, banks will not be able to extend more credit for social housing purposes.

A) Capital market Law

The Capital Markets Law was amended to enable "capital market instruments", including housing-credit-backed securities and housing-credit-covered bonds, to be issued by housing finance institutions, mortgage finance companies, and banks. These entities will be regulated by the Capital Markets Board (CMB), the supervisory authority in charge of the securities market in Egypt.

The Capital Markets Law also regulated the appraisal profession. It granted authority to the CMB to determine appraisers' qualifications, working and reporting standards, valuation principles and penalties for non-compliance. It also supported the establishment of an association of appraisal specialists to regulate and license the profession. Relatively there are plenty of licensed appraisers in Egypt at present, and appraisals are not very time consuming. In an attempt to benefit from this newly-developed profession, an interviewee from a leading law firm in Egypt suggested 'the need for a new category of appraisers that are specially licensed to value social housing properties'.

B) Foreclosure and bankruptcy laws

The foreclosure and bankruptcy laws were amended to shorten the foreclosure period, which previously used to last for many years. The law also limited the misuse of the appeal process, by increasing the amount a borrower must deposit in order to suspend foreclosure proceedings. However, many of the bank credit officers interviewed pointed out that past experiences continue to negatively influence bank credit decisions related to co-operative housing loan applications.

Enforceable property rights and contracts are at the very foundation of a free housing market. As the number of housing transactions has grown (along with the attendant litigation), the Egyptian judicial system has proved to be slow, expensive and uncertain. The average case takes six years to be decided. As a result of the current rates of filing and disposition, there are currently thousands of cases awaiting resolution in the courts. It is therefore obvious that an overhaul of the country's real estate judicial system, which was initially designed to serve a planned socialist economy, is needed if social housing development, led by housing co-operative societies, is to succeed.

The system has two main deficiencies. First, it is badly in need of additional qualified judges. Several compounding factors have led to this: judges' caseloads are too heavy; they lack the specialization needed to render a technically proper decision; the low wages make it difficult to train and to retain them; and the system of promotion is based more on seniority than performance. Furthermore, the lack of qualified and motivated support staff and the poor infrastructure and facilities for case management add to the woes.

Second, the judicial system, even by transitional economy standards, is grossly underfunded. In addition, its services are inefficiently priced. The cost of real estate judicial decisions is extremely high as, in effect, the real estate system has been designed to cross-subsidize justice.

6.3.6 Tax System

The recent tax system in Egypt aimed to decrease the operational costs involved in the management of housing stock through various tax incentives, including the exemption of stamp duties and other transactional taxes, and the tax deductibility of interest payments on mortgages. It was noted during interviews that many are not aware of these incentives and their contribution to minimizing housing costs, which support the demand for social housing. On the other hand, recent amendments in the real estate tax law have generally created a state of anxiety in the bank credit market towards residential properties as collaterals.

A comprehensive look at Egyptian tax laws and regulations is a necessity, noted several interviewees. Egypt has many different taxes. In the housing market, there is a concern over the relationship between taxes and Egypt's desire to build an efficient mortgage market. A credit officer in the Egyptian Arab Land Bank cautioned that tax consequences must be considered by the government. These consequences limit the market and restrict the flow of capital into housing.

> ‘At the heart of an efficient tax administration lie predictability and transparency. This is not the case in Egypt, where the arbitrariness and ambiguity of the process actually deter potential real estate investors. Within this system, incentives granted by the government to foster private investments, such as tax holidays, are rendered meaningless as their benefits are outweighed by the tax uncertainty . . . The fundamental problem of Egypt's tax administration system lies in the conditions that provide the tax collectors with virtually unlimited discretionary powers. These conditions include the lack of independent tax appeal mechanisms, no legally recognized accounting standard, and the practice of rewarding collectors according to the revenues they bring in. In this context, tax collectors can (and do) unilaterally assess the taxpayers’ liability, instead of auditing their declaration. It is not surprising, then, that an estimated half of all taxpayers seek (or accept) informal settlements’. (48) (see appendix 2)

6.3.7 Regulatory Reform

The need to streamline current regulations affecting mortgage credit was a continuous and pervasive issue in most of the interviews. Mortgage credit rules must be examined critically in order to ensure the development of an efficient and effective regulatory system. A board member of the Egyptian Financial Services Authority reported the need to:

> 'Create a workable and balanced regulatory framework if Egypt is to initiate strong primary and secondary market systems. It must reflect banking interests and the interests of the borrowers. But it also must reflect an understanding of the needs of the marketplace for quick, transparent and equitable decisions. Mediation needs to acknowledge profits and cash flow as much as the need to respect social welfare objectives. One without the other will not produce what is necessary – an expanded mortgage market and housing choices'. (49) (see appendix 2)

Egypt, as part of its proposed housing policy deliberations, granted considerable time to the transparent development of fair and efficient regulations. However, most wanted government to review the need for present rules that direct and limit the allocation of deposits in the credit market, discourage flexibility concerning the sale and/or portfolio treatment of construction loans, and limit the use of insurance, mutual funds and/or pension funds for social housing purposes.

6.3.8 Asset Quality

While the bank credit environment is improving, it is still in need of ongoing development. The high level of NPLs, especially those related to speculative development projects at the upper end of the housing market, remain a major issue in the Egyptian bank credit market, particularly at the state-owned banks; however, this issue is being addressed as part of the financial sector reform. Further, industry consolidation is making the bank credit market more prudent and competitive. But high credit concentrations in the housing market still compromise banks' risk positioning.

Asset quality issues related to the housing market have been a major concern for state-owned Egyptian banks for many years, but limited information has in the past prevented an accurate quantification of this problem. NPL balances are not disclosed in financial statements, which are prepared under Egyptian accounting standards and audited by the Egyptian Central Auditing Organization. However, owing to restructuring efforts by the CBE, the banks have in recent years been more forward in discussing – and more importantly addressing – problems in their housing credit portfolio.

The majority of the public sector bankers expressed their satisfaction with the government's commitment and support to resolve any issues that relate to exposure to the housing market. However, this satisfaction is based on historical government interventions in the bank credit market. Some of the examples cited included the government's move to settle the Bank of Alexandria's public enterprise loans ahead of its privatization and the agreement reached with the Ministry of Investment regarding the NPLs owed by public business enterprises, including housing firms, to the remaining state-owned banks.

Interviewees from the private sector banks also shared some of this satisfaction, especially following the CBE decision to establish an NPL Management Unit to support both public and private banks in rescheduling and/or settling non-performing accounts, primarily through moral support. A Secretariat for Conciliation and

Arbitration was also established to undertake the management of the settlement mechanism and to offer banks an alternative to lengthy court proceedings.

The interviews highlighted the major difference in bank credit standards in public and private sector banks in terms of the commitment to address the asset quality issue by settling/rescheduling existing problematic exposures, building up the provisioning reserves and strengthening internal credit policies and risk management systems. In general, private sector banks display better credit vetting and controls than their public sector counterparts; in many cases, these were introduced by their foreign shareholder banks. They have mainly been involved in lending to good quality public sector institutions and leading private sector companies in the housing market. Thus, they suffer from fewer problem loans, while provision reserves are broadly in line with NPLs.

