



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/EGYPT'S FINANCIAL SERVICES PROJECT

AUDIT REPORT NO. 6-263-10-002-P
November 30, 2009

CAIRO, EGYPT



Office of Inspector General

November 30, 2009

MEMORANDUM

TO: USAID/Egypt Mission Director, Hilda Arellano

FROM: Regional Inspector General/Cairo, Jacqueline Bell /s/

SUBJECT: Audit of USAID/Egypt's Financial Services Project
(Report No. 6-263-10-002-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we carefully considered your comments on the draft report, and have included the mission's comments in their entirety in appendix II, without attachments.

This report includes three recommendations to strengthen program management. Based on your comments and the documentation provided, we consider that management decisions have been reached for recommendations 1, 2, and 3. A determination of final action will be made by the Audit, Performance and Compliance Division (M/CFO/APC) upon completion of the planned corrective actions.

Thank you for the cooperation and courtesy extended to the audit team during this audit.

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SUMMARY OF RESULTS

USAID designed USAID/Egypt's Financial Services Project to assist Egypt in building market infrastructure for the real estate finance sector and awarded a \$32 million 4-year contract with a \$4 million 1-year option to Chemonics International (Chemonics) in November 2004. The contract required Chemonics to build the market infrastructure required for real estate financing and other forms of secured lending through technical assistance aimed at institutional strengthening, regulatory reform, and professional development. As of September 30, 2009, USAID/Egypt had obligated approximately \$34 million and disbursed \$33 million under the contract. Although the mission planned to end the contract in September 2009, officials extended the contract until March 30, 2010, at an additional cost of \$300,000 to provide technical assistance to enhance financial regulatory capacity (page 3).

In accordance with the contract, Chemonics was responsible for completing activities in four significant tasks for USAID/Egypt's Financial Services Project directed by the mission's Office of Policy and Private Sector. However, it did not complete activities in two of the four tasks during the contract period. Specifically, Chemonics did not establish a second automated property registration office during the contract period because of delays resulting from a lack of agreement with the Ministry of State for Administrative Development on the selection of an information technology platform. Chemonics also did not develop a collateral registry for secured lending required by a contract task to develop the framework and procedures for secured lending because of delays in finding a Government of Egypt counterpart for the activity (pages 5–6).

Chemonics achieved successes in helping to strengthen the regulatory capabilities of Egypt's Mortgage Finance Authority. In particular, it helped to standardize mortgage lending and underwriting processes to promote Egypt's use of secured lending instruments to increase the use of proper mortgages. It also achieved notable success in assisting the Central Bank of Egypt to strengthen its oversight and supervision of the Egyptian private credit bureau (page 5).

Although Egypt's real estate finance market has experienced significant growth since 2004, USAID/Egypt's efforts are not clearly measurable or attributable directly to the project activities. The project's midterm evaluation noted that the pace of reform clearly accelerated after the new Egyptian ministerial team took charge in mid-2004, so it is not easy to distinguish USAID accomplishments from host-country actions. Furthermore, the impact of USAID's contribution to the growth of the real estate market through the financial services project has been difficult for the mission to enumerate because many of the performance measures that USAID/Egypt's Office of Policy and Private Sector used to monitor the project illustrated market performance rather than specific USAID project activities (page 5).

Chemonics' reporting of project progress was not performed consistently to document a comparative analysis between actual results and expected results. USAID/Egypt tracked the project's progress by following key economic data reflected in indicators in the project's performance management plan developed to measure performance regarding the progress toward an intermediate or final result. However, USAID/Egypt and Chemonics tracked the project progress in two different ways. USAID/Egypt used

one performance indicator related to the real estate finance sector to measure the number of housing loans originated on an annual basis for the country of Egypt. Chemonics used 38 performance indicators to measure and report on project progress in its performance management plan. The Office of Policy and Private Sector did not independently verify reported information or require Chemonics to collect data directly attributable to USAID efforts (pages 7–9).

Although Chemonics established a model property registration office using automated systems, it did not establish or require a provision for an initial period of maintenance or technical support. In addition, the office has experienced limited demand since its opening in 2008 (pages 10–12).

The audit concluded that USAID/Egypt should disclose limitations on reported results for financial services' project activities, verify and document reported results periodically (page 9), and conduct a cost-benefit analysis of the model property registry's workload before investing any additional foreign assistance funds into automated property registration activities (page 12).

USAID/Egypt agreed with the three recommendations in their written response (pages 16–19). Based on the evaluation of the mission comments and documentation provided, the audit determined that management decisions were reached for the three recommendations (page 13).

BACKGROUND

Egypt's mortgage finance market is still in its infancy and implementation of a new mortgage finance law has experienced a slow start in the country. Access to affordable housing finance for most Egyptian households has been constrained by an underdeveloped mortgage finance system. The banking sector has offered little formal housing finance, and the central bank has restrictions on extending bank credit to the housing sector and has imposed a 5 percent ceiling on real estate lending. Housing finance relies excessively on seller financing from builders. The Government of Egypt has introduced a number of reforms to promote mortgage finance, including the issuance of the Real Estate Finance Law 148 during calendar year 2001 that established the Mortgage Finance Authority and authorized both banks and nonbank mortgage companies to issue mortgages.

Obstacles to mortgage finance in Egypt include an inadequate legal infrastructure, flaws in the property registration system, restrictions on bank credit to the housing sector, and a lack of public awareness about mortgages. The biggest obstacle to mortgage finance in Egypt has been property registration. In a 2005 assessment of the housing sector in Egypt, the Overseas Private Investment Corporation—a U.S. Government corporation—estimated that more than 90 percent of urban properties in Egypt do not have formal titles. Consequently, mortgage finance is not practical until property rights and land registration rights are enforceable.

