



## POLICY BRIEF # 8

# Spatial Development and Housing

The Egypt Human Development Report 2005 proposes a new spatial development vision aimed at revising priorities and investment allocations to restore the balance between population growth, housing needs, and the space and resources available for physical and economic development. The accelerating expansion in the size of cities, towns and villages, and the increased demand for housing has necessitated a radical move away from the pattern of intensive geographical concentration of population along the narrow Nile Valley and Delta strip and the redrawing of Egypt's map to save scarce agricultural land.

EHDR 2005 suggests that an integrated national plan and strategy would best be able to meet the challenge of creating multiple new economic growth poles and provide incentives for populations to move to these new areas in the Western and Eastern deserts, the Red Sea and Mediterranean coasts and the Sinai Peninsula. The plan would be based on the adoption of carefully designed national, regional and community-level urban plans, presently lacking or inadequate. The integrated strategy will include improved services to informal urban settlements and inner city slums, including affordable new housing.

A new housing map for Egypt would be expected to accommodate not only the expected population within the coming decade but to indicate that the housing sector — by responding to the basic requirements for this — can become an engine for employment and growth.

### I. Developing Spatially

The EHDR 2005 spatial vision is that Egypt moves on two trajectories — one radical and the other piecemeal — and in a number of phased stages. These include direct relocation into desert lands adjacent to the old Valley and Delta; development of growth poles with relatively easy to utilize existing potential; implementation of corridors of infrastructure; and a comprehensive

social and economic development plan to manage their respective potential and natural and human resources.

### 1. Redrawing the Map of Egypt

Initial studies indicate that the areas that can be developed and constructed on the long term are in the range of 25% to 35% of Egypt's total area. The EHDR 2005 vision proposes that Egypt can move towards these targets through phased stages, many of which are already being developed by a number of state sectors. It is envisaged that the new spatial development vision would require (i) stepping outside the current inhabited boundaries and identifying new growth poles; and, (ii) longitudinal and transversal expansion adjacent to current economic activities.

**(i) The urban expansion approach: a piecemeal solution:** This short-term approach increases the inhabited area into the desert by expansion outside the Nile Valley into adjacent and then further successive areas. Urban expansion takes advantage of the existing nearby infrastructure and reduces the costs of extension, at least in the first stages of development, while maximizing on the economic and social returns from the available spatial allocation of resources.

**(ii) The growth poles approach: a radical but sustainable solution:** This is based on identifying growth poles located away from the current inhabited Nile Valley, and on developing economic activities that can attract inhabitants to these areas to accelerate the achievement of sustainable development objectives.

Egypt's surface area can be divided longitudinally from North to South into successive development corridors, with the current inhabited corridor in its core. The surface area can also be divided transversally from East to West into veins that are perpendicular to the longitudinal development corridors. These veins would trans-



fer power, utilities, raw material and agricultural and industrial products between development poles and help promote population movement from currently inhabited areas in the Valley and Delta to the new development areas.

A region would include wide spaces and diverse economic activities, thus increasing the region's investment and production potential to become economically self-reliant, phasing out central interventions and financing. Regions would be more capable of maximizing the synergies of new technologies (energy, telecommunication and information). Given their understanding of local employment conditions and an incentives framework proportionate to these conditions, regional administrative units could develop efficient technical and administrative cadres and generate inter-regional competitiveness in achieving development goals.

The targeted social groups who will relocate to new communities will require special incentives such as inexpensive housing, or attraction factors such as significant services benefits and employment-directed vocational and professional rehabilitation not available to existing inhabitants of the old lands. It is also proposed that regional capitals be located in new cities and not in governorates, as this would significantly assist the growth of these cities and prevent overpopulation in current governorate capitals.

A strategic decision must also be made within the radical vision for redrawing the map of Egypt. This concerns the future of Cairo in terms of boundaries and its status as Egypt's capital.