6.3.9 Asset Liability Management

The consecutive financial crises during the past two decades, from the Asian financial crisis in the late 1990s to the recent credit crunch, have changed the way many banks manage their liquidity in Egypt. According to an equity analyst in HC Securities:

> ‘Egyptian banks are now more likely to allocate their excess liquidity to buying less risky assets such as treasury bills or government bonds rather than extending more credit. However, if they decide to increase their credit portfolios, they prefer shorter- to medium-term credits to public and private sector firms . . . While private sector banks show more flexibility in extending credit in the housing market, public sector banks remain

> cautious, reflecting their increased risk aversion following the substantial increase in their NPLs as a percentage of total loan portfolios, most of which related to credits approved to fund speculative housing projects in the recent past . . . When investigating how demand for bank credit in the housing market has changed over the last three years, on average, demand for bank credit has either increased or remained the same'. (50) (see appendix 2)

This confirms the previous finding that the observed decline of bank credit to the co-operative housing sector cannot be attributed to a decrease in demand for credit (credit slowdown).

6.3.10 Mortgage Credit as an Asset Class

Given the fact that the operating environment is challenging in terms of low per-capita GDP, and high unemployment and inflation, bank credit for social housing purposes is perceived by many of the interviewees to be a high risk business. Data on co-operative housing credit are not available but the level of co-operative housing credit is estimated to be extremely low compared with credit for other types of housing. Also, most of the interviewees pointed out that bank credits that are actually disbursed for social housing purpose usually have very low loan-to-value ratios. This is largely based on a hypothetical notion that the market value of social housing as an asset class tends to sharply decline during economic downturn, which, in turn, results in increased defaults and foreclosures.

The average life of a bank credit in the social housing market also tends to be shorter, around ten to fifteen years, even though some banks have credit policies allowing for longer maturities of twenty-five to thirty years. The short average life of bank credit means that monthly loan repayments will be comparatively large (unaffordable). Moreover, most of the bank credits in Egypt are offered at fixed interest rates, as the floating-rate credits system remains underdeveloped. Thus, bank credit instalments are usually fixed throughout the life of the transaction. On the other hand, the salaries of most housing co-operative societies' members are not adjusted on a regular basis to compensate for the loss of purchasing power as a result of high inflation. Hence, their contract savings with housing co-operative societies are not growing enough to match the increase in bank credit obligations, which partly explains why access to bank credit is currently limited and prohibitive in the co-operative housing sector.

6.3.11 Credit Risk Appetite and Criteria

The interviewees were asked about any change in the general credit criteria for approving new credit in the housing market during the last three years and what is the main objective of such change. In general, it was noted that most public and private banks do not differ in how they tightened or eased their criteria. But, banks tightened criteria for credit in the real estate market as a result of the change in the CBE's regulations and the increased risk aversion of the banking sector.

This change in risk appetite reflects the perspective that most real estate projects require large investments and longer maturity before firms are able to pay back loans. In particular, it reflects the declining level of government support to the co-operative housing sector, lack of reliable financial information about many housing co-operatives, and the absence of corporate governance in the sector. Thus, terms and conditions for approving new credit lines to housing co-operative societies have changed in the recent past. Remarkably, interest rates increased. Collateral requirements have also shown some tightness, guided by the financial regulators to address the deterioration of many borrowers' creditworthiness in the housing market.

However, some credit officers acknowledged that the relationship between banks and large housing co-operative societies continues to play a significant role in approving or denying a credit application. Thus small housing co-operative societies are most likely to be denied credit while there is little chance that a credit application of a well-known large housing co-operative will be rejected. This implies banks have a risk-averse attitude towards small housing co-operative societies. One justification for this practice is that banks base their approval or rejection primarily on borrowers' information, particularly of well-known and established housing co-operative societies. Thus, non-price factors are more important in making lending decisions and an information asymmetry problem exists in the co-operative housing sector. Therefore, providing quality borrower information could help minimize the negative consequences of the asymmetric information problem.

It was also noted that banks are more likely to approve credit applications if housing co-operative societies are willing to provide higher collateral values or accept shorter loan terms. This again confirms that banks' credit criteria and risk-averse attitudes play an important role in extending or reducing credit in the co-operative housing sector. Further, the inflexibility of banks on approving credit to housing co-operative societies based on higher interest rates constitutes a credit rationing that has implications for the implementation of housing finance policy.

Finally, most of the credit officers interviewed agreed that bank credit to the private sector in the housing market has substantially increased in recent years, which suggests that the private sector might be crowding out the other sectors, including co-operative housing. However, this argument should be carefully considered in the light of the earlier review of bank credit conditions in Egypt, which demonstrated that banks generally enjoy high lending capacity. The banks' high lending capacity can reflect low credit risk appetite. Thus, this implies that private sector borrowing is not necessarily crowding out housing co-operative societies.

6.3.12 Regulations and Supervisions

The bank credit crisis of 2000-2005 highlighted the inherent weaknesses of Egypt's bank credit system. Banks were suffering from poor governance and macroeconomic volatility in the absence of a strong regulatory and supervisory framework. State banks had financed many speculative housing projects with short-term borrowing, and suffered from maturity mismatch between their assets and liabilities, leaving them in a vulnerable position. Further, when the exchange rate distorted and interest rates soared, banks experienced high losses, with NPLs at peak after the crisis. As a part of the authorities' response, the Central Bank of Egypt imposed a limit on bank credit for real estate purpose. Although this action helped improve risk management in many banks, it resulted in reducing bank credit available for some businesses, such as housing co-operative societies.

6.3.13 Change in Management

The reform of the Egyptian bank credit market has led to replacing the management of many banks. Since the relationship between banks and their borrowers is of a long-term nature, this replacement has contributed to the breakdown of this relationship as new managements are not familiar with the business circumstances of housing co-operative societies' activities. Accordingly, some banks started to be more cautious in approving new loan applications even to some long-time clients. Interestingly, this tightening of credit has occurred in spite of the fact that many housing co-operative societies experienced increased demand and business expansion in recent years.

6.3.14 Opportunities for Growth

When asked about opportunities for growth, most of the interviewees noted that they would focus on growing their retail banking and SME businesses as they offer better profit margins than other lending. Expanding their retail base will also enable their banks to diversify operations, risks and revenue streams. Exposure to the retail sector is still low, and banks have good opportunities for selective growth. Retail sector loans currently make up 20 per cent of total loans and just 7 per cent of total assets but nonetheless represent a significant area of growth (CBE, 2008). This is specifically so for mortgages, credit cards and personal loans, while the establishment of a credit bureau in July 2007 enhances banks' information on consumer lending.

6.4 Conclusion

Chapter 6 evaluated and explained the effectiveness of banking institutions in the provision of credit in Egypt. The chapter explored whether demand or supply factors have contributed to reducing approved credit in recent years for housing co-operative societies. As is clear, Egyptian banking institutions have started to apply more prudential criteria in the light of the strengthened regulatory environment. Several banks have lately been attempting to reduce their exposure to the real estate market in general and co-operative housing sector in particular, which is also in line with the recent policies of Central Bank of Egypt to regulate real estate finance in Egypt.