USAID/Egypt's Office of Policy and Private Sector manages the Financial Sector Modernization Program, which includes economic growth project activities within the mission's strategic objective for trade and investment and has a life-of-project funding of \$151 million. Within the Financial Sector Modernization Program, the Office of Policy and Private Sector is responsible for managing the Egypt Financial Services Project valued at \$36 million. USAID/Egypt awarded a \$32 million 4-year contract with a \$4 million 1-year option (Contract #263-C-00-05-00003-00) to Chemonics International (Chemonics) in November 2004. A team from USAID/Washington designed the project to assist Egypt in building the market infrastructure for the real estate finance sector, which required the contractor to implement activities that provided technical assistance, training programs, public awareness, and information technology equipment to Egyptian regulatory agencies, mortgage finance companies, and commercial banks. As of September 30, 2009, USAID/Egypt had obligated approximately \$34 million and disbursed \$33 million under the contract. Although the mission planned to end the contract in September 2009, on September 30, 2009, officials extended the contract until March 30, 2010, at an additional cost of \$300,000. Mission officials are considering plans to establish a second property registration office under a different technical assistance project managed by the Office of Policy and Private Sector. The mission officials expect this technical assistance project to extend until October 2010.

The Egypt Financial Services Project objectives were to build the market infrastructure required for real estate financing and other forms of secured lending through technical assistance aimed at institutional strengthening, regulatory reform, and professional development. Egypt Financial Services worked with both public and private entities and cooperated and coordinated its efforts with other donor agencies including the World

Bank, the International Finance Corporation, the European Union, the Canadian International Development Agency, and complementary USAID projects. To achieve its objectives, USAID/Egypt worked with representatives from the Government of Egypt's ministries of Investment, Finance, Justice, and State and Administrative Development, as well as the Central Bank of Egypt.

Although USAID designed its Egypt Financial Services Program to address real estate finance sector issues, some of the project activities were also related to benchmarks for Government of Egypt activities to develop a real estate finance system that was documented in a memorandum of understanding between the U.S. Government and the Government of Egypt. The Government of Egypt's achievement of specific real estate finance sector activities, together with other economic growth reforms, helped to trigger \$50 million of a disbursement¹ as a cash transfer from the U.S. Government in October 2008.

AUDIT OBJECTIVE

As part of the Office of Inspector General's fiscal year 2008 audit plan, the Regional Inspector General/Cairo performed this audit to answer the following question:

- Has USAID/Egypt's Financial Services Project achieved planned results and what has been the impact?

Appendix I contains a discussion of the audit's scope and methodology.

¹ The cash transfer grant agreement was valued up to \$1.2 billion to fund activities to improve the policy framework for trade and investment in Egypt.

AUDIT FINDINGS

USAID/Egypt's Office of Policy and Private Sector did not fully achieve planned results for its Egypt Financial Services Project, although its contractor, Chemonics International (Chemonics), reported results that were based on economic data that measured the performance of the real estate finance market in Egypt. The market data represent cumulative data compiled from multiple sources based on the efforts of multiple contributors. Consequently, Chemonics reported achieving results on mortgage information related to housing loans and values, housing regulatory issues, and property registration that resulted from the combined efforts of donors and private investors. Additionally, USAID/Egypt's Office of Policy and Private Sector did not verify the contractor's reported performance information to measure project progress. Consequently, neither Chemonics nor USAID/Egypt's Office of Policy and Private Sector can finitely segregate or identify USAID's contributions.

Although Egypt's real estate finance market has experienced significant growth since the project inception in late 2004, USAID/Egypt's efforts are not clearly measurable or attributable directly to the implementer's efforts. As the project's midterm evaluation illustrated, the pace of reform clearly accelerated after the new Egyptian ministerial team took charge in mid-2004, so it is difficult to distinguish between USAID accomplishments and host-country actions. Furthermore, the impact of USAID's contribution to the growth of the real estate market through the financial services project has been difficult for the mission to enumerate because many of the performance indicators that the contractor reported were affected positively by market forces in addition to USAID project activities.

Chemonics achieved successes in helping to strengthen the regulatory capabilities of Egypt's Mortgage Finance Authority. In particular, Chemonics helped to standardize mortgage lending and underwriting processes to promote Egypt's use of secured lending instruments to increase the use of proper mortgages. It was also able to achieve notable success in assisting the Central Bank of Egypt to strengthen its oversight and supervision of the Egyptian private credit bureau.

USAID/Egypt tracked the project's progress by following key economic data documented in the project's performance management plan. USAID/Egypt used one indicator in the mission performance management plan related to the real estate finance sector to measure the number of housing loans originated by banks on an annual basis for the country of Egypt. Chemonics used 38 indicators in a project performance management plan to measure and report on project progress. The audit reviewed 15 of the 38 indicators (40 percent), as shown in appendix IV. These indicators were among those identified by the Office of Policy and Private Sector as some of the most important statistics to measure progress, and are included within four tasks in the contract, as follows:

- Establishing the supporting framework for the real estate finance industry.
- Improving the operation of the registration system for urban properties in the Ministry of Justice.

- Developing the framework and procedures for secured lending within the Ministry of Justice and developing new financial instruments under the Ministry of Investment, Capital Markets Authority, the Ministry of Finance, and the Central Bank of Egypt.
- Establishing a broad-based credit information system.