**Turning Cairo into a closed city.** Cairo as a closed city would reduce pressure on the utilities and services sector, and would encourage populations to settle in the South, in Sinai and in the new cities. It would also check expansion of squatter settlements and the emergence of new ones. Over the past 50 years, Greater Cairo received a significant share of internal migration, which contributed significantly to the Greater Cairo population growth, reaching about 30% of the total population increase between 1976-1996. The growth rates of squatter settlements — around 8% annually — were double the growth rates of planned areas (estimated at 4% annually). adding the ensuing absorption of peri-urban rural lands into Greater Cairo, internal migration accounts for up to 50% of the population increase in the Greater Cairo region.

**Creating a new capital for Egypt.** One option for increasing Egypt's inhabited area is to create a new capital about 400 km away from present Greater Cairo as an alternative development magnet, with a guaranteed economic base (agricultural, industrial or services), and the ability to host government and its agencies, national organizations and diplomatic missions. In this scenario, the new capital would become an administrative as well as an alternative development center while old Cairo would remain the cultural and commercial center, with an improved quality of life owing to reduced population pressure, and increased resources to upgrade services and utilities. The issue of financing such a project remains to be explored, but funding could be partially covered by transferring the budgets allocated for improving Cairo towards the infrastructure of the new location.

One idea is the creation of the new capital for Egypt in the Western Desert. Under this scenario, a main road connecting South and North Egypt and a railroad going from West to East reaching up to the Red Sea, growth poles would emerge along the road and railroad lines. Further, new peripheral but major growth poles would develop around the new capital where agriculture would be the main development vehicle (extending to Toshki), or mining and industry in Abu Tartur; on the Red Sea south, depending mainly on tourism, fishing and other marine activities; around Alamein and the northwestern Mediterranean coast, relying mainly on a diverse base of agriculture and fisheries, tourism, small industry, in addition to marine activities; Siwa and in the different oases located along or near the south/north highway, with great potential in agriculture, grazing and desert tourism, in addition to agribusiness and handicrafts; around the mining activities along the railroad line connecting the new capital site to the Red Sea.

## 2. The Institutional Requirements of Policy Change

The current development approaches to land use and housing are mainly related to a specific axis or sectoral activity, but that synergies between ministries and agencies must be exploited to trim down wastage and reduce duplication. At present, there are seven different ministries and their agencies directly responsible for land and urban management, infrastructure and housing, under varying terms of reference.



There are also a multiplicity of laws and regulations that often place the authorities at odds with each other. Thus, for example, the Ministry of Planning has divided the total land area of Egypt into eight regions by virtue of Presidential Decree 475/1977 but the Ministry of Housing has developed other divisions of Egypt's regions. Law 3/1983 identifies city and village physical development stages in detailed planning, but there remain countless cities and villages without plans. A number of laws and decrees regulate construction and building but unlicensed building erected during the last three decades has been very high, with building densities well over legally decreed rates. Obstacles to private sector participation in land development are presented, for example, by ministries with legal right to own or utilize any location deemed necessary for national purposes (Defense, Interior, Agriculture, Tourism, and Housing).

Planning mechanisms in their traditional forms (from the center with no public participation, a significant separation between centralized and local administrative bodies, little flexibility and few adjustment mechanisms) are ill suited to the new challenges of shifting populations and new development regions, within the context of highly dissimilar regional development resources and specific localized needs, including the need for housing.

Regions and settlements are likely to respond best to administrative styles that are appropriate to their particular conditions. The desert and coastal nature of new inhabited areas, unlike that of the old Nile Valley and Delta, are likely to flourish under a decentralized management style giving local bodies and administrations the power to manage their own affairs in the identification, prioritization planning, and implementation of projects deemed best suited to their needs. It thus appears necessary for planning to be able to respond to needs assessment at the regional level, using the active participation of decentralized institutions and civil society.

The most significant reform for spatial and housing balance is to create the conditions for agency coordination. Formulating a clearly defined economic, social and urban national strategy for land use and housing first requires a conceptual umbrella or a 'vision' for development policies and plans, followed by basic but flexible referential principles that would govern decision-making at the different levels and areas.