The bank interviews also indicated that information about housing co-operative societies and their ability to service bank credits and to provide enough collateral plays a key role in the credit decision. In addition, there has been a change in banks' asset liability management policies as they moved to hold more liquid and less risky assets, which implies that banks perceive a lack of sound business opportunities and are, hence, becoming more risk averse. But such perception reflects a preference to remain liquid during difficult market conditions rather than credit concern to extend bank credit in the social housing market. Thus, banks' preference for more liquid assets, such as government securities, implies that government borrowing is crowding out other types of borrowers, including housing co-operative societies.

The banks' risk-averse attitude also results from the rise of NPLs and the legal challenges of many banks in the aftermath of the recent series of financial crises. This problem was aggravated by asymmetric information as a result of the absence of a nationwide credit rating system for housing co-operative societies. In other words, the rise in interest rates on bank credits reflects the difficulty for banks to confidently distinguish between “risky” and “safe” borrowers in the co-operative housing sector.

These results have several implications, given the research objectives. Much still needs to be done in order to increase the effectiveness of banking and co-operative institutions in the mortgage market. This should be an important part of any strategy to increase access to mortgage credit for low- and moderate-income households through their housing co-operative societies. This should also be an important prerequisite for the creation of an effective and sustainable mortgage market based on a network of mortgage credit intermediation supported by: i) a group of institutions with sustainable business models and adequate funding, ii) a regulatory regime that is predictable, clear and transparent, and iii) keeping the risks of extending mortgage credit to low- and moderate-income households whether directly or indirectly, through their housing co-operatives, at a manageable level.

7. SUMMARY AND CONCLUSIONS

The development of an effective and sustainable mortgage system that expands the mortgage credit beneficiaries base and works better for low- and moderate-income households is currently a national priority in Egypt. The broad conclusion of the study is that to extend the penetration of mortgage credit, there needs to be a wider strategy to mobilize private and community resources, broaden the mortgage market and improve risk allocation. Expanding the mortgage credit beneficiaries base in Egypt can be better addressed through a stakeholder approach that brings together different actors to create a sustainable network of mortgage credit intermediation that can go a long way to create an enabling environment for a vibrant mortgage market. The result will be a wider access to the housing sector thus making it possible for many low- and moderate-income households to be able to afford their own homes directly or indirectly, through their community based organisations. The following remarks can also be made about the study.

7.1 Research Questions and Methodology

This thesis highlights the need for a sustainable strategy for the supply side in the Egyptian mortgage market (chapter 2). Accordingly, the thesis reviews the issues that are central to the evaluation of mortgage credit supply. This includes a review of theoretical and empirical issues associated with the assessment of mortgage credit intermediation models, identifying their reach and the limit of that reach and, implicitly, examining what needs to be done to close the gap on what would be an effective and sustainable mortgage market.

In doing so, the researcher tried to identify the relative importance of the purposes of mortgage credit in Egypt. Based on the assessment of the current status in the Egyptian mortgage market, it appeared that the mortgage market is limited in its reach to low- and moderate-income households. Therefore, there is a need to explore ways to increase the mortgage credit beneficiaries base in Egypt (chapter 3). This led to the development of the key objectives and hypotheses of the thesis (chapter 4), in relation to why housing co-operative societies can be seen as an important policy instrument to improve access to affordable housing and mortgage credit for low- and moderate-income households in the country.

Therefore, it was important to evaluate the effectiveness of the current level of participation by the Egyptian housing co-operative societies in the housing and mortgage markets; to identify and analyse the various economic, social and political factors influencing this effectiveness (chapter 5); to consider the financial institutions in their immediate environment with existing interests in what they are doing and capable of acting as intermediaries; and finally to identify which institutions most constrain the development of a sustainable level of mortgage credit provision for low- and moderate-income households, through their housing co-operative societies (chapter 6).

This thesis, to the best of the researcher's knowledge, makes the first attempt to address the above issues through such an approach, which is a multidisciplinary one integrating theories from different subject areas (mainly urban, management and financial studies) and practice. As for the methodology used, it combines an original framework of analysis, questionnaire and interviews.

7.2 Results and Conclusions

The results and conclusions of the research can be regrouped and summarized as follows.

7.2.1 Relative Importance

As the thesis shows, Egypt has significant funding requirements to support access to housing for low- and moderate-income households. While creation of a mortgage market will expand housing choices for Egyptian households, it seems that the primary direct beneficiaries will be the upper income households. But the development of a sustainable mortgage market will better permit government to target its limited resources to address the needs of the under-served households.

Survey results and interviews (chapters 5 and 6) reveal how little is known about the Egyptian co-operative housing societies, the number of co-operative housing units built per annum, co-operative housing prices, infrastructure deployment patterns, and so on. Given the important role that the housing co-operative societies play in housing and credit distribution, it is extremely important that the implications of their performance and development are understood.

A key feature of mortgage credit intermediation is diversification, that is to say having access to mixed funding sources rather than depending on a single source to meet current and future mortgage credit needs. This cardinal rule also holds true for Egyptian housing co-operative societies that need sustainable mortgage credit lines to meet current and future requirements. In choosing the optimal mix of funding sources to provide financial security, housing co-operative societies need to keep abreast of developments affecting their expenditures and change the funding mix as circumstances dictate. Contract savings continue to be the mainstay of housing co-operative funding, but almost nothing has been done to organize and regulate these savings. Clearly, the more a housing co-operative society can approach its members for support, the more it can devote its time and energy directly on its mission.

After considering their funding options, many co-operative societies might determine that relying fully on contract saving schemes is the best fit with their organization's needs, abilities and values. But even in these cases, housing co-operative societies are wise to diversify their base of financial support rather than being dependent on a single source. This process parallels how successful housing co-operative societies manage their portfolio of funding sources to meet their particular financial security needs.

The mission of housing co-operative societies in Egypt is viewed as creating financial intermediaries for low- and moderate-income households, similar to the role played by the savings and co-operative institutions in other countries (for example Sparkassen and Volksbanken in Germany). While Egyptian housing co-operative societies are committed to this social objective, with the support of the mortgage market they can expand their activities to provide a wider platform for the provision of numerous mortgage services, that meet different needs of low- and moderate-income households. A very limited number of institutions are able to meet the current needs, because the provision of such a type of mortgage credit requires a network of specialised intermediaries, highly trained staff and good understanding of the reality that the clients often represent informal entities. Furthermore, for the mortgage system to work better for low- and moderate-income households, there is no reason why housing co-operative societies cannot play an intermediary role in mortgage credit supply.

7.2.2 Market Development

The thesis highlights that extending the reach of mortgage credit is, on the whole, a natural development of an evolving network of financial intermediation. It also highlights a number of important prerequisites for the development of an effective and sustainable mortgage market, for example an appropriate legal framework, incorporating the fundamental aspects of contract enforcement and a functioning foreclosure process. In addition, issues such as nature of the mortgage credit system must be taken into consideration to ensure that any risks are assessed and allowed for.