In fiscal year (FY) 2007, the contractor established targets for 14 of the 15 indicators that included specific activities such as the annual number of housing loans originated by mortgage finance companies, average time to register property in the Mokattam district of Cairo, number of asset-backed securities issued, and percentage of central bank data transferred to the credit bureau. For FY 2007, 10 of the indicators achieved their targets. For FY 2008, the contractor established targets for 12 of the 15 indicators, and achieved 7 of the targets. For FY 2008, in its documentation, the contractor also reported that the project achieved results for 8 of the 12 required contract deliverables reviewed.

Although Chemonics completed many of the financial sector activities required in the tasks in its contract with USAID/Egypt, the contractor did not fully achieve the project objectives to improve the registration system for urban properties and the development of procedures for secured lending. Chemonics reported that it achieved successes in establishing a framework for the real estate finance industry, providing assistance to the Capital Markets Authority for developing new financial instruments such as asset-backed securities, and assisting in drafting model legislation and regulatory procedures for the protection of consumers' rights for the first private credit bureau established in Egypt. Chemonics also reported successes in assisting in drafting regulations and procedures governing mortgage loan underwriting and preparing underwriting documentation; providing technical assistance to mortgage industry professionals who have administrative, regulatory, and banking responsibilities; and training mortgage industry professionals.

As required by the contract's property registration task, USAID/Egypt's Office of Policy and Private Sector expected Chemonics to establish two model property registry offices. However, because of delays resulting from a lack of agreement with the Ministry of State for Administrative Development on the selection of an information technology platform, and requests from the Government of Egypt to focus on improving the existing deeds registration system, Chemonics established only one model registry office during the contract period.

Furthermore, under the task for the development of the framework and procedures for secured lending, the contract required the establishment of a collateral registry for secured lending and draft model legislation on the processes of securing collateral. The activity was not initiated during the contract period because of unsuccessful efforts to find a Government of Egypt counterpart for the activity.

Although some circumstances that negatively affected achievement of program goals were beyond the contractor's control, Chemonics achieved some successes in other activities. Under the property registration component to provide technical assistance to re-engineer Egyptian business processes for property registration, Chemonics successfully completed required activities to develop and document the system requirements and workflows for the enhanced parcel-based deeds system. However, future sustained successes for property registration depend on public awareness and

cooperation. According to the project contractor, until a more widespread culture of formal property registration is developed at all levels of the population, the systemic large-scale application of urban title registration is at risk.

Although many of the activities required under the contract were completed, the audit identified program management areas that USAID/Egypt should improve. The following sections discuss these areas and provide recommendations to strengthen program management by (1) improving performance monitoring and (2) reviewing technical support requirements.

USAID/Egypt Should Improve Performance Monitoring

Summary: USAID guidance states that performance indicators should closely track the results that they are intended to measure and measure changes that are clearly and reasonably attributable to USAID efforts. Secondly, USAID guidance requires managers to ensure that documentation is accurate. USAID/Egypt's Office of Policy and Private Sector did not report data that were directly attributable to USAID efforts and did not review the reported data to verify their accuracy. The contracting officer's technical representative believed that reporting on market indicators was sufficient and did not review information to identify data changes because the staff person did not know that it was necessary. Although market data provide statistics that measure market performance, it is difficult to determine and publish USAID's contribution as quantifiable and qualitative data.

USAID's Automated Directives System (ADS) 203.3.4, *Selecting Performance Indicators for Performance Management Plans*, states that performance indicators are used to observe progress and to measure actual results compared to expected results. Specifically, ADS 203.3.4.2 states that performance indicators should be directly related to the activity and closely track the results they are intended to measure. Moreover, the guidance states that the selected performance indicators should measure changes that are clearly and reasonably attributable to USAID efforts. Moreover, ADS 596, *Management's Responsibility for Internal Control*, requires managers to review performance measures and indicators. Additionally, USAID's *Guidebook for Managers and Cognizant Technical Officers on Acquisition and Assistance* states that contracting officer's technical representatives are responsible for ensuring the accuracy of all reports submitted by their implementing partners.

USAID/Egypt's Office of Policy and Private Sector did not monitor the project using targets or reported data that were directly attributable to USAID efforts, and did not consistently monitor progress.

Reported Data Not Directly Attributable to USAID Efforts – USAID/Egypt's Office of Policy and Private Sector monitored the project by tracking performance measures that were not directly attributable to USAID efforts. The office used one indicator in the mission's performance management plan for the project to track the annual number of housing loans originated by banks and mortgage finance companies in Egypt. However, USAID/Egypt's Office of Policy and Private Sector did not require its contractor to

develop a performance management plan identifying performance measures for the project until 2006, almost 2 years after the contract began.

In 2007, Chemonics reported in the data quality assessment section of the project performance management plan that 2 of the 38 performance measures did not closely measure the results they were intended to measure. Moreover, Chemonics identified that the performance measures were not attributable, at least in part, to USAID efforts. These two indicators were the annual number of housing loans originated by mortgage finance companies, and the value of mortgage loans originated by mortgage finance companies. Although the contractor identified the indicator weaknesses, USAID/Egypt's Office of Policy and Private Sector reported data on only one indicator in the mission's performance management plan: the annual number of housing loans originated by mortgage finance companies. The contracting officer's technical representative did not address Chemonics' assessment regarding the lack of attribution. The contracting officer's technical representative believed that there was an indirect relationship between the contractor's technical assistance and the growth of the real estate market in Egypt. Office of Policy and Private Sector officials stated that market indicators are appropriate measures of project progress for macroeconomic programs.²

