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Land-Value Capture to Finance Urban Development in Egypt: Enabler or Impediment?

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An aerial photograph of a city skyline at sunset. The sky is filled with warm, orange and yellow clouds. The city features several tall, modern skyscrapers, some of which are illuminated. The foreground shows a dense urban area with many smaller buildings and a network of roads.

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Dalia Wahdan, Rawda Ali and Aly El-Nady

***The Handbook of the Egyptian Economy
Spatial Dimensions of Development***

EEDP Conference

Friday 8 November 2024

LVC

The policy mechanisms that allow governments to release value from land and other immovable assets to recover public expenditures made on such assets.

Governments redistribute or channel recovered values into infrastructure development and eventually into public wellbeing.

“Egypt’s government has been aggressively adding settlements across the country to bring the inhabited land area up to 14% of the total area by 2030.”

- 12 new cities - from 218 in 2007 to 230 in 2018
- Work underway on another 15 new smart cities around Greater Cairo, the Sinai Peninsula, Nile Delta, Upper Egypt, North Coast and Suez Canal.
- Combined, the **27** cities cover 380,000 acres (**about 1,600 square kilometers**) - 50% of the area allocated to urban communities in the previous four decades.

<https://www.amcham.org.eg/publications/industry-insight/issue/37/sector-snapshot> accessed on 10/20/2024

“The year 2022 witnessed the announcement of the establishment of several new urban communities, the latest of which was the opening of New Mansoura. **In fact, the number of new cities has reached 30,** in addition to a large number of planned cities whose construction is afoot. The goals of new urban communities are establishing **new civilized centers to achieve stability and economic welfare, relocating residents** away from the Nile Valley, developing new attraction areas beyond the existing cities and villages, extending the urban area to the desert and remote areas to reduce urban pressure on agricultural lands, and planning new cities using the latest technological systems.” (p.9, 2023)



From River to Sea:
Prospects for Urban Renaissance in Egypt

ALMARASEM
DEVELOPMENT

NEVER ENDING DEVELOPMENT



ALMARASEM
DEVELOPMENT

2nd navigation canal parallel to the Suez Canal

22 industrial cities

25 tourist cities

8 airports

3 ports

The longest Monorail in the World

4000+ kilometers of roadways

Benban Solar Park

Daba'a Nuclear Facility

Photo by Dalia Wahdan



Building Big & Quick!