### 3. Proposed Land Management Reform Measures

For land management and planning, one proposal is to create a new management level between central government, on the one hand, and governorates and municipalities on the other; This would be a new level of 'regional administration', so that each region would have its administrative structures and would become responsible, through its enormous potential, for the development of its own regional planning and for coordination between governorates under its jurisdiction.

A 'region' is envisaged to cover wide areas and diverse economic activities, thus increasing its investment and production potential to become economically self-reliant, phasing out the need for central intervention and financing. Regions are expected to be better at maximizing on the synergies within their boundaries, including those from new technologies in energy, construction, telecommunication and information.

An umbrella organization could act as coordinator of all levels: and which would be vertically connected to three institutional bodies:

- *A central agency for development and physical planning* at the national level. This agency would develop national plans which identify major and subsidiary development aspects, with their respective resources and potential; subsidiary communication corridors that link and supply them with utilities; the phasing of plans, and population spread within the framework of national policies; and the optimum urban pattern for human settlements in the new development areas.
- *A regional development and urbanization planning authority* which would be mandated with the development of the specific region's urban and development planning, with all its required social, financial and environmental studies, as well as studies of the region's natural and human resources, within the framework of the national development strategy.
- *Local planning committees* to undertake tasks similar to the Regional Development and Urbanization Planning Authority, but within their local administrative borders.

These interlinked bodies would consult horizontally with other sectors, bodies and executive

### Box 2. MOP Study Projects Housing Demand

*A recent study by the Ministry of Planning (MOP) states the need for 5.3 million housing units up until 2017 to accommodate the expected increase in population. The private sector is seen as the main supplier for housing units for all different social categories with the public sector providing less than 4% of the total required. This implies a dramatic change in the current housing policy and practice and represents a major shift in the role of government — to enabling the private sector (whether local communities or investors) to step into the market more vigorously. This will require a number of regulatory, institutional and financial revisions and reforms.*

*The MOP study has proposed that the expected increase in population of about 23 million by 2020 can be accommodated by developing new reclamation areas (to absorb 2 million people), new cities and urban communities (4.5 million); increasing the efficiency of land use in existing cities and villages (2.5 million), and by developing new villages and small urban settlements in the desert hinterland (Zaheer Sahrawy, 41.5 million), especially in Upper Egypt as an alternative to urban migration.*

*The study estimated that the remaining 10-11 million people could be housed within existing cities and villages through rational planning, over no more than 100 thousand feddans, which already exist in the form of agricultural pockets and wastelands.*

organizations of a similar national, regional or local status that could contribute to their planning or implementation processes. In this way, development and urbanization could be implemented within a unified integrated system allowing Egypt to effectively face its current challenges.

## II. Housing: A Window of Opportunity

The housing, building and construction sector has always been highly labor-intensive, with a great capacity to utilize an informal unskilled or semi-skilled workforce, employing in 2002 more than 1.53 million with an annual growth rate over 5%. Several studies indicate the sector's ability to absorb labor incrementally (increasing to an estimated 7 % of total labor force in 1996-1997), and the EHDR suggests that the sector could absorb about 1.83 million in 2006-2007 under a rational plan to expand Egypt's resources to support future population growth and housing demand.

### 1. Drawing a New Housing Map

To avert further growth of slums and informal settlements, policies need to better use existing land and private resources, encourage the acquisition of low -cost land on the urban periphery or in new cities, and promote self-help schemes to fulfill housing needs within the limitations of low budgets. Securing land or housing tenure is cru-

cial for improvement of slums or deteriorated areas. This may be politically sensitive as it could be interpreted as de facto recognition of the legal status of residents, which may in turn encourage further illegal land occupation.

However, without regularization, slum-dwellers are reluctant to invest in improving their living environment and service providers are reluctant to assume the risk of investing in infrastructure. In this respect, there is also a need to improve the legislative framework governing the rental market. The old rent control laws could be cancelled gradually within an intermediate period when frozen rents would be gradually raised — based on criteria such as units, built-up area, facilities connected to the units, and geographical locations —enabling landlords to end the contract after this period if free-market based rent is not paid

### **Challenges Facing New Cities and Urban Communities:**

The Egyptian new cities program covers 20 new communities and a total area of 600 thousand *feddans*. According to ministry of housing figures, the total investment spent over the past 25 years has been over LE 22 billion from government, mostly on infrastructure, against more than LE 40 billion of direct private investment. The target is to accommodate 4.5 million inhabitants but overall population reached 1.5 million, or only about 50% of the targeted population in 2005.



