



**DEAD CAPITAL AND THE POOR
IN EGYPT
(APPENDICES)**

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CONTENTS

PART III. DEAD CAPITAL AND THE POOR IN EGYPT

| | |
|--|----|
| Appendix 1. Estimating Informal Real Estate Assets in Urban Areas in Egypt | 1 |
| Appendix 2. Estimating Informal Real Estate Assets in Rural Areas in Egypt | 12 |
| Appendix 3. Some Institutional Obstacles to Formal Property in Egypt | 16 |
| Other ECES Publications | 26 |

APPENDIX 1

Estimating Informal Real Estate Assets

IN URBAN AREAS IN EGYPT¹

The methodology used to estimate the total value of dwellings classified as informal in Egypt is as follows:

- The existing dwellings in Egypt were classified and distributed into clearly definable categories (typologies);
- the value for each of these typologies was then estimated;
- informality coefficients were applied to each typology and the value of informal property for each typology was estimated; and
- the total value of informal housing in Egypt was obtained by summing the values for each typology.

1. Classifying Dwellings

In order to estimate the value of the dwellings in Egypt, which are characterized by innumerable differences in terms of type, age, state of preservation, location, and such, the dwellings in Greater Cairo² were classified into 9 distinct typologies. The same classification was later applied to dwellings in Alexandria and to other cities in Egypt.³

The typologies were devised in order to enable a broad understanding of the nature, scale and value of residential property. The proposed typologies reflect common physical and tenure characteristics that allowed simple estimates of volume and value and the degree of informality and transactability of the property. Each typology related to physically definable types of urban areas, and was the outcome of a particular historical urban development process.

The dwellings in the first three typologies were constructed in violation of express legal prohibitions or without respecting the established legal procedures. For these reasons they are considered informal from their origin.

The subsequent six typologies include dwellings that were initially formal but progressively became informal for the following reasons:

- the owners violated expressed prohibitions;

¹ Annexes 1, 2, and 3, which contain very preliminary estimates of informal real estate assets in Egypt as well as some initial perceptions on obstacles to formal property in Egypt, were the result of a joint effort between ECES and IDC of Egypt and the ILD of Peru.

² The aim was to develop broad residential property typologies to rapidly quantify and evaluate the main formal and informal capital stock owned or occupied by residents of Greater Cairo. Commercial, office, public and industrial properties were excluded. Because of extremely limited time and resources, the results can only be considered as very preliminary. More precise and refined results could be generated in successive iterations of the analysis.

³ In Alexandria and other cities, the same typologies were devised with one modification: city core and historic town were combined, since historic areas (pre-1800) are practically non-existent. For residential property in rural Egypt, urban typologies (historic town, city core, old and new subdivisions) were not used since they do not apply to rural settlements.

- they were constructed without a license and without respecting the building code or the zoning laws;
- the owners do not have a property title or the title has not been registered; and
- the registry's records on the property right have not been kept up to date.

Dwellings of Informal Origin

The dwelling types in this generic group are:

1. informal dwellings on agricultural land;
2. informal dwellings on state-owned desert land; and
3. informal villages on rural land.

The first two typologies include dwellings classified as informal because they were constructed in contravention of expressed laws. **Typology 1** consists of dwellings in settlements that were developed on land zoned for agricultural use, while **Typology 2** comprises dwellings constructed on invaded state desert land.

Typology 3 represents rural villages adjacent to large cities, some of which have been progressively incorporated into the metropolitan area. In this case, dwelling units have either been enlarged (additions, new floors) or constructed on empty areas, some of which were lands zoned for agricultural use. This typology also includes villages that have been absorbed by urban expansion but which have maintained their original settlement pattern.

Dwellings of Formal Origin

The typologies included in this generic group are:

- | | |
|--------------------------|------------------------|
| 4. Old Public Housing; | 5. New Public Housing; |
| 6. City Core; | 7. Historic Town; |
| 8. Old Subdivisions; and | 9. New Subdivisions. |

Typologies 4 and 5 consist of housing (apartments) constructed by the state. The first typology includes only those housing blocks constructed between 1952 and 1978 which were rented and are now in an advanced stage of deterioration. The second typology consists of apartments built since 1978 that are better maintained because they have been subject to various purchasing schemes.

The traditional city was divided into four typologies. **Typology 6** corresponds to the City Center, characterized by a well defined urban scheme influenced by European models that is reflected in, for example, the City Center, Zamalek, Heliopolis center and Maadi center. The Historic Quarter, of Arabic origin, is represented by **Typology 7**. In addition, the new quarters, mostly parceled into private or cooperative housing blocks, have been divided according to their level of development. Hence, **Typology 8** represents the Old Subdivisions which are fully developed (Mohendessin, Agouza) and **Typology 9**, the New Subdivisions, which continue to be developed.

The nine typologies are of course approximations, and some areas of Cairo do not fit precisely into a single category. Furthermore, within one typology area other typologies may be found. Each typology presents various levels of informality.

In order to estimate the number of dwelling units per typology, the country was divided into four areas according to importance: Greater Cairo, Alexandria, other cities, and dwellings in rural areas. For each area, the starting point was the total number of dwelling units registered in the 1986 Census for each census district. These totals were then projected to 1996 levels applying conservative estimates and in some cases using direct observation.

The next task was to distribute the estimated number of 1996 dwelling units for each census district into one or more of the nine typologies. This exercise involved taking each district by itself and, using historic maps, current land use maps, and knowledge of the urban morphology, assigning a percentage of the total dwelling units to each typology.

2. Estimated Total Value of Dwellings in Egypt

The total asset value was calculated in two parts: “value of construction” and “land.”

- To arrive at the value of construction (Estimated Construction Value) the total number of dwelling units per typology was multiplied by the average unit size which was then multiplied by the building cost per square meter. Costs are on the basis of current replacement value, that is, current average construction cost expressed on a square meter basis. Architects, contractors, owner-builders, and informal builders were consulted to make these estimates.
- To obtain the land value for each typology, a land area per dwelling unit was established based on number of floors and the average plot coverage ratio, and multiplied by the total number of dwelling units to obtain the Net Area. Then, the corresponding infill plots and vacant lots (extra vacant land) that could be built upon were added to obtain the Total Net Area. Finally, the Total Net Area was multiplied by the relevant price per square meter to obtain the Total Estimated Land Value for each typology. Land Values express current market prices of land in typical areas of each typology.