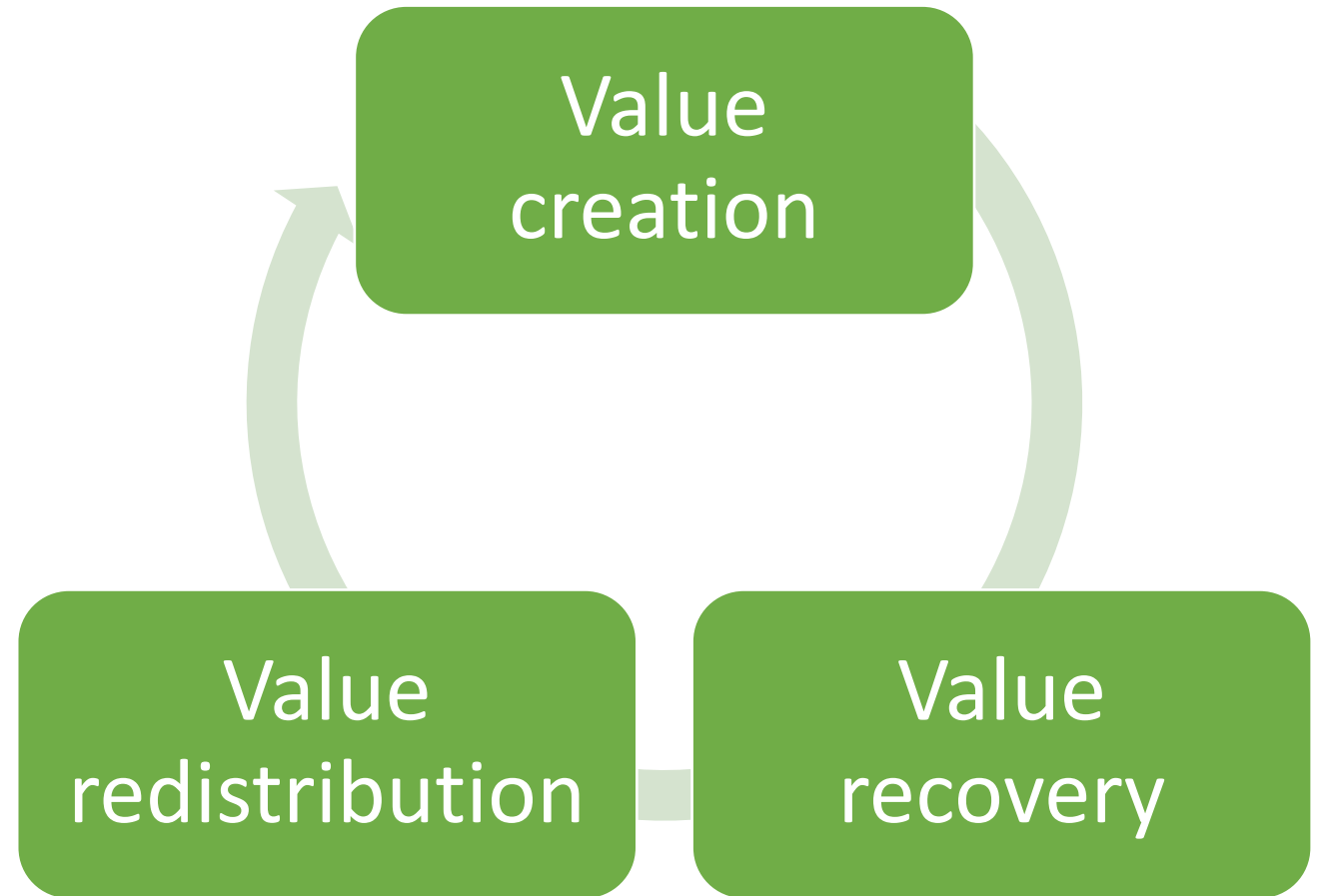
- In April 2021, GoE unveiled its sustainable development plan for FY 2021/22
- **Out of EGP 1.25 trillion in planned public spending, the government has earmarked about EGP 750 billion (60%) for scaling up Egypt's infrastructure further.**
- During H1 2021/2022, EGP 240 billion in investments were injected into infrastructure, over 75% of which were public investments and mainly allocated to transportation (25%), real estate (13%) water and drainage (9%) and construction (8%).



The New Republic

The Infra-structure of LVC

- ❑ Availability of Land.
- ❑ Substantive citizen representation to ensure public accountability over value creation, recovery, and redistribution.
- ❑ Efficient governmental capacity to recover value.
- ❑ Internationally compliant systems of public accounting.
- ❑ Financial de-centralization to sub-national jurisdictions with mandates to retain earnings and invest in municipal infrastructure and utilities.
- ❑ Functional procedures for land and property valuation.



LVC Mechanisms

DIRECT	INDIRECT
Betterment contribution or levy	Property tax
Land readjustment or consolidation	Zoning & Establishment of special districts/free zones
Land leasing	Expropriations or use of eminent domain
Land value tax	Developer exactions
Impact charges and fees	Tax increment financing
Charges to building rights	Linkage operations
Stamp duties on urban operations	Transfer (sale or purchase) of development rights
Certification of additional potential	Freezing land banks
Certificates of additional development rights used where it is collected	Declaration of property development Preemption rights Auctioning, project announcement and closed bidding
Construction bonds	Negotiations for special license

Windfall Gains

Table 1 Martim Smolka Estimated Windfall Gains in Rio De Janeiro in 2022

Source:
<https://www.youtube.com/watch?v=vEZOGF2jSW8> accessed on 8 August 2024. Reproduced by Authors.