New cities have faced particular problems including the time lag in reaching targeted population size (older generation cities were to accommodate 500 thousand inhabitants each within 25 years, a goal that has not been met). The planning focus has been on construction with the unforeseen effect of attracting mainly speculators, with the New Urban Community Authority (NUCA) acting as real estate developer, selling land at the highest price to generate financial resources for itself and the state. There is a lack of coordination between NUCA and ministries or authorities on developing schools, health care, social and recreational facilities and transportation networks to attract residents.

**Better Urban Land Utilization:** It is estimated that 2.5 million inhabitants could be accommodated through better urban planning and land use. Two areas deserve particular attention:

*Informal urban settlements.* A 'National Upgrading Policy of Informal Urban Settlements' has been in effect since 1993, providing informal settlements on the peripheries of cities with infrastructure, roads and, in some cases, basic services. More than LE 2.8 billion has been spent on these massive projects but the overall impact has been less than expected with continued rural migration, unemployment, and poverty which have outpaced government resources. A reform approach could be built on the concept of public/private partnership for land tenure regularization and upgrading for informal peripheral settlements.

*Inner city slums.* These are evident in all of Egypt's cities, often in central or prime locations, and are a manifestation of retrogressive laws and regulations such as rent control, and represent low occupancy rate, structural dilapidation, decaying infrastructure and patchy urban services despite the high land value. A reform approach could be built on the concept of slum renewal projects under a national program based on cost recovery.

**Extending inhabited areas:** The EHDR 2005 argues that the option for the settlement of expanding populations as part of the creation of new towns in the desert or in agricultural hinterlands provides a unique opportunity for the creation of low-cost housing within a balanced and well studied urban development and zoning plan, supported by a package of incentives such as low-interest mortgage schemes, and in situ

employment opportunities. In all cases, simplified regulations and procedures to formalize ownership would be essential to capture hidden capital and to discourage illegal occupation of land or the development of informal housing.

Developing in desert hinterland (*zaheer sahrawi*) would provide housing for an estimated 5-6 million inhabitants. Villages or *markaz* with desert hinterland are those that have direct boundaries with or at a distance of less than three kilometers from desert land. The 1996 Census identifies 16 governorates with desert hinterland within which are 93 *markaz*, with 19 million inhabitants. This represents over 48% of total rural population, in 2,070 villages with desert hinterland, 753 villages of which have direct frontage and accommodate over six million inhabitants.

All *markaz* in the governorates of Upper Egypt have desert hinterland, with 1,430 villages, out of which 484 have direct frontage with the desert. Upper Egypt can thus play a major role in urban and rural expansion in the coming decades. The GOE has recently recognized the importance of the desert hinterlands development alternative. Three governorates; Menia, Suhag and Qena have adopted the initiative, whose advantages include lower costs as they rely on existing infrastructure from nearby settlements. However, there is a need for a practical mechanism for planning, and implanting new villages.

Studies at the national level show that nearly all of the 2,070 villages within the desert hinterland are a main source of internal rural-urban migration. The villages are characterized by low income and limited economic opportunities. Creating incentives in the form of new housing and roads near their origins together with potential job opportunities through land reclamation, small enterprises or other economic activities would constitute a crucial strategy to retain populations and discourage migration.

Public/private partnership would be the best alternative for financing and managing settlements through a special local management unit in each *markaz* consisting of representatives from ministries of local government, housing and investment to define the suitable land prices set as minimum for infrastructure and some government facilities at the beginning. Finance should also depend on the concept of cost recovery.

