



## Market

# PULSE

April 2005



Published by  
Egypt  
Financial  
Service Project

## A Sincere Desire To Move The Egyptian Economy

Welcome to the premiere issue of Market Pulse, the quarterly newsletter of the Egyptian Financial Services (EFS) project. EFS vision is to establish a dynamic private sector lending industry competing for business across the spectrum of borrowers and a thriving real estate services sector that brings efficiency and lower costs to the industry. Our team of international and Egyptian experts will help Egypt establish the necessary legal requirements, practices and financial tools to unlock its wealth so that its citizens have access to lower cost capital for expanded home ownership and investments in businesses. This newsletter will help everyone, from institutional partners to industry professionals, stay on top of the rapid developments in the mechanisms of the real estate industry that will be spurred by EFS.

EFS was set up in response to a request from the Egyptian government to apply the best international practices in the real estate finance industry. The agreement for the 5-year project between the Ministry of Investment and USAID has a budget of US \$32 million, which covers technical

assistance, training programs, and IT equipment to enhance performance. There are four main project objectives:

- Establishing a supporting framework for the real estate finance industry.
- Improving the registration system for urban real properties.
- Developing procedures and a framework for secured lending and new financial instruments.
- Establishing a broad-based credit information system.

We have every confidence that EFS will deliver results, because our team of international and Egyptian experts is working in close cooperation with a number of Egyptian ministries, institutions, private sector companies and civil society associations to implement tasks on a specific timeline. In addition to the Ministry of Investment (MOI) and the Mortgage Finance



Allen Decker  
Chief of Party, EFS

Authority (MFA), EFS partners include the Ministry of Justice (MOJ), Capital Market Authority (CMA), Central Bank of Egypt (CBE), the Ministry of Administrative Development (MOAD), and the Egyptian Survey Authority (ESA).

I am pleased to be a part of this project, because I have noticed from the start

the sincere desire of all partners to move the Egyptian economy forward to reach international standards. When the machinery for the real estate market is working smoothly, a greater number of citizens can participate safely with measured risks to keep the economy as a whole well-oiled.

In this issue of Market Pulse, the News Section will focus on presenting the main four project components in detail, as well as significant achievements - to-date in each area. Read about our kick off event and the study tour in Turkey in the Events Section and keep up to date on developments in the country's related industry's news in the Mortgage and Finance in Egypt Section. We look forward to a productive quarter. ■

In partnership,  
Allen Decker  
Chief of Party, EFS

## Real Estate Finance Industry

**E**FS seeks to assist in building the institutional infrastructure that will stimulate medium - and long - term home mortgage financing consistent with international standards and best practices through the establishment of an effective and efficient regulatory authority and related real estate professions. To accomplish this, the EFS team is working on several fronts, summarized below:

1. Helping the MFA to build the necessary institutional capacity,



particularly in the areas of regulations and supervision and to carry out its mission in a focused, prioritized and effective manner.

2. Establishing required legal, regulatory and administrative reforms and investment standards as well as allocating guidelines for long-term investments.
3. Stimulating real estate professions, expanding services and bringing in industry international standards.
4. Establishing stable term funding to originate mortgage loans.
5. Enhancing the capacity of courts to mediate/ adjudicate real estate lending in order to enforce foreclosure.

Much progress has been made early in the project in this area. Towards capacity building of the MFA, the team completed a report on the staffing needs and the required organizational structuring and will soon finalize job descriptions to recruit new employees for the MFA. IT needs are being assessed and addressed. The goal is to have the MFA



become fully operational under a well conceived organizational structure with a consumer protection and outreach function. Towards developing the real estate profession, a number of nascent associations were identified and contacted. MFA and EFS will partner with these associations to develop real estate professionals.

