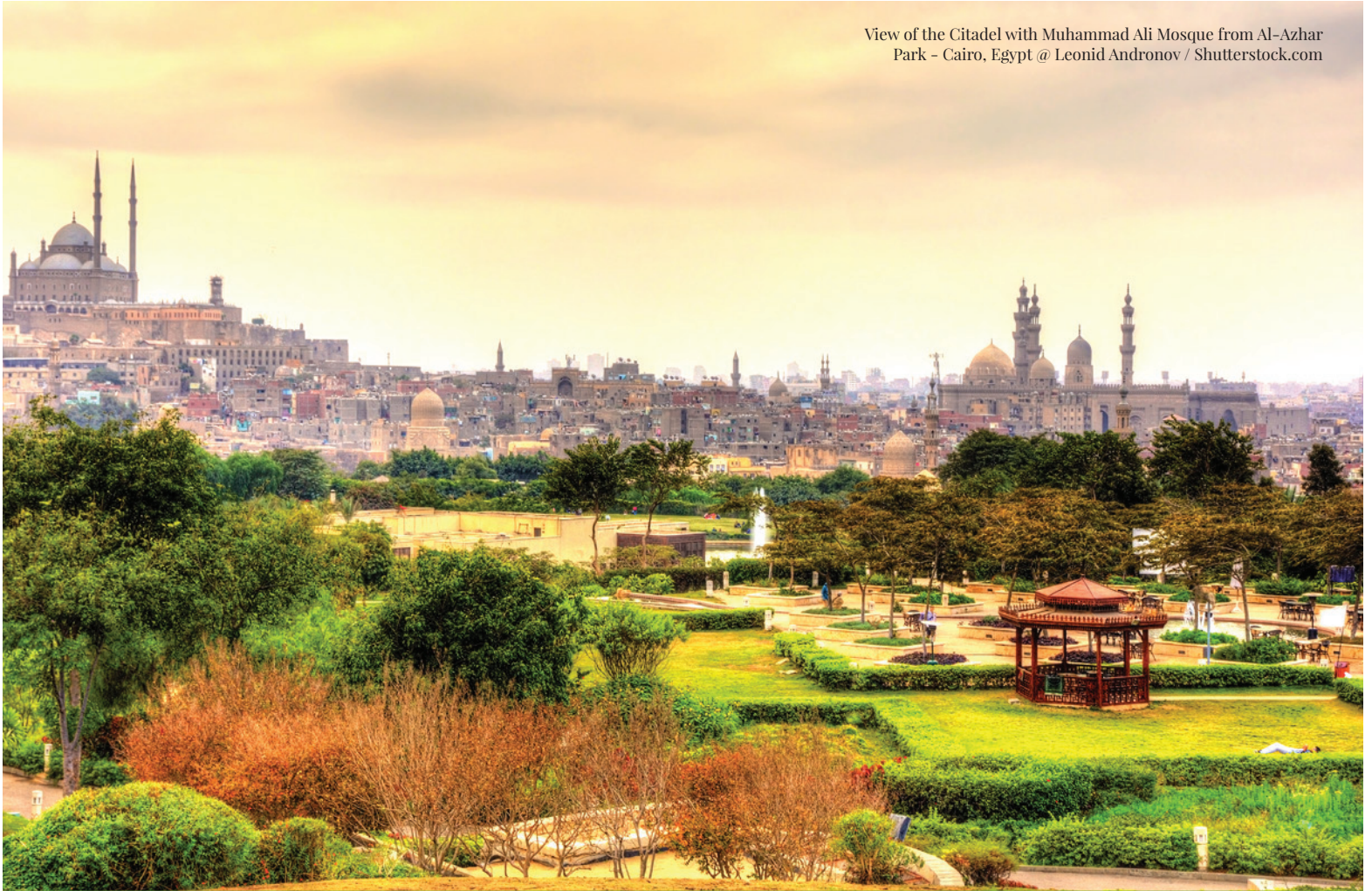


View of the Citadel with Muhammad Ali Mosque from Al-Azhar Park - Cairo, Egypt @ Leonid Andronov / Shutterstock.com



Leveraging Land in the Arab Republic of Egypt:

The Potential for Increasing Land-based Financing for Urban Development

Lawrence Walters for UN-Habitat
November, 2015
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The overall goal of the project is to identify and recommend legal and institutional reforms and strategic interventions that will consolidate and streamline urban planning and management processes. A reformed urban legal system will make possible the production of large-scale serviced land that will accommodate rapid urban growth, allow for the creation of more public space and streets and, in some cases, enable development cost sharing through land value capture. In doing so, the project has four main objectives, namely:

- (i) Improved legal structure for detailed planning and land management in Egypt, with an emphasis on city densification and extension
- (ii) Strengthened planning policy making capacity at national level
- (iii) Strengthened planning policy implementation capacity at governorate and city level
- (iv) Improved regional knowledge on detailed planning for city densification and extension

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EXECUTIVE SUMMARY

The report begins by summarizing the rationale for land-based finance and the decision criteria that should be used in designing land-based taxes and fees.

The advantages of land include:

- First and foremost land has a fixed location, does not move and is visible.
- Administration of land-based revenues can be enhanced and revenues increased if local authorities play an active role in that administration.
- Land-based revenues are often progressive in nature as ownership is generally concentrated in upper income groups.
- Land-based financing may enable subnational governments to become more autonomous by closing the gap between own-source revenues and expenditures.
- Land-based instruments tend to promote transparency and accountability in local government, and may act as a benefit tax (i.e., compensation paid by landholders for the broad set of benefits provided by the local government).
- Taxes based on land and property tend to have less of a dampening effect on private investments and economic activities than other common types of taxation.

Three overarching factors are identified that must be carefully weighed in adapting land-based finance instruments to the Egyptian context: legal requirements, the condition of land markets and the administrative capabilities of implementing agencies. Each are discussed more fully in the report.

The criteria for selecting any revenue instrument include:

- **Independent and autonomous revenues:** In order for a government to be able to reliably budget, the government needs control over its revenues and needs flexibility in adjusting revenues to meet community needs. While other levels of government may determine the legal environment and range of acceptable rates, governments need to be able to raise or lower revenues at least at the margin in response to local needs.
- **Adequate and stable revenue:** In order to facilitate effective budgeting, own-source revenues should be sufficient to meet basic expenditure needs and should be largely reliable.
- **Immobility of base:** Locally imposed taxes should be placed on a tax base that cannot be easily relocated to avoid the tax.
- **Benefit principle:** The taxes paid by a given taxpayer should correlate with the benefits received from government by that taxpayer.
- **Ability to pay:** The taxes paid by a given taxpayer should reflect that taxpayer's income capacity and ability to pay.
- **Compliance costs:** The costs borne by taxpayers to understand the tax, calculate their tax obligation, and pay the tax should be kept to a minimum.
- **Ease and cost of administration:** The costs incurred by government to administer the tax, including assessment, notification, and enforcement, should be kept to a minimum.
- **Transparency:** Tax policy should be clear to both administrators and taxpayers, including the method used to calculate the tax obligation, the amount of tax due, along with all payment and enforcement provisions.

- **Political acceptability:** Tax compliance is in direct proportion to the public's understanding and willingness to pay the tax. Political support from community leaders and the public is essential.
- **Horizontal equity:** Similarly situated taxpayers should pay a similar tax.
- **Minimal economic distortions:** There should be relatively few changes in consumption or investment decisions made by taxpayers in response to tax policy. Any behavior changes that occur as a result of the tax or fee should be minimal.

Seven common land-based finance instruments are briefly described. These instruments include:

- Recurring taxes on land and property
- Special assessments
- Developer exactions

- Land value increment taxes
- The sale of development rights
- Land leases and land sales
- Transfer taxes

The following table provides a summary description of each instrument. The discussion in the text includes a somewhat more detailed description of each instrument and discusses Egypt's experience with each. Recommendations are made for improving each instrument in Egypt. These recommendations are summarized in the concluding section of the report.

Finally, the discussion concludes with suggestions for prioritizing actions and mapping the way forward.

Instrument	Description
Recurring land and property tax	<ul style="list-style-type: none"> • Recurring tax based on an estimate of the value of land or on land attributes • Recurring tax based on the value of immovable improvements or on the attributes of the improvements • Tax on land and buildings may be separated
Special assessments	<ul style="list-style-type: none"> • Charges assessed in connection with specific infrastructure improvements • Limited to recovery of actual costs incurred • Paid by landowners who benefit from the improvements
Developer exactions	<ul style="list-style-type: none"> • Charges assessed in connection with development approval • Can be paid in cash, in land or in kind • Paid by developers at the time the project is approved
Land value increment tax	<ul style="list-style-type: none"> • Tax assessed as a percentage of the increase in land value due to public actions or general market trends • Can be collected in multiple ways • Paid by landowners who realize the benefits of increased value
Sale of development rights	<ul style="list-style-type: none"> • Payments received in exchange for permission to develop or redevelop land at higher density or changed land use • Rights can either be sold at auction or at fixed price

Sale of public land	<ul style="list-style-type: none"> • Payment received in exchange for freehold title to public land
Lease premiums and recurring lease payments	<ul style="list-style-type: none"> • Payment received in exchange for right to occupy and benefit from public land • Permitted land use is specified • Terms vary from 2 to 99 years
Transfer taxes and stamp duties	<ul style="list-style-type: none"> • Charge assessed for recording the transfer of a land title from one private party to another • Can be either a fixed fee or a percentage of the value of the property being transferred

The report concludes with suggestions for next steps. As public officials and civic leaders consider the path forward regarding land-based finance for urban development, the following suggestions may prove useful.

- 1) Initial steps should focus on those instruments that will involve the least amount change in the legal and administrative systems already in place. That would suggest that a good place to start may be with special assessments. They have been used effectively in Egypt with agricultural improvements and it seems reasonable to extend that experience into the urban sphere. This will be especially true if the processes implemented involve local landowners in the determining which infrastructure projects will be pursued. Special assessment districts can be designed to assure maximum public acceptance for the initial projects. Those projects will then serve as examples for other areas in the city and for other cities.
- 2) A second priority might be standardizing the sale of development rights at least for large projects in major cities. Such projects are more likely to be formalized and processes for implementing the instrument can be refined.
- 3) Moving beyond these two options will require that Egypt confront the issue of informal construction at least as far as additional new construction. Without meaningful progress on this front, little progress can be made with the other instruments. Once again, an essential element in reducing the amount of informal development will to reform the application approval process for new development.