**Extending village housing:** Planned development using wasteland and empty pockets of land



in existing villages could accommodate a population of 10-12 million, with minimum encroachment on agricultural land. In 2004, the GOE assigned the task of preparing a national integrated program for improving Egyptian villages to the General Organization for Physical Planning (GOPP). The ensuing program prepares for the development of 4,623 villages within three years.

The plan uses strategic planning to propose integrated development projects for each village through direct community participation and private sector involvement in the finance and implementation process together with the participation of local government.

The program is considered a substantial step towards decentralization and empowering local communities in decision-making and management. But the first priority will be to ensure political commitment by pooling together the current scattered efforts and programs taking place in villages — whether from government or donors-funded projects — and to implement the projects that come out of the village strategic plans. The main obstacle for the program is to set clear criteria and conditions for selecting land to be transferred into urban use from the current existing *bour* land or pockets within each village, given the sometimes contradictory interests of landowners who would benefit from such transfer.

The selection mechanism should be built on maximum transparency and would require negotiating with landowners on compensation, whether direct payment for the transfer of land use or allowing the retention of a portion of their land to benefit from the new urban boundaries and uses. It should provide resources for local government to finance housing, infrastructure and urban services within villages.

## 2. State-led Reform

Reform measures include a number of different approaches by the GOE to provide an incentive to attract people to the new cities:

- A 2003 Presidential Decree has transformed NUCA into a holding company, turning new cities to secondary holding companies affiliated to it — to improve management, enable more private participation in decision making and business creation. Given the complications in evaluating and assessing settlement assets and share of overall debt of

NUCA, the initiative remains at its first stages.

- The adoption of non-traditional mechanisms for low and middle income housing whereby land plots between 150 to 300 m<sup>2</sup> are offered for families to build their own housing from several free architectural designs. Payment on the land is over four years and is subject to specific rules for development;
- Land served with infrastructure is offered free to developers conditional on their building low/middle income housing projects. The GOE recovers land cost through the acquisition of a number of housing units from private developers.
- A phased move of government with its affiliated authorities and organizations to new cities, using self finance (via sale of old premises in prime inner city locations), and stimulating staff mobility with affordable housing units, plots for housing, and soft loans for construction.

## 3. Legal Framework for Tenure and Finance

**Upgrading through land tenure regularization and improved urban services.** More than 90% of real estate and housing units are not registered mainly because of their informality, complicated and costly registration procedures and lack of incentive to register. The notion of registered land title to be used as collateral has not been widely adopted or practiced in Egypt. If land or housing title were available for a nominal sum (possibly with the condition of completing construction and facades) and coupled with simplified registration procedures — legal ownership would contribute towards improved physical and structural appearance as well as allow the state to levy property taxes as income for local government. Mechanisms for soft loans dedicated to housing improvement via the Social Fund for Development and specialized banks would provide an incentive. Currently, the GOE has stated its intention to revise its upgrading policies to be based on economic recovery and called for the implementation of a demonstration redevelopment project.

**In-situ relocation or redevelopment of inner city slums.** All slum areas within prime locations can be subjected to relocation and redevelopment schemes on an economic basis. Planning would include alternative housing for current residents whether renters or owners, reserved area for services and urban facilities, as well as areas allocated for investment development in the



form of tourism, commercial, business and residential activities to cross subsidize housing development for original residents. Another option is to offer small parcels of land in new communities rather than housing units, to encourage self-help housing and micro-enterprises. Capital can be raised via stocks or shares on a market basis.

**Public/Private partnership arrangements:**

The mechanism could be the creation of public/private shareholding companies for each area, consisting of the original owners in proportion to the value of their property, private investors, the governorate and the Ministry of Housing represented in NUCA. The shareholding company would prepare the development plan, evaluate the property value, provide infrastructure, relocate original residents in-situ or via cash compensation, and manage and finance the whole development process. Being a partner, the governorate would acquire all permits, coordinate among different government bodies and ensure the plan meets with governorate development targets.

Compensation to the original landowners could be direct payment for their original land based on current price, shares to the company at a higher evaluation of current land value to encourage

their participation in development, or exchange with other land in new communities. Residents' compensation could include direct payment from the company, housing units or small parcels of land in new communities, or building housing in a part of the same areas after re-planning.