Office Did Not Verify Accuracy of Reported Performance Information – Although USAID/Egypt relied on the contractor for project results reported annually in the performance management plan, the mission did not independently verify any of the contractor's performance information. The Office of Policy and Private Sector's contracting officer's technical representatives³ monitored the project by using publicly available data on real estate market performance and by conducting regular meetings with the contractors and other Government of Egypt stakeholders to gather information. In some cases in the Chemonics reports to the mission, the contractor did not clearly indicate what it measured or whether a measurement had been changed. The contractor developed a performance management plan in September 2006 that identified key results that were similar to the project objectives and tasks established in the contract, and also developed 38 performance measures that were linked to tasks and key results areas. Although each indicator was linked to a key result in the performance management plan, the audit revealed that there was not a clear linkage between the performance measures and the activities that the mission required Chemonics to perform as contract deliverables.

In two examples, USAID/Egypt's Office of Policy and Private Sector relied on information that the office did not verify that resulted in erroneous reporting. During FY 2007, one major change occurred in the financial services project reports. Chemonics changed its reporting for many of the performance indicators from annual to cumulative, but did not update the project performance management plan. Moreover, USAID/Egypt overlooked the fact that the mission reported the data using the description as annual number of housing loans originated in Egypt. In another example, Chemonics published information on the average number of days to register property in Mokattam in its FY 2008 annual progress report. The Mokattam property registry office was not fully operational yet and lacked sufficient data to calculate an average, so the contractor

² Macroeconomics is the study of the behavior and decision making of entire economies.

³ Two different contracting officer's technical representatives worked on the project from 2007 to 2008.

reported data it took directly from the World Bank *Doing Business Report* in its FY 2008 annual report. The World Bank number included data for the country of Egypt and was not specific to the Mokattam office where the project activity was implemented.

Although USAID/Egypt's Office of Policy and Private Sector contracting officer's technical representative stated that in 2008 the office requested Chemonics to revise its performance management plan to include new target and actual data, the contractor had a different understanding. In fact, Chemonics stated that it discussed reducing the number of indicators to be tracked with the office, because in some cases the activity was either completed or had been stopped by Government of Egypt counterparts. Moreover, Chemonics' officials also stated that it would not be reliable to establish targets for indicators that would be directly affected more by market forces than project activities, such as the number of investors in new financial instruments or percentage of central bank data transferred to the credit bureau. However, the contractor still reported the actual figures to reflect trend or development year over year.

USAID/Egypt's Office of Policy and Private Sector did not verify the contractor data because the contracting officer's technical representative staff stated that they were not aware that it was necessary. Although the contracting officer's technical representative reviewed quarterly progress reports and other relevant documents, the staff did not verify reported information or monitor the project using data explicitly and directly attributable to USAID efforts. As a result, reported data used for mission and stakeholder's assessments about project progress may not be complete or accurate.

Without an accurate measurement of progress toward results, USAID/Egypt cannot reliably determine whether the project is on track to achieve planned results or make informed and timely management decisions about necessary project adjustments. While some data provide statistics to evaluate market performance, it becomes difficult to measure and publish USAID's contribution as quantifiable and qualitative data. Accordingly, this audit makes the following recommendations:

Recommendation No. 1: We recommend that USAID/Egypt disclose in its performance management plan that the performance result for the financial services project is attributable to cumulative data compiled from multiple sources.

Recommendation No. 2: We recommend that USAID/Egypt develop a plan to verify and document reported results periodically.

USAID/Egypt Should Review Technical Support Requirements

Summary: As a part of an agreement with the Ministry of Justice, the Egypt Financial Services Project was expected to configure automated systems to capture, maintain, and manage title records and transactions for a preparatory title registration system. However, the activity was delayed because of a lack of agreement between Government of Egypt and USAID officials about the selection of an information technology platform and system development options that would include technical support. The contractor awarded a subcontract to establish an office using the automated systems, but did not include any provision for a maintenance agreement or continued technical support beyond the initial subcontract period. Furthermore, the office's workload has been limited owing to limited demand. Without a provision for technical support, and limited demand for property registration, the continued operation of the office for its intended purposes may not be sustainable.

In a memorandum of understanding between the Ministry of Justice and the Egypt Financial Services Project in August 2005, the parties agreed to roles and responsibilities for achieving the project objective to develop a preparatory property title registration system for application in urban areas. The system would conform to recognized standards and best practices that would enable property to be registered, titled, and used as collateral.

USAID/Egypt's Office of Policy and Private Sector required Chemonics to establish a pilot program for two local district property registration offices. The pilot program required developing two model offices that would use streamlined registration procedures. USAID/Egypt expected the contractor to procure and install information technology hardware and software, provide management structure and protocols, and train the ministry staff. As a part of the agreement with the ministry, the contractor was also expected to configure automated systems to capture, maintain, and manage title records and transactions for a preparatory title registration system and provide Internet access. In March 2005, Chemonics issued a cost-reimbursement time and materials contract to its subcontractor, International Land Systems, Incorporated, for the contract's property registration task.

The establishment of the model property registry offices was hindered by delays caused by efforts to reach an agreement with the Ministry of State for Administrative Development in the selection of an information technology platform to be used for the model office. USAID/Egypt and its contractor collaborated with Government of Egypt officials in the Ministry of Justice (responsible for property registration) and the Ministry of State for Administrative Development (responsible for information technology). The memorandum of understanding identified the Ministry of Justice as the Government of Egypt counterpart. The Ministry of State for Administrative Development was not a party to the memorandum of understanding, but was appointed as the coordinating agency for the information technology aspects of the project. They coordinated with the contractor to develop the information technology platform for the model property registry office.