Once classification of the dwellings into **9** typologies was completed and their value estimated, including both land and construction value, the following results were obtained:

- the total value of dwelling units for **Typologies 1 to 3** is **US\$ 73.2** billion;
- the total value of dwelling units for **Typologies 4 to 9** is **US\$ 203.8** billion; and
- consequently, the **total value** of dwelling units in Egypt is **US\$ 277** billion.

3. Estimated Value of Informal Housing

Using the estimated total value of dwelling units in Egypt and applying the criteria explained below, the estimated percentage of informality for each typology was established and thereby the following values for informal housing were obtained:

- the value of informal dwelling units of **Typologies 1 to 3** is **US\$ 73.2** billion;

- the value of informal dwelling units of **Typologies 4 to 9** is **US\$ 122.0** billion; and
- therefore, the **total value** of informal housing in Egypt is **US\$ 195.2** billion.

Figure 1 presents examples of properties in each category while **Figure 2** highlights -- for the case of Greater Cairo -- the ways in which these types are geographically situated in urban areas.

To define the extent of informal property, a matrix was established taking into account the principal characteristics associated with informality. It measures the extent of informality for each of the 9 typologies⁴ and is provided below:

Table A.1 Characteristics of the Different Urban Residential Typologies

| Characteristics | Residential Typology | | | | | | | | |
|---|------------------------------|------------------|-------------------|----------------------------|-----------------|---------------------|----------------------|-----------------|-----------------|
| | Dwellings of Informal Origin | | | Dwellings of Formal Origin | | | | | |
| | 1 Info Agro | 2 Info Des | 3 Info Vill | 4 Old Pub | 5 New Pub | 6 City Center | 7 Hist Quarter | 8 Old Sub | 9 New Sub |
| a) Properties that can be used as collateral | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| b) Properties not titled or registered in the name of the current owner | 100% | 100% | 100% | 100% | 100% | 75% | 90% | 65% | 95% |
| c) Titled properties that can be registered relatively easily. | 0 | 0 | 0 | 0 | 0 | 10% | 20% | 20% | 80% |

⁴ The percentages presented in the table reflect the knowledge and experience of resident experts consulted in Egypt.

FIGURE A.1
ARAB REPUBLIC OF EGYPT
INFORMAL URBAN REAL ESTATE
US\$ 195.2 BILLION
INVESTED IN 11.9 MILLION INFORMAL HOUSING UNITS

Informal Origin
US\$ 73.2 BILLION
INVESTED IN 8.5 MILLION HOUSING UNITS



TYPOLGY 1
EXTENSIONS ON AGRICULTURAL LAND
 Units: 4.7 million Total value: US\$ 49.4 billion
 Average unit value: US\$ 10,511



TYPOLGY 2
EXTENSIONS ON DESERT LAND
 Units: 0.6 million Total value: US\$ 6.9 billion
 Average unit value: US\$ 11,501



TYPOLGY 3
VILLAGES
 Units: 3.2 million Total value: US\$ 15.9 billion
 Average unit value: US\$ 5,000

Formal Origin
US\$ 122 BILLION
INVESTED IN 3.4 MILLION HOUSING UNITS



TYPOLGY 4
OLD PUBLIC HOUSING
 Units: 0.8 million Total value: US\$ 9.4 billion
 Average unit value: US\$ 11,750



TYPOLGY 5
NEW PUBLIC HOUSING
 Units: 0.9 million Total value: US\$ 10.5 billion
 Average unit value: US\$ 11,200



TYPOLGY 6
CITY CORE
 Units: 4.7 million Total value: US\$ 43.5 billion
 Average unit value: US\$ 9,219



TYPOLGY 7
HISTORIC TOWN
 Units: 0.5 million Total value: US\$ 18.4 billion
 Average unit value: US\$ 36,800



TYPOLGY 8
OLD SUBDIVISIONS
 Units: 0.5 million Total value: US\$ 35.0 billion
 Average unit value: US\$ 70,000



TYPOLGY 9
NEW SUBDIVISIONS
 Units: 1.04 million Total value: US\$ 33.0 billion
 Average unit value: US\$ 31,500

When property rights are not fully established, the exclusiveness of a property and its transferability are substantially reduced and this, among other things, impedes its use as collateral. Characteristic (a) in the table above indicates that practically none of the dwellings can be pledged

as collateral. In spite of this, it was decided not to utilize characteristic (a) as a criterion to define the situation of informality since it would require that all dwellings in Egypt be classified as informal.

On the other hand, it was agreed that characteristic (b) could be considered as a “proxy” indicator of the condition of the informality of these dwellings given that if property is not **adequately** titled and registered,⁵ securing exchangeability, often among unknown agents, in an extended market is limited.

Applying this operational definition of informality, it was concluded that all dwellings included in **Typologies 1 to 3** should be classified as informal per se because they represent dwellings constructed in violation of expressed legal prohibitions, in which case, it would be impossible to establish exclusive and transferable property rights for these properties as long as the aforementioned legal impediments endured.

With respect to dwellings of formal origin (**Typologies 4 to 9**), characteristic (b) was applied, classifying as informal capital stock those dwellings (land and construction) that are not titled and registered in the name of the current owner, whether a person, an association, or the state itself.⁶ Dwellings of **Typologies 4 and 5** (New and Old Public Housing) were also classified as informal since they were not registered. At the same time it was deemed advantageous for the state to register these dwellings as state property. Therefore, if the state subsequently decided to transfer the rented units to their respective tenants or to confer a registrable title to those who have been paying for units by installments, there would not exist any legal obstacles to do so.

For **Typologies 6, 7, 8, and 9**, the relative ease to formalize these properties is depicted by characteristic (c) which allows one to deduce that the existing distortion could be easily rectified by the government. For this reason, the percentage of informality implicit in characteristic (b) was corrected by deducing the fraction established in characteristic (c). For example, in the case of **Typology 6** (City Center), it is estimated that **75 percent** of the dwellings are not titled and registered in the name of the owner. However, characteristic (c) indicates that **10 percent** of these dwellings could be easily registered. Consequently, only **90 percent** of the **75 percent** (or **67.5 percent**) of these dwellings were classified as informal. This percentage has been rounded off to **60 percent**.

⁵ This a key concept given that it encompasses a series of institutional, legal and economic requirements that must coexist with a titling and registration system in order to guarantee that property rights over an asset are indisputably established and can be classified as formal.