Given the urgency of the many macro- level issues within the Egyptian context following the recent revolution, together with the clearly inadequate state resources and current tension in relation to the role of private sector, it appears that the time is ripe for a reassessment of the macroeconomic policy. This reassessment could draw on some approaches that are especially concerned with building capacity for self-sustained development. This study has sought to be provocative rather than definitive in its discussion of macroeconomic issues; it is intended to offer a starting point for further discussion. A balanced approach to the development of a sound macroeconomic policy in Egypt should insist on a broad perspective that asks what macroeconomic policy can achieve in the areas of distribution, social equity, and sustainability. The goal should be to provide a framework for linking efforts to restructure and improve the effectiveness and sustainability of the mortgage system and institutions to extend the reach of mortgage credit.

The evidence from our earlier comparative analysis in Chapter 3 suggests that the early macroeconomic instability and inflation undermined earlier development of housing finance systems in countries in transition (Caprio and Peria, 2000). Thus, some of these countries like India relied on the development and mobilization of the community sector resources to provide an alternative solution. But, the study also shows that even if the basic macroeconomic situation and the financial sector have been stabilized, extending the reach of the mortgage credit volume does not always increase. So, countries still need to introduce special instruments and enhance existing schemes to promote and support mortgage credit growth. For example, the study notes the popularity of contractual saving schemes in the Czech Republic that is geared to the German Bausparkassen system as well as the housing provident funds in China that are based on the compulsory comprehensive savings schemes or payroll-based saving system in Singapore. These schemes are compatible with and complement the structure and objectives of community based organisations in India and Czech Republic. In that context, market-based mortgage credit started to supplement state intervention (Schnitzer, 1999).

The analysis and discussion in Chapter 6 indicate that the government and private sector tend to be the largest borrowers in the domestic market at interest rates higher than those in international markets. The perception of the greater than ever role of the public and private sectors in economic transition in Egypt, and the higher overall risk management requirements and financial regulations in the aftermath of the recent financial crises, seem to be among the main factors. But, this credit concentration squeezes lending that could be available to other potential borrowers in the domestic market such as low- and moderate-income households and their housing co-operative societies. To address this crowding-out effect, it is important to improve the level of awareness and expertise in the mortgage market about the major and potential role of housing co-operative societies in expanding the penetration of mortgage credit.

Many of the views expressed during the field work reflect a lack of awareness of the capacity within the co-operative housing sector in terms of mobilization of savings and allocation of mortgage credit. The situation is aggravated by the paradox surrounding the government role and its priorities in the mortgage market, the absence of a credit rating system for co-operative institutions, usually complex and lengthy administrative and judicial procedures when co-operative societies are legally challenged, and the lack of corporate governance in the co-operative housing sector. Overall, there is a difficulty in assessing the creditworthiness of housing co-operative societies due to the absence of reliable and sufficient information and data about their operational and financial performance, and a benchmark to rate them.

Chapter 5 seems to indicate that co-operative housing regulations powerfully shape the process and cost of co-operative housing production. They impede co-operative housing supply, increase the costs of residential units, and limit the ability of housing co-operative societies to respond to demand. Complicated approval procedures and lack of funding facilities limit co-operative housing sector competition by creating barriers to entry. They also make the co-operative housing sector more sluggish and slow to adjust activities to meet changes in demand.

Based on the results of chapter 6, one can argue that the recent reform initiatives in the banking sector have led to more cautious credit policies, especially towards long-term exposures such as mortgage credit. As a result, banks have become more risk averse and their preference for less risky business opportunities has increased accordingly. In this context, a larger share of banks' financial resources is used to invest in less risky assets, for example government securities. But it suggests that the prospects for developing a network of mortgage credit intermediation that includes key actors such as banks and housing co-operative societies remain very positive.

7.2.3 Mortgage Credit Reach

Affordability is a major factor contributing to the limited reach of mortgage credit in Egypt. The only mortgages available tend to be short-term, fixed-rate and with a low loan-to-value (LTV) ratio. Values in Egypt have significantly increased in recent years as a result of the increase in the cost of housing following the privatization of most of the building material production companies. The short-term profile of mortgages is due to the high real interest rates prevailing and means that the monthly mortgage payments are high. Rental payments are lower and thus the population tends to rent rather than buy.

On the other hand, the reluctance of many financial intermediaries such as banks to extend the reach of their credit services in sectors such as co-operative housing seems to be primarily the result of asymmetric information and the rise in NPLs, which in turn led banks to consider other factors before interest rates as the primary criterion used to approve new mortgage credit applications. As noted earlier (chapter 6), at present banks tend to invest their excess liquidity in low risk assets. Since most of the external financing in Egypt largely relies on bank financing, the disruption to mortgage credit from the banking sector has decreased credit lines to the co-operative housing sector, which, in turn, contribute to the limited access to housing for low- and moderate- income households at present. Further research based on econometric or macroeconomic approach would be necessary to study the impact of money supply on bank liquidity and the supply of mortgage finance in Egypt.

The insights from bank interviews also imply that the lack of information regarding the financial standing of housing co-operative societies makes it difficult for banks to determine their creditworthiness. Therefore, it is necessary to establish credit bureaus for housing co-operative societies to keep track of their financial and credit history. Credit bureaus would certainly help banks improve their risk assessment by sharing information on housing co-operative societies. Because credit bureaus keep track of borrowers' records, it will be easier for banks to charge interest rates that reflect each housing co-operative society's credit history. Currently, there is no centralized credit database for housing co-operative societies that banks can use to screen credit applications and they must rely on their own records.

In addition, some banks still rely on collateral requirements rather than cash flow and financial viability when assessing creditworthiness. Countries whose banking systems rely more on collateral requirements and that lack information on borrowers rank low as to ease of access to credit and doing business, compared to systems with transparent and accessible information and less reliance on collateral. When assessing credit applications, risk assessments and feasibility studies of a given project need to be given higher priority than collateral.

Chapters 5 and 6 also revealed that banks in Egypt, given their current risk aversion, like to provide mortgage credit that is mostly short-term. However, long-term funding is crucial for mortgage credit. To this end, integrating the contract saving schemes of the Egyptian co-operative housing sector into the mortgage credit intermediation system should improve efficiency of the system and extend the term of mortgage credit. Also, issuing financial instruments in the capital market, such as co-operative housing securities and bonds, needs to be explored and expanded. These instruments may be used by the housing co-operative societies as a source of external long-term funding and by banks as alternative investments.

7.2.4 Safety Net

Egypt remains vulnerable to economic and financial shocks. To mitigate the vulnerability of the mortgage market to these shocks, it is crucial that the government maintains sound macroeconomic performance (chapter 3), as increased confidence in the country's economy will be a key factor in improving the country's financing conditions. Also, the government as a regulator has a role to play in improving the environment for doing business and, therefore, for sending positive signals and encouraging the key agents in the mortgage market.