Attempts to coordinate with the Ministry of State for Administrative Development for the model registration office to be integrated into the Government of Egypt's National Real Estate Registration Project were unsuccessful. An agreement on the selection of an information technology platform could not be reached, even after much debate between USAID/Egypt and the representatives from the Ministry of State for Administrative Development. At USAID/Egypt's direction, Chemonics compiled a report that suggested seven alternative system development options. However, the Ministry of State for Administrative Development would not accept any of the proposed options because the ministry wanted USAID to provide a sole source contract to another vendor. Ministry officials believed that another vendor would be the best choice since they had selected this vendor for the National Real Estate Registration Project. USAID/Egypt rejected the request because it violated its contracting regulations.

USAID/Egypt officials met with Ministry of Justice officials and confirmed that the ministry wanted to continue with requirements documented in the 2005 memorandum of understanding to establish a model registry office that was a part of the property registration task. In January 2008, USAID/Egypt's Office of Policy and Private Sector instructed Chemonics to proceed with the model registry office in Mokattam, Egypt. The Government of Egypt was separately implementing its own National Project for Urban Real Estate Registration. Consequently, USAID/Egypt's Financial Services Project proceeded with an automated property registration office that was on a different information technology platform than that of the Government of Egypt's program. Chemonics did not begin the second model registry office required in the contract because of the delays caused by the lack of agreement between the Ministry of Justice and Ministry of State for Administrative Development about the differing information technology platform. However, USAID/Egypt paid \$11 million, or \$4 million more than it originally budgeted, for the property registration task because of changes from a planned title system to an enhanced parcel-based deed system, and the provision of training in computer basics and system operations. The mission paid for the additional costs using project funds from another contract task.

Chemonics required its subcontractor to perform the tasks necessary to automate the property registration office. The subcontractor donated and configured commercial off-the-shelf land registry software and equipped the office in Mokattam with a digital environment. The digital environment included automated property registration software and a data management system for automation of mapping and survey functions related to property registration.

The model property registration office opened in late September 2008. According to Chemonics, the model registry office in Mokattam is the key vehicle for showcasing the results of most, if not all, of the property registration task's technical assistance activities. The office is staffed by 20 registry, survey, and notary employees from the respective Government of Egypt agencies.

After Egypt's Real Estate Publicity Department within Egypt's Ministry of Justice assumed operation of the Mokattam office, staff identified several operational, information technology, and connectivity problems related to the automated system developed and installed by the subcontractor. In particular, office staff experienced problems with processing some of the transactions and transferring data. Although the agreement with the Ministry of Justice included the provision of Internet access, there is no telecommunication connectivity available between the Mokattam office and the South

Cairo Provincial registry office that grants final registration approvals and assigns deed numbers. The property registration software relies on telecommunication connectivity between different locations for sharing data. Consequently, to complete property registrations, a registry staff person has to hand-carry the registrations from the Mokattam office to the South Cairo Provincial office.

Although Chemonics documented the system requirements specifications and workflows for the Enhanced Parcel Based Deeds System utilized in the model office in a report dated October 2007, the subcontract that it awarded in March 2005 did not include any provision for a maintenance agreement or continued technical support beyond the initial subcontract period.

Officials from USAID/Egypt's Office of Policy and Private Sector, Egypt Financial Services, and the Government of Egypt counterpart from the Ministry of Justice met in March 2009 to discuss a strategy to end the project's technical support and the assumption of the Government of Egypt's full responsibility for Mokattam model registry office operations. The mission office, contractor, and a Ministry of Justice official agreed that USAID/Egypt's Office of Policy and Private Sector would correct software defects, provide solutions for processing transactions and data transfer between offices, install modified systems, and provide training to selected Ministry staff on updated software and manual procedures.

Although USAID/Egypt's Office of Policy and Private Sector is addressing the technology issues, USAID/Egypt should more closely evaluate the Mokattam registry office's workload to justify investing additional resources. Since the Mokattam office became operational as the first automated property registry office in Egypt, the office's workload has been limited. As of September 30, 2008, the office started processing four new registration transactions, but none were completed. In March 2009, the office had completed the four transactions and 10 additional property registration applications from start to finish.

Because of the lack of ongoing technical support and limited number of customers served, the sustainability of the automated property registration office is questionable. As a stand-alone office that is not linked to the Government of Egypt's information technology platform for real estate registration, the office has limited demand from the population it is intended to serve. Without any provisions for systems maintenance and technical support, the sustainability of a continued operation of the office for its intended purposes is at risk. Although the project is nearing completion, it is a component of a larger mission financial sector modernization program. Therefore, this audit makes the following recommendation:

Recommendation No. 3: We recommend that USAID/Egypt develop a justification based on a cost-benefit analysis of the registry office's workload data prior to investing any additional foreign assistance funds into automated property registration activities.

EVALUATION OF MANAGEMENT COMMENTS

USAID/Egypt's comments to the draft report are included in their entirety in appendix II, without attachments. In its response to the draft report, USAID/Egypt's Office of Policy and Private Sector agreed with all three recommendations contained in the report.

To address recommendation no. 1, USAID/Egypt's Office of Policy and Private Sector plans to disclose that the performance result for the financial services project is attributable to data compiled from multiple sources in its future performance management plans. The disclosure will be incorporated into the mission's next performance management plan to be submitted in January 2010. Moreover, the office plans to revise the actual figures for the indicator on housing loans to reflect annual rather than cumulative data. Based on the auditors' review of the draft revision to the performance management plan and the mission's response, we consider that a management decision has been reached.

