

EGYPTIAN INITIATIVE FOR PERSONAL RIGHTS



المبادرة المصرية للحقوق الشخصية

## **POLICY NOTE**

**How not to support the undeserving and  
discriminate against the poor...**

# **EIPR recommendations on new income conditions for the Social Housing Project**

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## Introduction

On 16 January 2014, the Egyptian cabinet issued new conditions for obtaining subsidised housing units within the Social Housing Programme (SHP) – also known as “*al-Million Wehda*” or “The Million Units”.<sup>1</sup> Some of these conditions, such as those relating to age and geographic location of applicants, are as before, though the conditions on income levels are periodically adjusted to reflect inflation. However the cabinet’s reworked definition for low income earners is unjust, as it could deprive 40% of the lowest earning Egyptians from benefiting from 8.7 billion EGP (1.2 billion USD) in subsidies and public investments, which are being spent on mostly ownership units that will be allocated through the affordable mortgage programme. This programme also bars nearly two-thirds of the Egyptian workforce who are employed informally from benefiting from these housing units because they lack official work contracts.

### Box 1: Available Details on Prices and Conditions of SHP Units

#### Details on ownership units

- Unit Price: 110,000 to 130,000 EGP (15,700 to 18,600 USD)
- Finance: Affordable Mortgage Programme (participating companies)
- Maximum Annual Household Income: 40,000 EGP (5710 USD)
- Minimum Annual Household Income: 23,040 EGP (3290 USD) (As per unit prices and maximum allowed loan to income ratio of 25%)
- Down payment: 15% to 40% (Decreases the higher the income)
- Monthly Installment: 480 to 600 EGP (69 to 86 USD)
- Subsidy: 0 to 25,000 EGP (0 to 3570 USD) (Decreases the higher the income)

#### Details on rental units

- Maximum Annual Household Income: 18,000 EGP (2570 USD)
- Minimum Annual Household Income: 18,000 EGP (2570 USD)
- Down payment (will be deducted from rent): 5000 EGP (715 USD)
- Monthly Rent: 225 EGP (32 USD)
- Length of lease: 10 years

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1. According to state-owned news agency MENA, Al-Ahram 2014a. It is important to mention that there are currently three housing programmes funded by different state agencies, and that the SHP is the only one where these conditions apply.

The ownership units, which comprise the larger proportion of the SHP2, and that will be allocated using the Affordable Mortgage Programme (AMP), will not be available to the bottom 50% of Egyptian earners. The new upper limit on household income of 40,000 EGP (5700 USD) annually, falls within the highest income quintile according to the Central Agency for Public Mobilization and Statistics' (CAPMAS) Household Income, Expenditure and Consumption Survey (HIECS) for 2012-2013 (See Table 1).

**Table 1**

Expenditure Brackets		Household Consumption 2012/2013 (LE)		Current Qualification Parameters for Social Housing Project			
Quintiles	Deciles	Yearly	Monthly	Subsidy/ Tenure Option	Household Income		Instalment/ Rent
					Yearly	Monthly	
5th Richest	90-100%	42,789	3,566	Subsidy; Medium to none (Inverse to income) Affordable Mortgage	40,000	3333	833
	80-89.9%	28,646	2,387				
4th Upper Middle	70-79.9%	26,195	2,183	Do not qualify	23,040	1920	480
	60-69.9%	24,647	2,054				
3rd Middle	50-59.9%	23,097	1,925	Do not qualify	18,000	1500	225
	40-49.9%	22,000	1,833				
2nd Poor	30-39.9%	20,858	1,738	Do not qualify	15,025	1,252	Do not qualify
	20-29.9%	19,709	1,642				
1st Extremely Poor	10-19.9%	18,290	1,524	Do not qualify	15,025	1,252	Do not qualify
	Bottom 10%	15,025	1,252				

In addition to this upper limit on income, the mortgage law also stipulates a minimum eligible income as the mortgage to income ratio is 25%. Thus according to the unit prices which will range from 110,000 EGP (15,700 USD) to 130,000 EGP (18,600 USD)<sup>3</sup>, the minimum annual household income of applicants shouldn't be less than 23,000 EGP (3300 USD). According to the 2012-2013 HIECS this means families that fall within the upper half of the middle quintile (See Table 1).

The outcome of these conditions is that approximately 1.4 billion EGP of subsidies (200 million USD), in addition to nearly 6.4 billion EGP (914 million USD) of investments<sup>4</sup>, are being directed to the top 50% of Egyptian earners; the middle income, upper-middle income, and rich quintiles.