⁶ This criteria may underestimate the extent of informality since many of these titles and registrations are outdated or invalid.

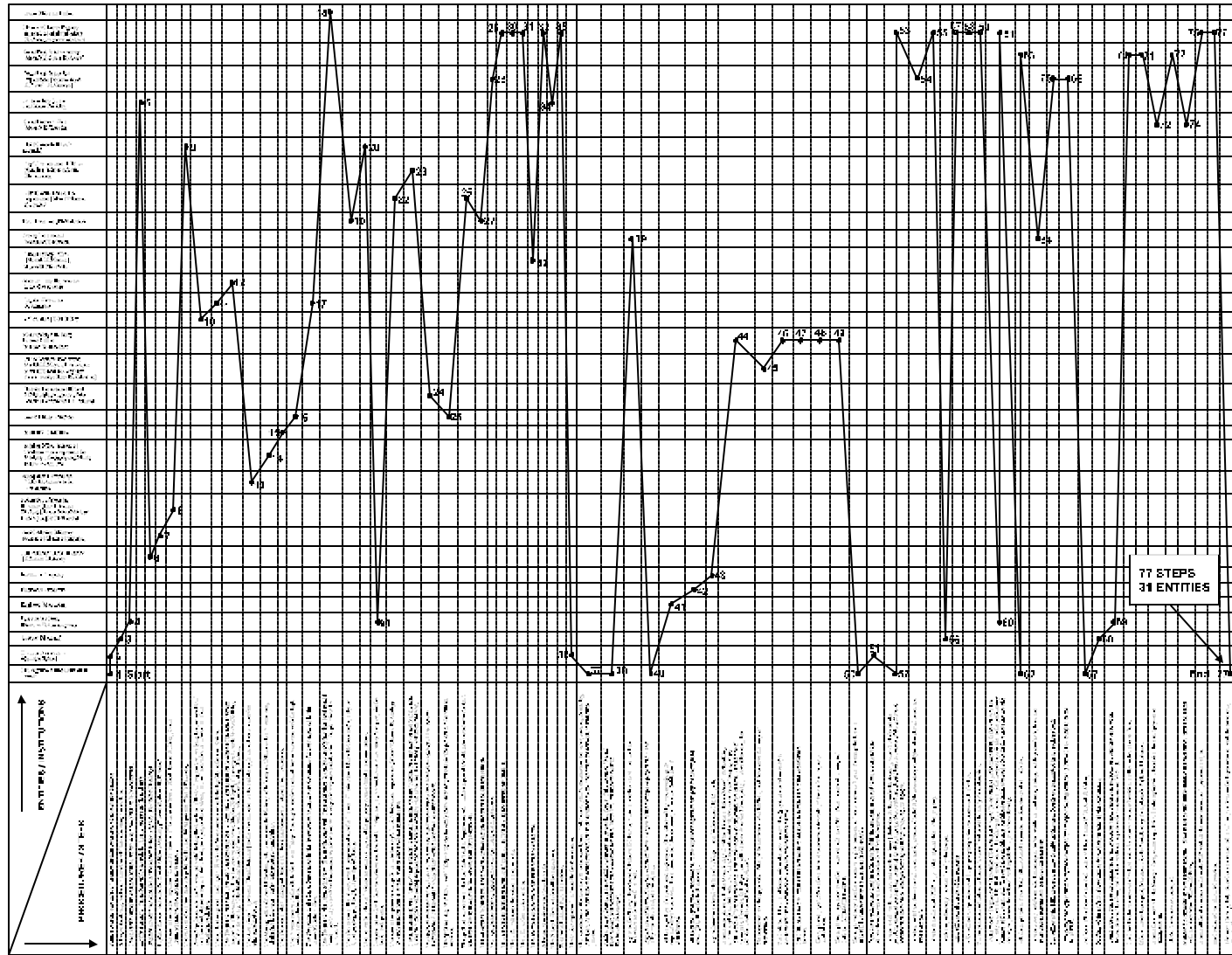
Table A.2 Percentages of Informality Applied

| | Residential Typologies | | | | | | | | |
|---|------------------------------|------------------|-------------------|----------------------------|-----------------|---------------------|----------------------|-----------------|-----------------|
| | Dwellings of Informal Origin | | | Dwellings of Formal Origin | | | | | |
| | 1 Info Agro | 2 Info Des | 3 Info Vill | 4 Old Pub | 5 New Pub | 6 City Center | 7 Hist Quarter | 8 Old Sub | 9 New Sub |
| Percentage of informality for each residential typology | 100% | 100% | 100% | 100% | 100% | 60% | 70% | 50% | 20% |

The total value of informal housing in Egypt was then obtained by summing the values for each typology. The result is that informal urban dwellings in Egypt are valued at **US\$ 195.2 billion**. This represents **70 percent** of the value of total dwellings in Egypt.

However, the state, as owner of the dwellings in **Typology 4**, Old Public Housing, may not wish to use them for other than rental purposes. If this is the case, **Typology 4** should not be included in the valuation of informal urban dwellings. Notwithstanding, even with this adjustment, the overall percentage of informality in urban dwellings is still significant (**67 percent**) and the value in this case goes down slightly to **US\$ 185.8 billion**. **Table 3** presents the total estimated value in the line “Total Asset Value,” for each of the 4 areas, disaggregated by the 9 typologies.

FLOWCHART N° 1
PROCEDURES TO GAIN ACCESS TO DESERT LAND FOR BUILDING PURPOSES AND TO REGISTER THESE PROPERTY RIGHTS IN EGYPT