To address recommendation no. 2, USAID/Egypt officials provided a sample of verification performed after receipt of the audit draft report and described actions taken or planned to verify reported performance data. Since USAID/Egypt has a mission order that addresses performance management and evaluation to verify reported data, the Office of Policy and Private Sector plans to document data verification by comparing the contractor's reported data against the Government of Egypt's published information. Effective immediately, the office plans to maintain the documented verification in files that could provide necessary support about results achievement and other relevant topics. Consequently, we consider that a management decision has been reached on this recommendation.

Regarding recommendation no. 3, the Office of Policy and Private Sector plans to conduct a simplified cost-benefit analysis for the establishment of a second property registration office in Alexandria, Egypt. Before the mission proceeds with a second office, USAID/Egypt plans to compile an associated cost-benefit analysis by March 1, 2010. As a result, we consider a management decision has been reached.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Cairo conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit objective was to determine whether USAID/Egypt's Financial Services Project achieved planned results and to assess the project's impact.

In planning and performing the audit, we assessed USAID/Egypt's significant management controls associated with monitoring its financial service project activities. The management controls identified included reviews by management at the functional or activity level, including comparison of actual performance to planned results, and the establishment and review of performance measures and indicators. We also reviewed the mission's 2008 self-assessment from the Federal Managers' Financial Integrity Act report for any issues relevant to the audit objective.

Audit fieldwork was conducted at USAID/Egypt and the contractor's project office in Giza from September 17, 2008, through June 28, 2009, with updates to November 18, 2009. The report issuance was delayed because of staffing constraints. The audit covered the 2-year period from October 1, 2006, through September 30, 2008. The mission exercised a 1-year option on September 29, 2008, valued at \$4 million. As of September 30, 2008, the amount obligated was \$32 million and disbursements were \$29 million. One year later, the mission had expended \$33 million for the project. Although the mission planned to end the contract in September 2009, officials extended the contract until March 2010 at an additional cost of \$300,000.

Methodology

To answer the audit objective, we interviewed USAID/Egypt staff from the Office of Policy and Private Sector, contractor personnel, and Government of Egypt officials. We reviewed relevant mission documentation including the contract and modifications, the operational plan and performance reports, and the mission performance management plan. Additionally, we reviewed contractor-provided project documentation, including memorandums of understanding, the project performance management plan, midterm evaluation report, annual work plans, and quarterly and annual progress reports.

We identified specific tasks that Chemonics was required to complete in its contract with USAID/Egypt and judgmentally selected 12 of the 29 tasks identified to review from within each of the four main tasks. We also judgmentally selected 15 of the 38 performance indicators from the project performance management plan to review based on the type and level of the indicator and discussions with USAID/Egypt personnel to identify the main statistics used to measure project results. The results of a judgmental sample cannot be projected to the population as a whole.

We compared the reported results in the contractor's quarterly and annual progress reports with the targets established in the performance management plan for fiscal year (FY) 2007 and the targets set by the contractor for FY 2008. We verified reported data by reviewing supporting documentation and by comparing reported information with reported market data from the regulatory agencies.

MANAGEMENT COMMENTS



USAID | EGYPT
FROM THE AMERICAN PEOPLE

MEMORANDUM

To : RIG, Jacqueline Bell

Through : D/DIR, Tom Delaney /s/

From : OD/PPS, Steve Morin /s/

Subject : Mission Response to Draft Audit of USAID/Egypt's Financial Services Project, No. 6-263-10-XXX-P

USAID/Egypt has reviewed the draft Audit Report No. 6-263-10-XXX-P dated October 19, 2009 and following is the Mission response to the audit report recommendations.

Recommendation No. 1

We recommend that USAID/Egypt should disclose in its performance management plan that the performance result for the financial services project is attributable to cumulative data compiled from multiple sources.

Mission Response to Recommendation No. 1

USAID/Egypt agrees with this recommendation and will disclose in its future performance management plans (PMP) that the performance result for the financial services project is attributable to data compiled from multiple sources. (See Attachment No. 1 for a revised quality assessment for the PMP indicator related to the annual number of housing loans originated). It is worth noting that actual figures for the indicator on housing loans were revised to reflect annual rather than cumulative data.

The Operational Performance Plan and Report (PPR) Guidance explains that USAID can attribute achievements through the use of market indicators. P. 7 of the Guidance stipulates:

“Please take care that any custom indicators are plausibly attributable to U.S. foreign assistance. If the result would not have occurred without USG funded efforts, even if the contribution of other actors to a given result was greater than that of USG assistance, it is legitimate to assert that this result is “plausibly attributable” to USG assistance. In these situations, the indicator narrative for custom indicators should briefly state USG contributions, e.g., “in a multi-donor effort supporting primary education to 40,000 children, USG assistance made a material contribution to the reported result through the design of a gender-sensitive,

knowledge-based curriculum.”

Moreover, Annex X P.1 defines “Attribution” as follows:

Attribution: “Attributable to USG.” – A result is attributable to the USG, or the USG can claim credit for a result, even when other partners are involved in achieving the result, if the USG can claim that without the USG intervention the outcome would not have taken place. For example, if an OU builds a school and prints the textbooks and trains the teachers in its efforts to enroll X number of students, and the host country government is paying the teachers' salaries of those, not only would that effort not be accomplished without USG inputs, but the results would not be achievable without the HG contribution either. Therefore, even if other donors (including the HG) contribute to an effort, if an OU can make the statement that the result would not have been achievable without the USG contribution, then the OU may attribute the result to the USG assistance effort.”