- 4) Once there are effective policies and practices to minimize informal development, developer exactions can become a significant source of revenue for meeting the needs of growing urban areas. The intent is not to curtail new development but to engage developers in the process of addressing the infrastructure and service needs created by their developments.
- 5) Either following or concurrently with the expansion of developer exactions should come the extension of selling additional develop rights in smaller projects and in smaller cities. Again, this can only happen after progress is made to reduce informal development.
- 6) Finally, community leaders should consider further reforms to the annual real estate tax at least as recommended previously. As an additional step, Egypt may wish to consider separating the tax on urban land from the tax on urban buildings. Both should be taxed, but at different rates.

This is an ambitious agenda and it will take years to fully implement it. Success will depend on gaining the trust of the public that revenues collected will be spent on projects that benefit the community in visible and tangible ways. It will also depend on strengthening the capacity and effectiveness of local governments. While the way forward may seem daunting, the long term benefits to Egyptian society will be profound and well worth the significant effort that will be required.



Introduction

In March, 2015, the Arab Republic of Egypt launched its “Sustainable Development Strategy,” (SDS) Egypt’s vision for 2030. This ambitious strategic plan will involve:

- Reclaiming one million feddan,
- The creation of one million social housing units,
- Adding 4,800 km to the road network, and
- Other important social and economic development initiatives.

Integral to the SDS is reforming the national planning process.¹ A number of the elements in this process relate to land development, land use management, land registration and land law enforcement.

With a land area of just over one million square kilometers (km²) and an overall population density of 83 people per km², it may appear that land is in rich supply in Egypt. However, only 7.8% of Egypt’s land area is currently inhabited. Further, over half the nearly 90 million population lives in urban areas totaling less than 1% of Egypt’s total land area. The population density in these areas averages over 4,600 persons per km², and is over 48,200 per

km² in the inhabited portions of the Cairo governorate.² Serviced land is in high demand and short supply.

While the proportion of the Egyptian population living in urban centers is still less than 50%, it is important to recognize that successful economic and social development often increase urbanization in a country. With increased urbanization, the economic importance of land increases as well. This creates both challenges in meeting the needs of low income urban populations and new opportunities to generate revenues to meet the many challenges urban leaders must overcome.

One important pattern among highly urbanized countries is that they tend to rely more heavily on land-based taxes. A review of 64 OECD and non-OECD countries shows a strong positive correlation between the urban population percentage and land-based taxes as a percentage of GDP. The table presented in the adjacent box illustrates this point. While the average land-based tax revenue for these countries is about 0.75 percent of GDP, the average among highly urbanized high income countries is over 1.5 percent of GDP. What the table suggests is that as urbanization intensifies in a country, and especially if income levels increase, land becomes increasingly important in financing sustainable urban development.

¹ El-Megharbel, Nihal, 2015, Sustainable Development Strategy: Egypt’s vision 2030 and Planning Reform, presentation, New York: Integrated Approaches to Sustainable Development Planning and Implementation, May 27, 2015. (<https://sustainabledevelopmentun.org/content/documents/15262El-Megharbell.%20Egypt%20NSDS%2020150527.pdf>)

² Central Agency for Public Mobilization and Statistics, 2015, Egypt in Figures 2015: Population, page 16, <http://www.sis.gov.eg/newvr/EgyptinFigures2015/EgyptinFigures/Tables/PDF/1-%20/pop.pdf>

Box 1: Urbanization and reliance on land-based taxes

(Recurrent taxes on immovable property as a percentage of GDP)

Urban population (% of total)	World Bank income level				Number of countries
	Low & Lower middle	Upper middle	High	Total	
Less than 60%	0.277	0.460	0.358	0.347	15
61% to 79%	0.415	0.430	0.653	0.531	28
80% or more		0.443	1.543	1.330	21
Total	0.327	0.439	1.063	0.751	64
Number of countries	11	19	34	64	

Box 1 describes the relationship between urbanization and just one land-based financing instrument: the annual tax on immovable land and property. There are a number of other instruments used around the world. Many of these represent significant sources of funding for infrastructure and other urban improvements.

Source: Tax data taken from Norregaard (2013), Urbanization data from World Bank (<http://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS>)

The purpose of this report is threefold:

1. Briefly review the range of urban financial instruments that are tied to land
2. Describe the status of each instrument in Egypt
3. Recommend potential opportunities for improving land-based finance in Egypt

Only a brief description of each instrument is provided here. For a more complete discussion, with references and numerous examples from around the world, the reader is referred to the UN-Habitat/Global Land Tool Network publication *Leveraging Land: Land-based Finance for Local Governments—A Reader*. Before proceeding to a summary description of the various instruments, it will be useful to set the context by briefly reviewing the rationale for using land-based financing instruments and by reviewing the criteria that are often used in choosing between the available options.

RATIONALE FOR LAND-BASED FINANCE AND DECISION CRITERIA

In virtually all developing countries, sub-national governments rely on a combination of central government transfers, user charges and local taxes. It is widely accepted that taxes and charges related to land are underutilized. However, even if they were more aggressively employed, land and property taxes are unlikely to provide sufficient revenue to finance major social expenditures such as education, health care and social assistance. Consequently, land-based taxes and charges can and should be greatly improved, but they will always constitute only part of the bundle of revenues local governments require in order to meet the burgeoning demand for services and infrastructure.

Land has a number of advantages for local leaders as a basis for raising a significant share of the revenues necessary to meet local needs.

- First and foremost land has a fixed location, does not move and is visible.
- Administration of land-based revenues can be enhanced and revenues increased if local authorities play an active role in that administration.
- Land-based revenues are often progressive in nature as ownership is generally concentrated in upper income groups.
- Land-based financing may enable subnational governments to become more autonomous by closing the gap between own-source revenues and expenditures.
- Land-based instruments tend to promote transparency and accountability in local government, and may act as a benefit tax (i.e., compensation paid by landholders for the broad set of benefits provided by the local government).

- Taxes based on land and property tend to have less of a dampening effect on private investments and economic activities than other common types of taxation.

Land-based revenue systems in developing nations also have drawbacks. These include

- Administration—Land-based revenue systems require strong and effective local government administration, and collaboration between multiple levels of government
- Valuation—Methods for estimating the value of property are frequently designed to be based on some concept of a property market. While there are alternative simpler approaches to valuation, the judgments and administrator discretion necessary in many valuation systems can present a challenge for local capacity.
- Taxpayer resistance—Many of these instruments are extremely visible compared to other taxes levied on or through businesses, and thus may provoke significant taxpayer resistance.

Overarching requirements

There are quite a number of potential land-based finance instruments, and many variations on these as they are implemented around the world. It is essential to recognize that instruments that work effectively in one context may require substantial adaptation to be useful in Egypt. There are three overarching factors that must be carefully weighed in making such adaptations: legal requirements, the condition of land markets and the administrative capabilities of implementing agencies.

Legal requirements for land-based financing

One of the key steps in implementing, updating or reforming any policy or practice related to land is a review of the relevant legal provisions at all levels of government. Dam (2006) notes that there is now substantial agreement among both academics and the research departments of international financial institutions that legal institutions play a vital role in enabling and promoting economic development. The core logic is that security of property rights and the integrity of property contracts underpin investment and trade. These, in turn, support economic growth and development. (Haggard, MacIntyre, and Tiede 2008, Haggard and Tiede 2011) Informal institutions are important in many countries; however, formal legal institutions are especially important in relation to efforts by governments to levy taxes and fees related to land.

Implementing a tax or fee that is related to land requires that the enabling legal framework address several key factors, including:

- **What aspect of the land will be subject to the tax or fee?** Depending on the fee selected, the answer to this question could vary from simply the size and location of the land, to the transfer of a set of land-related rights from one party to another, to the publicly granted right to use or develop the land in a particular manner.
- **Which properties will be subject to the tax or fee?** In many contexts, policy makers seek to distinguish between different land uses or different types of land holders. Such distinctions should be kept to a minimum in order to minimize errors and abuse, and to facilitate administration. But to the extent that not all properties are to be treated the same, the desired categories should be defined in law.
- **How will the taxable value be determined?** Value could be defined simply based on size and location. It could also reflect some concept of the monetary value of ownership or occupancy rights. Or the taxable value could be the increase in monetary value resulting from a public action, as determined by the land market. In all cases, the enabling law should make clear what will be taxed and how the value of the tax base will be measured.
- **What tax rate, fee rate or range of rates will be applied?** The rates will be applied to the base value to arrive at the tax or fee obligation. The law should set forth the rate (or range of rates) that will be used. If multiple property categories or land holder categories are used, the law should define the rates that apply to each class of property or land holders.
- **At what point in time will the tax or fee obligation be incurred and when must the tax or fee be paid?** Depending on the instrument used, the tax could be determined on a specific date each year, or it could be in connection with a specific land-related event, such as the transfer of the property from one party to another. The amount of time that the taxpayer has to pay the tax or fee, and any consequences for late payment should be addressed in the law.
- **Which government entity or entities will be responsible for administering the tax or fee?** Not all aspects of administration should be handled by the same entity. It is often the case that different agencies have different expertise and that collaboration between agencies leads to better administration. With an eye to efficient administration and low compliance costs, the law should set forth which entities will be responsible for at least the following tasks:
 - Monitoring and tracking land holders, land plots and the connection between the two
 - Determining the base value that will be used to determine the tax or fee
 - Assessing or calculating the amount of the tax or fee due
 - Preparing and delivering the tax or fee notification

- o Responding to taxpayer questions and processing appeals
- o Collecting the tax or fee
- o Executing enforcement proceedings against tax avoiders
- **Which level or levels of government will receive the revenue generated by the tax or fee?** Entities involved in administering any aspect of the tax should also receive sufficient funding to cover their costs. How the remaining proceeds should be divided between government entities will depend on
 - o The extent of fiscal decentralization
 - o The number and type of government services assigned to local governments
 - o Any potential need for revenue sharing
 - o Any ways central government transfers are used to incentivize and respond to local tax collection efforts

To create appropriate incentives for all stakeholders, the law should be clear on how funds will be allocated.

The enabling law must be adopted by the same legal authority that authorizes other taxes. At present the legal environment in Egypt is highly centralized. While there are 27 governorates, laws governing local administration generally originate at the national level. Individual governorates and cities must then enact their own ordinances within the framework established by national law in order to actually implement the instrument and set forth the details for its administration within the local context.

In general, law at the central level establishes a legal framework that permits the use of an instrument and defines its general parameters. The specific parameters and implementing strategies are set forth in local law.

Careful attention to both the enabling legislation and implementing local ordinances is essential to assure that the instrument selected is accepted by the public and the courts, and that it can be effectively, efficiently and fairly administered.

Dynamics of urban land markets and land values

One of the key assumptions of many land-based financing instruments is that the value of land is socially determined and can be influenced by public actions. Additionally, land markets are socially constructed and require certain conditions to exist and thrive. These conditions do not always hold in practice. In targeting any land-based financing instrument for implementation or improvement, it is important to consider two points:

- Does effective use of the instrument require a functioning land market?
- What preliminary actions might be needed to strengthen the land market?

