

Mobilizing the Government's Dead Capital: Case Studies of Recent Experiences in Egypt

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Subgroup 1: Local public services, territorial specificity and process adaptation

Abstract

The paper extends Hernando de Soto's concept of "dead capital" to the public sector, examining how market imperfections within the public sector interfere with the effective use of land owned or controlled by the government. The author applies the principal-agent problem to the analysis of government land management and its mobilization for local development purposes, with particular reference to the impact on the decision-making process of split authority and differing interests across the various levels of government. Examples of innovative approaches to overcome these barriers in Egypt are examined, including urban development projects in Damietta and Cairo Governorates, as well as a case where local government efforts to improve services were blocked by inability to overcome dead capital barriers in Sharqia Governorate. These cases are set in the context of the role of local administrations in promoting economic development at the subnational level. The paper presents recommendations for overcoming this problem to facilitate mobilization of capital by local governments and administrations in developing countries.

Keywords: dead capital, decentralization, property rights, local economic development, urban development

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The Concept of Dead Capital

Hernando de Soto's justly famous study of what he termed "dead capital" in developing countries identified the poor's incomplete and undocumented property rights over their assets, notably land, as a barrier to development (de Soto, 2000). He argued that many of the poor in fact possess substantial assets in the form of informal housing, but the lack of documented title to the land prevents them from mobilizing its value to fund investments that would generate income or raise their standard of living. De Soto also found that insecure tenure depresses the value of these undocumented properties, while the informality of their places of residence decreases their personal security; limits access to services, particularly government services, and exposes them to multiple risks. They stand at constant risk of losing their property to more powerful claimants, for example, and, living in an area generally not recognized by governments, lack full access to judicial protection. De Soto assigns blame to the dead capital phenomenon for preventing the poor from taking full advantage of market-opening reforms. These factors further reduce the value of their real property, including improvements painfully accumulated and financed with their modest savings or "sweat equity" over many years, contributing to their impoverishment.

This article extends de Soto's dead capital concept to government land. At first glance, this might seem a contradiction in terms. How can the government not have clear title to property when it is the government itself that determines title?

The answer to this question lies in a second question: who is "the government?" The government cannot be considered to be a unitary actor, particularly in developing countries. Competing interests from different levels of government, different ministries and agencies, and different political and commercial interests within the government translate into a complex internal decision-making processes that are the polar opposite of "unitary."

In this article, we focus on one aspect of the problem we term "dead capital in the hands of the government": the barriers that face local administrations in promoting economic development in their jurisdiction because they do not have effective control over public land. Following a brief discussion of the nature of land tenure, we explore the case of Egypt, looking in particular at experiences in four governorates (provinces): Alexandria, Cairo, and Damietta. We conclude with recommendations for improving the ability of local officials to

promote economic development by giving them better access to the most fundamental factor of production: land.

Property Rights and the Government

Ellickson (1993,1362) describes the legal ownership of land as including a “Blackstonian bundle of land entitlements” that

can serve as a shorthand to denote a pristine package of private entitlements in land that involves:

- ownership by a single individual (“that sole and despotic dominion which one man claims...”)
- in perpetuity
- of a territory demarcated horizontally by boundaries drawn upon the land, and extending from there vertically downward to the depths of the earth and upward to the heavens
- with absolute rights to exclude would-be entrants
- with absolute privileges to use and abuse the land, and
- with absolute powers to transfer the whole (or any part carved out by use, space, or time) by sale, gift, devise, descent, or otherwise.

From an economic standpoint, however, this legal definition of land ownership does not capture several key aspects of ownership. For an individual or other entity, such as a corporation or city government, to be the effective owner of a plot of land, this actor must be able to undertake several different actions with regard to the land in question:

- To decide on the use of the land: Subject to reasonable zoning or public safety considerations, the owner should be able to convert the land to commercial, residential, or public use (such as a park or school).
- To improve the land: Land benefits economic development only when put to use, which nearly always requires investing in improvements, such as buildings, roads and services, and landscaping; if the owner cannot do these things, the land is useless except for speculative purposes.
- To undertake activities including those that produce income from the land: The first counterpart to the ability to improve the land is the ability to then use the land and improvements for the intended purpose, be it a commercial purpose (e.g., renting out factory sites on an industrial park to private firms) or a public purpose (operating a school or clinic, say).
- To derive income from the land: The second counterpart to the right to improve is the right to derive income from the improved land, i.e., to charge money and then to keep most of it. Many of the desirable uses for vacant urban land are not feasible if the

owner cannot set market-based rates for their use, even if that owner is the government.

- To rent the land: The owner should be able to choose between operating the facilities developed or contracting with another party to use or operate them, and to confer secure usufruct to the tenant or operator.
- To pledge the land as collateral or otherwise use it to raise financial capital: Even the government needs to raise money, and the inability to pledge land (including the transfer of the right to seize it to the lender upon default) hampers the mobilization of capital for development.
- To sell the land and retain the income: Finally, full ownership implies the right to dispose of the land, usually by sale, although land can also be granted to another entity, such as a community group, to operate it for public benefit, such as a park, or, indeed, granted to private developers in an often-misguided belief that this will spur development.

