

HOW EFFICIENTLY IS CAPITAL CREATED? EVIDENCE FROM PROPERTY REGISTRATION REFORM IN EGYPT

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One tool for enhancing economic growth is a simple property registration process. Many developed countries, and countries on their way toward development, have simple, inexpensive, and fast property registration processes. The benefit of such a tool is driven by this thinking: low property registration fees encourage every property holder to receive a formal title. The poor especially will benefit, because they can use their property as collateral, start doing business, and achieve some of their dreams.

Recognizing the importance of property registration to the ease of doing business, the Egyptian Ministry of Investment spotted a relevant reform. A reform strategy was immediately set up. Two problem areas were identified: the cost and quality of procedures to register a property. In Cairo one year ago, registering a property would cost on average 5.9 percent of its value, causing 90 percent of property to be either unregistered or registered at underestimated values.¹

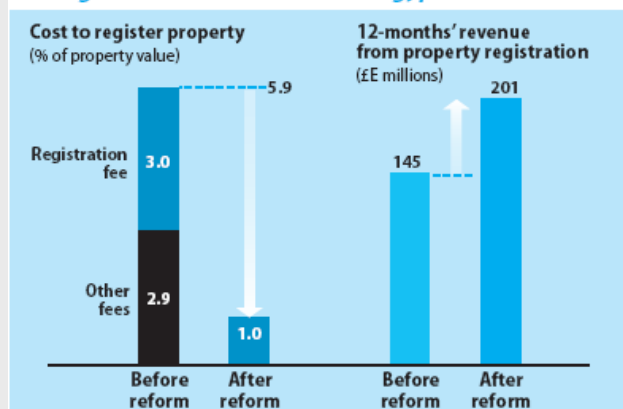
Leading the reform

The old property registration system resulted in reluctance to register property, and manipulation of the law by presenting fraudulent ownership documents. Realizing the consequences of this fact, the Government of Egypt led efforts to reform this process, in collaboration with seven different ministries and affiliated entities. The main goal was to improve access to finance by reducing property registration fees. A registered property would allow businesses to have acceptable collateral that could diversify their financing sources without depending solely on their own capital. Another objective was to create obstacles for illegal property registration.

A clear goal and timeline, the commitment of key reform leaders and other government organizations, and other countries' reform experiences as a guide were keys to the success of the reform. A new cost structure that would cut excessive fees was put in place. It changed the main registration fee (3 percent of property value), previously paid at the real estate registry, to a fixed fee based on the property value but capped at 2,000 Egyptian pounds. This fee used to be paid by the buyer to obtain the contract from the real estate registry. As a result, total property registration fees decreased from 5.9 percent to 1 percent of property value, and revenues from title registrations rose 39 percent between the six months before the reform and the six months after (see figure 1). In January–May 2006, before the reform, an average of 4,899.2 deeds a month were registered. This jumped to 5,443.4 between January and May 2007 after the reform.

Figure 1

Cutting fees increased revenue in Egypt



Source: Doing Business database, Egyptian Ministry of State for Administrative Development.

¹ OPIC, Office of Economic Development, Issue Paper 1:2005, July 2005.

Engage as many reformers as possible

It was crucial to bring all relevant government bodies on board. Raising the participants' awareness of the importance of adopting a simpler property registration process allowed for their trust and commitment to be gained.

A working group was formed, consisting of:

- The Ministry of Investment, with its two arms – the General Authority for Investment, and the Mortgage Finance Authority
- The Ministry of State for Administrative Development
- The Public Notary Authority of the Ministry of Justice
- The Ministry of Housing
- The Real Estate Taxation Authority of the Ministry of Finance
- The Egyptian Surveying Authority of the Ministry of Water Resources & Irrigation
- Governorates Municipalities – Ministry of State for Local Development

The Ministry of State for Administrative Development, in cooperation with the ministries of Justice and Finance, led a pilot project between March and December 2005 to study the status of property registrations. The project aimed to identify the roles and responsibilities of the participating agencies, analyze property registration fees, and forecast relevant revenues, given various fees structures scenarios. The goal was to make property registration fees in Egypt comparable to those in other emerging economies. For example, registering property costs less than 2 percent of property value in Georgia, Kuwait, and United Arab Emirates.