Finally, EFS sponsored a seminar delivered by the Canadian Mortgage and Housing Corporation (CMHC) on mortgage insurance for judges, clerks/experts, administrative staff, bailiffs and enforcement officers. ■

## Registration System for Urban Real Properties



**A** system of private property rights is fundamental to the emergence of a market economy and a real estate market. Without well - defined and enforceable property rights, the market is unable to function properly and the economic growth of a nation is retarded. Neither residential nor commercial real estate financing can occur unless financiers can be

satisfied that parties seeking credit have good titles to pledge or mortgage. Therefore, a system for recording land ownership and transactions on land is an indispensable tool for a market economy to emerge and work well. The key objective of this area of activities is to develop a pilot registration system with our key counterparts, the Ministry of Justice and the Egyptian Survey Authority, that conforms to international standards and best practices, which will enable property to be registered, titled and used as a collateral. There are several components, which are:

1. Establishing a strong working relationship between the Ministry of Justice and the Egyptian Survey Authority and improving the registration system in urban areas.

2. Designing automated business applications for pilot registration system.
3. Selecting two model office locations, training staff as well as implementing a pilot automated system.
4. Evaluating and revising the upgraded registration system for national roll out.
5. Enhancing MOJ capacity to resolve land and real property disputes.
6. Mobilizing private sector participation in registration.

EFS is nearing completion of an assessment of current registration practices in urban areas and will be meeting with policy - level stakeholders to develop a common vision and mandate for urban registration. Technical processes at three offices are being revised with recommendations for reengineering for ease of registration and eventual automation. Concurrently, the public awareness team is conducting research on consumer attitudes towards registration to help new systems overcome any real or perceived obstacles for greater participation. ■

# Secured Lending and New Financial Instruments

To better serve the needs of borrowers and investors and expand access to loans from bank and non-bank institutions, EFS is working to introduce a number of new financial instruments that will both deepen and broaden Egypt's financial market and bring about better allocation of capital. To strengthen the need for valuable assets that can be used as a collateral for loans, EFS seeks the establishment of a modern personal property registry for business borrowers to lower the costs of borrowing.

To achieve these objectives, EFS will identify and assist in removing legal, regulatory and operational impediments on institutions to issue or invest in the proposed new instruments. Additionally, EFS will work to stimulate credit through collateralization of personal movable property and leasing by

establishing a state-of-the-art collateral registry of security interests in movable assets and working to enhance the capacity of courts to mediate secured lending disputes. Specific objectives include the following:

1. Expanding the diversity of financial instruments for investors and financing instruments for borrowers.



2. Enhancing the capacity of the market and its regulators to handle the introduction of the new financial instruments.
3. Modernizing collateral registry to secure interest in personal moveable property.
4. Enhancing the capacity of the courts to mediate secured lending disputes.

An assessment on the market needs for new financial instruments and impediments as well as recommended enhancements will be undertaken and will form the basis of a series of workshops on new financial instruments to be held in subsequent quarters when the new rules and regulations for the new instruments are issued. A press forum was held in January with the Ministry of Investment to introduce the program to specialized journalists and more public awareness activities are planned. The EFS team is working with CMA on setting the rules and procedures for the first securitized bond. ■

## Broad – based Credit Information System

EFS works closely with its principal institutional partner, the Central Bank of Egypt, and it also works with a number of cooperating institutions including the Ministry of Investment, the Ministry of Finance and the Ministry of Justice to establish the legal and regulatory framework for private credit bureau operation and strengthen CBE's role as the credit bureau regulator.

Several components form the basis of the EFS program in this area, which are:

1. Strengthening the capacity of the CBE for oversight of private information systems and protection of consumer rights.



2. Establishing an operational private sector credit bureau.
3. Securing a system of consumer rights protection.

EFS has been closely following the status of the proposed amendment of the banking law under consideration by the parliament, the passage of which would enable activities related to CBE's

role as a regulator and establishing a private credit bureau. A study tour to Turkey was organized to learn about its experience in this area. In addition to that, EFS is working closely with the Central Bank of Egypt to draft licensing requirements and related rules as well as regulations that will govern the operations of private credit bureau. ■

## Study Tour to Turkey

EFS led an observational study tour to visit Kredi Kayit Bursou (KKB) A.S., the private Credit Bureau of Turkey in March 2005. Representatives from the Central Bank of Egypt, several Egyptian banks, the Social Fund for Development, the Egyptian Banking Institute as well as the USAID composed the Egyptian delegation.