If an economic actor cannot exercise these rights, or cannot fully exercise them, then it must be said that the actor has an impaired ownership interest in the asset or does not own it at all, in an economic sense.

Dead Capital in the Hands of the Government: the Case of Egypt

This impaired ownership is precisely the situation that prevails with many of the assets under the control of units of the Egyptian government, as will be demonstrated by the cases presented. This situation may appear counterintuitive, given that the Egyptian state is one of the most centralized national governments in the world. Indeed, there are no local governments in the full sense of the word: all subnational units, from the governors to the police chiefs responsible for village administration, are appointed by the national government.

It is instructive that the word for governor in Arabic is “muhafez,” someone who keeps or protects an asset for another, formerly the sovereign, but now by implication the state itself, or at least the regime. Governors report to the Prime Minister and have an oversight role but *not* direct authority over the ministry personnel and operations within their governorate, their policies, budgets, or assets. Even this limited degree of authority extends only to the thirteen ministries included in the “mudiriyya” or directorate, which cover primarily those services that are local by their nature, such as health, education, agriculture, and irrigation. In principle, the personnel of the Ministry of Awqaf (Islamic endowments) are

within the mudiriyya, but Awqaf, which controls a large but publically undisclosed amount of land, is a law unto itself.

The ministries with a national mandate – most notably for purposes of control over land, the military – are not under the governors' control. Authority over the local officials of the Ministry of Finance have been transferred a number of times, but they now report only to the ministry.

Many of the national ministries have both extensive holdings of land and a role in determining land use. Of these, the three most important for urban development purposes are the Ministry of Defense, the Ministry of Agriculture, and the Ministry of Housing, Utilities, and New Communities (MHUUNC). The involvement of the latter is self-evident from its name, although the way its role plays out is quite complex, but why are defense and agriculture the two most important agencies in the control of land for urban development?

As most Egyptian cities are already very densely settled, expansion almost always means converting agricultural land at the margin of the city or town to urban use. Only a few major cities – Cairo, the three large cities those along the Suez Canal, and the growing coastal communities on the Mediterranean and the Red Sea, and in Sinai – have adjacent land that is not designated as agriculture.

For many years, expansion onto agricultural land has in principle required the approval of the Ministry of Agriculture, which is hardly ever granted. This policy reflects concern over food security in a country where only 5% of the land is arable, the rest being desert. In practice, this restriction has only been operational for land conversions by the government itself: huge informal areas have been developed at the margins of all the cities and towns and even most villages, through sale of agricultural land to private developers by individual farmers. Not one of these settlements has ever been closed down by the government, though only a small share have been granted title.

The local administrations cannot skirt these regulations so easily, being part of the central government, and must therefore pursue the long and cumbersome procedures needed to gain approval for agricultural land conversion and even then may not succeed. Recently, there have been signs of a shift in this policy to recognize the need for more urban land and the near-total non-compliance with the regulations, in any case.

Egypt's Ministry of Defense also has to approve any conversion of vacant land or, indeed, any change in land use, from a security perspective. Given that the current regime took power in a coup in 1952 and that many senior civilian positions are held by military officials, the military has effectively unbridled power to determine that a piece of land must

remain under its control for security reasons. The required approval by the military for even a routine project, such as a new apartment building, may take as much as a year (World Bank, 2006c, 15). A recent World Bank report on land policy describes the approval process for private developers in the agricultural lands as follows:

The system of conversion of State lands for urban use could be described as one of “negotiated administrative fiat.” At the heart of the process is assignment (takhsis) of land by an authority to a public, cooperative, or even private entity which, for large tracts, in turn subdivides and disposes to the end user. At first the process was disorganized, but following legislation mainly in 1975 and 1979 the disposal of State lands was vested primarily in one of the following:

1. The armed forces and police, who enjoy a kind of “first right” based on security needs
2. The new urban communities authority of MHUUD [now MHUNC] for areas designated for new towns
3. The land reclamation authority under the Ministry of Agriculture
4. Governorates for State lands within 2 kms. of the official limit of cultivation

(World Bank, 2006c, 45)

Large sweeps of land around Cairo and the Suez cities as well in other areas, have been allocated to the military and other ministries, with no procedure to guarantee that the decisions they make reflect broader public interests rather than those of the controlling ministry and its constituencies. The following listing from a recent World Bank report illustrates how extensive are such land grants:

Table 1. Public Land Controlled by Various Entities

	Total land area controlled (<i>Feddans</i>)	Total land available for distribution (<i>Feddans</i>)	Total land allocated (<i>Feddans</i>)	Percent of licensed projects operating
Industrial land (GAID)				
Inland industrial estates (Governorates)	54,398	17,260	7,457	43% of 2,304 projects
New town industrial estates (NUCA)*	39,638	7,053	28,109	27% of 6,840 projects
Tourism land (TDA)	137,619	NA	NA	NA
Agricultural land reclamation (GARPAD)	3,400,000	1,400,000	2,000,000	NA
Agricultural land reclamation (West Delta & South Valley Dev Holding Co)	650,000	NA	NA	NA
New urban community land (NUCA) *	600,000 **	NA	NA	NA
Total	4,881,615 **	NA	NA	NA

* Excluding millions of *Feddans* of public land under Prime Ministerial Decree No.540-1980

** Only some 170,000 *Feddans* are for development. The rest are surrounding green belts for agricultural land reclamation managed by NUCA

Source: Compiled from the different public authorities and available statistics (see Volume Two for details)

World Bank, 2006c, 17.