Implementing the reform and overcoming opposition

The new cost structure would cut excessive fees. It changed the main registration fee to a fixed fee based on the property value but capped at 2,000 Egyptian pounds. The seven-member working group also aimed to abolish other fees such as those for inspections and requesting registration.

Reforms in Egypt can happen, but reform leaders are crucial. First, the most recent property registration law needed to be amended to reduce the total property registration fees from 5.9 percent to 1 percent of property value. The working group needed to convince political opponents and the government that the law would enhance the investment climate, benefit the poor, and not result in lost revenues. The group won them over by proposing a fee scale based on the area of the property. The premise was simple: the larger the area, the higher fee paid – and those with more land can afford to pay higher fees. Below is the registration fee scale presented to the Peoples' Assembly in January 2006:

Table 1

Property area	Registration fees
Less than or equal to 100 m ²	EGP 500 (less than USD 100)
More than 100 m ² but less than or equal to 200 m ²	EGP 1000 (less than USD 200)
More than 200 m ² but less than or equal to 300 m ²	EGP 1500 (less than USD 300)
More than 300 m ²	EGP 2000 (less than USD 400)

Lesson – *Narrow the scope of the reform, and widen its target.*

The aim was to reduce property registration fees so that every property holder had a chance to receive a formal title. The poor especially would benefit, because they could use their property as collateral, start up a business, and achieve some of their dreams. Segmenting the fee scale according to property area proved to be useful and more convincing to Members of Parliament who would sign the law to put it into force. Unless the target group within the reform was broad, the People's Assembly would reject it. In January 2006, the Minister of Investment emphasized to the Peoples' Assembly, the main legislative body, that the reform would benefit the largest number of people possible and its outreach would not be limited.

The People's Assembly had to approve the amendment as soon as the new registration fee schedule was formulated in January 2006. A law is different from a decree.² The Shura Assembly approved it during April 2006, and the People's Assembly accepted it in May 2006. The new law for registration fees (table 1) was issued in June 2006 and implemented in August 2006.

Lesson - Understand others' similar experiences.

International best practices in different countries have also been essential in the reform policy formulation in Egypt. Reforms undertaken in the area of moving from a personal-deed system to a title-registration system in countries like Germany, Argentina, Croatia, Serbia, and Macedonia were among the many references. It is important to learn from others' reform experiences, but it is more important to learn from other reforms in your own country. For example, the Ministry of Finance led an extensive outreach and media campaign to inform the public about the tax reforms emphasizing the importance of communicating reform to the public. However, such a communication effort was not pursued in the case of the property registration reform implemented.

Lesson - Take advantage of the Doing Business report

The Doing Business cost of registering property indicator was taken as a benchmark, which turned out to be helpful. The data on changes in cost provided a clear measure of the impact of the regulatory changes on the property registration process. Assuming other countries do not reform, the government used the ranking simulator on the Doing Business Web site to test the impact of every cost structure, if implemented, on Egypt's ranking. The ability of the Doing Business report to identify and track the bottlenecks that require reforms and to communicate customized, understandable reform recommendations helped the Egyptian Government position itself better in the global investment climate.

Lesson - Ensure broad communication of reform

The public is still not aware of the reform. Although the aim was to attract more properties to the Egyptian formal economy, the working group did not take full advantage of communication strategies including media coverage to spread the word and strengthen the effect of the reform. For example, the government has not yet distributed the approved version of the law to the private sector and civil organizations. Nor has it yet held roundtable discussions with lawyers' syndicates, major taxpayers, and the banking industry. The government is also planning to work with banks to market new mortgage offerings with the aim of attracting more properties to the Egyptian formal economy. Although the average number of deeds registered per month increased by 11% post-reform, there is still a lot of potential to generate even more revenues with stronger and more extensive communication efforts..