I. ACCESS TO DESERT LAND FOR URBAN DEVELOPMENT

II. OBTAINING A PERSONAL BUILDING LICENSE

III. REGISTRATION OF FORMAL PROPERTY

FIGURE A.2

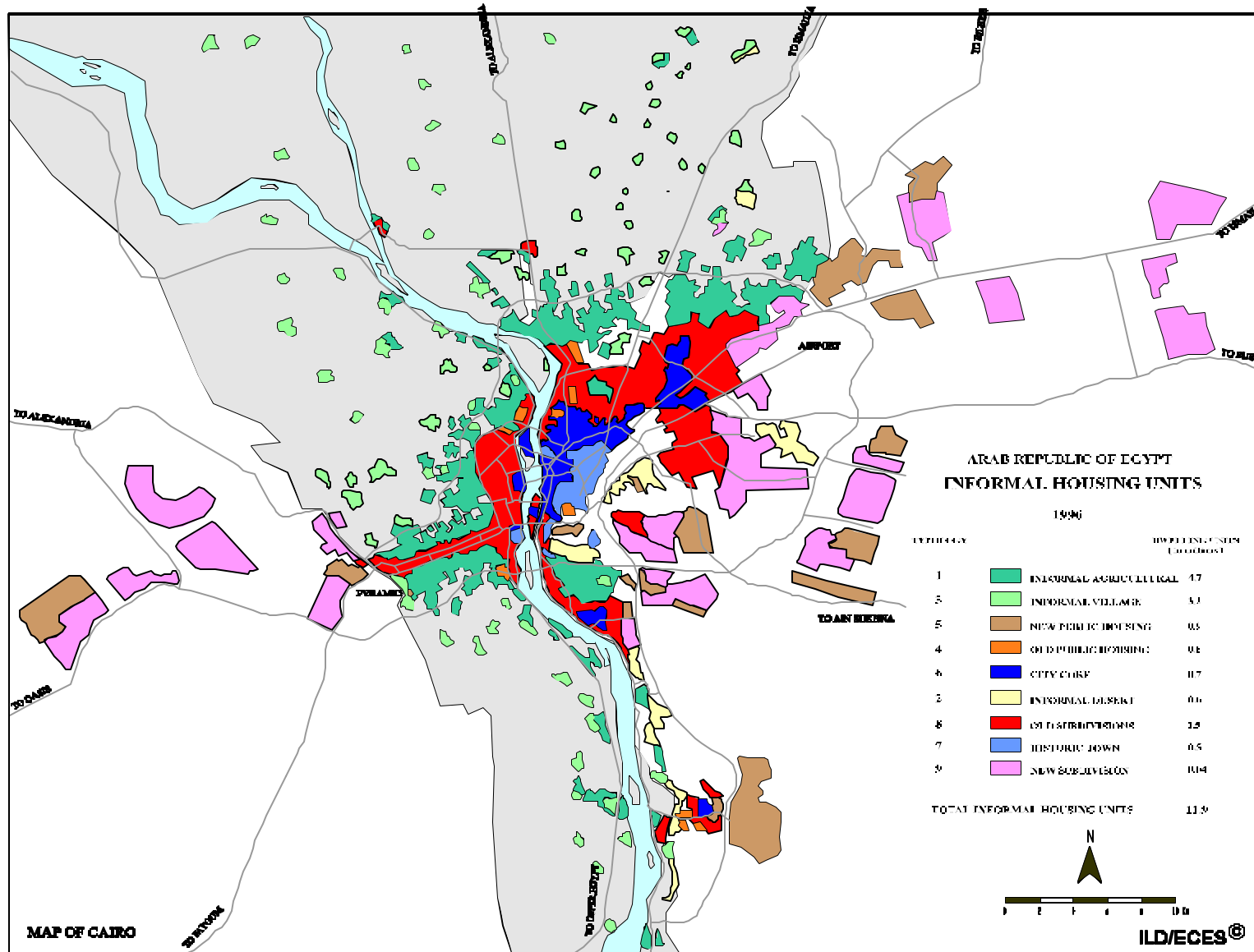


Table A3

EGYPT
URBAN AREAS

ESTIMATION OF ASSET VALUE FOR EACH RESIDENTIAL TYPOLOGY
(US\$ BILLION)

| | INFORMAL ORIGIN | | | | FORMAL ORIGIN | | | | | | | Total asset value |
|---|--|--|-----------------------|------------|-------------------------|--|----------------|--------------------|--------------------------------|--------------------------------|--------------|-------------------|
| | Informal Extension on Agricultural Land 1 | Informal Extension on Desert/State land 2 | Informal Village 3 | Sub-Total | Old Public Housing 4 | Newer Public Housing (incl. cooperatives) 5 | City Core 6 | Historic Town 7 | Older Formal Subdivisions 8 | Newer Formal Subdivisions 9 | Sub-Total | |
| Greater Cairo | 169 | 1.9 | 25 | 213 | 43 | 29 | 352 | 58 | 434 | 112 | 1028 | 1241 |
| Alexandria | 24 | 0.9 | 0.5 | 38 | 0.9 | 12 | 68 | | 222 | 82 | 393 | 431 |
| Other cities | 65 | 0.7 | 1.6 | 88 | 4.1 | 6.3 | 24.9 | 20.5 | 4.3 | | 60.1 | 68.9 |
| Residential Rural | 236 | 3.4 | 123 | 393 | 0.1 | 1.5 | | | | | 1.6 | 409 |
| Total Asset Value | 494 | 6.9 | 169 | 732 | 94 | 119 | 66.9 | 263 | 69.9 | 194 | 2038 | 2770 |
| Informal Component (%) | 100 | 100 | 100 | | 100 | 100 | 65 | 70 | 50 | 20 | | 70 |
| Informal Asset Value | 494 | 6.9 | 169 | 732 | 94 | 119 | 43.5 | 184 | 35.0 | 3.9 | 122.0 | 1952 |
| Relative importance of informal components (%) | | | | 37 | | | | | | | 63 | |

APPENDIX 2

Estimating Informal Real Estate Assets in Rural Areas in Egypt

The methodology used to estimate the total value of agricultural land classified as informal in Egypt is as follows:

- agricultural properties were classified according to the number and size of holding for each governorate;
- the property value of these agricultural areas was estimated using the average price of agricultural products cultivated in these properties;
- informality coefficients were then applied, differentiated by the size of holding; and
- the total value of informal rural holdings in Egypt was then obtained by summing the values for each category.

1. Classification of Agricultural Lands

The existing agricultural areas in Egypt were classified according to their location (Lower Egypt, Upper Egypt and Desert), governorate, number, and size of holding in feddans⁷. The information about the number and size of holding for each governorate, as well as the type of cultivation (crops, vegetables, and orchards), was extracted from documents provided by the Ministry of Agriculture.

2. Estimate of the Total Value of Agricultural Land

The market value of agricultural land in each governorate was estimated on the basis of the market value of land which varied according to the produce (crops, such as cotton; vegetables; or fruit orchards) cultivated on that land. The market value of agricultural land, according to crop type, was obtained from land brokers (*Khabeer Zeraie*). As it was not possible to determine the distribution between different types of crops for each holding, the value of different crops was consolidated using a weighted average price per feddan. The weights reflect the relative importance of each crop within each governorate.