The total reas shown, 4.8 million feddans (acres), compares to the total Nile Valley land area of around 6 million feddans.

As described by the same World Bank study, within the official border of the Nile Valley's agricultural lands (the *zimam*), the decision-making process for land is complex and unwieldy:

[T]he 26 Governorates, each within its jurisdiction and acting through its State Land Protection Agency branch (known in Arabic as Jihaz Himayat Amlak Al Dawla, or simply Amlak), control public land with the power to dispose of it. In addition, these entities' decisions to allocate public land to end users/investors often require clearance from many other government entities (e.g. Ministry of Defense, Antiquities, etc), which are determined on an area-by area or case-by-case basis. The current system creates much confusion since the different public land controlling entities often have overlapping mandates, unclear jurisdiction and little horizontal coordination, and there is no information (or access to information if it exists) available to investors/individuals on what entities to deal with and what land belongs to which entity. (*World Bank, 2006c, 16*)

Examined from the perspective of a particular institution within the state, such as the governor's office in Damietta, the fact that large amounts of land are thus under the control of the central government does not confer effective ownership rights on the former institution. As the Minister of State for Administrative Development commented in a recent interview by the author, "state land" is not the same as "government land."

At the same time, the coordination and communication functions, which are the bureaucratic equivalent of markets, do not work effectively to unify the interests of those who could use the asset and those who make decisions over it.

There are strong reasons to believe that the phenomenon of dead government capital is widespread in Egypt. In a 2008 interview with the author, the governor of Damietta was asked the value of unused tracts of land in his governorate, in addition to the specific case discussed below, and he offered gave an off-the-cuff estimate of "billions of pounds."

Sirry's study of Bilbeis (2002) offers an additional example, identifying several pieces of government land that not only were failing to be utilized productively by the city because of imperfect ownership rights, but that were actively impeding the productive use of nearby private land or even blocking the best avenues for the development of the city as a whole. These included a large piece of vacant waqf land in the middle of a densely-populated neighborhood and a vast but underutilized tract of military land that effectively blocked growth of the city in its most logical direction and offered the best avenue for connecting into major existing roads.

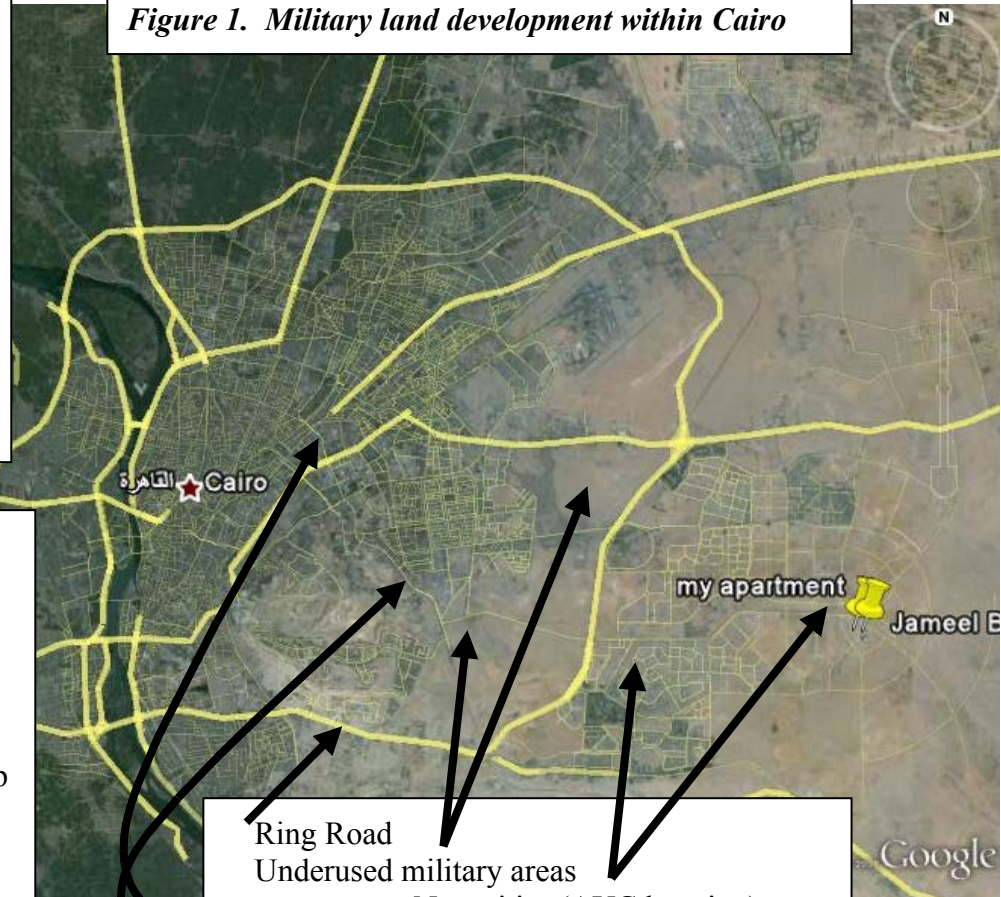
A brief exploration of three quite different areas on the eastern side of Cairo illustrate the scope and magnitude of military control and its potential impact on urban development. The following Google Earth view of Cairo provides an overview of the area and shows the location of these three areas:

1. The first overall view of Cairo shows shows the very large and essentially unutilized desert areas inside the Ring Road, a major highway that encircles Cairo. Local residents told the author that these areas are planned for future retirement developments for military personnel, although this could not be verified. It also shows the approximate location the other two areas discussed here.
2. The area shown in the top left of the figure is adjacent to a major artery in the middle of one of Cairo's largest neighborhoods, the Heliopolis/Medinet Nasr areas. It has been developed by a Saudi investment group (Golden Pyramid) as a multi-building retail, entertainment, and hotel development, City Stars. The empty areas adjacent and nearby are understood to be military; indeed the large area to the right in the Google shot is labeled as military.
3. The third area, shown below the City Stars Google shot, is adjacent to a major north-south artery connecting the Ring Road to the Suez Highway. This is also a military area, as can easily be determined from the adjacent street.

Figure 1. Military land development within Cairo

Area 1: City Stars Development and unused military land

Area 2: Underutilized military land in built-up area near major transportation artery



- Ring Road
- Underused military areas
- New cities (AUC location)
- Area 1: City Stars Development
- Area 2: Underutilized military land

One of the main concentrations of new community development can also readily be seen in the figure, located outside the Ring Road to the right (east). This is the New Cairo development, where the new campus of the American University in Cairo is located (including the author's apartment and office). For scale, the distance from the Ring Road to AUC, is approximately 10 kilometers. Overall, Cairo is now 60 kilometers wide and has a population most commonly estimated at around 18 million.

The tradition of military encampments and facilities being located at the edge of Egyptian cities goes back at least to the founding of Cairo itself, over a thousand years ago. . The invading Arab army initially established its base in an area called Fustat, located approximately where the Ring Road intersects with the Nile toward the southern edge of the main Google shot. They soon transferred their base of operations northward to an unused area, which they called El-Qahira (the Victorious) or Cairo. This area is now th heart of Islamic Cairo, located more or less south of the star. Subsequently, they established a fortified encampment, which Salah-Eddin (Saladin) heavily fortified, on an elevated area to the east of Cairo. This remained the location of the head of state until the 19th Century and is today known as the Citadel.

In establishing large military facilities in the desert fringe areas, the military is therefore simply following a very long tradition. Although initially located away from the urban center, many of these areas are now blocking expansion of the city along the logical expansion paths, as can readily be seen in the first case. The need to “jump over” these zones to establish new communities outside the Ring Road adds tremendously to the cost of this development, lengthening roads and increasing pumping requirements, as these areas are also naturally higher than areas closer to the river.

The presence of large unused or underused military facilities also contributes to the reduction in urban density that is seen in many cities, particularly in the developing world, and is termed “sprawl” in the United States. It can be argued that sprawl carries a number of environmental and social costs in addition to its evident financial costs, in that it lengthens home-to-work travel and, indeed, many trips within the urban area and it tends to further the isolation of low-income and upper-income groups from each other.

Restoring Dead Capital to Life: Cases from Damietta, Alexandria, and Cairo

Recent experience in Egypt demonstrates that dead capital in the hands of the government can be brought back to productive life if local administrations are prepared to devote imagination and effort to the task. Three brief case studies illustrate how Egypt's

governors are transforming dead capital into financial and social assets for the development of their cities and major towns.

The first of these cases describes recent experience in Damietta Governorate, located on Egypt's north coast and famous for its independence, which may perhaps be traced to its historical origin as a trading outpost for Syrian merchants doing business in Egypt (a history that arguably also explains the city's dominance of Egypt's furniture industry). Damietta's current governor is an architect by training, and he has used his expertise in urban planning and development to revivify dead capital under his control, demonstrating that, even in Egypt's rigid and rules-bound environment, a creative approach can generate dividends for local economic development.

The second case briefly explores the evolving approach to Cairo's new communities development a major feature of Egypt's strategy to manage the rapid growth of its urban population. Whereas the infrastructure needed in these desert areas was initially provided by the government, and then only partially recovered by sale of the land to developers at heavily subsidized prices, the government is now experimenting with an alternative approach in which the developers would be responsible for generating more of the infrastructure investment funds required.

The final case contrasts the approaches of Alexandria's current governor, whose approach contrasts sharply with that of his and his predecessor. The previous governor famously relied on partnerships with the private sector to mobilize funds for improvement of decaying (if not quite dead) public areas, thereby restoring Alexandria's social capital and building assets to support tourism, the current governor is equally well-known within Egypt for aggressively pursuing fee income to permit him to bring public services to underserved populations and restore decaying infrastructure. Research by the author and colleagues at the American University in Cairo (Drs. Laila El-Baradei and Mohamed El-Rawy) suggests that both governors were also relying on the conversion of dead capital, particularly land, to generate funds.