Wallace and Williamson note that “countries with land markets undeniably enjoy improved capacity to generate wealth out of their land...” (Wallace and Williamson 2006, 133) Accessing this wealth for public purposes is the central issue in land-based financing for urban development.

The instruments discussed here are intended to provide such access, but because several of the tools rely in some way on functioning land markets, the maturity of those land markets must be considered in selecting and adapting many instruments.

Administrative Requirements

To understand the administrative requirements related to land-based finance, it is helpful first to understand the process of

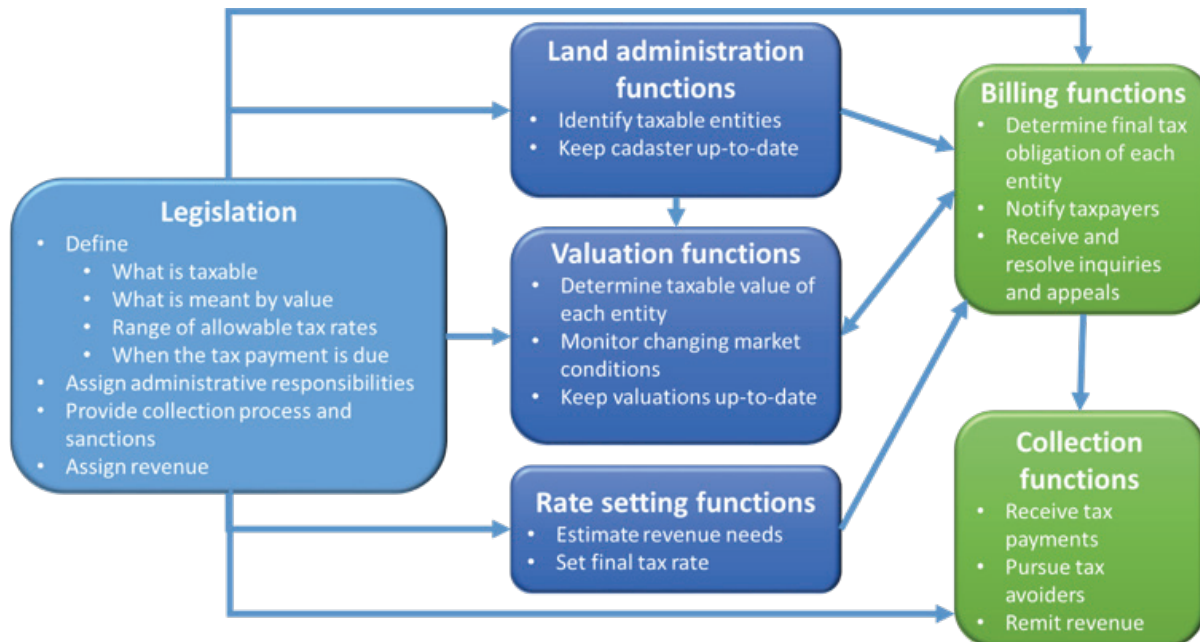
defining, assessing and collecting a land-based revenue. Figure 1 provides an overview of the process for assessing and collecting any land-based tax, fee or charge. The process begins with the enabling legislation, requirements for which were described more fully above.

Land administration functions—Regardless of the specific land-based finance instrument, administrators must identify the persons or business entity the will pay the tax or fee. To adapt a phrase borrowed from the public finance literature, land does not pay taxes. Only people pay taxes. A key role for land administration therefore is to associate real people with each plot of land or each taxable portion of a building. This identification and association may be straightforward if the

landholder is seeking approval from the city to develop his or her property. It can be much more complex if the property is held under customary tenure or ownership of the land has never been formally registered. Thus, the requirements faced in carrying out the land administration functions will vary by country, culture and the specific land-based finance instrument.

At present, Egypt's land administration system is perceived to be legally complex and prone to corrupt practices. Businesses rate the protection of property rights in Egypt as weak (Global Competitiveness Report, 2014-2015). While the cost of registering property is relatively low compared to other countries in the region, the process is very time consuming and requires more than twice as long as the regional average.

Figure 1: The Land-based finance assessment and collection process



Valuation functions – The amount due of a tax or fee is a function of the base value and the applicable rate. Unlike most other taxes and fees, determining the value of the base for land-based taxes and fees can be technically quite challenging. Land is unlike other goods that are sold for clearly identified prices. Determining the value of a plot of land and attached buildings is much less clear, especially if the land and buildings have not sold in the market for decades or ever. Even if there is a reported transaction, verifying that the reported transaction price is reasonable requires data and expertise. There are simpler valuation methods based on the characteristics or size of land and buildings as indicated in the following table. Regardless of the approach taken, valuation functions still require adequate staff time and knowledge.

For example, if a developer seeks approval to change the land use for a given plot of land, the developer will contact the appropriate city staff. The staff can then calculate any fees due and promptly notify the developer. If, on the other hand, the finance instrument is an annual tax on land and property value, the process can be more difficult in some contexts. Generating and delivering the tax notices may require door-to-door visits by city staff or contractors. The resources required will again vary by instrument.

Collection functions – All of the political and administrative work in designing a land-based revenue system is worth little if efforts to actually collect the revenue fall short. Collection functions involve first a reliable and secure process for receiving and accounting for funds. In addition, the collection functions

Valuation Methods	
Non-Market Approaches	
Area-based assessment	Same value constant per square meter (land and/or floor area) within each zone
Value banding approach	Same tax for each property within a range of values
Cadastral value approach	Average market value per square meter by zone and land use class
Market-Based Approaches	
Comparable sales approach	Value compared to recent sales of similar properties
Cost approach	Cost of buying land and constructing the building
Income approach	Capitalized annual income that can be generated by the property
Annual rental value	Annual rent that could be collected for leasing the property

Rate setting function – Setting the final tax rate is generally a political balancing process constrained by legal limitations and public acceptance on one hand, and revenue needs on the other. The challenges associated with raising sufficient revenue in a manner that is transparent and publicly acceptable can be daunting.

include pursuing those who seek to avoid to pay their obligation when due. Such pursuits require access to both administrative sanctions and penalties and well as effective and timely support from the courts. Even with adequate legal grounds for applying sanctions, lack of support from senior political leaders and the courts can limit the effectiveness of collection efforts.

Billing functions – Once the base for a land-based instrument is estimated and the rate set, it is necessary to calculate the final tax or fee, notify the affected parties and resolve any questions or appeals that emerge. The process of calculating the amount due and notifying the affected parties can be fairly straightforward for some types of instruments.

In sum, determining the way forward in adopting, adapting and implementing a land-based finance instrument requires careful consideration of the level of administrative resources required, and where those resources are located within the government. If the administrative resources do not currently exist, they must either be developed or acquired if the overall effort is to be successful.

General tax evaluation criteria

When evaluating revenue generating alternatives, it is important to consider multiple criteria to ensure taxes are assessed and collected in the most efficient and equitable manner possible. Common tax evaluation criteria considered in relation to any tax include the following (Cornia 2013, Slack 2013, Rosengard 2013, Fisher 2007):

- **Independent and autonomous revenues:** In order for a government to be able to reliably budget, the government needs control over its revenues and needs flexibility in adjusting revenues to meet community needs. While other levels of government may determine the legal environment and range of acceptable rates, governments need to be able to raise or lower revenues at least at the margin in response to local needs.
- **Adequate and stable revenue:** In order to facilitate effective budgeting, own-source revenues should be sufficient to meet basic expenditure needs and should be largely reliable.
- **Immobility of base:** Locally imposed taxes should be placed on a tax base that cannot be easily relocated to avoid the tax.
- **Benefit principle:** The taxes paid by a given taxpayer should correlate with the benefits received from government by that taxpayer.
- **Ability to pay:** The taxes paid by a given taxpayer should reflect that taxpayer's income capacity and ability to pay.
- **Compliance costs:** The costs borne by taxpayers to understand the tax, calculate their tax obligation, and pay the tax should be kept to a minimum.
- **Ease and cost of administration:** The costs incurred by government to administer the tax, including assessment, notification, and enforcement, should be kept to a minimum.
- **Transparency:** Tax policy should be clear to both administrators and taxpayers, including the method used to calculate the tax obligation, the amount of tax due, along with all payment and enforcement provisions.
- **Political acceptability:** Tax compliance is in direct proportion to the public's understanding and willingness to pay the tax. Political support from community leaders and the public is essential.
- **Horizontal equity:** Similarly situated taxpayers should pay a similar tax.
- **Minimal economic distortions:** There should be relatively few changes in consumption or investment decisions made by taxpayers in response to tax policy. Any behavior changes that occur as a result of the tax or fee should be minimal.

Many of these general tax criteria can be made more specific when applied to land-based revenue. The criteria must also take into consideration the role of other levels of government both in funding services and in administration. Land-based taxes and fees may not meet all these criteria. In fact, there are no taxes in practice that strictly adhere to all tax criteria. (Bahl and Cyan 2011a) Some tradeoffs exist in all tax policy making, and perceptions of taxpayers differ dramatically depending on circumstances and attitude.

Key to the political acceptance of land-based taxes and fees is the public's clear understanding of the benefits received through compliance. If taxpayers can see the tangible benefits they receive in improved public services and enhanced infrastructure, they will be much more willing to pay the tax or fee.

It must also be recognized that land plays an essential social function in any society. Making land available to all segments of society is fundamental to the achievement of human flourishing more broadly. In addition, land use and development have important externalities for the surrounding community which

can be either positive or negative. Appropriate land development in a coordinated manner can greatly improve the quality of life in a community while protecting the environment for all. At the other extreme, there are numerous examples around the world where land development activities have damaged the

environment or contributed significantly to current and future urban challenges. In addition to generating revenue, land-based financing instruments can play an important role in incentivizing and promoting the positive social contributions of coordinated land use and development.



LAND-BASED FINANCING INSTRUMENTS

If taxpayers can see the tangible benefits they receive in improved public services and enhanced infrastructure, they will be much more willing to pay the tax or fee.

This section reports a very brief description of the most common land-based instruments implemented around the world. A more detailed discussion of each can be found in the Annex. This section also provides a brief description of how each instrument has been or is being used in the Egyptian context. Finally, a set of recommendations are included regarding each instrument. These recommendations are summarized at the end of the section as well.

Instrument 1: Recurring taxes on land and property

One of the oldest land-based revenue sources is the recurring tax on land and, often, immovable structures on the land. Recurring means that the tax is assessed and is payable at regular repeating intervals, most commonly annually. There has been an annual land and property tax in Egypt's legal system at least since the Ottoman Empire. Indeed, some of the oldest known records of landownership for tax purposes are Egyptian and date to 3000 BCE.