A value for agricultural land reclaimed from the desert within the same governorate was not assigned since the price for different types of crops on this land varies greatly. However, as the relative importance of desert agricultural land is less than **1 percent** it was concluded that its exclusion would not distort the calculation. Similarly, a value for agricultural areas within Cairo was not assigned given that their relative importance is minimal. The results are:

- the total value of agricultural land in Lower Egypt is **US\$ 64.5** billion;
- the total value of agricultural land in Upper Egypt is **US\$ 34.7** billion; and

- consequently, the estimated value for all agricultural land in Egypt is **US\$ 99.2** billion.

3. Estimated Total Value of Informal Agricultural Land

The estimated value of all agricultural property classified as informal is **US\$ 46.2** billion

(**Table A.4**, column 4). That is to say, **47 percent** of the total value of agricultural property in Egypt is informal.

According to information provided by resident specialists in Egypt, those citizens most affected by informality are smallholders, with properties of less than 3 feddans (approximately 1.3 ha). This is largely due to the non-existence of an adequate titling and registration system for agricultural property, as well as to the following reasons⁸:

- complications which arise from subdividing property as a result of inheritance processes;
- the high costs of the titling and registration process;
- the legal impossibility to use property as collateral, reducing the incentive for smallholders to register; and
- frequent migration of smallholders because of work-related opportunities, making it difficult to formalize property rights.

⁷ One feddan is equivalent to 0.42 hectares or 1.038 acres.

⁸ The first three factors affect virtually all holdings although to different degrees.

Table A.4

EGYPT
RURAL AREAS
OVERALL ESTIMATION OF ASSET VALUES OF RURAL HOLDINGS

| Governorate | INFORMAL HOLDINGS | | | FORMAL HOLDINGS | | | TOTAL HOLDINGS | | |
|--------------------|-------------------|------------------|---------------------|-----------------|------------------|---------------------|------------------|------------------|---------------------|
| | Number | Area (feddans) | Value (US\$million) | Number | Area (feddans) | Value (US\$million) | Number | Area (feddans) | Value (US\$million) |
| Lower Eevnt | | | | | | | | | |
| Cairo | 2,252 | 2,862 | n/a | 962 | 3,229 | n/a | 3,214 | 6,091 | |
| Alexandria | 8,267 | 24,800 | 374 | 7,517 | 135,382 | 2,284 | 15,784 | 160,182 | 2,658 |
| Port Said | 519 | 4,002 | 47 | 2,119 | 36,901 | 435 | 2,638 | 40,903 | 483 |
| Suez | 2,667 | 6,652 | 79 | 990 | 14,913 | 181 | 3,657 | 21,565 | 260 |
| Damietta | 24,830 | 51,042 | 605 | 9,430 | 67,634 | 852 | 34,260 | 118,676 | 1,457 |
| Dakahlia | 227,396 | 364,769 | 5,928 | 43,798 | 306,162 | 5,210 | 271,194 | 670,931 | 11,138 |
| Sharkia | 270,094 | 409,211 | 5,466 | 44,771 | 455,790 | 7,221 | 314,865 | 865,001 | 12,687 |
| Kalyoubia | 107,983 | 122,342 | 1,816 | 25,694 | 79,980 | 1,783 | 133,677 | 202,322 | 3,599 |
| Kafr El Sheikh | 111,913 | 235,416 | 2,085 | 37,924 | 290,576 | 2,607 | 149,837 | 525,992 | 4,692 |
| Gharbia | 186,814 | 266,619 | 4,336 | 29,308 | 139,350 | 2,618 | 216,122 | 405,969 | 6,955 |
| Menoufia | 196,787 | 228,665 | 3,380 | 17,361 | 88,170 | 1,637 | 214,148 | 316,835 | 5,016 |
| Behera | 192,439 | 390,814 | 3,498 | 71,482 | 917,852 | 9,238 | 263,921 | 1,308,666 | 12,736 |
| Ismailia | 19,815 | 37,647 | 462 | 9,500 | 154,055 | 2,400 | 29,315 | 191,702 | 2,862 |
| Sub-Total | 1,351,775 | 2,144,840 | 28,076 | 300,857 | 2,689,995 | 36,465 | 1,652,632 | 4,834,835 | 64,541 |
| Upper Eevnt | | | | | | | | | |
| Giza | 98,542 | 120,870 | 1,806 | 17,134 | 136,544 | 3,040 | 115,676 | 257,414 | 4,846 |
| Beni Suef | 122,237 | 171,430 | 1,771 | 14,329 | 105,669 | 1,125 | 136,566 | 277,099 | 2,896 |
| Fayum | 104,426 | 179,930 | 2,932 | 29,836 | 187,951 | 3,386 | 134,262 | 367,881 | 6,317 |
| Menia | 206,466 | 269,954 | 3,190 | 23,727 | 219,519 | 2,737 | 230,193 | 489,473 | 5,927 |
| Asyut | 155,486 | 192,311 | 2,274 | 19,779 | 132,295 | 1,690 | 175,265 | 324,606 | 3,964 |
| Suhag | 193,955 | 226,997 | 2,679 | 16,077 | 102,002 | 1,225 | 210,032 | 328,999 | 3,904 |
| Qena | 136,929 | 188,791 | 2,508 | 24,822 | 186,285 | 2,518 | 161,751 | 375,076 | 5,026 |
| Aswan | 46,745 | 80,102 | 946 | 8,123 | 70,468 | 846 | 54,868 | 150,570 | 1,792 |
| Sub-Total | 1,064,787 | 1,430,386 | 18,106 | 153,826 | 1,140,732 | 16,566 | 1,218,613 | 2,571,118 | 34,672 |
| Desert | | | | | | | | | |
| Red Sea | 18 | 103 | n/a | 58 | 407 | n/a | 76 | 510 | |
| New Valley | 3,992 | 14,551 | n/a | 5,646 | 44,843 | n/a | 9,638 | 59,394 | |
| Matruh | 2,287 | 12,364 | n/a | 12,721 | 175,320 | n/a | 15,008 | 187,684 | |
| North Sinai | 1,372 | 6,095 | n/a | 11,750 | 178,258 | n/a | 13,122 | 184,353 | |
| South Sinai | 239 | 589 | n/a | 951 | 10,678 | n/a | 1,190 | 11,267 | |
| Sub-Total | 7,908 | 33,701 | | 31,126 | 409,507 | | 39,034 | 443,208 | 0 |
| Total | 2,424,471 | 3,608,928 | 46,182 | 485,808 | 4,240,233 | 53,032 | 2,910,279 | 7,849,161 | 99,213 |
| % | 83.3 | 46.0 | 46.5 | 16.7 | 54.0 | 53.5 | 100.0 | 100.0 | 100.0 |