2 A comprehensive plan for the SHP is yet to be announced, so in reference to the last public housing project, the National Housing Project (NHP), only 10% of the units were allocated through rent. See (Shawkat, Forthcoming)

3. Masrawy, 8 February 2014

4. Assuming that 90% of the units are ownership, thus these figures represent 90% of the available budget. See table 2 for the total amount of state spending on the SHP for the FYs 2012/2013 and 2013/2014 as units produced during both years will be allocated according to these new conditions...

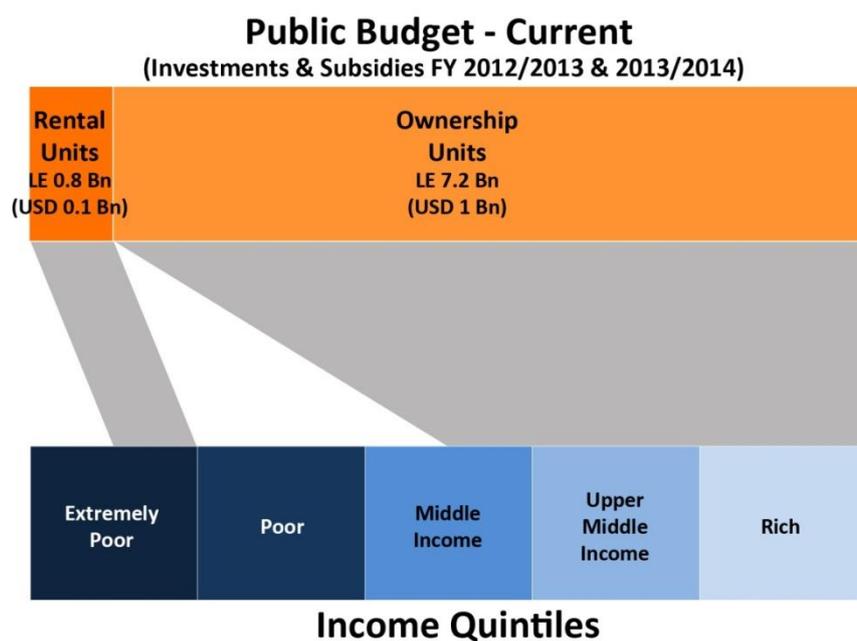
As for the rental units, 40% of the bottom earning Egyptians will be deprived of them. Families that fall in the bottom half of the middle income quintile, and the entire poor quintile, or 30% of earners, cannot qualify for a mortgage as their incomes are lower than the minimum required to apply for an ownership unit (23,000 EGP/ 3300 USD), and higher than the maximum allowed to apply for a rental unit (18,000 EGP/ 2600 USD). (See Table 1)

**Table 2**

Public Budget	Agencies	2012-2013		2013-2014		Total	
		Mil EGP	Mil USD	Mil EGP	Mil USD	Mil EGP	Mil USD
Chapter 4 Subsidies	Guarantee and Subsidy Fund (GSF)*	205	29	350	50	555	79
	Low Income Housing**	700	100	300	43	1,000	143
	<b>Total</b>	<b>905</b>	<b>129</b>	<b>650</b>	<b>93</b>	<b>1,555</b>	<b>222</b>
Chapter 6 Investments	Guarantee and Subsidy Fund (GSF)*	150	21	506	72	656	94
	Central Agency for Construction***	1,500	214	5,000	714	6,500	929
	<b>Total</b>	<b>1,650</b>	<b>236</b>	<b>5,506</b>	<b>787</b>	<b>7,156</b>	<b>1,022</b>
<b>TOTAL</b>		<b>2,555</b>	<b>365</b>	<b>6,156</b>	<b>879</b>	<b>8,711</b>	<b>1,244</b>

Sources:  
 \* Ministry of Finance, State Budget, Service Agencies, 2012/2013 & 2013/2014  
 \*\* Ministry of Finance, State Budget, Administrative Authority, 2012/2013 & 2013/2014  
 \*\*\* "Al-Shura yuagel l'timad muwazanet al-iskan al-igtimaey wa yasefha bil-dakhma", 'Upper House defers ratifying Social Housing budget and describes it as "Huge"', Al-Mal, 09-06-2013, and; "Ziyadet mowazanet al-Iskan al-Igtimaey ila 5 milyar geneih', 'Social Housing budget raised to LE 5 Billion', Al-Ahram, 29-08-2013

In addition to these families that fall in to this gap, a further 10% of Egyptians, the bottom half of the extremely poor quintile, can't afford any of the SHP units. Their income is already too low to qualify for a mortgage, but the rental value of 225 EGP (32 USD) per month is also unaffordable as it exceeds 14% of this decile's total monthly expenditure, which the HIECS indicates is the average expenditure on rent for this income bracket. This effectively means that only 10% of Egyptians can benefit from the rental units, the upper half of the extremely poor quintile, and thus 40% of the lesser earning Egyptians are deprived of benefiting from the entire 8.1 billion EGP (1.2 billion USD) public budget earmarked for subsidised housing due to their inability to qualify for both the mortgage or the rental schemes (See fig. 1).