The important elements of the instrument can be grouped into two broad categories: policy issues and administrative issues.

Policy issues

The policy choices surrounding recurring taxes on land should be articulated in law and formal policy statements. The enabling law should therefore:

- Define what is taxable
- Define the meaning of and set the process for determining taxable value

- Identify who is responsible for paying the tax
- Determine the process for setting the land and property tax rate(s)
- Assign the required administrative functions to appropriate agencies
- Assign the tax revenue

The adopted policies should adhere to accepted principles, including:

- Defining the taxable base should follow the fundamental principle of good tax policy: broaden the tax base and lower the tax rates.
- Defining who pays the tax— the tax should be collected from property owners if they can be readily identified. Otherwise the tax should be collected from the occupants or beneficiaries of the land.
- Exemptions should be kept to a minimum, should be thoughtfully justified, and should be reviewed regularly to assure that their public purpose is still valid.
- Valuation of property can be based on annual rental value as it is in Egypt, or on capital market value, physical property characteristics or a hybrid approach, based on the maturity of real estate markets, and the administrative capacity of implementing tax agencies.
- The number of property classes should be kept to a minimum.
- Unless there is a compelling reason, there should only be one tax rate for all property classes within a given jurisdiction.
- The range of acceptable rates can be set at the central level, but local officials should have the authority to determine the final rate within the approved range.

Administrative issues

It is often the case that revenue from a recurring tax on land and property can be significantly increased if the administration of the tax is improved. Administration includes:

- Improving coverage (i.e., the proportion of legally taxable property included on the tax rolls)
- Improving the accuracy and timeliness of property valuation
- Improving billing and collection procedures, including taxpayer services for processing taxpayer inquiries and appeals

Strong administration of the recurring tax on land and property requires trained personnel and an adequate budget to fund all aspects of the administration. The required expertise need not reside in a single agency, and it is often most effective to share the responsibility for administration between agencies with specialized personnel. Central governments play an important role in providing training, administrative support in complex situations, and in oversight to assure efficiency, effectiveness and fairness.

Egypt's annual real estate tax

Prior to 2008, the building tax³ in Egypt generated very little revenue. The large majority of properties were excluded from the base and valuations of the remaining properties were badly out of date. In 2008, the Building Tax law was introduced as part of a larger tax reform agenda. Political opposition at the time prevented implementation of most parts of the new law. In 2011, the Supreme Council of the Armed Forces (SCAF) proposed modifications which were to take effect in January, 2013. In December, 2012, the government announced new legislation to replace the SCAF modifications which were to take effect in July, 2013. That government was deposed prior to implementation of the changes. On August 19, 2014, President Abd Al-Fatah Al-Sissi issued presidential decree No. 117 amending the Building Tax Law No. 196/2008. The new law was intended to improve tax collection, increase government revenue, direct new revenue

to development projects in local administrative units and discourage land speculation.

The new law expands the tax base by including all properties in Egypt including those under construction. While the law is referred to as a building tax, the tax applies to all developed property and includes both land and building value. Property values are to be reassessed every five years. A single tax rate of 10% of the net annual rental value⁴ applies to all properties. The combined effect of these policies will be to increase the number of properties listed on the tax rolls, keep the valuations of all listed properties more current and make administration of the tax by the Real Estate Tax Authority more uniform and efficient.

At the same time, the new law is unlikely to increase government revenue or generate new revenue for local administrative units. Two elements of the new law will combine to limit the revenue generated by the building tax.

First, the law sets a ceiling on assessed value increases. Residential values may not increase by more than 30% from one assessment date to the next. The assessed value of non-residential properties may not increase by more than 45% over the five year assessment interval period. (Article 5, The Official Gazette, 2008 and 2014) These limits are likely to impose long-term limits on revenue potential. Inflation in Egypt has averaged 9% per year over the past half century. Using official inflation statistics published by CAPMAS and available from the Central Bank of Egypt, a property valued at EGP 900,000 at the beginning of 2010 would be valued at EGP 1,327,000 at the end of 2014 due simply to inflationary changes. This represents a 47.3% increase in value. But under the current law, the assessed value could not increase by more than 30%. Thus, when the property is revalued, the taxable value will, by law, be nearly 12% below the market value. Further, if the rate of annual inflation averages any value higher than 5.4%, the disparity between taxable value and market value will continue to widen.

The second limitation on revenue potential created by the law relates to the exemptions granted to property owners. One

³ It should be noted that Egypt also has an Agricultural Land Tax which is not discussed here. Law 34/1978 also imposed an annual tax of 2% on vacant land within cities, however this law was found to be unconstitutional in 1993. The court's reasoning could be challenged today, but such an argument is beyond the scope of this analysis.

⁴ The net annual rental value is the gross rent less a standardized deduction for expenses. The deduction is 30% for residential properties and 32% for non-residential property.

exemption applies to the 2.6 million apartments subject to rent control. About 52% of Egypt's households rent their housing, and those units subject to rent control constitute about 18% of all rental units.⁵ Because the nominal rent for these apartments is negligible, a tax based on rental value would yield very little revenue.

More important from a revenue perspective is the exemption granted to all residential property owners. All principal residential properties with an assessed value of less than EGP 2 million (or EGP 24,000 annual rental value) are exempt from the building tax. Additional residential properties owned by the same individual are not exempt. For properties valued at over EGP 2 million, the tax is due only on the amount over the EGP 2 million threshold. Under the 2008 version of the law, the threshold was EGP 500,000 (EGP 6,000 annual rental value). All non-residential properties with assessed values below EGP 100,000 (EGP 1,200 annual net rental value) are also exempt. Exemptions have also been granted to a range of properties owned by the armed forces. (Article 18, 2014)

The effect of the current exemption threshold for residential property is to exempt the large majority of properties from any tax. With the thresholds created by the 2008 law, it was estimated by the Real Estate Tax Authority that 90% of the properties in Egypt would be exempt from the tax.⁶ There seems little reason to expect a different outcome with the much higher exemption level of EGP 2 million. Additionally, even the tax on residential properties beyond the primary residence can be avoided by registering the property in the name of a family member.

In the national budget for fiscal year 2014-2015, the government budgeted EGP 3.68 billion in revenue from the Building Tax. This would be a dramatic increase over the average of EGP 281 million received in the prior five budget cycles. Actual collections are running substantially below the budgeted amount and appear to be only slightly higher than in previous years. Between July, 2014 and May, 2015, the total revenue from the building tax was EGP 380 million, compared to EGP 224 million for the same period one year earlier. While this represents a 70% increase in revenue, it is well below the projected 15 fold increase projected.

This revenue shortfall also has implications for the level of new resources made available to local administrative units. The current policy specifies that the Ministry of Finance will administer building tax revenues according to a predetermined division among three recipients: 25% will be allocated to governorates, 25% will be earmarked for the Informal Settlements Development Facility, and the remaining 50% will be used to improve education, health and pensions, and to fund development programs in the governorates. Obviously with only modest increases in actual revenue, and the need to spread the revenue between multiple programs and 27 governorates, the increase in available funding in the governorates will be very modest.

Thus, while Egypt has been successful in expanding the number of properties listed with the Real Estate Tax Authority and in improving some of its practices, law and policy combine to constrain the revenue potential of the building tax and assure that by international standards it will continue to underperform.

Recommendations

Egypt should consider carefully several further modifications for the annual building tax. Recognizing the political challenges that have confronted reform efforts for this tax since 2008, the design and staging of these modifications will require careful thought. It is also likely that they will require other administrative adjustments and certainly a strong public awareness campaign.

- **Valuation** – To the extent technically feasible, the assessed value of land and improvements should be equal to the market value as of the assessment date. Valuation should be seen as a technical exercise that is largely independent of political constraints or revenue needs. For the system to function properly and be perceived as fair, assessed values should be as close to market values as possible. Other more effective approaches exist for managing the burden on taxpayers such as targeted exemptions or through tax credits.

⁵ Egypt Data Portal, 2015, Households by type of residence ownership. <http://egypt.opendataforafrica.org/kamumk/households-by-type-of-residence-ownership#>

⁶ Tadamun, 2015, What to Expect from Egypt's New Building Tax Law?, <http://www.tadamun.info/2015/03/31/analysis-amendment-law-196-2008-property-tax/?lang=en#VkUW8zZdFaS>, accessed November, 2015

- **Tax rate** – Local administrative units need more flexibility and control over the revenue generated within their communities. This could be achieved by setting a range of acceptable rates at the national level and allowing governorates (or lower) to select the final rate within the approved range. Alternatively, if there is a single national rate, governorates could be allowed the option of setting a supplemental rate (within an approved range) to be collected along with the national tax but remitted directly to local authorities. To maximize the political acceptance of a purely local rate, it may prove desirable to earmark the revenue received for specific purposes such as road improvements, street lighting, public spaces or other clearly visible public purposes.
- **Exemptions** – The basic strategy employed by Egypt in exempting a fixed monetary amount for all residential property is sound. The difficulties arise when the current exemption levels are applied. Exempting the first EGP 2 million means that the vast majority of property owners will pay no building tax. The government should first consider reducing the deduction for expenses from 30% to 20%. This would be more in keeping with the practices in other countries.
- If the deduction for expenses were lowered to 20% and the residential exemption to EGP 600 in rental value, the resulting tax on the average property of each type would range from EGP 138 for country houses in rural areas to EGP 1,764 for urban villas.
- Given the average incomes of those living in these dwellings, the average building tax burden would be less than 1% of annual household income for all housing types except urban villas. For these very high end properties, the average burden would be about 2% of annual income.⁷

Reducing the deduction for expenses and revising the residential exemption are necessary if the annual revenue target of EGP 3.5 billion or more is to become practical. Granting local administrative units flexibility in setting the final tax rate will empower local leaders to be more responsive to local needs. Of course fostering popular support for changes on this level will require that taxpayers understand clearly how the increased revenue will be spent to benefit their communities and neighborhoods.

Instrument 2: Betterment charges and special assessments

Second, the government should consider reducing the exemption for primary residential property to about EGP 50,000 (or EGP 600 in annual rental value). This may seem like a huge tax increase, but consider the following statistics from the 2012/2013 Income, Expenditure and Consumption Survey:

- Over 94% of Egypt's households live in one of four types of dwellings: Apartment (74%), country house (18%), villa (0.5%) or "more than 1 apartment" (2%).
- The average estimated rental expenditure for these types of dwellings in 2012/2013 was EGP 3,312. Rents were somewhat higher in urban areas (EGP 3,877) and somewhat lower in rural areas (EGP 2,855). They were also higher for Villas.