Type Of Land Use Change	Price Before Change (US\$/M2)	Increment (%)	Price After Change (US\$/M2)	Windfall on 5,000m (US\$)
Rural to Urban Conversion	2	400	10	40,000
Building Norms	100	800	100	400,000
Zoning Regulations	200	100	400	1,000,000



LVC in-focus

- Not all LVC instruments are straightforward or immediate cash-generating mechanisms – e.g., land consolidation.
- LVC instruments do not necessarily work in unison – e.g., highest and best use might require evictions, use of eminent domain, and compensations.
- The relative success or failure of governments to strike a balance is subject to the fiscal and financial condition of their national economies, and the agility to initiate the institutional reforms needed for effective trust.
- Public spending need not be in actual monetary terms; it could be in infrastructure investments – e.g., Haya Karima.
- Cost recovery need not come through the transfer of land ownership.
- Recovered cost or value should be channeled not only to the original land or asset holder, but also to the entities that incurred the original cost of development, e.g., Dara Project.

A photograph of the Great Pyramids of Giza in Egypt, showing three large pyramids and several smaller ones in the desert under a blue sky with light clouds. The pyramids are made of golden-brown stone and are situated in a vast, sandy desert landscape.

Land for LVC

In exiting towns, cities, and villages ...





The 'Gray Zone'

LVC Instruments in Egypt

Master Developer Contractual Agreement

Issuance of Green Infrastructure bonds

The Use of Eminent Domain

Free zones and Special Districts

Land Readjustment or Consolidation

Betterment Levies

Land & Real Estate Sales Tax

Land & Property Tax

Ban on Construction Activities

The Reconciliation Bill

Green Bonds & the Longest Monorail in the World

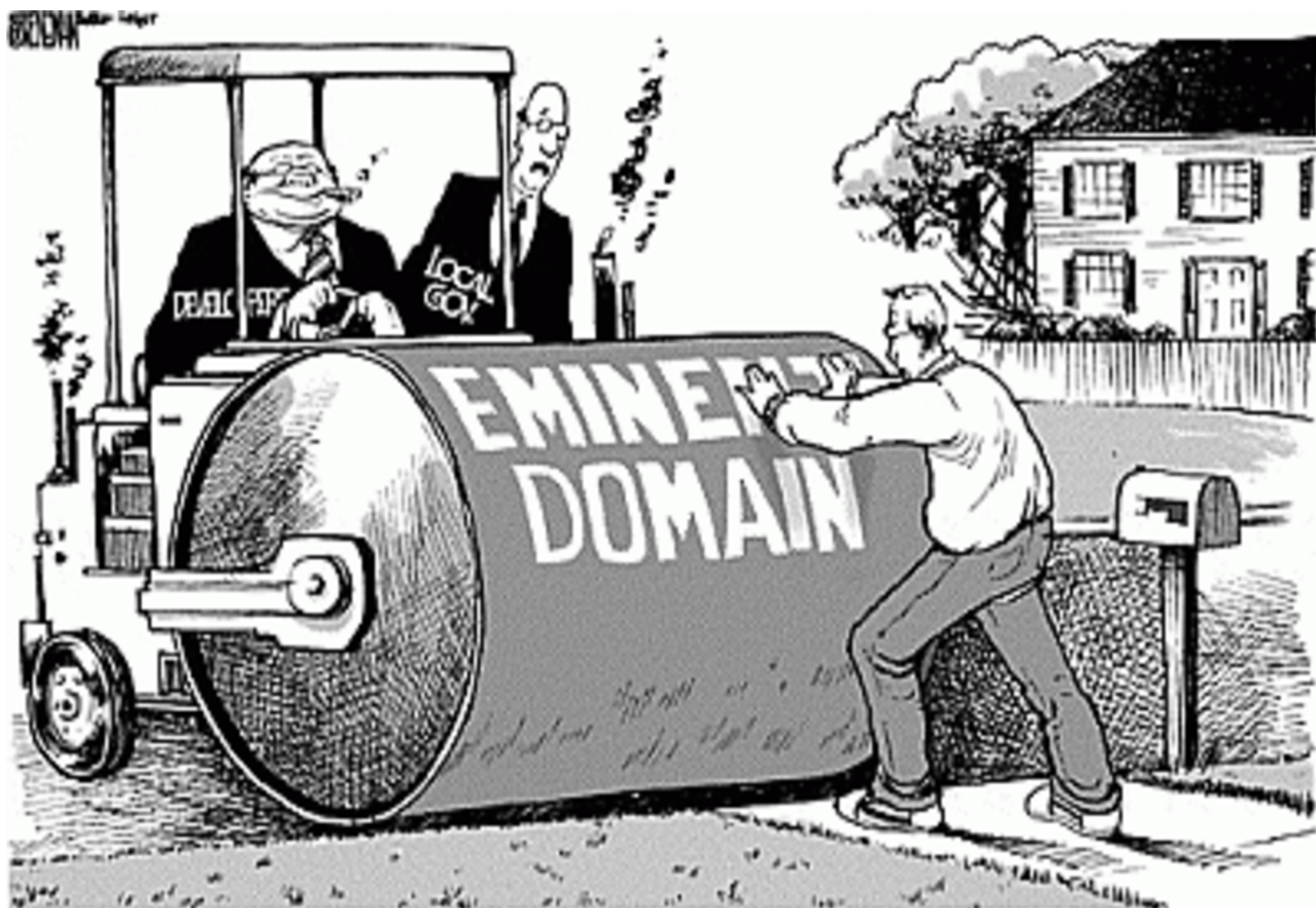
Egypt became the first country in the Middle East and North Africa to issue a sovereign green bond.