**Are subsidies necessary?** The formal provision of public housing by the GOE has since the 1960s, been focusing on building low-income housing units with heavy subsidies. Units were first for rental and then sold to tenants on a long-term basis.

In the 1990s, a radical change took place in the provision of public housing with the introduction of the national Mubarak Youth Housing and the Future Housing programs. Both set higher planning and architectural standards to provide a selection of diverse housing units to meet the needs of different households. Despite these innovative initiatives, the GOE continued to heavily subsidize public housing units. It covered 40% of the cost price, with the remaining amount starting with a small down-payment — in addition to a soft loan — to be repaid over 40 years at a low interest rate. The result was the number of units provided since 1997 (80 thousand units) fell short of the demand of 350 thousand units annually.

**Box 3. The Informal Housing Market**

*Housing units built by the government seem not to match the financial means of their target populations. On the other hand, affordable housing is being effectively accomplished within the informal housing market.*

*A survey in 2003 covered two informal areas, Boulaq El-Dakrou in Giza and Matariah in Cairo, to explore the mechanisms of informal housing outside the law and the means used to manipulate regulations and legal enforcement. It showed that construction is carried out through local contractors from the area or district because of their experience in dealing with the district authority, finalizing the procedures, and their good contacts with the local construction labor force.*

*A factor that encourages a reliance on informality sector is tax policies. Contractors are obligated to pay two types of taxes, the unified tax, equivalent to income tax but applied to contractors' profit. The tax discourages contractors to register either themselves or labor; the sales tax, which is currently at 15%, and which increases contractors' costs*

*The majority of individuals relied on loans from relatives, own savings, or social mechanisms for acquiring the required down payment for construction. However, they usually had 'connections' and the financial means to bribe or manipulate the district authorities of the local council. The construction period is between one to two years to be able to rapidly occupy the units and create a de-facto situation on the ground. Where construction took more than 2 years, the reasons were due to obstacles from the authorities or liquidity problems. Empty units are rented in line with the Rent Law of 1996, but rentals are outside the affordable range of the poorer populations.*



Recently, the radical increase in price of building materials, has forced the government to adjust the design of these housing units, by reducing their size to keep prices within the range of low-income households. The cost of government-built housing units is higher by an estimated 30% at least than the actual cost of the same unit if built by the private sector or by the individual owner. Administrative overheads and the cost of bureaucratic procedures are said to be the reason for this substantial difference.

**Raising finances for housing:** To facilitate access to affordable housing, government mortgage lenders are one option. Others include partial equity grants or targeted interest rate subsidies on commercial housing loans. The authorities can combine fiscal incentives for real estate developers in the form of tax reductions or exemptions to provide housing within a negotiated price range, and once-in-a-lifetime equity grants home ownership for people living in sub-standard housing. Grants would be based on the market value of the existing housing. Community savings for housing can be used successfully, with individual savings pooled into a legal trust, thereby providing a mechanism to attract additional financing, protect against default, and receive subsidies. Funds can be used for locally purchased building materials, labor, or down payments for land purchases.

Stronger recognition by the formal banking sector of slum communities as potential customers could open new avenues for slum dwellers to access credit. Home ownership for people living in sub-standard housing can take the form of grants based on the market value of the existing housing property.

Public-private partnerships can be an effective tool for meeting the needs of the urban poor for housing, water, sanitation and other urban services. On the one hand, the private sector partners may need to accept social responsibility for working in areas involving lower profit margins, and, on the other hand, public sector agencies need to become more accountable to the public, more market-sensitive and risk-sharing, and operate under a transparent, equitable and flexible regulatory framework.

Community savings for housing can be used successfully, with individual savings pooled into a legal trust, thereby providing a mechanism to attract additional financing, protect against default, and receive subsidies. Funds can be used for locally purchased building materials, labor, or down payments for land purchases. Stronger recognition by the formal banking sector of slum communities as potential customers could open new avenues for slum dwellers to access credit.