It is crucial that the government should encourage the reform and development of the existing guarantee schemes to cover the activities of community-based organizations and mortgage institutions. In Chapter 3, the thesis reviewed international examples such as the insured mortgage programs in the United States and Canada as well as the financial co-operative movement in India. The recently established Egyptian Mortgage Refinance Company (EMRC), which is geared to the United States Fannie Mae and Freddie Mac model, could play a role in guaranteeing the timely service and payment of mortgage loans extended to housing co-operative societies. In the meantime, the establishment of co-operative insurance schemes can reduce the negative effect of past co-operative failures and support the solvency of serious housing co-operative societies.

The potential for government support – systemic or other external support – can also improve the creditworthiness of housing co-operative societies; however, such support remains uncertain. Although there is no insurance scheme in place, the Egyptian authorities have historically demonstrated both their willingness and their ability to intervene and prevent a default by any Egyptian institutions, irrespective of their legal status, size or relative importance to the system. However, this notion should not prevent the establishment of a national co-operative guarantee fund to provide a safety net for beneficiaries and stakeholders.

Each co-operative could be required by law to participate in a contract savings guarantee fund. The fund can then act with the regulatory bodies to develop a wide range of preventive contingency plans to be at their disposal should a crisis be detected. As an example, the plans can include the provision of financial support if credit lines (zero interest) are required as part of a recovery plan or cover is needed to balance the assets and liabilities of a distressed co-operative society. Such support, together with the generally small size of individual housing co-operative societies, can significantly limit the systemic destabilization risk from a crisis in any one co-operative.

Among the other measures required to enhance the safety net is the reform of the regulatory environment. Although the housing co-operative societies are actually managing public funds that are invested in the housing market, they are not regulated or supervised by any financial watchdog to ensure that they are at the heart of financial regulation. The housing co-operative societies' contract savings and home purchase plans will need to be monitored by the financial regulators that usually collect, analyse and test periodical financial data from financial institutions.

These procedures can serve as an early warning system for financial stress in the co-operative housing sector. They can also play a crucial role in developing and implementing contingency plans for the recovery and/or liquidation of distressed housing co-operative societies. These plans can include partnerships, mergers, management change, asset and liability acquisition by another investors, and support from a guarantee fund as a last resort.

7.3 Contributions

The thesis provides a multidisciplinary literature review of the main theoretical and empirical issues related to mortgage market development, mortgage credit intermediation, stakeholder relation development, and increasing access to housing and mortgage markets for the under-served households. The thesis contributes a number of points to the research on Egypt's recently developed mortgage market. The starting point of the research is information constraints. There is a growing body of literature trying to address the problems of access to housing and mortgage markets in Egypt. However, limited literature is available on exploring ways to address these problems.

This thesis holds that many previous critiques are misleading in that they have overemphasized the potential impact of mortgage market development. The social economic situation does not grant an extended reach of mortgage credit in the country, as in most other transitional economies. It is the point of view of this thesis that the financial intermediation constraints in the mortgage market have also caused the problems. Therefore, this thesis highlights the importance of addressing these constraints through alternative policies and institutions.

In line with the United Nations' call for policymakers to develop national policies and strategies for building inclusive financial sectors, this thesis provides a generic framework to explore ways for establishing an inclusive and efficient network of mortgage credit intermediation in Egypt. This is by allowing co-existence and integration of various actors, such as banks and housing co-operative societies, in the network. The purpose of doing so is to emphasize the impacts of stakeholders' relationship to and co-operation on mortgage credit provision to the under-served households.

Further, emphasis is made of the importance of studying data at the micro level. This thesis tries to point out there are differences in the perceptions of stakeholders in the Egyptian mortgage market, as observed during the field study and the review of other research. Previous analyses based on societal data (macro data) almost ignored the significant connection between the intermediary role of different actors and mortgage market development. This obviously contradicts the common knowledge of the situation. Have the actors really played their potential intermediary roles? If not, why? This thesis tries to answer these questions.

The results suggest that the immobility of resources among actors made it difficult to realize the desired outcome of recent reforms in the Egyptian mortgage market. The fact that previous research ignores the relationship between community participation and mortgage market development results from its disregard for the multidisciplinary approach to research and addressing problems outside normal subject boundaries, and the fact that researchers are usually very different in their perceptions, capacities and resources.

7.4 Limitations and Further Research

There are factors affecting co-operative performance which cannot easily be comprehended by pure academic research. This is evident in many of the propositions put forward during interviews regarding the general causes of the failure or success of co-operative societies. But it is not simply lack of personal experience that prevents easy comprehension or even that leads, sometimes, to miscomprehension. First, in the same way that private business organizations are reluctant to release what they consider to be sensitive information, many co-operative societies have also been reluctant to give out such information voluntarily.

Second, unlike business enterprises, the main objectives of co-operative management decision making are not based primarily on profit-making criteria but, rather, on various other motives, most of which are socially and politically acceptable in official discourse but some may not be so publicly acceptable. Not only do such motives remain unrecorded but also hardly anyone is prepared to talk about them.

Third, co-operators present themselves as good missionaries out to protect the low- and moderate-income households from the inequalities produced by the system, capitalist or socialist. As such, some have convinced themselves that the rest of the society is out to get them. This creates a certain mistrust of all outsiders to the movement, including research students. Such mistrust and a tendency for secrecy violate one of the most fundamental co-operative principles, that of democratic control. It is hard to imagine how research can be effectively conducted unless there is the greatest degree of transparency.

To address these issues, this thesis employed a multi-methods approach to gain confidence that the study was addressing the most important issues and to enable triangulation (to be exact the use of different data collection methods within one study to cross examine the results) to take place. But such an approach has both advantages and drawbacks. A concern some may have in the design of this study is the extent to which the thesis results are generalizable, to be precise the results may be equally applicable to other research settings. This is in particular because the study was conducted in a small number of organizations due to the issues noted earlier regarding undertaking this study (chapter 4). To address such a drawback, it is necessary to recapitulate that the main purpose of this study is not to produce a theory which is generalizable to all actors in the Egyptian mortgage market. The task is simply to try to explain what is going on and to test the robustness of the results and conclusions of the thesis by exposing them to other research settings in further future research.

Based on the above, one can identify several possible directions for future research. Having information about the links between the co-operative housing supply and mortgage market development is the first step towards social housing liberalization. The second direction could involve rethinking the role of public and private housing developers. At present, the role of the Egyptian private sector is identified as a critical constraining factor in limiting the responsiveness to demand. Testing the abilities of the Egyptian government to promote vigorous competition among other actors in the social housing market is also a major step. Another step is what to do about the existing stock of public and social housing – how to regularize it in a cost-effective and cost-recoverable manner.

7.5 Policy Recommendations

The present thesis clearly points to the importance of further reforms for the development of an effective and sustainable mortgage market in Egypt. This would require the development of a network of mortgage credit institutions at the bottom end of the mortgage market. In today's competitive environment, there is also a need to understand how a partnership between different actors in the mortgage market can be developed. The thesis also highlights many possible recommendations, as briefly discussed below.