Egyptian banks are currently working together to set up a private sector credit bureau to establish data banks to support

the development of consumer finance and retail banking services. Turkey was an appropriate choice for the study tour as it is perceived as a successful model in the region. The study tour lasted two days, and the Egyptian participants learned about the regulations and systems used in KKB. In addition, representatives from the Turkish Financial Regulator and two Turkish member banks shared their experience with the group. ■



## Teaming Up: EFS Launches with Kick-Off Event

**E**FS hosted a kick-off event at the Conrad Hotel on March 1st to introduce real estate and mortgage finance professionals and project's counterparts to the project with the aim of maximizing project's success. Representatives from the Ministry of Investment, the Ministry of Finance, the Ministry of Justice, the Mortgage Finance Authority, the Capital Market Authority, the Egyptian Insurance and Supervisory Authority, the



**Douglas Menelaws presenting task two activities to the audience.**

participated in the event. The event included presentations by the four task leaders explaining the different components of the EFS project and the annual work plan. In addition, leaders of the cross cutting activities, including IT Training and Public Awareness, talked about their plans in order to support the four tasks of the EFS project. ■

Central Bank of Egypt and the technical assistance providers

support the four tasks of the EFS project. ■

## MORTGAGE & FINANCE IN EGYPT

### New Executive Regulations

**A**t the Cabinet meeting on March 8th, H.E. Dr. Mahmoud Mohieddin, Minister of Investment, submitted a draft decree by the Prime Minister to amend the executive regulations of the mortgage finance law issued by Law no.148 for the year 2001. The amendment includes clauses on the following issues: Widening the scope of mortgage finance to provide for mortgage to finance investment in building on land, or restoration of an estate owned by the

investor yet not registered in his name.

- Widening the scope of beneficiaries of mortgage finance so that only one member of a family may qualify for mortgage finance, not to exceed 10% of the family net worth.
- Applying specific standards for appraising an estate in the case of buying to ensure consumer confidence in fair appraisals.
- Amending the definition of intended beneficiaries of the Mortgage Finance Subsidy and Guarantee Fund to include

every individual with annual income of less than LE12,000 or every family with an annual income of LE18,000.

- Setting up integrated databases to facilitate collection of data from licensed companies related to the mortgage finance operations.
- Setting measures to regulate companies ceasing operation or their liquidation or merge.
- Establishing a system to qualify mortgage brokers and experts as they are regarded as an influential element in mortgage finance.
- Developing measures to maintain the confidentiality of information related to the clients. ■

Source: Al Ahram, March 9<sup>th</sup>, 2005

### Credit Bureau to be Established

**S**everal Egyptian banks recently declared their interest in setting up the first Egyptian "Private Credit Bureau" specialized in providing banks with information on consumers seeking lines of credit and loans. Several banks and financial institutions, including El Mesria, El Taameer and Housing, and the Social Fund for

Development (SDF) expressed their readiness to cooperate with this agency, which will have among its primary tasks the establishment of a database of individual clients of banks. At a later stage, institutional clients will be added to the database.

Once all the data has been collected and entered, all banks subscribing to the company's service would have access to a database of all retail banking and credit card clients of other subscribing banks. The company verifies the data by comparing it with data included on official identification cards and detects suspected forgeries or frauds. Then the client is given a credit score based on

the information that is available in the credit bureau. At this stage, two of Egypt's biggest credit card issuers, Misr Bank and the National Bank of Egypt, are participating in the establishment of the database. The banks submit data regarding the client's credit record, including commitment to loan repayment, as well as data on non-performing loans. Client confidentiality is secured by legislation and measures guarding it. The credit bureaus use technology specialized in protecting and coding information on clients to maintain the required confidentiality. ■

Source: Al Alam Alyoum, Jan 17<sup>th</sup>, 2005

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