*Figure 1*

### Missing information

Two years into the SHP, the Ministry of Housing, Utilities and New Communities is yet to announce a detailed plan outlining the rate of implementation, geographic distribution of units, and tenure mix. What is known so far is that this project began in July 2012 with the aim of providing a million housing units over five years (2012-2013 to 2016-2017) at an average rate of 200,000 units per year. According to public statements, approximately 32,000 units were built in 2012-2013, and another 50,000 will be built during the current fiscal year, 2013-2014. All of these units have the same gross floor area of 74 m<sup>2</sup>.

None of the completed units have been allocated to beneficiaries so far, where various press statements by the minister of housing have indicated that this will happen starting June 2014.

Preliminary information on the geographic distribution of these units will most likely be amended.

Without an official detailed plan, it is difficult to properly assess the SHP. Yet this lack of a plan also allows the opportunity to put forth recommendations based on lessons learnt from the previous housing project, the National Housing Project (NHP) or “*Iskan Mubarak*”, and for these recommendations to be tied to the social statistics provided by CAPMAS.

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5 Al-Shorouk, 2014

## **Analysis of the new qualification conditions for the SHP**

### Discrimination against the poor

The 2012-2013 HIECS shows that the minimum income required for the ownership units falls in the top half of the third quintile (middle income), while the maximum income allowed for falls in the top of the fifth quintile (rich). While as a majority of the SHP units will be ownership units, this means that an overwhelming majority of the subsidies and public investment are directed to the top 50% of earners (See Table 1).

Further inequities related from the allocation of SHP units through the Affordable Mortgage Programme have been found. Beneficiaries with the lower incomes are required to make a down payment of 40% of the total cost (44,000 to 52,000 EGP), which is a large sum that might not be easy for such earners to provide, while beneficiaries with the higher incomes are only required to pay a 15% down payment (16,500 to 19,500 EGP), thus putting higher earners at an advantage to buy the subsidised units.

The cabinet is currently reviewing a draft amendment to the mortgage law that includes raising the ratio of mortgage to income from 25% to 40% while lowering the percentage of the down payment to 15% of the unit cost for all income brackets.<sup>6</sup> However this is an uncalculated move, as will be explained in the following point.

### Expected high default rate on mortgage payments

According to the mortgage law (Law 148/2001), the maximum mortgage to income ratio is 25% of household income. This is considered relatively high according to the HIECS, which shows that the third (middle income) quintile spends only 14% of its monthly income on rent. Families of this income bracket would thus need to cut back on other living costs in order to make their loan payments. (Table 3).

The GSF is currently seeking to raise this percentage from 25% to 40%, which may prove catastrophic given that household expenditure is already stretched. The 2012-2013 HIECS shows that current expenditure of the middle income quintile on rent is 13.7% of all expenditure, while 62% goes to other basics such as food, utilities, healthcare, and transportation, leaving only 25% for other living costs. Therefore families would struggle to pay mortgage instalments above what they already spend on rent.

### A realistic definition of “low-income” earners

This housing project is a social program and as such its public spending must be directed primarily to the extremely poor as its first priority, followed by the poor, and then the middle income earners. According to the legal definition of “low-income” and

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6. Al-Ahram, 2014a

the subsequent amendments<sup>7</sup>, most families from these income quintiles have remained beyond the government's considerations over the last nine years during the NHP. Only those in the middle and upper-middle income quintiles were able to benefit, while ownership units comprised 90% of the programme as implemented<sup>8</sup>.

### Marginalising two-thirds of the workforce

One of the most important conditions to be able to benefit from subsidized housing projects in Egypt is proof of income. This condition is easy to meet for those working in the government sector (which was a requirement for the previous NHP), and to a certain degree for those working in the formal private sector. Yet the Ministry of Planning's National Council for Wages puts the number of those working informally at about 64% of the workforce<sup>9</sup>.