“For people of Egypt this funding solution supports Vision 2030 with more access to potable water and cleaner transportation via Cairo monorail. For those who will benefit from projects financed by Egypt’s sovereign green bond, this funding solution delivers profound changes: more access to potable water through seawater desalination; more crops through wastewater reuse for irrigation; and a safer, more affordable commute through the Cairo Monorail. It also means more transparency in government spending for environmental projects through allocation and impact reporting.”

<https://www.worldbank.org/en/news/feature/2022/03/02/supporting-egypt-s-inaugural-green-bond-issuance>

Where did the proceeds go?





"REST ASSURED YOUR PROPERTY WILL BE USED FOR PROJECTS VITAL TO THE PUBLIC INTEREST"

**قرار محافظ الجيزة بخصوص
فرض رسوم تحسين على بعض
المناطق في محافظة الجيزة**

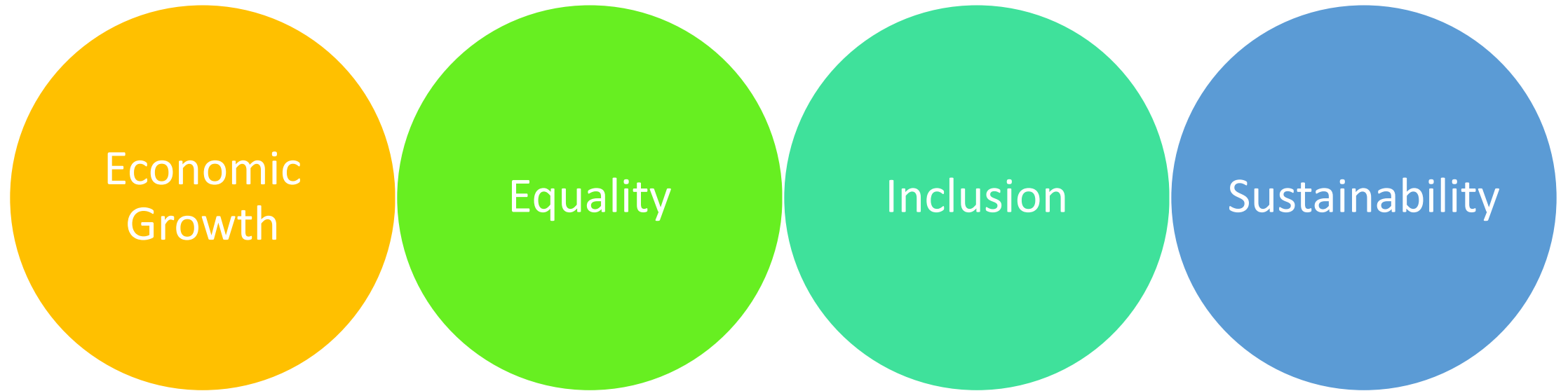


Beyond Land Acquisition and Clearance

- Land valuation formulas and procedures are classified information. Valuation of land transfers between state agencies remain an enigma or the intellectual property of the Central Bank of Egypt.
- Local municipalities and governorates have little incentives because they are unable to keep or reinvest land sales revenues.
- Although the Ministry of Finance granted governors the right to spend their capital budgets at will and the authority to transfer funds from one budget line to another, access to municipal or governorate budgets is denied to researchers.
- Municipalities and Governorates cannot issue municipal bonds to raise funds or access the services of credit institutions – yet.
- Commercial banks do not offer municipal lending.
- Donors' loans to governorates are discouraged.
- Compared to other sectors, the housing sector is exceptional. Governorates could grant lands and private property to developers to finance price-protected housing schemes.
- The proceeds of some infrastructure bonds often go to “general purposes.”

*Thierry Paulais. (2012). *Financing Africa's Cities: The Imperative of Local Investment*. Paris: Cities Alliance, Agence Francaise de Developpement.

LVC for Urban Development



LVC: Enabler or Impediment?

In Egypt, the cycle of value creation, recovery, and redistribution does not apply equally to LVC mechanisms. There are dissonances with regards to recovery and redistribution across scales.