Egypt must grant special attention to efforts to stabilize and grow the Egyptian economy. To secure macroeconomic stability will require the Egyptian government to co-ordinate its fiscal and monetary policies. Reform of pension and social security programmes is a necessity for contract savings system development. Continued strategic privatization of inefficient public services is essential to increase productivity and reduce government deficits. Similarly, continued market liberalization is critical to the healthy expansion of the overall economy.

Egypt has room to develop a comprehensive set of housing policies and strategies to ensure expanded mortgage choices for its citizens. A major initiative should be undertaken by the government, in concert with private and community-based organizations, to define long-term objectives and short- as well as intermediate-term strategies and programmes. Central to the effort should be the development of an innovative mortgage market and development of partnerships among and between all levels of government and these organizations.

Egypt should make the establishment of an efficient mortgage market a key element in its effort to develop a comprehensive set of policies, strategies and programmes. Current approaches to developing mortgage market facilities are noteworthy and deserve commendation. But they are far too tentative and incremental. While they will generate increased access to housing over time, the aggregate amount is likely to be minuscule in terms of need.

The Egyptian government's recent banking sector reforms – such as discontinuing the system of administrative allocation of bank credit, the liberalization of interest rates and foreign exchange markets, and the introduction of the new capital markets laws – have enhanced the allocated efficiency of the banking sector. Yet the task is not complete. Further deregulation measures need to be taken such as reducing financial repression, relaxing barriers to entry, granting autonomy to intermediary institutions, and creating a competitive, level playing field for all the players, including community-based organizations such as housing co-operative societies. Such measures will advance the development of an efficient, diversified and solvent mortgage market that would be able to support access to housing for under-served households.

Housing co-operative societies, as self help organisations, functioning without the motive of profit and endeavouring to provide homes to members on the best possible terms certainly merit some special consideration, especially the factors that contribute to their success and failure. By mobilization of savings from their members to develop housing schemes, they are not only undertaking a very laudable housing object but also in the process generate funding opportunities for the mortgage credit sector. Housing co-operative societies help to supplement the efforts of government and private sector in the field of providing affordable housing and credit for low- and moderate- income households. In doing so, they take part in some measure towards the general development of the country. More than all this, housing co-operative societies by being active in the field of savings mobilisation and housing development offer much needed competition to the public and private sectors and thus help to regulate and enhance best practice in the affordable housing and mortgage markets. It is for this purpose that the co-operative movement is accorded some consideration and privileges in countries, such as India. The co-operative movement in these two countries received great measure of support.

Housing co-operative societies like any other institutions are supposed to serve their members with integrity and honesty. However, there are instances where housing co-operative societies because of mismanagement give cause for serious concern. It is always hoped that the misdeeds of such societies will not influence the authorities concerned to withdraw their support to housing co-operative societies in general. Housing co-operative societies should realise their shortcomings and drawbacks by tightening the loop-holes which have been exploited in the past and to be on their guard to prevent opportunists and adventurers from infiltrating into management with the sole aim of enriching themselves at the expense of the members.

The misdeeds, mishaps and shortcomings that have taken place in some cases in Egypt should open the eyes of the members that they too are watchful. If housing co-operatives fade away due to lack of support of government, the private sector will have good reason to rejoice at the removal of the instrument which has been providing competition to them. Furthermore, the ordinary household with limited financial resources will lose one important avenue through which he could hope to access the housing and mortgage markets. Besides this, an important element of the co-operative movement will be eliminated causing the removal of a channel into which the surplus funds of the movement could be invested on a long term basis enabling co-operative funds to work for the betterment of housing and mortgage markets. With the absence of housing co-operative societies, surplus funds of the movement will tend to flow into such investments that are not necessarily socially responsible. The surplus funds will enrich and strengthen the private housing enterprises against which co-operatives have to compete with. Such a situation will be detrimental to the interest of the co-operative movement as a whole.

The future growth and healthy development of housing co-operative societies depend on several factors. It is important and necessary that there should be certain definite provisions in the housing and financial laws to regulate the operation and management of housing co-operative societies. The central and local governments should allot a place to the co-operative sector in their overall plans for the development of housing and intermediation of mortgage credit in the country.

The government should consider it a moral obligation to assist housing co-operative societies with finance to some extent. While it is appreciated that housing co-operative societies should depend largely on their own financial resources and that of the other sectors of the co-operative movement together with whatever resources they could tap from private lending institutions on the strength of their creditability, it will be of great help if credit could be made available by government. If it is felt that public funds should be safeguarded and that risks of any sort should be eliminated, then it is suggested that funds be advanced only when the housing schemes are completed to the satisfaction of the municipalities or local authorities concerned and further the properties developed and related agreed mortgages are available as securities for the loan.

Financial institutions which come into possession of large funds, such as the provident funds and payroll-based saving systems, should consider it appropriate to invest a portion of its financial resources in housing co-operative societies provided of course adequate securities are offered for the investment. Most members of housing co-operative societies are usually contributors to provident funds and payroll-based saving systems and as such they rightly expect support to their housing co-operative societies in return but sometimes to their dismay the provident funds and payroll-based saving systems feel it proper to invest in the development of housing and extending mortgage credit in general on commercial basis rather than in the affordable housing and mortgage markets.

To accommodate housing co-operative societies with loans, it is advocated that steps be taken to bring about amendments to the legislation concerned. For example, commercial banks are normally reluctant to invest on long term basis and as such their investments in housing are comparatively less. The housing and mortgage markets will benefit immensely if the legislations are amended to provide incentives, such as tax exemptions, for commercial banks to substantially increase their investments in community based organisation such as housing co-operative societies.

Insurance companies should be directly, by legislation if necessary, to invest a portion of their annual premium income in the development of housing and mortgage markets for low- and moderate- income households through their housing cooperative societies. Their funds are normally available for investment on a long term basis and investment in affordable housing and mortgage markets will not only enable them to obtain an attractive return but also secure sound security. The funds of the insurance industry tend usually to grow rapidly with the rapid development of the industry due to the constant improvement in education and the standard of living of households. Investment in affordable housing and mortgage markets by insurance companies in a big way can therefore help to accelerate the development of housing both by the private sector and housing co-operative societies.

It is also important to note that the growth and expansion of housing cooperative societies can be considered as a strategy to support the establishment of a new business sector, targeting at affordable housing, particularly rental housing as an alternative tenure. For example, housing cooperative societies can support the establishment of Public-Private Partnership (PPP) schemes by providing stable management and long-term financing. At present, there is a very limited recent studies of how states in the developing countries have sought to withdraw from direct provision of housing services; and the shift in responsibility for housing service delivery from the public to the community sector represented by housing cooperative societies.

Finally, the Egyptian financial services regulators need to shake up regulations in the mortgage market to support the development of an effective and sustainable mortgage market. Mortgage intermediaries should have a sustainable business models and maintain adequate liquidity levels. The regulatory regime should also be predictable, clear and transparent to minimize financial crimes involving the community based organisations.