It is important to recognize that similar land-based finance instruments are called different names in different countries. At the same time, a similar name does not necessarily mean the same thing in different national contexts. Such is the case with betterment levies in Egypt. In most parts of the world, betterment levies for cost-recovery are generally one-time charges assessed in connection with specific government infrastructure investments or public decisions. In Egypt, the betterment levy is much closer to a charge assessed to developers for approving additional development density. To be clear, this report will refer to charges intended to recover the cost of specific investments as special assessments.

⁷ A more detailed summary of the impact of these suggested changes on taxpayers and on revenue is available upon request.

Special assessments can be levied in cases where public investments benefit particular landowners much more than the community as a whole. For example, in some situations roadway intersection improvements will reduce congestion and improve access to adjacent businesses. In such a case, the affected businesses are often quite willing to pay for the required improvements. Residential landowners may also be willing to pay additional fees in order to obtain better neighborhood infrastructure such as improved street lighting, public space improvements or better roads.

The key features of a special assessment are related to costs and benefits. The instrument is intended to recover the cost of a specific investment from existing landowners. Those landowners benefit from the investment in terms of improved infrastructure, but most directly in terms of increases in the value of their land. The reason businesses are willing to pay such assessments is that the investments make their businesses more valuable. The same is true for residential property. The land becomes more valuable because public services are improved.

Because not all land benefits equally, the amount of the assessment usually varies with the amount of benefit received. Thus, land that benefits the most from improved road access will be charged a higher assessment than land that does not benefit as directly. Land that is quite distant and arguably will not benefit at all will not be charged any special assessment. If the case can be made that the entire community will benefit, then the investment should be funded through a general tax increase or some other mechanism.

There are two important variations in how special assessments are implemented. In many instances, the special assessment is levied as a one-time charge that landowners must pay in a lump sum. This approach has been widely and successfully used, but it can pose a financial burden for landowners. The second approach is also fairly common. It allows landowners to pay the assessment over a period years, very often in combination with the annual tax on land and property. This approach places additional administrative requirements on the government jurisdiction

involved, but it greatly reduces the short-term financial burden on landowners. The additional annual fee is collected only until the full cost of the investment including any financing or additional administrative costs are recovered.

In some cases, special assessments have also been used to fund service improvements such as improved security in shopping complexes. If that is the purpose, the common practice is to create a special assessment district (sometimes called a business improvement district) for a fixed number of years. The district can be renewed as needed in later years.

To employ special assessments, the government needs to adopt an appropriate legal framework permitting the creation of special assessment districts and the imposition of special fees on landowners. The administrative entity must identify:

- The specific improvements to be made,
- The land area that will benefit from the improvements, and
- The level of benefit in terms of increased land value that will be received by each land parcel.

There must be an accurate estimate of the costs of the improvements and a fair method for allocating improvement costs to individual landowners. The cost of the improvements is then assigned to each land parcel based on the share of benefits received. If the costs will be recovered over time, there must also be an adequate billing and collection system. Securing landowner cooperation and agreement in advance greatly enhances the likelihood of political support for special assessments.

The use of special assessments for cost recovery does present some challenges. It may be difficult to define the boundaries of the property that will be affected by the public investment. Immediately adjacent property can be readily identified, but determining how far the benefits will extend may be demanding. Equally challenging is the task of determining the amount of

benefit each property will receive. Essentially, administrators must estimate the impact of the improvements on the market value of real estate. Such forecasts require experience and

expertise. Finally, both the courts in most jurisdictions and public sentiment generally combine to limit the use of special assessments to cost recovery.

Box 2: Numerical example of a special assessment calculation

Assume that the city seeks to improve road access along a two kilometer length of road. Excluding side roads, there are 70 land parcels on each side of the road. The improved road access will benefit all of the immediately adjacent properties equally. However, these landholders are not the only properties benefited. On each side of the road are another 210 properties that will benefit from the improved access, but not to the same degree. The benefit received by each property diminishes as the distance from the improvements increases. After careful analysis and consultation with professional land market specialists and property owners, the city is able to group the properties into four categories, based on the distance from the improvements. (For simplicity sake it is assumed that there are an equal number of properties in each category and that all properties are the same size; however, property size or road frontage could also be incorporated into these calculations.)

The total cost of the improvements is estimated to be EGP 7.8 million. These costs will be divided among all 560 properties, based on the degree or share of benefit received. Those properties with frontage on the newly improved road will be assessed a one-time special assessment of EGP 22,400. The next tier of properties will be assessed EGP 16,800. The third tier will be charged EGP 11,200, and the fourth tier is farthest away from the improvements and will be charged only EGP 5,600. Other properties in the city will not be charged a betterment levy for this particular improvement project. In Colombia, the betterment levy would be collected from landowners before installation of the improvements. In India, the courts require that the improvements be installed prior to collecting the betterment charge.

Egypt's experience with special assessments

Special assessments have been used successfully in Egypt in the context of agricultural improvements such as improved irrigation and drainage. Agricultural Irrigation and Drainage Law No. 12/1984 as amended provides that when the state undertakes improvements in agricultural infrastructure, those landowners who benefit must repay the cost of construction (plus a 10% administrative fee) in installments over a period of up to 20 years. The installments begin the year after implementation of the project is finalized. In addition, if the annual rental value of the affected land is increased as a result of the investment, the increased value will be reflected in the annual agricultural land tax.

The Minister of Water Resources and Irrigation issues an annual inventory of the lands required to pay the special assessment. This inventory is announced at the agricultural cooperatives for two weeks and published in the Official Gazette. Assessments can be appealed during 30 day period. In the event of an appeal, a committee is formed to consider the appeals. Decisions of the committee can be appealed to the courts. This inventory is sent to the Ministry of Finance and the special assessment is collected by the local office of the Real Estate Tax Authority.

The law stipulates that the person planting the land bears the obligation to pay the assessment. If the land owner is not the person cultivating the land, and there is a profit sharing partnership between the two parties, both are liable for the assessment.

Extending the use of special assessments into urban areas would likely require:

- Adjustments to the legal framework to enable local administrative units to implement the instrument
- The development of administrative procedures for initiating and managing special assessment districts
- The development of the technical engineering and cost estimating capacity to accurately plan and cost potential projects
- The development of the administrative capacity to engage and negotiate with local landowners in planning potential projects
- The development of standardized tools for fairly allocating project costs to landowners

Recommendation

Special assessments have proven to be a very useful instrument when used by local governments to address the specific needs of sections of their communities. There is every reason to believe that this would be true in Egypt as well. The government should consider initiating a more extended discussion with the business community, civic organizations and local administrative units with the intent to extend implementation of this instrument to urban areas in Egyptian.

Extending special assessments to urban areas will require appropriate enabling legislation. The legislation will need to specify what types of investments can be funded through special assessments, the role of landowners in designing and approving the creation of special assessment districts, and the administrative arrangements and assignments related to the creation and management of these districts.

Instrument 3: Developer exactions

Developer exactions take advantage of the incentives land developers have. When a land developer seeks approval to develop previously undeveloped land or to redevelop an existing urban area, they do so with the expectation of making a significant profit on the land. In most instances that new development will result in increased costs for the city in the form of additional traffic congestion, increased demand for public spaces, increased demand on city services, and so forth. The assumption underlying this instrument is that the developer needs government approval in order to proceed. Thus, the state is normally in a strong position to require the developer to share a portion of his profits to offset the increased costs the city will incur. Developer exactions are the required payments by the developer intended to cover the public costs associated with the new development.

Developer exactions work best when there is a documented connection between the public costs created by the new development and the required development fee. For example, the impact of adding 200 additional homes on a city's water and wastewater systems can be calculated. Traffic studies can be used to estimate the impact on adjacent existing city roads and transit systems. If there are national standards for the amount of desired public park area per 1,000 population, the impact on area parks can be calculated. Based on these and similar calculations, the overall impact, and therefore the cost to the city, of the new development can be calculated. The developer exaction should be sufficient to recover these costs, but should not be higher than expected actual costs.

It is often useful to estimate standard costs in advance and calculate the developer exaction using a standardized formula. The resulting developer obligation can be paid in-kind (by actually constructing roads, parks and other public spaces), in land which the state can then sell to recover the costs, or in cash. Large developments which will be constructed in phases may be allowed to pay the obligation as each new phase is started.

The central feature of these developer obligations is that they are one-time charges assessed at the time the approval of additional development is granted or with the issuance of building permissions. They are paid by the parties making the request.

- The tax base for developer exactions can be either the estimated market value or the size of the development. The developer's obligation can thus be calculated either as a percentage of the project's market value or as a rate per square meter of development. Rates can vary by type of development and by location within the urban area.
- Exactions are generally intended to mitigate the impact of new development on existing city infrastructure, or to provide new infrastructure that is required in order to meet the needs of the citizens that will inhabit or use the new development.
- In most instances the exactions are set at a level that has a documented relationship to the actual costs incurred or likely to be incurred by the city.
- If the exaction level or purpose is not directly tied to actual infrastructure costs, it will likely still have to be earmarked for a specific social purpose and justified in terms of the cost of fulfilling that purpose. For example, some cities in Spain require that 10% of all new residential construction be contributed to the city for social housing. In Edinburgh, Scotland, planning permission for residential development consisting of 12 or more units requires that 25% of the units provided be for affordable housing. If the development consists of 20 or more units, the affordable housing units should be on-site.

In order to make use of developer exactions, developers must respect the requirement that specific permission from the appropriate government entity is required before beginning construction. Thus, there must be an appropriate legal framework that is enforceable. Under these conditions, developers are willing to pay the exaction because the anticipated value of the proposed development is much higher than the cost of the exaction. Other requirements include:

- Master plans and detailed plans for the relevant geographic area
- Engineering estimates of the impact of the proposed development on existing infrastructure and the cost of meeting the increased infrastructure needs. These estimated impacts can usually be standardized and summarized in tables and charts for local administrators.
- The administrative capacity to effectively administer approved plans, process development applications, calculate the charge that is due and monitor compliance

Effective implementation of this instrument requires that the government entity be able to determine how a new development will impact the larger community. The potential impacts range from changing traffic patterns and flows, to increasing the loads on water, wastewater and other utility infrastructure, to public safety. Anticipating the type and magnitude of the impacts can be daunting.

Another challenge is that developers seek to maximize their profits and their vision may not coincide with the larger community's development plans. This discrepancy can be challenging for plan administrators and public officials who seek to encourage growth, but also understand the need for coordination and integration in planning that growth.