On the basis of the arguments presented above, it was considered reasonable to establish that all small holdings (under 3 feddans) are informal

The situation of the land holders with property **between 3 and 5 feddans**, the former beneficiaries of agrarian reform, is similar to the previous group. But since the state has given priority to the formalization of the property rights within this sector, it is estimated that approximately **40 percent** of these holdings have been or are in the process of being formalized. Consequently, **60 percent** of these holdings have been classified as informal.

Table A.5**ESTIMATION OF ASSET VALUES OF RURAL INFORMAL HOLDINGS IN EGYPT**

| Size of Holding | Total area Cultivated (Feddans) | Weighted Average Price (US\$/feddans) | Total value of Rural Property (US\$ million) | Extent of Informality (%) | Total Value of Rural Informal Holdings (US\$ million) | Number of Rural Informal Holdings (Thousand) | Average Value of Informal Holdings (US\$) |
|-----------------------------|---------------------------------|---------------------------------------|--|---------------------------|---|--|---|
| Less than 3 Feddans | 2,535,639 | 12,991 | 32,940 | 100 | 32,940 | 2,174 | 15,152 |
| Between 3 less than 5 | 1,234,551 | 12,481 | 15,408 | 60 | 9,245 | 205 | 44,878 |
| Between 5 less than 15 | 1,662,789 | 12,019 | 19,985 | 20 | 3,997 | 46 | 86,956 |
| Equal to or greater than 15 | 2,416,181 | 12,781 | 30,881 | 0 | 0 | 0 | 0 |
| Total | 7,849,160 | | 99,214 | | 46,182 | 2,425 | 19,044 |

In the case of land holdings **between 5 and 15 feddans**, it was estimated that **20 percent** of these holdings are affected by some of the different causes of informality. The percentage proposed might be an underestimation of informality since it is the policy of commercial banks to extend credit only to holdings greater than 15 feddans. That is to say, access to credit — other than that provided by cooperatives — as an incentive to formalize is practically non-existent for this group.

For holdings of **greater than 15 feddans**, it was concluded that they have enough economic resources to resolve any problem related to poorly defined property rights. For this reason, it was assumed that almost all of these holdings are formal.

APPENDIX 3

Some Institutional Obstacles to Formality in Egypt

Research indicates that the fundamental reason for the existence of the prevalent and significant magnitude of dead capital in Egypt is the inadequate institutional framework that, either directly or indirectly, generates unjustifiably high transaction costs and unduly complicates procedures to obtain formal property or to regularize informal property.

1. Two Cases

In order to identify the characteristics of the institutional framework that define property rights over real estate in Egypt, the ILD gathered information on the following aspects:

- the procedures and requirements needed to acquire property on a formal basis; and
- the procedures and requirements needed to regularize informally acquired or constructed property.

The analysis of the information gathered showed that there exists a series of costly and complicated procedures, as a result of which the majority of interested parties could not complete the process. What follows are two hypothetical, but representative cases developed on the basis of the information gathered. The first case describes the procedures and requirements with which a person wishing to obey the law must comply; the second, the procedures and requirements with which a person wishing to legalize informal holdings must comply.

Case One: A person would like to acquire a parcel on state-owned desert land to build a dwelling unit and register the property following legally established procedures so as to become a formal property owner and not fall into Typology 2.

As **Flowchart 1** shows, this means that the person must go through **3** stages which involves carrying out at least **77** bureaucratic procedures in **31** public and private entities, all of which can take between **5** to **14** years:

a) First, the person must follow certain procedures to obtain a parcel on state desert land:

The first obstacle to be considered is that there are no provisions for acceding to undeveloped state land on an individual basis. Consequently, a person is forced to hire a lawyer and to form an association (comprised of at least 5 families) which must be registered at the relevant public registry and administrative offices.

The association must first devise an urban development project and go through numerous procedures for its approval. The city, three ministries, the governor and even the prime minister intervene in the process. The association will be very fortunate if it manages to have the project approved (Decree of Designation/*Karar El-Takhcise*) since government policy promotes urban development through new communities.

Once approval is obtained, the association must register the land in its name at the Real Estate Registry, assign the lots to its members so that each can apply for a building license and begin construction of a home, and collect the funds needed to apply for and install basic infrastructure services for the project.

At the end of this stage, estimated to take **4 to 10** years to complete, the person will have gone through **36** bureaucratic steps involving **23** entities.

b) Second, while the association is applying for permits and installing basic infrastructure services, the person must obtain a building license for the home:

The building license is obtained at city hall. The person must: put together a technical file consisting of 3 sets of plans, including one showing the location of the dwelling on a cadastral plans; hire an engineering consultant and certify the person's signature at the Engineer's Syndicate; purchase insurance for the construction; pay a percentage of the value of the work toward defraying costs of possible temporary obstruction of or damage to the public thoroughfare; and, enclose copies of personal ID and of any documents showing proof of ownership or possession of the land.

The municipality is responsible for reviewing plans and carrying out on-site inspections as well as for obtaining reports from public utilities companies.

Although attempts have been made to reduce the time required to obtain a building license by introducing the “positive administrative silence” principle to the procedure -- whereby the application is approved if it is not turned down or additional requirements or modifications are not requested within 30 days following its presentation -- the process usually takes **6** months to complete since officials generally review technical aspects extensively. This cumbersome procedure involves about **14** bureaucratic procedures at **6** different entities. Furthermore, if construction is not begun within **1** year after the building license has been granted, one must renew the license by repeating the entire procedure.

c) Last, the person must obtain a property title and register it at the Real Estate Registry:

Once all payments have been made to the association, and the basic infrastructure services installed and the dwelling unit built, the person signs a “preliminary contract” with the association for the purchase of the assigned lot.