APPENDIX 1: QUESTIONNAIRE

Co-operative Name:

Address:

Year of Foundation:

Manager Name:

Telephone Number:

Please Answer the following (Quantitative) Questions:

1. Please fill the following table:

	2005	2006	2007
Issued Capital (in EGP 000s)			
Number of Members			
Number of Co-operative Housing Units			
Number of Non Co-operative Housing Units			
Number of Units to be Developed in the Future			
Number of Buyers			

2. What are your main sources of finance and their development during the past three years?

Source (in EGP 000s)	2005	2006	2007
Members' Subscriptions			
Government Grants			
Grants from NGOs			
Subsidized Loans from National Investment Bank			
Non-Subsidized Loans from Commercial & Real Estate Banks			
Loans from Mortgage Finance Companies			

Supplier Facilities			
Other Sources, please specify ----------------------			

3. Based on the co-operative's financial statements, please fill out the following tables (in EGP 000's)

Assets:	2005	2006	2007
Housing Units at Cost			
Housing Units at Market Price			
Other Fixed Assets			
Total Fixed Assets			
Gross Depreciation			
Total Current Assets			
Other Assets			
Total Assets			

Liabilities:	2005	2006	2007
OVD & Loans repayable within 1 Year			
Current Portion of LMTD			
Supplier Facilities			
Other Current Liabilities			
Medium- & Long-Term Debt			
Other Medium- & Long-Term Liabilities			
Provisions			
Paid in Capital			
Reserves			
Accumulated Surplus (Deficit)			
Total Liabilities & Equity			

Income & Expenses Account:	2005	2006	2007
Revenues			
Operating Costs			
Operating Surplus (Deficit)			
Sales, General and Administrative Expenses			
Bank Interest and Fees			
Other Expenses			
Other Income			
Surplus (Deficit) before Tax			
Tax			
Surplus (Deficit) for the Period			

4. Please fill out the following table (in EGP 000's):

Item:	2005	2006	2007
Gross Arrears			
Provision			
Net Arrears			

5. Which of the following financial institutions does your co-operative get credit facilities from and how these facilities developed during the past three years?

Institution (in EGP 000's)	2005	2006	2007
National Investment Bank			
Public Sector Banks			
Private Sector Banks			
Real Estate Banks			
Mortgage Finance Companies			
Other institutions, (please specify __________)			

6. Is it possible to contact you again regarding further enquiries and clarifications in relation to this questionnaire:

Yes □ No □

N.B.: Please enclose copies of your financial statements if possible

Please Answer the following (Qualitative) Questions:

1. If your co-operative has been doing well during the past period, why?

On a scale from 1 to 2, please rank the following reasons (1 = Important; 2 = Not Important).

Factors	**Important**	**Not Important**
Increasing demand		
Capital increase		
Additional credit facilities		
Business Expansion in the none co-operative housing sector		
Other factors, (Specify ---------------------------------------)		

2. If your co-operative has <u>NOT</u> been performing well over the past period, why?

On a scale from 1 to 2, please rank the following reasons (1 = Important; 2 = Not Important).

Reasons	**Important**	**Not Important**
Decreasing demand		
Price increase		
Difficulty to obtain credit		
Competition from private sector		
High arrears		
Other obstacles, (please specify ---------------------------)		

3. How long has your co-operative been dealing with financial institutions?

Duration	✓
Less than 2 years	
2 to 5 years	
5 to 10 years	
More than 10 years	

4. Has your co-operative been facing any difficulty in obtaining credit facilities from the banking sector lately?

	✓	Route
Yes		Go to No.5
No		Go to No.6

5. What are the key obstacles to obtain these credit facilities?

	Important	**Not Important**
Performance problem		
Inadequate collateral		
High interest rate		
Risk at your business sector		
Your bank is just limiting credit with no obvious reason		
The association failed to satisfy the terms & conditions of an existing loan		
Change in the laws and regulations of the Co-operative housing sector		
Other obstacles, (Please specify --)		

6. What were the alternative sources for additional funding?

	Important	Not Important
Own Fund		
Grants &/or Loans from NGOs		
Capital Market		
Supplier Facilities		
Government Facilities & Grants		
Mortgage Finance Companies		
Other Alternatives, (please specify:-------------------------------)		

7. Does your co-operative currently find credit requirements tighter than they were three years ago?

	✓
Yes	
No	

8. Has your bank been flexible in negotiating the following terms during the last three years?

	Yes	No
Interest rate		
Type & value of collateral		
Volume of loans & credit facilities		
Maturity of loans & credit facilities		

9. What percentage of your co-operative's credit applications was approved by your bank over the last three years?

%	✓
0-20	
21-40	
41-60	
61-80	
81-100	

10. What are the reasons for not preferring to apply for additional credit facilities from the banking sector?

Reasons	**Important**	**Not Important**
High interest rate		
Higher collateral value		
Long and tight procedures		
Tenor is too short		
Other reasons (please specify: --------------------------)		

11. What was the most important change that affected your co-operative over the last three years?

	Important	**Not Important**
New Real Estate Tax Law		
Decreasing Subsidy		
Changing Regulation & Supervision		
Increased Competition from the Private Sector		
Other Changes (please specify ----------------------------------)		

12. Overall, our co-operative has no equal opportunity to obtain credit facilities from banks compared to the other housing developers in the market.

	✓
Yes	
No	

13. Does your co-operative enjoy any of the incentives or support below?

	Rank
Tax incentives	
Interest rate subsidy	
Government grants	
Other incentives (please specify, --)	

14. What is your evaluation of these incentives or support?

	Important	**Not Important**
Tax incentives		
Interest rate subsidy		
Government grants		
Other incentives (please specify, ------------------)		

15. How sufficient these incentives or support?

	Enough	**Not Enough**
Tax incentives		
Interest rate subsidy		
Government grants		
Other incentives (please specify, ------------------)		

---Many Thanks---

APPENDIX 2: INTERVIEW AND KEY INFORMANTS

Tag No.	Type	Summary Profile
(1)	Government	Established in 2004, the **Mortgage Finance Subsidy and Guarantee Fund**, is intended to expand housing affordability for moderate and low income Egyptian households, using either or both of two broad activities: 1) Guarantees for financial instruments &/or 2) Direct subsidy for the benefit of low-income households.
(2)	Financial Institution	Established in 1996, **HC Brokerage** is one of the top ten brokerage firms in Egypt. The firm's research department covers the most active real estate stocks in the MENA region.
(3)	Housing co-operative society	Established in 1976, the housing co-operative society of the **Engineers Union** has more than 11 thousands members and manages 2,505 housing units.
(4)	Government	The **Ministry of Housing** supervises all institutions in charge of providing housing services.
(5)	Financial Institution	Established by the government in 1979, **Housing and Development Bank (HDB)** is a specialized financial institution focusing on funding housing companies and projects.
(6)	Regulator	The **Co-operative Housing Union** is a federation of housing cooperatives in Egypt. The organization is composed of 4,000 cooperative housing societies with over 15 million members. CHU is a member of the International Co-operative Alliance.
(7)	Housing co-operative society	Established in 1982, the housing co-operative society of the **National Bank** has more than 12 thousands members and manages 819 housing units.
(8)	Regulator	The **Egyptian Financial Services Authority (EFSA)** is authorized to supervise the mortgage finance affairs, set the controls ensuring market efficiency, follow up, control and development, and undertake all the measures that maintain the rights of all market intermediaries.
(9)	Regulator	Same organization as (6) above.
(10)	Regulator	Same organization as (6) above.