Egypt's experience with developer exactions

Egypt's experience with developer exactions is quite limited. Four approaches have been documented. First, Building Law 119/2008, Art. 45, allows a city to charge a building permit fee. The fee is to be determined by the Organization for Construction works, with a maximum fee of EGP 1000. The Governor has the power to increase the fee by 3% each year. In Banha, the current fees are EGP 300 per m² in the city, EGP 150 per m² in villages and EGP 500 per m² in Cairo. Only 1% of the fee collected is retained at the local level. The balance goes to the central government. Because of administrative problems and

extreme delays in the planning and approval process, few building permits are actually issued and as a result the revenue from this source is quite limited. In addition, the level of the fee is not high enough to offset the costs of larger projects. The intent seems more to cover the administrative costs of issuing permits rather than recovering the public costs of new developments.

Second, Building Law 119/2008, Art. 51, as amended by Minister of Housing Decree No. 67/2014, allows the state to require the contribution of 33% of the land in a new subdivisions of five feddan or larger for the provision of roads and other public facilities. Below five feddan, the requirement is 25%, with 20% devoted to roads. Based on the experience in other countries, 30% to 40% is typical for this type of exaction in urban extensions. In Egypt, the official subdivision process is rarely followed. In most cases, landowners develop their land informally.

While they may devote some space for roads, the percentage is often lower than 33%. Because the land is developed informally, there is also no guarantee that needed urban infrastructure will be constructed to city standards.

A third approach has been more informal. In some cases where private development of malls and shopping centers had the potential to create significant problems for surrounding areas, the governorate has obligated the developer to build additional infrastructure (bridges, road improvements, and parking) to address the problems created. There does not appear to be a legal foundation that would allow the state to require such exactions, but neither do they appear to be illegal. At the same time, this approach is highly dependent on the attentiveness and negotiating skills of local officials. It also appears that the approach has been used in only a limited number of cases.

The fourth approach has been applied to projects constructed outside of existing cities and villages. In such cases, Law 119/2008, Article 52 of the Executive Regulation, requires that the developer provide the infrastructure to connect his/her development to the existing infrastructure network. The needed connecting infrastructure must be constructed by the developer

at their own expense. It is unclear if these provisions of Law 119/2008 are actually being implemented.

Recommendations

Private development in urban areas creates public costs in a great majority of cases. Around the world, it is considered good practice to require such development to pay all or a significant share of these new public costs. In order to expand and formalize the use of this instrument in Egypt, the government will need to take several important steps.

- The requirement that landowners obtain official approval prior to construction must be strictly enforced. If informal development is allowed, developers have no incentive to comply with any requirement that they participate in mitigating the public costs of their development. Clearly, informal develop creates other urban management problems as well. Thus, there are multiple incentives for the public sector to achieve this goal, however difficult it may be to accomplish in practice.
- One of the reasons that informal development takes place in Egypt is the difficulty in obtaining formal approval for new developments. Consequently, as part of effort to reduce informality, the administrative procedures required for receiving, reviewing and approving plans, projects and permits should be carefully reviewed and streamlined.

Doingbusiness.org reports that different localities in Egypt require between 13 and 23 different procedures in order to obtain a permit to build a commercial warehouse. The time required can be well over six months for this relatively simple development. Amending a master plan or developing a new subdivision can take well over a year. Since the penalties for informal development appear to be relatively small, landowners have every incentive to avoid obtaining approval prior to construction.

- In the Egyptian context, it is recommended that standard

formulas be developed and published to be used in calculating any developer exaction. This would assure transparency and fairness in implementing the instrument even though some

adaptability to special circumstances is lost. The example of Medellín, Colombia in this regard is very helpful. An example of the Medellín approach is provided in Box 3.

Box 3: Example calculation for a land transfer obligation

To illustrate the process of determining the calculation of a developer exaction based on the Medellín case, consider the following example. A developer's land transfer obligation varies based upon the location of the proposed development. Each zone has a development standard assigned to it based on city planning objectives. One zone, for example, has a permitted development density of 270 inhabitants per building, and a construction index (buildable floor space as a percent of total plot size) of 3.4. In this zone, developers are required to transfer to the city

- 3.0 meters of land per projected inhabitant of the building, plus
- 7.0 meters of land per 100 m² of other uses

The total minimum area transferred must be at least 18% of the land area.

Assume a housing and commercial project is to be built in this zone. The proposed project has a total land area of 2,500 m² to include 45 apartments and 1,000 m² of commercial area.

The exaction obligation in Medellín is calculated in terms of a required land transfer. The land transfer associated with residential use is calculated as follows:

1. Obtain the average household size for similar areas in the city from the most recent information available from the national statistics office (3.62 persons per household).
2. Multiply the proposed 45 apartments by 3.62 inhabitants = 163 inhabitants for the building.

3. Multiply 163 inhabitants by 3 m² of land transfer requirement per inhabitant.

4. Yields 489 m² of required land transfer for residential use.

To determine the land transfer requirement associated with commercial use:

5. Take the total commercial area to be built, divided by 100 m²: 1,000 m²/100 m²= 10

6. Multiply this result by the required 7 m² of land transfer obligation for each 100 m² built: 7 m² X 10 = 70 m² of land transfer obligation for commercial use.

To determine the total land transfer requirement for the project:

7. Total area to be transferred: 489 m²+ 70 m²= 559 m²

8. The minimum land transfer requirement is 18% of the net area. The actual requirement is the larger of 18% of the land area or the result from the calculations just demonstrated. Assuming that the plot area is equivalent to the net buildable area, the 18% minimum area equals 450 m². Consequently the transfer obligation would be the calculated 559 m², or 22 percent of the plot area.

To determine the land transfer requirement for public facilities (e.g., social housing):

9. Multiply the number of planned residential units by 1 m²: $45 \times 1 \text{ m}^2 = 45 \text{ m}^2$

10. Add 1 m² for each 100 m² of commercial area to be built: $1000/100 \times 1 \text{ m}^2 = 10 \text{ m}^2$

11. The facilities construction obligation will be $55 \text{ m}^2 = 45 \text{ m}^2 + 10 \text{ m}^2$.

In summary, the developer of this hypothetical project will be required to transfer to the city 614 m² ($559 \text{ m}^2 + 55 \text{ m}^2$) of land for parks, plazas, open spaces and other public facilities. Depending on the configuration of the specific project and its location, the city may be willing to accept the cash equivalent of 614 m² (at current market value) in place of actual land.

- Any revenue collected through the use of developer exactions should be retained in the community hosting the new development and should be used to meet the needs contemplated in assessing the developer obligation.

Instrument 4: Land value increment taxes

Land value increment taxes are intended to allow the community to capture part of the increased land value that often results when public infrastructure is improved, permission is granted to change land use or simply from changing market conditions. They differ from developer exactions or special assessments in that they go beyond recovering the cost of specific infrastructure or service improvements. They also differ from annual taxes on immovable property in that they are very often one-time assessments and generally apply only to the increase in value resulting from the public investment, a change in land use or changes in market conditions.

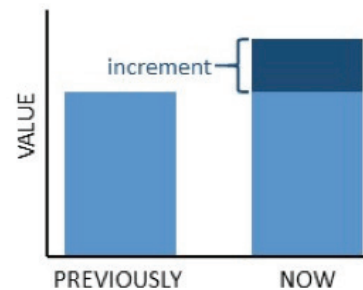
Value sharing (also called value capture) is often motivated by the argument that all land value increases that are not a direct result of private investment on the land are a result of social processes. The claim is that since such incremental value is socially created, it should be available to fund public purposes.

When used, land value sharing tax rates range from 10% to 50% of the incremental capital value. Attempts to impose rates of

30% or higher have generally proven to be difficult to sustain. Political opposition from landowners and developers has been intense even in societies that endorse the view that land has a social function and value is socially determined. This opposition has been especially intense when the tax is imposed as a one-time charge.

Thus one of the key requirements for implementing a land-value increment tax is strong political will and commitment. Opposition will likely arise and senior political leaders must be committed to fair and full implementation of the instrument. Absent that support, the tax will not be collected.

There must also be an appropriate legal framework for the tax. One of the key factors will be the methods employed to estimate the “before” and “after” values so that the value increment can be calculated. Such estimates will require significant expertise on the part of tax administrators. The administrative requirements also include the capacity to identify when the tax is due and to bill and collect the tax.



There are three general approaches to implementing land-value increment taxes:

- One-time taxes levied when approval for land use changes or increased density is granted. This is probably the most common approach that has been attempted. Land developers seek approval for a new development, or for the redevelopment of an existing urban area. The local authority estimates that granting the approval will increase the market value of the land involved. At the time of approval, a tax is imposed on the difference between the land value before approval and the estimated value after approval. The tax rate is set by law.
- One-time taxes levied when land is transferred to another party. While less common, this approach has proven to be more sustainable where it has been applied. The government tracks land values, and estimates the market value of all land parcels on a regular basis. When a land parcel is sold or transferred to another party, the value when the land was originally acquired is compared to the current value. At the time the land transfer is registered, a tax is collected by the local authority on the difference between the original acquisition value and the current value. The rate is set by law, but one reason this approach has proven more sustainable is that the effective rate charged tends to be lower.
- The land portion of an annual split-rate tax on immovable property. Split-rate real estate taxes are not normally seen as a form of land value increment taxation, but they should be. The basic concept behind a split-rate real estate tax is that the land and the buildings are taxed at different rates and for different reasons. The tax on buildings is set at a rate that will generate the revenue needed to provide the desired on-going urban services. The tax on land is set at a different and generally much higher rate. The tax rate on land is set at the desired level of land value sharing. The advantages of this approach include:

- It does not require a forecast of future value as is necessary if the tax is imposed as a one-time charge when approval is granted
- It provides on-going revenue for the community.
- It increases as the value of the land increases with general growth. Neither of the other approaches increase unless a new approval is granted or the land is transferred.
- The burden placed on landowners and developers is more manageable because the tax is collected over time. If the tax is assessed as a one-time fee, developers will seek to pass the tax on to buyers thus increasing the acquisition cost. For households with modest resources, such increases may make buying the developed property unaffordable. If the tax is collected over time in smaller annual increments, households may be better able to adapt and adjust their budgets.

Egypt's experience with land value increment taxation

In Egypt, the charge on the incremental value of land is called a betterment levy. (Note that this use of the term differs from betterment levies described above as special assessments.) The Betterment Levy Law 222/1955 stipulates that a charge shall be imposed on all buildings and lands benefiting from an increase in value. This charge becomes due when one of four circumstances occurs:

- Public infrastructure improvements are made,
- When the detailed plan is approved,
- When an exception is granted from the building height restriction, or
- When a change in land use is approved.

The current legal basis for assessing the charge is found in the Betterment Levy Law 222/1955, in Building Law 119/2008 and in the Local Administration Law (Article 51). The rate set in law is 50% of the increase in value as determined by a committee (according to the betterment levy law). The charge is assessed at the time approval is granted. Revenues from the tax are considered a local revenue (Local Administration Law 43/1979, Article 51, section 5).