To register this contract, the person must: hire a lawyer; certify his/her signature at the Lawyer’s Syndicate; obtain an original copy of the property title registered at the Real Estate Registry; obtain a certificate from the Real Estate Tax Department ascertaining that no taxes are owed; have the on-site inspections carried out — which determine the value of the property and the fees to be paid; and validate the signatures of the buyer and seller at the main Real Estate Registry.

Once all documents are duly stamped and sealed, the person requests that the preliminary contract be registered at the local Real Estate Registry. Along with the application, the person also submits a survey certificate containing a map showing the property’s location. If everything is found to be in order, a seal of “accepted for registration” is stamped on the application and the map, both of which are subsequently inscribed in the entity’s books.

It is only after this has been completed that the person buys the final contract form (Blue Contract); hires the lawyer again; and pays for the fees for certifying the lawyer’s signature at the Syndicate, the stamps, registration fees and notarized certificates validating the signatures of all parties involved. The person then submits all documents, including the stamped preliminary

contract, to the local Real Estate Registry, where, after all has been satisfactorily examined, a seal of “satisfactory for registration” is obtained.

The sealed Blue Contract is submitted to the main Real Estate Registry, where, following a satisfactory second technical and financial analysis, it is accepted and registered. A copy is returned to the person.

The onerous procedures involved in having certificates notarized, as well as registration costs to be incurred, often force interested parties to have parts of the procedures approved in court and to accept preliminary sales contracts certified by a judge.

The procedures comprising this stage entail going through at least **27** bureaucratic steps at **8** public and private entities. Despite the complexities involved, by law the entire process must be completed within **1** year. If not, the process must start over again from the beginning. Much attention must therefore be paid to the requirements, presentation of documents, and the availability of funds in order to make timely payments. Consequently, it is not unusual that the entire operation has to be repeated **3** or **4** times.

Case Two: A person has informally built a dwelling unit on agricultural land and wishes to regularize the property rights so as to exit Typology 1.¹

Since 1966 it is forbidden to build houses occupying more than 2 percent of the surface of an agricultural parcel. The enactment of Law No. 101-96 converted this violation of the law into a criminal cause, making it completely impossible to regularize buildings constructed over agricultural land by following administrative procedures alone.² In this case, these buildings violate the prohibition of building on agricultural land and therefore do not obtain the corresponding building permit, which in turn is an additional violation that impedes their formalization.

¹ The regularization of the legal status of a dwelling is not frequent. Owners proceed with regularization procedures when they want to transfer or mortgage the property or when they want to avoid paying bribes or fines.

² Nor was it possible to use the land for other purposes, like using soil to make bricks.

Nevertheless, one can attempt to regularize houses built on agricultural land, in accordance with the building code but without a building license, by following judicial procedures that can be carried out through the District Court and the Felony Court. Interested parties generally have little chance of regularizing their property in this manner, and none at all if they built on agricultural land and not in accordance with the building code.

However, if they do manage to complete the regularization process, it takes them between **6** and **11** years, if not more, to do so. In order to demonstrate the magnitude of the hurdles involved, ILD created the hypothesis that this would be feasible under the two conditions described below. **Flowchart 2** illustrates the possible favorable outcomes and risks involved in an attempt to regularize such houses:

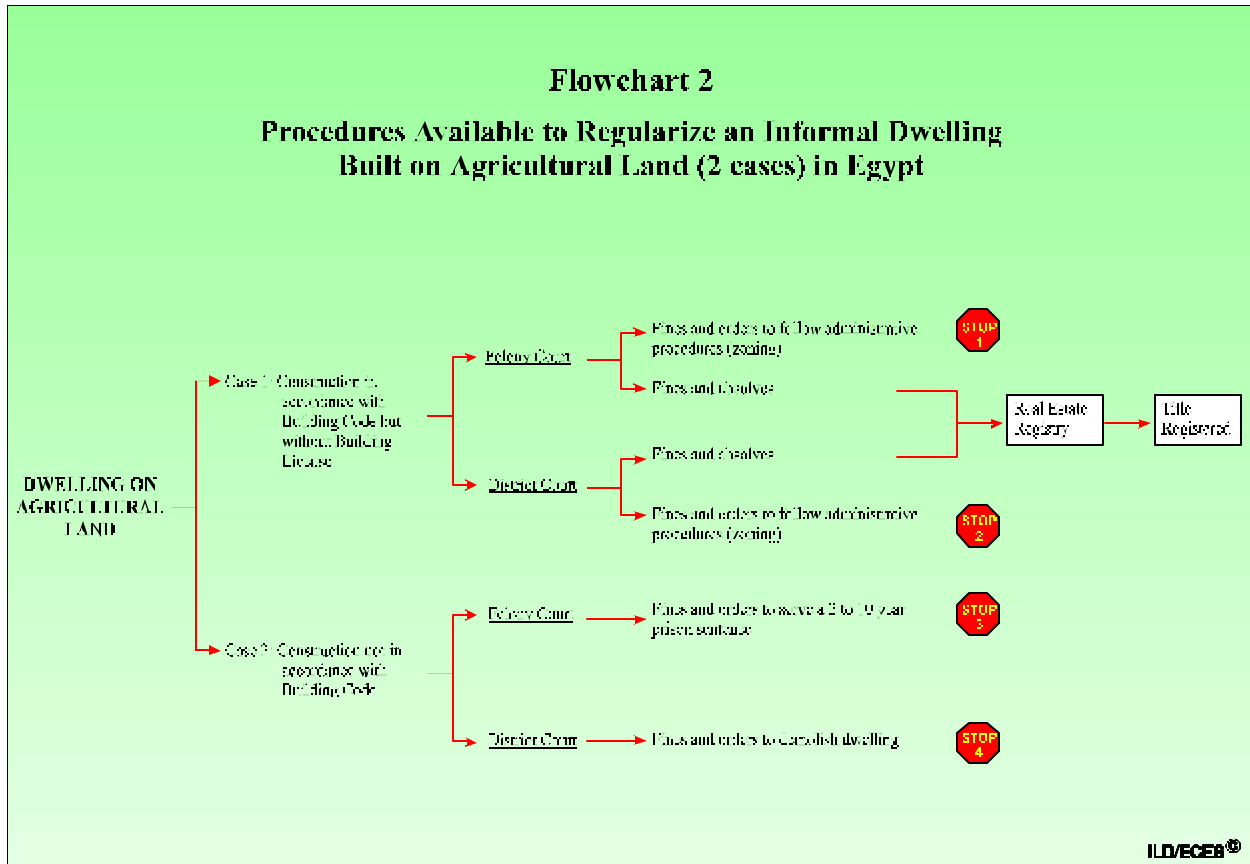
- a) Construction on agricultural land, in accordance with Building Code but without a Building Permit:

These dwellings can be regularized. However, since there are no administrative provisions for this purpose, regularization can be carried out through the District Court and the Felony Court. The process is initiated when a person decides to take the defense in court after receiving a demolition order and has charges filed against him/her by administrative authorities.