(11)	Regulator	Same organization as (6) above.
(12)	Housing co-operative society	Established in 1978, the housing co-operative society of the **Presidential Administration** has 3,605 members representing the current and retired officers of the Egyptian President Office. At the time of doing this study, the society was managing 2,855 housing units.
(13)	Government	Same organization as (4) above.
(14)	Housing co-operative society	Established in 1992, the housing co-operative society of the **Republican Guards** has 1,596 members representing the current and retired officers of the elite troops of the Egyptian army directly reporting to the President. At the time of doing this study, the society was managing 481 housing units.
(15)	Housing co-operative society	Established in 1979, the housing co-operative society of the **Nubian Sons** has 1,561 members representing the Egyptian Nubians who were forcibly resettled to make room for Lake Nasser after the construction of the dams at Aswan. At the time of doing this study, the society was managing 374 housing units most of which are located in the Nubian villages, north of Aswan on the west bank of the Nile.
(16)	Government	Same organization as (4) above.
(17)	Housing co-operative society	Established in 1970, the housing co-operative society of the **Central Bank** has 5,700 members representing the current and retired officers of the Egyptian Central Bank. At the time of doing this study, the society was managing 1,890 housing units.
(18)	Housing co-operative society	Established in 1984, the housing co-operative society of the **Telecom Authority** has 611 members representing the current and retired officers of the Egyptian Telecom Authority. At the time of doing this study, the society was managing 611 housing units.
(19)	Housing co-operative society	Established in 1982, **6th of October for Housing Development** is one of the largest housing co-operative societies in Egypt. It has more than 30,000 members representing some of the current and retired Egyptian military officers. At the time of doing this study, the society was managing 2640 housing units.
(20)	Housing co-operative	Established in 1970, **Suez Gulf** housing co-operative society was formed by some of the retired and current

	society	employees of Suez Gulf Petroleum Co., one of the largest Egyptian oil and gas corporations. At the time of doing this study, there were 3,337 members and 687 housing units under the society's management.
(21)	Housing co-operative society	Established in 1982, **Education** housing co-operative society was formed by some of the retired and current members of the teachers association in the city of Giza, Greater. At the time of doing this study, there were 1,737 members and 286 housing units under the society's management.
(22)	Housing co-operative society	Established in 1982, **Cairo Pharm** housing co-operative society was formed by some of the retired and current employees of Cairo Pharmaceuticals Co., a major public sector company in the capital city Cairo. At the time of doing this study, there were 570 members and 463 housing units under the society's management, representing the small and medium sized entities in the housing cooperative sector.
(23)	Financial Institution	Established in 1898, **National Bank of Egypt (NBE)** is the largest and oldest bank in Egypt, with total assets of approx. US$50billion, it is also one of the largest banks in Africa and the Middle East. NBE has been used by the Government to support the development of many sectors in Egypt since the nationalization of the bank in late 1950's. This included extending subsidized loans to the housing co-operative societies between 1980 to the late 1990's.
(24)	Financial Institution	**Housing and Development Bank (HDB)** is an Egyptian Joint Stock Company established by the Egyptian government in 1979 for the purpose of the mobilization of the required financial resources to fund housing and reconstruction through granting long-term loans to companies, co-operative housing societies and individuals with a view to build new apartments.
(25)	Financial Institution	Same organization as (23) above.
(26)	Financial Institution	Since it first opened for business in 1920, Egypt's second largest bank **Banque Misr** has taken a leading role in the economic and social development of the country as a state-owned bank. Today, the bank employs over 13,000 employees in over 440 branches nationwide and international branches and offers a full range of banking services, including housing loans.

(27)	Financial Institution	**Concord International Investments** was founded in 1988 for the purpose of managing the wealth of individuals, families, foundations and institutions. The company manages directly and through its affiliates investment portfolios and mutual funds amounting to approximately US$1.64billion worldwide, of which approximately US$1.34billion are currently invested in Egyptian equities. The company also provides corporate finance advisory services and real estate investment advice.
(28)	Regulator	Established in 1961, the **Central Bank of Egypt (CBE)** is an autonomous public legal person, assuming the authorities and powers Of regulating the banking system of Egypt and formulating and implementing Egypt's banking policy, monetary policy and credit policy, including bank credit in the housing market.
(29)	Financial Institution	Same organization as (23) above.
(30)	Regulator	Same organization as (8) above.
(31)	Financial Institution	Established in 1975, **Commercial International Bank**, or **CIB**, is an Egyptian bank headquartered in Cairo, Egypt. With total assets of approximately US$10billions, the bank is the largest private-sector lender in Egypt. In recent years, CIB started to be active lender in the residential property market, offering a wide range of bank credit facilities for almost all purposes from home purchase to refurbishment and finishing.
(32)	Regulator	Same organization as (28) above.
(33)	Financial Institution	**Egyptian Mortgage Refinance Company (EMRC)** is a non-depository and non-banking specialist mortgage institution established in 2006 for the purpose of refinancing its shareholders, almost all mortgage lenders in Egypt. Modeled similar to Fannie Mae and Freddie Mac in the USA, EMRC's activity is only limited to dealing with its shareholders for the purpose of funding mortgage lending through, for example, issuing bonds collateralized by its assets. The company regulated by the Egyptian Financial Supervisory Authority (EFSA) (see 8 above).
(34)	Financial Institution	Same organization as (2) above.

(35)	Financial Institution	Same organization as (24) above.
(36)	Public Listed Housing Developer	Established in 1906, **Heliopolis Company for Housing and Construction** is a subsidiary of National Company for Construction and Development. It is a public listed company engaged in construction and housing projects. The Company's operations include land reclamation and subdivision, residential real estate development and management, real estate properties purchase and sale, real estate projects planning and supervising, as well as constructing of houses, hotels, holiday resorts, and hospitals properties.
(37)	Public Listed Housing Developer	Same organization as (36) above.
(38)	Regulator	Same organization as (8) above.
(39)	Regulator	Same organization as (8) above.
(40)	Financial Institution	Same organization as (24) above.
(41)	Financial Institution	Same organization as (33) above.
(42)	Financial Institution	Same organization as (33) above.
(43)	Financial Institution	Established in 1880, the **Egyptian Arab Land Bank** grew to become a prominent financial institution, serving as a source of financial support for the real estate sector throughout the Middle East. It is the second largest specialized real estate bank in Egypt.
(44)	Financial Institution	Same organization as (23) above.
(45)	Regulator	Same organization as (8) above.
(46)	Regulator	Same organization as (8) above.
(47)	Regulator	Same organization as (28) above.
(48)	Financial Institution	Same organization as (43) above.

(49)	Regulator	Same organization as (8) above.
(50)	Financial Institution	Same organization as (2) above.

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