The proceeds from LVC mechanisms does not necessarily go to entity of jurisdiction and are siphoned off to the Ministry of Finance or other non-banking financial institutions.

Some LVC mechanisms feed into a land-infrastructure-finance-nexus and consolidate land-infrastructure as a distinct asset-class, channeling incremental returns from public to private hands.

Recommendations for More Effective LVC

Coherent policy that moves away from sectorial and towards holistic urban land management with land use planning at sub-national level, especially within existing cities and new settlements

Updated land inventories with higher levels of accuracy

Legal clarity of land titles with evidence-based data and documents

Clear mandates, enhanced capacities and up to date technologies for institutions involved in land management

Enhanced compliance to land-use controls

Developed needs-based plans that ensure spatial justice and are designed and monitored by local committees

Ease of access to transparent information on land management to minimize land transaction costs

Expanded financial tools available for public and private partnerships for land acquisition and development

Reduced land holdouts phenomenon (tackling land freeze)

Standardized lease periods for commercial, residential and industrial land uses

Increased capacities and reduced disparities with regards to land finance across governmental entities

Mandated governorates in particular to access land finance from commercial banks and funding institutions

Mainstreamed community participation in land mapping and management

Methodology & Sources of Data



Available information and data on LVC in Egypt are predominantly legal in nature drawing out the legislative framework that regulates LVC policy instruments and outlining the value chain, oftentimes in less-than-definitive terms.



Outside think tanks and development organizations active in providing technical assistance to the government, researchers can find secondary data in reports and grey sources. A dedicated compendium of LVC policies in Egypt was attempted in 2022 as an academic contribution to the Global Compendium of Land Value Capture Policies sponsored by the OECD and the Lincoln Institute of Land Policy from which we draw much of the findings in section V.



To corroborate and update data, we conducted a few (4) interviews with experts in the field in addition to reviews of media and online sources, including the study by UN-Habitat which gives an overview of LVC policy instruments in use in Egypt.

Thank You!