Over the past five years, USAID/Egypt has been the only donor providing long term technical assistance to the regulator and market participants of the mortgage market. USAID/Egypt supported the Host Government (HG) in taking the necessary actions to promote the development of the mortgage market. This assistance has also supported the HG in achieving the Financial Sector (Memorandum of Understanding – MOU) policy benchmarks (co-signed between USAID/Egypt and the HG) related to mortgage finance and property registration. Furthermore, the World Bank regularly met with USAID/Egypt and its contractor’s experts for consultation and depended significantly on the USAID/Egypt technical assistance to formulate and verify the achievement of its policy benchmarks under the Financial Sector Development Policy Loan.

USAID Egypt strongly believes that since the development of the Egyptian mortgage market depended significantly on the assistance provided by USAID/Egypt through its contractor and following the PPR guidance, USAID/Egypt can attribute achievements in the sector to its technical assistance.

In view of the above, the Mission believes that Recommendation No. 1 has been addressed and requests RIG/Cairo to close the recommendation upon final report issuance.

Recommendation No. 2

We recommend that USAID/Egypt develop a plan to verify and document reported results periodically.

Mission Response to Recommendation No. 2

USAID/Egypt agrees with this recommendation. USAID/Egypt has a plan to verify and document reported results as outlined in Mission Order 203-1 on Performance Management and Evaluation dated June 31, 2004 (Attachment No. 2.) The Program Office, as part of the development and submission of the Mission Performance Plan and Report, requires Office Directors to attest in writing, in a memo to the Program Office, that the performance annual

data/results were verified by the teams. Please find attached the draft memo that should be signed by our office for FY09 performance plan and report (Attachment No. 3).

Detailed explanation on the Mission remedial actions follows:

- The Mission PPS office regularly monitors progress of the EFS project output/deliverables as agreed to in the annual work plan. In addition to receipt of deliverables from the contractor, regular meetings with EFS staff, HG counterparts, and World Bank officials were conducted to make sure that the EFS assistance met the required standards, fulfilled HG counterparts' requests, and ensured the achievement of USAID objectives.
- In addition, through regular meetings with HG officials, the PPS office verified achieved results. The HG counterpart has always been very proud of their achievements and always report on market indicators to show their success. It should be noted that mortgage data collected by the contractor are from the official database of the Mortgage Finance Authority (MFA) as indicated by MFA officials in regular meetings. The property registration indicators related to the Mokattam Office are collected from meetings with the manager of the Office and from the Ministry of Justice (MOJ) officials.
- Because the Mokattam Office started operation in October 2008, data on registration time collected from the office at the early stage of operation was not necessarily a good measure of success. This is why the contractor resorted to the World Bank's "Doing Business Report" to show reduction in the time spent to register properties. The Mission considers this indicator relevant because USAID/Egypt provided assistance to the MOJ in streamlining property registration procedures, many of which are applied nationwide; (e.g., reduction in number of steps to register and reduction in communications between the district registration office and the Survey Authority.)
- Since the first draft of the RIG audit, the PPS office took note of the importance of verifying data directly from counterparts and will officially document this verification in writing to document the Mission files for future reference.
- As an example of data verification for the registration indicators, the COTR and the EFS COP visited the MRO on July 2nd, 2009 to make sure that problems related to the software were adequately resolved and to check the demand on property registration and use of the Office in this district. The manager of the Mokattam Office stated that they received 369 applications since January 2009, 137 (37%) of them were done. This shows growing demand for the Mokattam Office services when compared to the 14 applications (reported in the first RIG audit report) processed during the first six months of operation. Also, according to the office manager, the average time it takes the office to completely process the application is about 73 days: 3-4 days data entry; 2 months at the Survey Authority for surveying and coding; 3-4 days at the Mokattam Office to process the

application; and finally 1 week at the South Cairo (Central) office to issue the electronic deed. It is worth noting that this average processing time is similar to the time reported by the World Bank in their Doing Business report (72 days).

Effective immediately, the Mission technical office will document data verification by comparing contractor's reported data against GOE data and other published reports. One way this will be done is by issuing "minutes of meeting" summarizing the achieved results and any other relevant topics. (Sample is attached - Attachment No. 4.)

In view of the above, the Mission believes that remedial actions have been taken and requests RIG/Cairo to close the audit Recommendation No. 2 upon final report issuance.

Recommendation No. 3

We recommend that USAID/Egypt develop a justification based on a cost-benefit analysis of the registry office's workload data prior to investing any additional foreign assistance funds into automated property registration activities.

Mission Response to Recommendation No. 3

USAID/Egypt agrees with this recommendation, as it is consistent with the Agency-wide approach to the efficient use of Agency resources.

At the start of the EFS project, USAID/Egypt and the MOJ agreed that USAID assist the MOJ in establishing two model registration offices in Egypt. USAID/Egypt was able to establish only one office in Mokattam under the EFS project. This became operational in October 2008.

Since that time, the MOJ has repeatedly requested that USAID establish the second office in Alexandria to follow the same model in Mokattam with some customization to meet the specific needs identified for the Alexandria Governorate. USAID/Egypt has considered this request. Since this is expected to go beyond the completion date of the EFS, USAID/Egypt considered the possibility of providing this assistance through another project, TAPR II.