Damietta: Innovating to Restore Dead Capital as a Valuable Asset

Damietta Governorate has a reputation for independence and initiative, a legacy of its past as a hub for Syrian trade and migration. Egypt's "furniture capital," the governorate is also known for fisheries and tourism. The governorate's self-reliance extends to social aspects of development as well: Damietta's leaders pride themselves on reducing illiteracy, developing youth employment opportunities in collaboration with the furniture industry, and bringing the unemployment rate to 7.5 percent, well below the national average of 9.3.

Damietta is also one of the most private-sector-oriented governorates, with government employment as a share of the workforce below the national average, though Damietta is not among the richest areas.

Governor Mohamed Abdel-Aziz El-Baradei assumed the office of governor in 2004, succeeding Governor Abdel-Azim Morsy Wazeer, now governor of Cairo. One of the very few civilian governors, Gov. El-Baradei was professionally trained as an architect. His professional orientation has shaped his approach to governing Damietta. This case study is based on extensive interviews with the governor, as well as private sector representatives and governorate staff.

Gov. El-Baradei stated that, on taking up his duties, he immediately recognized the potential to make better use of the governorate's unique physical resources as a strategy to spur further economic development. Rational development of these assets, including historic coastal areas along the Mediterranean and the Nile itself, would ensure the future of the tourism and fisheries industries, both critical to the local economy, and provide recreation and health amenities for the inhabitants. Locking himself away for several weeks (and, causing a certain amount of alarm among his staff), he formulated an innovative development plan for Damietta, which he has effectively pursued during his term in office.

The restoration of dead capital to productive life was at the center of this strategy. The core of the plan for mobilizing local resources in Damietta relied on identifying and making use of potentially productive resources that, while owned or under the effective control of the government, were underperforming because of defective or incomplete institutional and property-rights structures.

It was the experience in Damietta that first brought the dead capital phenomenon to the author's attention, leading to the identification of approaches to restore these assets to productivity as a significant resource mobilization strategy at the local level. Before making the significant efforts required to mobilize new local resources from the private sector or the general public, sound management requires ensuring that the resources already to hand are being used to the fullest. This condition, to put it mildly, is not always met with government capital.

The experience documented in Damietta combines five innovative elements:

- the use of small-scale concessions to generate revenue for larger development projects while also improving public services;

- the application of good planning and comparatively small amounts of funds to transform unused assets into valuable resources;
- the mobilization of this value through sale to private sector developers, a strategy also pursued in the Cairo case;
- the use of the sale proceeds to undertake both additional revenue-generating projects and public infrastructure improvements, and
- the targeting of these investments to improving the working environment for key economic sectors and at the same time to better the quality of life for city's residents.

Before turning to a more detailed discussion of these strategies and their implications for proto-decentralization strategies, three points should be highlighted regarding the elements *not* included in the Damietta strategy:

- Mobilization of local fee revenues did not play a significant role; rather resources generated by earlier projects were used to fund the subsequent projects, supplemented with regular governorate resources. Thus, Damietta offers a very different model from either of the better-known Alexandria or Qena models.
- National investment funds did not play a large role in these projects, either, in part because the governorate leaders preferred to implement the projects as quickly as possible. Governorate officials reported that, in their experience, relying on central government resources would have required spreading the projects out over several years in accordance with the central government's established incremental project funding practices, and would therefore have raised costs and delayed benefits.
- Contributions from the business sector or other private parties were not a major feature of the Damietta approach, although private resources were mobilized through the sale or concessioning of governorate resources.

Two sets of projects were implemented in Damietta, one in Damietta City, the governorate capital, and one in Ras El-Bar, a major local resort at the confluence of the Nile and the Mediterranean. These projects were linked by the funding mechanism used.

The central challenge in Ras El-Bar was the restoration and stabilization of the peninsula itself. Ras El-Bar, a unique coastal area bounded by the Nile and the Mediterranean, had experienced heavy erosion in recent years, with the result that it was in

danger of becoming uninhabitable and even unusable as a beach. This situation clearly threatened one of the governorate's most valuable properties.

The work in Ras El-Bar began humbly enough, with the governorate letting a concession for the private operation of the beach toilets. This operation, in addition to improving an important service for tourists and the local public, provided an income stream that, while certainly modest, was sufficient to finance the next and more important stage and therefore critical to the whole strategy.

In his one-man planning charette, the governor had identified a significant parcel of land owned by the governorate and located in a highly desirable part of in Ras El-Bar. This rectangular parcel, equivalent in size to several city blocks and extending back from a narrow beach-front, cut through the most developed part of the upper-middle-class beach resort. Though surrounded by developed land, it had never been utilized by its owner, the governorate, despite its highly desirable location.

While several factors no doubt contributed to this land's status as dead capital, imperfect ownership was clearly important among them. In principle, an owner (in this case, the government) has the right to develop land for his own use, or to sell it, rent it, or otherwise derive income from it, consistent with the law. Ironically, the government itself, as represented by the governor's office, did not have the full set of these basic land ownership rights. In particular, the governor, as the state's representative, did not have the right to sell the land and to retain the income in the governorate. The central government in Cairo, while having the right to sell the land and retain the income, had little incentive to do so, no evident mechanism that would carry out the necessary preparatory work, and doubtless no cognizant authority with full knowledge, in any meaningful sense, that the land was there and had potential value. Thus, invisible to the national government and not readily subject to productive use by the local administration, this valuable parcel was, in effect, dead capital.