The misdemeanor of building without a license is considered a civil matter. As such, the case is settled in a District Court, where two rulings could be made. First, it can rule that the construction does not contravene safety regulations because it has been built in accordance with the Building Code, in which case the court imposes a fine, and then legalizes the status of the construction (not the land). Second, it can rule that the construction flagrantly violates an aspect of the zoning laws because it has been built on agricultural land, in which case it fines the person and demands that he/she request a modification in the zoning laws for the area. This is such a complicated procedure³ that it generally forces the person to abandon the regularization process (Stop 2, in Flowchart 2).

³ The process requires the intervention of the Governor, the Ministries of Defense, Agriculture, Housing, Local Administration and Tourism; and the Prime Minister, who has discretionary power to accept or refuse the request.

Building on agricultural land is considered a felony. As such, the case is settled in a Felony Court, where two rulings could be made. First, it can fine and absolve the person of criminal charges. Second, it can fine and demand the person to request a modification in the zoning laws,



which in essence means the person will never be able to legalize the status of the property (Stop 1, in Flowchart 2). In both cases, the judge rarely imposes a prison sentence or orders that the dwelling be demolished.

Only when receiving a favorable sentence from both courts can a person register the property at the Real Estate Registry. The registration process will take **1** year if each step is carried out perfectly. But trials in the District Court take a minimum of **5** years to complete, while those in the Felony Court, between **2** and **5**. Consequently, regularization, if successful, takes at least **6** years. According to the specialists consulted, most cases, if successful, can drag on for between **6** and **11** years. On the whole, however, the risks and costs involved end up being so high that the endeavor is often abandoned midway.

b) Construction on agricultural land, not in accordance with Building Code:

These dwellings cannot be regularized since neither of the courts (Stops 3 and 4, in Flowchart 2) exonerate owners from responsibility. In these cases, the owner is ordered to demolish the building, and is sentenced, along with the constructor and supervising engineer, to a 2 to 10 year prison term.

The above information was gathered from former and current municipal and government officials, as well as private lawyers specialized in these procedures, especially those with knowledge on shortcuts for acquiring a sufficient degree of legal security to gain possession and disposition over property. In some cases, specific files were also analyzed.

It is interesting to note that the technical and political specialists consulted in Egypt appear to lack a comprehensive understanding of the process for gaining access to or legalizing the status of property -- that is, complete knowledge of the procedures, requirements and costs involved. They are familiar with some of the procedures, but not with the entire process needed to adequately register property.

2. The Results

The inevitable effects of an inadequate institutional framework is that it forces citizens to continue holding property informally and carry out transactions which only allow partial use of acquired holdings. It does not provide them with the means to gain full disposition over or make full use of their property. The majority of Egyptians are therefore forced to accept a progressive increase in the informal status of housing and agricultural property -- that is, to accept significantly diminished (and in some cases nonexistent) property rights.

Informality is relentlessly commandeering increasing percentages of value from the capital belonging to the majority of Egyptians, forcing them to accept substantially lower levels of well-being than those they would otherwise enjoy if their property rights were indisputably exclusive and highly transferable.

The current institutional framework was created and made complicated by the approval of policies, laws, regulations and other norms of minor authority. Their specific aims were probably acceptable — such as promoting the orderly growth of cities, the preservation of agricultural land, the reduction of abusive rental costs, safe constructions or the provision of housing for the poor. But they simultaneously elevated transaction costs, fostered informality and harmed the majority of the population, reducing over time the efficacy of the parallel macroeconomic policies that the government had introduced precisely to benefit the majority of Egyptian citizens.

These policies and norms did not emerge from a comprehensive view to reverse the process of property informalization that it was producing, much less to convert an inadequate situation (dead capital) into an mechanism for development (live capital).

Figure A.3 shows the basic relationship between norms of different levels with the institutional framework.

3. Informal Mechanisms for Regularizing Property

Since in most cases it is practically impossible to regularize a construction or enter the property in the public Real Estate Registry without paying bribes or going for “legal short cuts,” some “owners” do transfer their property rights informally, using the following documentation:

- **Proofs of possession or property deeds/titles of the earlier inhabitant** (private contracts or Real Estate Registry certificate for the land, *Akd Melkeyet El-Ard*).
- **Bills for basic infrastructure services** (water, electricity, gas, *Isalat El-Marafek*).
Although by law informal buildings are not allowed to receive utilities services, they are obtained through direct negotiation with the utility authority or, as in the majority of cases, through a court order. To obtain such an order, building owners have to sue the utilities authority that refuses to supply the requested services. The lawsuits are usually won by the plaintiffs since it is considered a basic right for the citizen to be able to have these services.
- **Real Estate Tax Office Certificate** (*Shahadet El-Daraeb El-Akaria*). The Real Estate Tax Office sends surveyors to gather information on the location and value of the property (land and building). The property is taxed independently of its legal status. The tax certificate is later used as proof of ownership of the building.

- **Court resolution validating private contract.** Buyer and seller will sign a private contract with the participation of a lawyer or two witnesses. To take the case to court, a conflict (non-compliance with contract, lack of payment) will be initiated. The judge resolves the conflict validating the contract and the transfer of the property (*Hokm Seha Wa Nafaz*). In these cases, registration would be possible only for land without housing; the prohibition to build on agricultural land or the lack of a building permit will stop the process.

None of these procedures or proofs of possession or ownership provide informal dwellings and agricultural land with the necessary security and exchange capacity required in a market economy. They are, however, an important indication that there exists a “social contract” in which the buyer, seller and neighbors or witnesses recognize, in an extralegal manner, the individual’s rights to property. The discovery and legal recognition of the social contract that underlies the exercise of rights over informal goods is the basis upon which the mechanisms rest to incorporate informal capital stock into the formal market in a deliberate, rapid, secure, peaceful and efficient manner.