### Insecurity of tenure

For the rental units, tenure has been set at 10 years, which is a good period, however there is no explanation of the measures to be taken within this timeframe. It is unclear whether the rental value will be re-evaluated, or what will happen to the tenants at the end of the lease. For example, will the tenants' income be re-evaluated and on this basis either granted an additional lease, asked to vacate the unit, or allowed to purchase the unit?

### Questionable adequacy of rental units

The rental units' floor area is not specified. In the previous NHP, most of the rental units were targeted to widows or pensioners, and were thus small non-family units<sup>10</sup>. This formed a major obstacle to the poor and the extremely poor families seeking to obtain a unit appropriate to the size of their family and the level of their income.

### High rental values

According to the 2011-2012 HIECS, the extremely poor quintile spends an average of 14% of its total expenditure on rent. As such, the monthly rent of 225 EGP (32 USD) is adequate for only the upper half of this bracket (Table 1). This is twice the value of rental units in the National Housing Programme (NHP) that were recently allocated for 125 EGP (18 USD) with an annual raise of 10%.

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<sup>7</sup> Article 35 of the Mortgage Law 148/2001, and Article 6 of its statutes

<sup>8</sup> Shawkat, Forthcoming

<sup>9</sup> Ministry of Planning, 2013

<sup>10</sup> Shawkat, Forthcoming

### High security deposit on rental units

The value of the security deposits on rental units (5000 EGP/ 715 USD) is 22 times the monthly rent. This is an extravagant sum, especially given that it is two and a half times the value of down payments required on the NHP rental units allocated this year.

### **Recommendations: Redirecting the compass to benefit the poor**

The SHP is a social program designed to serve those in need by helping them attain their right to housing. As such, it should prioritize the extremely poor, followed by the poor, and then the middle income quintiles. The SHP's newly approved conditions fail to adopt a social orientation, and thus need to be reviewed before the first units are allocated later this year. A social orientation can only be achieved by restructuring the tenure mix, providing a range of tenure options (long-term controlled rent, short-term controlled rent and affordable mortgage) for ready built units, land plots by co-operative loans for owner-build schemes, all in a way that reflects the proportional distribution of these three, lower earning income quintiles and their varying demands.

### Majority of SHP as rental

At least 66% of public investment and subsidies should be directed to rental units, reflecting the proportion of the poor and extremely poor quintiles to the lower income bracket (See fig. 2). Initially this should mean that 66% of units that will be allocated in the first phase should be rental. In the later as-yet un-built phases, both the rental and ownership units should be provided in a range of sizes reflecting different needs; 2 and 3-bedroom family units (the majority of the SHP), in addition to small non-family units.

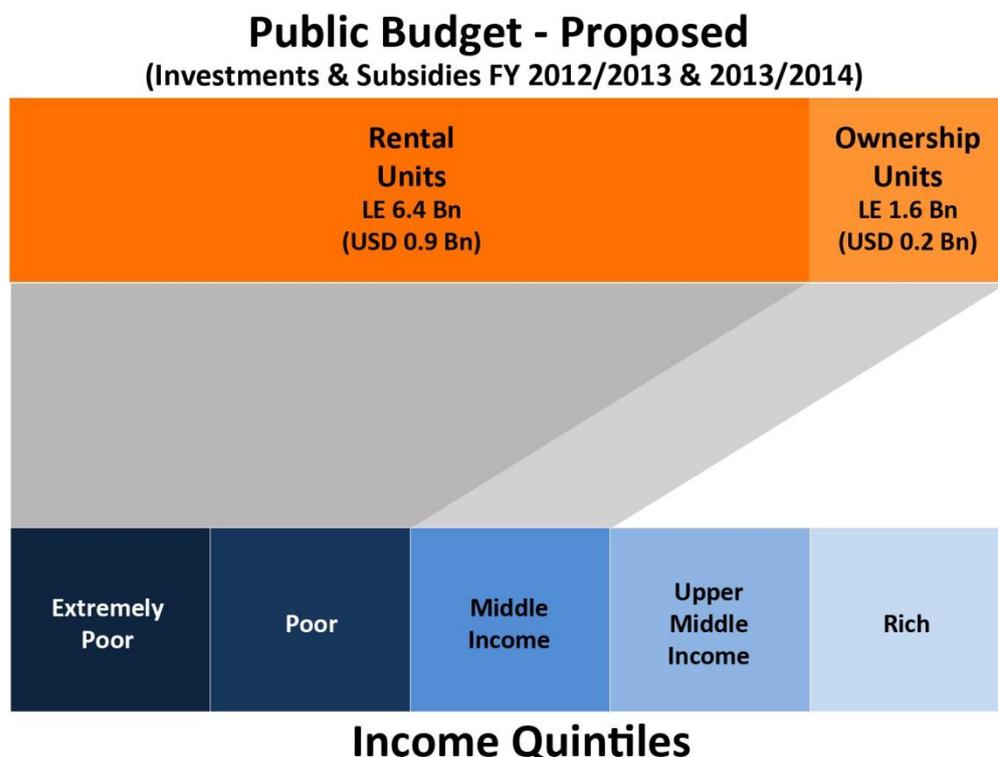
### Fair geographic distribution

Geographic distribution of the SHP should represent demand, especially in deprived regions. A full review of the planned phases is needed, and the plan restructured.