Governor El Baradei was able to get around this problem and "revive" the land's value only by obtaining a special decree from the Prime Minister's office that enabled him to retain the income from the development and sale of the land. Accounts as to the nature of the problem differ somewhat. Some of those interviewed attributed the problem to a general policy regarding return of proceeds from the sale of real assets to the central treasury, while others stated that a contributing factor was an initial decision by the governor's office to deposit the monies into the "wrong" special fund (economic projects), from which they had

to be retrieved, redeposited into the “right” special fund (housing). Once in this fund, they could then be withdrawn again, leaving a portion in the housing fund as a sort of penalty, and redeposited into the economic fund, where they could finally be used for the governor’s intended purposes (that is, economic projects rather than low-cost housing).

This experience offers further evidence of the imperfection of ownership within the government. Rather than being able to use funds generated for their most valuable purpose, the use of funds generated at the local level is heavily restricted by the source from which they are derived. This type of restriction is, by definition, inefficient and likely to lead to less productive use being made of assets such as land. This underuse, in turn, lowers incentives to transform them from “dead” into “live” capital.

The extent of the opportunity cost imposed by this prohibitively high transaction cost within the government can be quantified in the case of the Ras El-Bar land. Before the governor invested in formulating a plan for the land and taking preliminary steps to ready it for private developers, the land was valued at LE 10 million pounds. After completing these preparations, the land was sold for LE 178 million (based on interviews with Governor El-Baradei and other governorate staff).

This now-liberated capital became the basis for a stream of investments, some generating income for the governorate’s coffers (or at least covering part of their costs), some generating income for other local businesses as well and thus contributing to local economic development.

Continuing the redevelopment of Ras El-Bar, the governor undertook an innovative and evidently quite successful rehabilitation of the point of land where the Nile enters the Mediterranean and the adjacent Nile corniche (waterfront). This development included a very elegant solution to the land erosion problem, in which major reinforcements were made along the shoreline and, behind this structural buttressing, a two-level promenade was constructed above the old ground level. The lower level of the structure, largely invisible from the new promenade, provides a location for new shops and eateries, generating income to support the overall project and creating jobs, while the upper level serves as an attractive new promenade terminating in a rebuilt monument. Further works were undertaken to create an attractive boulevard along the Nile, now heavily used by businesses and pedestrians and sightseers.

Attempts by the researcher to obtain official reports on the cost of these major works were not successful. A contemporary report in *Al-Ahram Weekly*, however, puts the total at LE 4 million, including “sprucing up the resort, planting palm trees along a 3km stretch on Port Said Street, the resort's main boulevard,” but there is no confirmation of this estimate. (Bakr,2006).

The third project is still being implemented. This project will relocate the fishing fleet from the Ras El-Bar corniche to a new harbor further away from the tourist area. The new harbor will be closer to the new fish market, which has also been relocated from central Damietta to a new area along the Damietta-Port Said highway.

The resource mobilization approach pioneered by Gov. El Baradei, would appear to offer a very high potential for replication. Although there is no estimate available of unused land in the hands of the government, much less under-used land, casual observation of such land and Gov. El Baradei’s own estimate of “billions of pounds” worth of such land in Damietta suggest that the total area is very large. Even if one assumes that only 5 or 10 percent of this land is appropriate for development (given its location, access to utilities, absence of contamination, etc.), the potential contribution of this land to local development could be very significant.

How much of this land is under the official control of the local administrations cannot even be guessed at, given the lack of information. Unused land in the hands of the military, police, Ministry of Awqaf, Ministry of Agriculture, and other national agencies probably constitutes the majority of such land, but this is not in principle a bar to mobilizing this dead capital, if the opportunity cost of not doing so is recognized. In some cases, such as military or police land, translating this principle into practice would be extremely difficult, however, for reasons discussed above.

Effective replication of this approach would require addressing system-wide barriers to government innovation in Egypt, including what might be termed the “culture of financial nondisclosure.”

Another barrier in Egypt is the structural limitation placed on local revenue generation. The usual approach to funding such projects would be to draw on real estate tax revenues or to impose a betterment tax on local landowners, taxing away part of the increased value that flows to them from the project. These avenues are not open to the governors in Egypt or other local officials, as all taxation is reserved to the national level of government, a further example of the “governance market failures” perpetuating dead capital.

Cairo's New Cities Strategy: The Challenge of Mobilizing Dead Capital in the Desert

Peterson (2009) has extensively discussed the strategies open to local governments or administrations in land development. He argues that local governments, including Cairo and adjacent governorates, are liberating the value of dead capital held in unused land assets through sale to developers and are then using these funds to establish the infrastructure networks needed for the developments' success.

As practiced in Egypt, however, this strategy has encountered several difficulties, as documented by Peterson and a series of World Bank studies on the land and housing issues in Egypt (World Bank 2006b, 2006c, 2006d, and 2008). Although this complex situation cannot be discussed in this brief paper in any detail, several features of this development are worth noting.