In practice the land value increment (betterment) levy is rarely collected in Egypt. This limited application of the law can be attributed to several factors. First, the ability to estimate what the value increment will be is difficult and local authorities may lack the expertise and the data required for such estimates. Second, major infrastructure projects are often carried out by private firms under the direction of a national agency. Local authorities are not always informed regarding the extent or completion of such projects. This lack of communication makes assessing the charge difficult especially given the other incentives that local authorities have.

There is often concern on the part of local authorities that a land value increment charge will be unpopular and may lead to civil unrest. Since local budgets are financed largely by transfers from the central government, there is little incentive for local leaders to aggressively pursue this potential revenue source.

Importantly, the delays in processing applications for approval discussed in connection with developer exactions is relevant here as well. Informal development is common and detailed plans are often ignored in the practice.

Finally, there are timing issues that affect a local authority's ability to collect the levy. Often the increase in value occurs when a new Urban Growth Boundary is announced, which may be years before the approval of the detailed plan for the area.

Recommendations

If Egypt seeks to implement an effective land value increment tax instrument, two recommendations made earlier are relevant here as well:

- The requirement that landowners obtain official approval prior to construction must be strictly enforced. If informal development is allowed, developers have no incentive to comply with any requirement that they pay a land value increment charge. Again, there are multiple incentives for the public sector to achieve this goal, however difficult it may be to accomplish in practice.
- One of the reasons that informal development takes place in Egypt is the difficulty in obtaining formal approval for new developments. Consequently, as part of effort to reduce informality, the administrative procedures required for receiving, reviewing and approving plans, projects and permits should be carefully reviewed and streamlined.

In addition, there are other recommendations that relate specifically to land value increment taxation.

- The current rate of 50% of the incremental value will very likely be difficult to sustain. No other country has been successful in effectively administering and collecting a land value increment tax at that rate. A number of countries have tried, but landowners and developers have vigorously opposed such efforts and have in virtually all cases been successful at having the tax repealed within a few years. If the intent is to actively enforce the levy as a one-time charge, Egypt should consider lowering the rate to between 10% and 30% of the incremental value, collecting the tax at the time of sale or collecting the tax over a period of years as a special assessment.

- The levy should be applied to the incremental value of land only. It appears that the current law may apply to buildings as well. But the rationale for the tax is that land value is socially created. Building value represents private investment and increases in building value represent the return on that private investment. Limiting the tax to the increase in land value will reduce opposition and any potential distortion in private investment practices. The tax will still be effective when applied to exemptions from height restrictions. Approving increased building height, and therefore increased density, increases the value of the land under the building significantly.
- Egypt may wish to consider separating the tax on urban land from the tax on buildings. Taxing land separately and at a higher rate serves both as a land value increment tax and promotes improved land use and development within a city. It also makes the land value increment tax much more manageable for landowners and developers.

Instrument 5: Sale of development rights

In many countries, owning land does not automatically include the right to develop that land any way the landowner desires. In some instances the right to develop is regulated by zoning restrictions that limit the type and density of development. Some countries have also implemented policies that require landowners to purchase from the government the right to develop their land beyond a certain minimum level. This sale of additional development rights can be at either a fixed price or in some instances the additional building rights have been auctioned to the highest bidder.

The proceeds from the sale of development rights are used by governments to invest in social housing and other urban amenities, generally in the same geographic area.

The sales of development rights can be administrated in varying degrees depending on the capacity and resources of the issuing municipality. In the most straightforward case, the level of development potential without special approval is set by law.

The law also provides local authorities with the tools to approve development at greater density up to a maximum for each area. For example, the law may state that the ratio of floor space to land area in a particular zone may not exceed 1 to 1. However landowners can purchase the right to build up to a ratio of 1.3 to 1 for an additional fee.

To be successful in selling additional development rights, there must be:

- Market demand for additional development in the designated area;
- The legal framework allowing for the sale of development rights;
- Effective control of existing development rights; and
- A governing authority with the technical and administrative capacity to effectively initiate, monitor and regulate both the sale of development rights, any subsequent resale of the rights, and ultimate development.

It should also be noted that the sale of development rights through open auctions may prevent low and moderate income households from acquiring those rights and thereby limit their ability to invest in their land.

Egypt's experience with selling additional development rights

Egyptian law in this case is based on the French model which conceives the right of development as linked to ownership. It may seem therefore that selling development rights as described here is currently not practiced in Egypt with the possible exception of exemptions from building height restrictions discussed earlier. But there is another precedent. First, the Egyptian Civil Code provides the legal basis for similar tools (Articles 1015 to 1029).

More directly relevant, there are building height restrictions in many parts of Egypt. Building Law 119/2008 (Article 17)

specifies that in order to obtain a license for an exemption to building height restrictions, an application must be approved by the Supreme Council and the licensee must pay a fee based on the percentage increase in total floor area beyond that allowed under the height restriction. The actual fee is to be one half of the incremental value based on the land value.

The entity receiving the fees depends on where the land is located. In new towns, NUCA collects the fee. In governorates, it is the governorate. If the military must define and approve the building height, they also receive part of the fee. The revenues are used to finance the Economic Housing Fund.

It is helpful, however, to draw a distinction between a landowner's right to develop that is restricted by a city's strategic plan and the right to develop that is restricted by a detailed plan and a city's building regulations. In the first instance, the law seems clear that the governor should present the case to the Supreme Council for planning and urban development. If approved, the additional fee described here should be assessed. In the second instance, where the restriction is based on a detailed plan and local building restrictions, the law is less clear on applying the fee described here.

In practice implementation of this procedure varies from case to case. In one instance in Maadi, Cairo Governorate, a tower was constructed by a state-owned company and no additional fee was paid. In another instance in Cairo, a private contractor was required to pay the additional fee. In New Cairo, a private contractor paid the fee to NUCA since the land was under their jurisdiction.

Recommendations

There is clearly precedent in Egyptian law to make use of this instrument. Nonetheless, more extensive use of this instrument could be facilitated if action were taken on several recommendations. First, as noted previously, the problem of informal construction must be confronted.

- The requirement that landowners obtain official approval prior to construction must be strictly enforced. If informal development is allowed, developers have no incentive to comply with any requirement that they pay for additional development rights. Again, there are multiple incentives for the public sector to achieve this goal, however difficult it may be to accomplish in practice.
- One of the reasons that informal development takes place in Egypt is the difficulty in obtaining formal approval for new developments. Consequently, as part of effort to reduce informality, the administrative procedures required for receiving, reviewing and approving plans, projects and permits should be carefully reviewed and streamlined.
- The legal foundation for selling additional development rights needs to be clarified and strengthened. For example, Egypt might consider a two-tiered approach to building height restrictions. First there would be a maximum height restriction that cannot be exceeded without approval from the Supreme Council, as at present. Below that level, local authorities could set a lower height limit in their detailed plan and building regulations. Exceeding this local height restriction could be approved by the local authorities upon payment of a fee for the additional development rights.
- The administrative requirements for selling development rights through open auctions are daunting. For this reason, it is recommended that Egypt adopt the more straightforward approach of density and height restrictions. Additional development rights can then be sold at fixed fees to be charged upon approval of the increased density. The fee schedule can vary by location and land use within an urban area, but should be standardized and publicized.⁸
- Care should be taken to protect the interests of vulnerable populations in the process of increasing the development density or changes in land use in any area.

⁸The fee schedule can also be designed to promote transit-oriented development, historical preservation and other desirable development patterns. See *Leveraging Land* for a more detailed discussion.

Instrument 6: Land sales and land leases

In many instances, the government owns either all or substantial sections of land. When a government makes the determination to mobilize revenue using these land assets, they frequently consider either selling the land or leasing it.

Sale of public lands—The sale of public lands converts one type of public asset (land) into another (cash) through the sale of the land to the private sector. The requirements to sell public land are fairly straightforward but are nonetheless important.

- The government must have land that it considers to be no longer needed for public purposes. This is an important judgment with very long-term consequences. Caution in reaching such a judgment is required.
- There must be a market for the land.

The land should be sold through a transparent process, such as an auction, in order to ensure that full market value is obtained. If it is desirable for policy reasons to discount the land below full market value, the discounting should be transparent and fair. Care should be taken that all proceeds from the sale are appropriately accounted for.

This is a straightforward technique to generate one-time revenue for high-priority, long-term projects, but it should be used with great caution and only with full transparency and public consultation. Resulting revenues should be used to fund public infrastructure and other long-term projects. In most cases, the proceeds should not be used for normal operating costs such as salaries and employee benefits.

Leasing public land—Leasing publically-owned land through multi-year leasing agreements for either annual or one-time revenues, or both, creates a leasehold interest that allows private entities to develop the land and potentially sell the lease in a secondary market.

Lease payments are structured in two ways. First, it is common to require a single payment at the time the lease is signed. This payment is known as a lease “premium.” In some countries, the amount of the premium is determined in an open auction. In other cases, the premium is set at a predetermined percentage of market value. In the event that land use changes during the life of the lease, an additional premium may be required.

The second form of public compensation is in annual payments. Such payments will vary by proposed land use and market conditions. Lease agreements should be structured to permit regular reviews and updates of the annual payment. While some countries require only the lease premium or the annual payment, the more productive approach is to require both.

To be effective, the government entity seeking to lease land must have available land and it must have the administrative capacity to administer and regulate a leasehold system. Many countries have attempted to lease public lands, but not all have been successful in generating revenue from their leasing system. To be effective as a revenue tool, a government must

- Identify public land appropriate for leasing and unlocking value,
- Develop a specialized institution to manage a leasehold system,
- Earmark revenues for specific purposes, and
- Develop a compensation policy for current tenants of public land.

Governments without a strong administrative ability to manage such a system have not found success in generating meaningful revenue. Additionally, the more control the government relinquishes in leasehold agreements typically results in the prospect of more revenue. The most successful systems, in terms of revenue generation, are those that are modeled closely after freehold systems.

Egypt's experience with selling and leasing public lands

Egypt has a good deal of experience with selling public lands. Much of the development of new towns and cities under the direction of NUCA is founded on a base of selling either serviced or non-serviced public land for private development.

In addition, the Tender and Auction Law 89/1998, Executive Regulations 1367/1998 and the Local Administration Law provide for the sale of public land by governorates. Such sales provide one of the main sources of revenue for the Housing Fund. Funds are also used to purchase other land for public facilities. The department of state land use on the governorate level is the administrative entity responsible for the sale (and purchasing) of state land. While the law is national, not all governorates have significant amounts of state land that could be sold.

The General Authority for Touristic Development also sells state owned land in some locations. These sales generally involve non-serviced land sold at fairly low prices to encourage private investment in infrastructure and marketing of serviced plots. The sales often take place in tourist areas for hotels and tourist compounds. State lands have also been sold by the Industrial Development Authority and the Ministry of Agriculture and Land Reclamation.