### An accurate legal definition for “low—income”

A review of the legal definition of “low-income” (Article 35 of Mortgage Law 148/2001, and Article 6 of its statutes) must reflect only the lowest three income quintiles: middle-income, the poor, and the extremely poor. The values must be adjusted yearly according to the HIECS statistics, and include geographic variance.

A unified legal definition for “low-income” should be adopted by all government agencies that serve this sector, such as the Ministries of Social Security, Housing, and Agriculture. Relative adjustments based on geographic position and rural or urban location should be allowed for.



*Figure 2*

Adequate rental values for the poor and extremely poor

A sliding rental value scale should be set for the bottom four income deciles, where affordable values should range from 90 to 240 EGP (13 to 35 USD) (See Table 3). The security deposit should not exceed a year’s worth of rent for long-term rents.

Adequate mortgage values for the middle income

For ownership units, the maximum and minimum income requirements should be amended in order to redirect these units towards the third (middle income ) quintile only as per the HIECS (See Table 3).

The value of the down payment must be unified for all beneficiaries and not exceed 15% of the value of the unit.

A revised system for determining and verifying income

Case by case field-based verification must be used with each applicant in order to verify the income level and determine the applicant's eligibility for subsidized units, as official income decrees are impossible for those working informally to obtain. The Ministry of Social Solidarity follows this method when determining household income levels, which takes household assets, quality of residence, and other factors into consideration<sup>11</sup>.

*Table 3*

Expenditure Brackets		Household Consumption 2012/2013 (LE)		Proposed Restructuring of Qualification Parameters	
Quintiles	Deciles	Yearly	Monthly	Subsidy/ Tenure Option	Mortgage/ Rent @ 15% of Income (LE)
5th Richest	90-100%	42,789	3,566	None; Open Market	420 <<
	80-89.9%	28,646	2,387		
4th Upper Middle	70-79.9%	26,195	2,183	None; At-cost Affordable Mort. /Cooperatives	300
	60-69.9%	24,647	2,054		
3rd Middle	50-59.9%	23,097	1,925	Subsidy; Low Affordable Mort. /Cooperatives	265
	40-49.9%	22,000	1,833		
2nd Poor	30-39.9%	20,858	1,738	Subsidy; Medium Controlled Rent, Medium Period	243
	20-29.9%	19,709	1,642		230
1st Extremely Poor	10-19.9%	18,290	1,524	Subsidy; High Controlled Rent, Long Period	213
	Bottom 10%	15,025	1,252		<< 175

Guarantee of continued benefit and security of tenure

For ownership units, the proposal submitted to the cabinet to raise the mortgage to income ratio from 25% to 40% must be revoked.

For rental units, the income levels of beneficiaries must be re-evaluated upon the completion of their leases using field-based verification and current HIECS statistics. This evaluation would then recommend the termination or continuation of the lease. In the event of a continuation, new term and rental values, while in the event of a termination, possible purchase of the unit.

There must also be flexibility to answer to requests during the term to transfer to other units of different sizes as reflects the beneficiaries' social needs, or to move geographically to a similar unit.

<sup>11</sup> See Social Solidarity Law 137/2010

## General recommendations

There is a dire need to adopt a comprehensive housing strategy that promotes economic and social justice, and to implement Article 78 of the new Egyptian constitution on the right to adequate housing. This strategy must be developed on the basis of in-depth periodic research on housing demand that assesses geographic distribution of demand, prices, tenure-types,, etc...

Within this comprehensive strategy, it is necessary to integrate other housing-related public spending on areas not currently covered such as renovation of existing housing, and the upgrading of deprived informal neighbourhoods. The government must also regulate the real estate market and review economic policies in order to restrain the high inflation rate of prices, thus allowing a greater opportunity to low-income families to find homes adequate to their income level, as subsidized housing projects will never fully meet demand for affordable housing . The government's housing production system must be reviewed so that housing projects can be implemented at the lowest cost possible.

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