First, the need to make land attractive to private investors has led to an over-emphasis on developments for the middle- and upper-income market. While these developments therefore do little to address the huge housing shortage facing middle and lower-income families, in a healthier real estate market, the residents of these new palatial residences would at minimum vacate their former properties, which would then be taken up by slightly less prosperous families, leading eventually to at least a small increase in the housing available for more modest consumers. In Egypt, however, the families who purchase these properties maintain their preexisting apartments as well, in part because the new communities are very far from their place of work and in part because the new communities remain under-serviced by shopping, transport, or entertainment outlets.

Second, and contributing to the first phenomenon as well, a significant (if unmeasurable) portion of this development is driven by speculation. The result is that many of the houses remain unfinished or finished but empty, further undermining the development of the new communities, even for the upper-income residents.

Third, the government has not taken full advantage of the value inherent in its land to draw out private funds for investment in needed infrastructure. This is now changing somewhat, as the government realizes that property developers, including cash-rich investors from the Gulf, are able to invest in roads and other facilities needed to make the overall project successful. The latest projects require the investors to share in these projects or mobilize other investors, as is the case in the just-contracted build-own-transfer wastewater treatment facility for New Cairo.

Fourth, the properties have been planned as residential villages with elegant boulevards and shopping malls, but few employment opportunities for upper and upper-

middle class residents. New Cairo, the most recent development, has been designed to include a core of upper-end service firms, including government oil company offices, bank headquarters, accounting firms, and several universities (including the author's AUC). Earlier developments still seem divided between those with factories but no residential facilities for workers (Shorouk) or high-end residences, but no nearby jobs (Moon Valley, La Reve, etc.).

Finally, these expensive developments have consumed a large share of the government's housing investment budget, estimated by the World Bank at 22% of the funding in the fourth Five-Year Plan, ending in 2002 (World Bank, 2008, 61), which has not been fully recouped through sale to developers because the policy of offering these lands at an incentive price has only recently begun to change. This has naturally limited the ability of the government to invest in new housing for the poor or, perhaps more important, to improve the service levels in existing low-income areas, particularly the informal housing zones that first inspired de Soto to develop the dead capital concept.

Innovation in Alexandria: Differing Experiments in Funding Local Investment

Alexandria is one of Egypt's most historical cities, having served as the nation's capital at several times in its history. Alexandria's tradition of openness to the outside world, signified by its location on the Mediterranean, and its history of ethnic diversity and religious pluralism enabled it to become a center for private enterprise and urban sophistication in the 19th and early 20th Centuries. The socialist decades of the 1960s and 1970s did not treat Alexandria well, however. By the mid-1990s, Alexandria's glory had faded.

The two most recent governors are presented in the press and in public as having taken contrasting approaches to generate local funds in ways that are innovative in the Egyptian context. The current governor, General Adel Labib (retired), who took office in August, 2006, has very visibly applied a strategy he developed in his previous post in Qena, relying on a range of fee income, from parking fees to garbage charges, to generate revenue for local investment.

Gov. Labib's approach to reaching this objective is generally described in the Egyptian press as contrasting sharply with that of his predecessor, Gov. Mahgoub (now the Minister of State for Local Development), who famously relied on voluntary partnerships with the private sector to mobilize funds for improvement of decaying (if not quite dead) public areas, using donations to restore Alexandria's social capital and building assets to support tourism. The restoration of the corniche was the most famous such project. This approach was also controversial, leading to allegations of inappropriate favors in return for

donations, although Gov. Mahgoub's public presentations describe the process as facilitating private investment and mobilizing donations in a virtuous circle (Mahgoub, 2008). Gov. Labib rejected this donations-based approach, which he saw as potentially creating conflicts of interest, reportedly pursuing the fee approach as more transparent.

Unpublished research by the author and colleagues at the American University in Cairo (Drs. Laila El-Baradei and Mohamed El-Rawy) suggests that fees and donations were unlikely to be the sole or indeed the main source of local investment funds for either governor. Although it is more speculation than evidence-based conclusion, it seems much more likely that both governors were also relying on the conversion of dead capital, particularly land, to generate funds. Although the fee-based and donation-based approaches have each attracted considerable attention, not always favorable in either case, they are not credible as the source for what, in Gov. Labib's case, were described to the AUC research team as "billions" of Egyptian pounds being spent on redeveloping dilapidated infrastructure in Egypt's second city. Nor do these funds come from the governorate's official investment budget, which does not approach LE 100 million.

The real estate projects described below therefore appear a more likely source of funds to improve infrastructure, applying the Damietta approach on a larger scale. Two projects implemented under Gov. Labib offer examples of projects with revenue-generating potential, supported in both cases by mobilizing "dead capital" in the form of land.

- ***International Medical City Project:*** This project typifies Gov. Labib's efforts to attract technology-based foreign investment to Alexandria, as opposed to Gov. Mahgoub's focus on general industry and petroleum-sector investments. Serious negotiations were underway in late 2008, when our field research was conducted, for the establishment of "Medical City," a specialized investment zone intended to house a number of high technology medical centers. Each medical center is planned to be established by top-notch international specialists from different countries. For example, Spain is known for eye surgery and therefore the project under discussion with Spanish investors would create an eye surgery center. As of late 2008, a German consulting office was working on plans for the city, expected to cover 550 feddans. The Government of Egypt is expected to share in this project in several ways: it will be a partner in the project contributing the land but also earning a long-term utility fee. The project will also indirectly generate government resources through reduced need to send citizens abroad for specialized medical treatment at the expense of the

public medical insurance system. Located on unused state land adjacent to Alexandria, it is thus a classic case of mobilizing government dead capital.