Egypt's experience with leasing public land comes largely from leasing strategic public assets such as ports and airports. These assets have been leased to private companies who operate and maintain the facilities. The leases are generally for 60 years. The Tender and Auction Law 89/1998 defines the procedures for determining the annual lease payments. Revenues are collected and retained at the local level.

Recommendations

Egypt has extensive experience with selling public lands. There is less experience with leasing such lands. There is no compelling reason why leasing should be expanded and the culture seems

to favor land sales over leases. The sole recommendation with regard to land sales relates to transparency and accountability in the process. Selling public land has very long-term implications. Public officials must take care that the land to be sold will indeed not be required for other public purposes later, that the price obtained is consistent with market conditions and that all proceeds from the sale are appropriately accounted for and allocated to important long-term public projects.

Instrument 7: Transfer taxes and stamp duties

Transfer taxes are assessed when the title to land rights is transferred to another party. Most commonly, the transfer tax is expressed as a percentage of the value of the real property being transferred.⁹ It is levied in addition to any notary fees or other fixed charges collected at the time the transfer is registered.

Because the transfer tax is levied at the time the registered title to real property is transferred from one party to another, the minimum requirements for implementing a transfer tax are tied to the land registration system.

- There must be an up-to-date formal land registration system that includes all land parcels and is recognized by the society as the definitive repository for land-related claims. While some countries attempt to implement a transfer tax without an up-to-date land registration system, the resulting tax is inherently unfair in that those with registered land rights must pay the tax while those with unregistered land escape the tax.
- Land law must
 - Require the registration of all land title transfers. These “titles” can reflect a freehold private ownership interest, a leasehold interest or any other form of recognized property right.
 - Set forth the land registration and transfer requirements and process, including the documents required and any involvement by notaries, engineers or other third parties.

⁹This is not an increment tax because it is applied to the entire property value, not just the increase in value since purchase.

- Specify what is meant by transaction value for purposes of the transfer tax. This may be the contract price between buyer and seller, but generally also includes reference to some other standard to assure that buyers and sellers do not misrepresent their actual agreement.
- Specifically allow for the imposition of a transfer tax (or stamp duty) including specifying the range of approved rates and assigning the revenue to appropriate entities.
- The land registration administration must be capable of
 - Receiving and processing required registration documentation including verification of authenticity and accuracy
 - Assessing the accuracy of reported transaction prices
 - Levying and collecting the appropriate tax

Egypt's experience with the transfer tax

Egypt imposes a 2.5% transfer tax on the sale of real estate or land for development. The base for the tax is the market value of the land without deductions except for villages under certain conditions. There is also a nominal stamp tax charged for the actual documents related to the transfer.

Recommendation

Transfer taxes should be used to fund the land registration system. Beyond that primary purpose, some jurisdictions attempt to use the transfer tax to restrain overheated real estate markets. While this approach seems to work in the short run, the long-term implications are much less certain and may undermine other important policy objectives.

Egypt's current transfer tax rate is consistent with the rates found in other countries that use the tax to fund the land registration system. The revenue generated should be used to improve land administration within the country.

Nevertheless, the State must pay compensation to the inhabitants, whether or not they have a registered title. Clearing large informal areas for redevelopment is thus a very expensive undertaking for a chronically cash-poor government.

SUMMARY OF RECOMMENDATIONS

Recommendations for the annual real estate tax

Egypt should consider carefully several further modifications for the annual building tax. Recognizing the political challenges that have confronted reform efforts for this tax since 2008, the design and staging of these modifications will require careful thought. It is also likely that they will require other administrative adjustments and certainly a strong public awareness campaign.

- **Valuation**—To the extent technically feasible, the assessed value of land and improvements should be equal to the market value as of the assessment date. Valuation should be seen as a technical exercise that is largely independent of political constraints or revenue needs. For the system to function properly and be perceived as fair, assessed values should be as close to market values as possible. When all is said and done, fairness should take precedence over accuracy.
- **Tax rate**—Local administrative units need more flexibility and control over the revenue generated within their communities. This could be achieved by setting a range of acceptable rates at the national level and allowing governorates (or lower) to select the final rate within the approved range. Alternatively, if there is a single national rate, governorates could be allowed the option of setting a supplemental rate (within an approved range) to be collected along with the national tax but remitted directly to local authorities. To maximize the political acceptance of a purely local rate, it may prove desirable to earmark the revenue received for specific purposes such as road improvements, street lighting, public spaces or other clearly visible public purposes.
- **Exemptions**—The basic strategy employed by Egypt in exempting a fixed monetary amount for all residential property is sound. The difficulties arise when the current exemption levels are applied. Exempting the first EGP 2 million means that the vast majority of property owners will

pay no building tax. The government should first consider reducing the deduction for expenses from 30% to 20%. This would be more in keeping with the practices in other countries.

Second, the government should consider reducing the exemption for primary residential property to about EGP 50,000 (or EGP 600 in annual rental value).

Recommendations that apply to multiple instruments

If Egypt seeks to improve land-based financing for urban development, two recommendations are critical for several of the instruments:

- The requirement that landowners obtain official approval prior to construction must be strictly enforced. If informal development is allowed, developers have no incentive to comply with any requirement that they pay additional fees or charges. There are multiple incentives for the public sector to achieve this goal, however difficult it may be to accomplish in practice.
- One of the reasons that informal development takes place in Egypt is the difficulty in obtaining formal approval for new developments. Consequently, as part of effort to reduce informality, the administrative procedures required for receiving, reviewing and approving plans, projects and permits should be carefully reviewed and streamlined.

Recommendation regarding special assessments

The government should consider initiating a more extended discussion with the business community, civic organizations and local administrative units with the intent to adapt special assessments more extensively in the Egyptian context.

Recommendations regarding developer exactions

In order to expand and formalize the use of developer exactions in Egypt, the government will need to take several important steps.

- See the two recommendations regarding informal development.
- In the Egyptian context, it is recommended that standard formulas be developed and published to be used in calculating any developer exaction. This would assure transparency and fairness in implementing the instrument even though some adaptability to special circumstances is lost. The example of Medellin, Colombia in this regard is very helpful.
- Any revenue collected through the use of developer exactions should be retained in the community hosting the new development and should be used to meet the needs contemplated in assessing the developer obligation.

Recommendations regarding land value increment taxes

- See the two recommendations regarding informal development.
- The current rate of 50% of the incremental value will very likely be difficult to sustain. No other country has been successful in effectively administering and collecting a land value increment tax at that rate. A number of countries have tried, but landowners and developers have vigorously opposed such efforts and have in virtually all cases been successful at having the tax repealed within a few years. If the intent is to actively enforce the levy as a one-time charge, Egypt should consider lowering the rate to between 10% and 30% of the incremental value.

- The levy should be applied to the incremental value of land only. It appears that the current law may apply to buildings as well. But the rationale for the tax is that land value is socially created. Building value represents private investment and increases in building value represent the return on that private investment. Limiting the tax to the increase in land value will reduce opposition and any potential distortion in private investment practices.
- Egypt may wish to consider separating the tax on urban land from the tax on buildings. Taxing land separately and at a higher rate serves both as a land value increment tax and promotes improved land use and development within a city. It also makes the land value increment tax much more manageable for landowners and developers.

Recommendations regarding the sale of development rights

- See the two recommendations regarding informal development.
- The legal foundation for selling additional development rights needs to be clarified and strengthened. For example, Egypt might consider a two-tiered approach to building height restrictions. First there would be a maximum height restriction that cannot be exceeded without approval from the Supreme Council, as at present. Below that level, local authorities could set a lower height limit in their detailed plan and building regulations. Exceeding this local height restriction could be approved by the local authorities upon payment of a fee for the additional development rights.
- The administrative requirements for selling development rights through open auctions are daunting. For this reason, it is recommended that Egypt adopt the more straightforward approach of density and height restrictions. Additional development rights can then be sold at fixed fees to be charged

upon approval of the increased density. The fee schedule can vary by location and land use within an urban area, but should be standardized and publicized.

- Care should be taken to protect the interests of vulnerable populations in the process of increasing the development density or changes in land use in any area.

Recommendations regarding land sales and leases

The sole recommendation with regard to land sales relates to transparency and accountability in the process. Selling public land has very long-term implications. Public officials must take care that the land to be sold will indeed not be required for other public purposes later, that the price obtained is consistent with market conditions and that all proceeds from the sale are appropriately accounted for and allocated to important long-term public projects.

Recommendations regarding transfer taxes

Transfer taxes should be used to fund the land registration system. Egypt's current transfer tax rate is consistent with the rates found in other countries that use the tax to fund the land registration system. The revenue generated should be used to improve land administration within the country.

SUGGESTIONS FOR THE WAY FORWARD

As public officials and civic leaders consider the path forward regarding land-based finance for urban development, the following suggestions may prove useful.

- 7) Initial steps should focus on those instruments that will involve the least amount change in the legal and administrative systems already in place. That would suggest that a good place to start may be with special assessments. They have been used effectively in Egypt with agricultural improvements and it seems reasonable to extend that experience into the urban sphere. This will be especially true if the processes implemented involve local landowners in the determining which infrastructure projects will be pursued. Special assessment districts can be designed to assure maximum public acceptance for the initial projects. Those projects will then serve as examples for other areas in the city and for other cities.
- 8) A second priority might be standardizing the sale of development rights at least for large projects in major cities. Such projects are more likely to be formalized and processes for implementing the instrument can be refined.
- 9) Moving beyond these two options will require that Egypt confront the issue of informal construction at least as far as additional new construction. Without meaningful progress on this front, little progress can be made with the other instruments. Once again, an essential element in reducing the amount of informal development will to reform the application approval process for new development.
- 10) Once there are effective policies and practices to minimize informal development, developer exactions can become a significant source of revenue for meeting the needs of growing urban areas. The intent is not to curtail new development but to engage developers in the process of addressing the infrastructure and service needs created by their developments.
- 11) Either following or concurrently with the expansion of developer exactions should come the extension of selling additional develop rights in smaller projects and in smaller cities. Again, this can only happen after progress is made to reduce informal development.
- 12) Finally, community leaders should consider further reforms to the annual real estate tax at least as recommended previously. As an additional step, Egypt may wish to consider separating the tax on urban land from the tax on urban buildings. Both should be taxed, but at different rates.

This is an ambitious agenda and it will take years to fully implement it. Success will depend on gaining the trust of the public that revenues collected will be spent on projects that benefit the community in visible and tangible ways. It will also depend on strengthening the capacity and effectiveness of local governments. While the way forward may seem daunting, the long term benefits to Egyptian society will be profound and well worth the significant effort that will be required.

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