Following the RIG audit recommendation, the PPS office will conduct a simplified cost-benefit analysis for establishing a model registration office in Alexandria. If PPS should go ahead with a second property registration office, the associated cost benefit analysis will be compiled by March 1st, 2010. It should be noted, however, that a typical cost-benefit analysis may not accurately estimate the economic benefits of a new property registration office. The links between the number of properties registered and the number of loans taken against those properties are difficult to predict. Therefore, a proxy measure for benefit that PPS will use is the number of potential properties available for registration. The current estimate for the Alexandria Office is estimated to be 100,000 properties, 10 times the number in Mokattam.

In view of the above response, the Mission believes that no further action is required, thus, requests RIG/Cairo to close Recommendation No. 3 upon final report issuance.

Status of USAID/Egypt's Financial Services Project Activities Reviewed⁴

Contract Deliverable	Status
Task 1: Establish the supporting framework for the real estate finance industry	
Develop appropriate forms for real estate finance in support of loan origination.	Completed
Develop and implement an in-country training program for real estate professionals, including property brokers, real estate finance brokers, valuers, and property closing specialist.	Completed
Develop public education program for home buyers, established to encourage informed choices on the use of the real estate loans and to avoid future delinquency problems.	Completed
Assist the Mortgage Finance Authority and the Central Bank of Egypt to expand supervision to include real estate finance institutions.	Completed
Task 2: Improve operation of the registration system for urban properties in the Ministry of Justice.	
Develop/implement a strategic plan with Ministry of Justice and other Government of Egypt institutions to clarify the objectives to be achieved by property registration in urban areas.	Completed
Establish the framework for professional property surveyor industry.	Not completed. Framework has not been formally approved.
Establish a property registry system and locator system which will use a Code Number Index system that can be linked to a modern Geographic Information System or Land Information System.	Completed
Reorganize two local district registry offices as models of the streamlined registration procedures. Provide hardware, software, management structure, standards, and training.	Not completed. Only one model office established; no Internet connectivity in office.
Task 3: Set up framework and procedures for secured lending, and develop new financial instruments under the Ministry of Investment, Capital Markets Authority, the Ministry of Finance, and the Central Bank of Egypt.	
Establish registration procedures and confirm that appropriate procedures exist for their registration and for prompt registration of subsidiary notices and orders and removal of liens.	Not completed – postponed drafting of secured finance law and implementation plan.
Establish training program in the Ministry of Justice for legal processes related to enforcement of property registration and foreclosure, and registering security interests in moveable assets.	Not completed – subject to adoption of secured transaction law.
Assist development of the legal and regulatory framework to allow for full transfer of the underlying credit risk to the holder of the securities, with no recourse to the issuing institution.	Completed
Task 4: Establishment of a broad credit information system	
Develop model legislation and regulatory procedures for protection of consumers' rights for credit bureau operations.	Completed

⁴ The status of project activities as of September 30, 2008.

Reported Results⁵

Indicator	Target FY 2007	Reported FY 2007	Verified FY 2007	Target FY 2008	Reported FY 2008 ⁶	Verified FY 2008
Task 1: Establish the supporting framework for the real estate finance industry.						
Mortgage Finance Authority on-site examinations undertaken	3	6	7	12	9	9
Number of housing loans originated by mortgage finance companies	1,500	2,328	1,928	5,700	4,371	6,122
Value of mortgage loans originated by mortgage companies	\$70 million	\$91 million	\$73 million	\$221 million	\$153 million	\$187 million
Value of mortgage loans originated by commercial banks	\$92 million	\$288 million	\$279 million	\$701 million	\$333 million	\$376 million
Mortgage Finance Authority-licensed mortgage finance companies	5	6	6	8	10	10
Average length of loan maturities from mortgage finance companies	10.5 years	11 years	11.6 years	10 years	14 years	13.6 years
Task 2: Improve operation of the registration system for urban properties in the Ministry of Justice.						
Average time to register property in Mokattam	10 days	193 days	193 days	70 days	74 days	Reported data was not specific to Mokattam
Registry transactions completed, including new deeds issued	1,000	168	No data reported	300	295	4 new transactions started, none completed
Registry office is operational	Yes	No	No	Estimated to start work July 2009	Yes	Yes
Percentage of Mokattam covered by parcel index map	25%	20%	Data not available for verification	50%	50%	Data not available for verification
Task 3: Set-up Framework and procedures for secured lending, and develop new financial instruments under the Ministry of Investment, Capital Markets Authority, the Ministry of Finance, and the Central Bank of Egypt.						
Number of asset-backed securities issued	2	2	2	3	3	3
Value of new financial instruments supported by the project	\$148 million	\$553 million	\$479 million	\$277 million	\$922 million	\$341 million
Number of investors in new financial instruments	1,000	3,056	4,558	No target established	3,456	4,576
Task 4: Establishment of a broad credit information system						
Have credit bureaus been established?	No target established	Yes	Yes	No target established	Operational	Operational
Percentage of Central Bank data transferred to the credit bureau	50%	62.5%	At least 62.5%	No target established	62.5%	At least 62.5%

⁵ Indicators established under USAID/Egypt's Financial Services Project. Indicator targets for FY 2007 are noncumulative. The contractor changed its reporting on many indicators from annual to cumulative in FY 2007. Consequently, FY 2007 targets are annual, and FY 2008 targets and FYs 2007–2008 reported data are cumulative.

⁶ Reported data are through August 2008 as reported in the implementer's quarterly progress and year 4 annual report.

⁷ As of Tuesday, September 30, 2008, 1 U.S. dollar = 5.42046 Egyptian pound.

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Ave., NW
Washington, DC 20523
Tel: (202) 712-1150
Fax: (202) 216-3047
www.usaid.gov/oig