- ***New Alexandria Project:*** Another mega-project under establishment, New Alexandria is planned to cover over 3700 feddans (acres) and to include shopping centers, residential apartments, tourism establishments, exhibition areas, and hotels. This project is projected to create 150,000 job opportunities and to generate local funding resources for reinvestment in non-revenue-generating and revenue-generating projects. In general, as discussed further in the Cairo case, the new city projects have not lived up to the planners' expectations in terms of the area utilized, housing units occupied, or jobs created. Alexandria's entry in this market may be in a better position than others because the expansion of Alexandria itself is blocked by its position between the Mediterranean Sea and Lake Marriout.

Final Considerations on Government Dead Capital

The concept of government dead capital represents a special case of the principal-agent problem because both the principal and the agent are, in theory, aspects of the same organization, namely, the state. If the state were a truly unitary actor, there would not be a problem in having control of land vested in one body, say, the military, while the responsibility for promoting local economic development rests with another, such as the governor. In actuality, however, the government is far from a unitary actor, particularly in developing countries. Different agencies have different interests and priorities and, in the absence of effective mechanisms to resolve and clear conflicting preferences for the use of key development assets – in this case, land – the likelihood of an outcome that meets the development objectives of the governor and his constituency may be quite low.

The concept of reviving governmental dead capital, or, in Peterson's terminology, unlocking land values, takes on special relevance in cases where decentralization promises to transfer greater control to sub-sovereign entities, even if, as in Egypt, these entities will in all likelihood remain substructures within the sovereign government. By transferring both the authority and the responsibility for local government to a local level of government that is not tied to specific sectoral interests, decentralization (or, more accurately, delegation) can overcome several barriers to the effective use of resources.

Although it is not possible to use the term market failure for a series of transactions by a non-market actor, in this case the government of Egypt, the presence of governmental capital

raises transaction costs and blocks or delays outcomes for which the public would in all likelihood be willing to pay. In this sense, we may speak about forms of institutional failure that function as the government equivalent of a market failure caused by incomplete property rights vested in the people's agent, the local government. These include, among others:

- Information failures, in which one unit of government (the governor, say) has information regarding a potential use for a parcel of government-owned land, but the authority over this land is held by another unit (the Ministry of Awqaf, say) that does not have access to this information or cannot interpret it.
- Fragmented decision-making (coordination failures), in which no unit of government has the complete authority to make decisions regarding the capital asset.
- Discontinuous incentive systems, in which the units of government that would make the decision would not be the units that would benefit from the new and more productive use of the asset, and thus have little incentive to implement the often-complex procedures needed to liberate the land for more productive use in the absence of a real or virtual market through which they could be compensated.
- Inability to capture benefits, in which the unit of government that would undertake the project would not be able to retain the benefits, which would instead flow to another unit of government (typically the national treasury).
- Conflicting objective functions, in which the unit with control over an asset (the military, say) does not assign the same priorities to the outcomes of alternative land uses (as a military training facility vs. as a new public market or industrial zone, for example), such that even if there is agreement that one of the latter uses would generate a higher social or economic return to the country, the land is not transferred to this higher use because social or economic return does not appear in the military's objective function.
- Commons failures, in which there is not an effective mechanism to ensure that the various owners of a jointly used asset (such as a public beach or riverfront) act collectively in the best interests of the group or even, in the long term, themselves.

It is a central function of government to manage these and other types of market failure and to take action that compensates for their impact in ways that move outcomes

closer to those desired by the citizens. Government dead capital undermines the ability of government to fill this crucial role.

Conclusions and Recommendations

Based on the cases examined, we can articulate a number of conclusions for local economic development efforts in Egypt, which may also have a broader relevance for parallel efforts in other countries where public management of land and other assets is problematic:

First, pro-decentralization programming should give more attention to increasing the governors' control over governmental economic activity at the local level, enabling them to derive additional resources from the income created by such activity, and, at the same time, bringing the regulations into line with the reality (not vice versa), as a critical step towards accountability and transparency in local finance. The governors are clearly reaching for and in some cases seizing the initiative to make productive investments in both services and infrastructure, mobilizing land and other dead capital, and using their authority to launch revenue-generating projects. They are doing so in a generally non-permissive regulatory environment, however, that impedes their activities and forces a good part of it behind a smokescreen of non-transparent and undocumented transactions.

A more incrementalist strategy to develop a new set of regulations in this area would be to offer leading (or selected) governors a trade: more freedom of action for more disclosure and transparency in the generation and use of local funds. Initially, such disclosure might be directed upward, to the financial ministry, parliament, and prime minister's office, but ultimately, sources of funds, expenditures, and results achieved should be publicly reported to achieve better accountability. Given the current need to accelerate job creation and local development in Egypt, however, the primary aim of such flexibility would be to encourage more initiative on the part of local leaders (even if nationally appointed), while at the same time ensuring a modicum of oversight over the people's funds, rather than to foster progress toward democracy.

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