Results and gaps

Figure 2

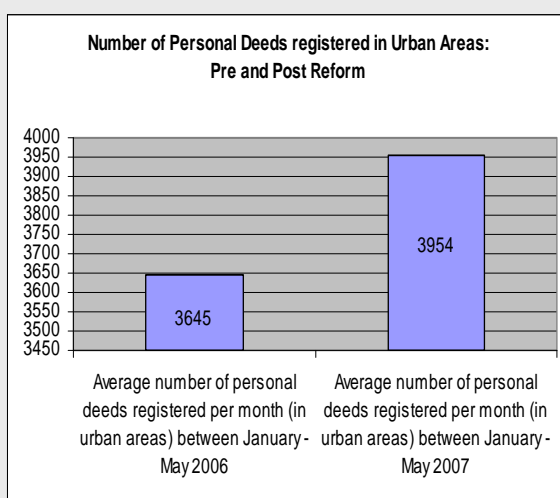
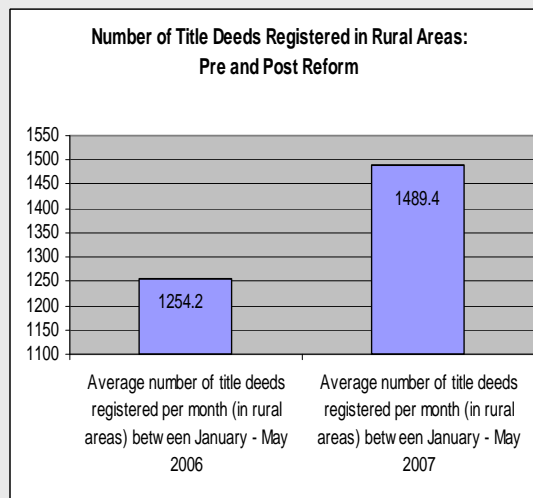


Figure 3



Source: Egypt Ministry of State for Administrative Development

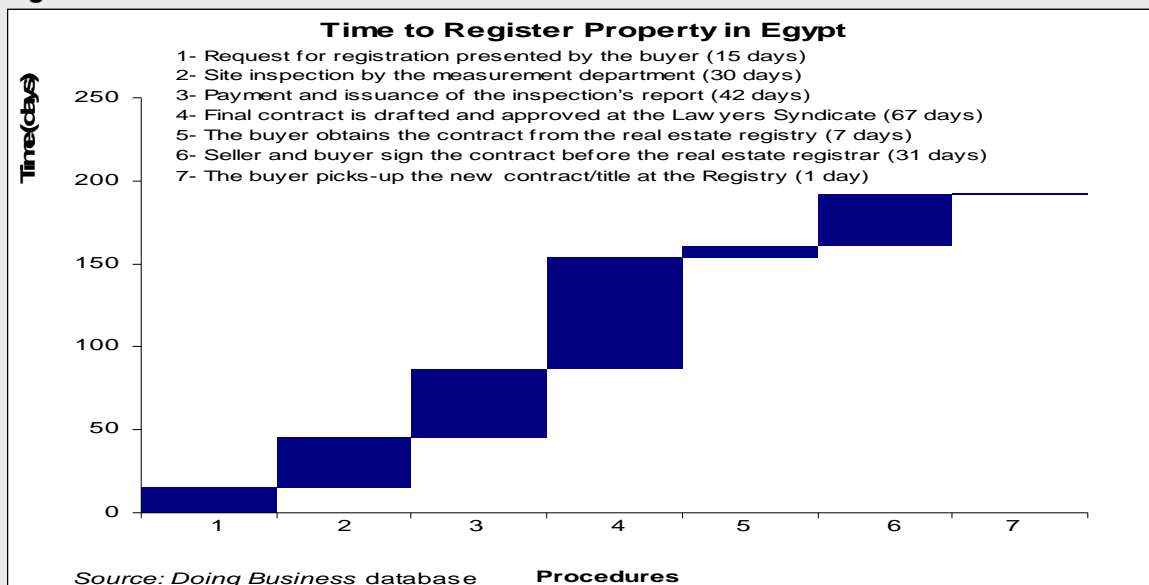
² A decree requires only a single ministerial signature, while a law should pass via the Shura Council and the Peoples' Assembly.

The number of properties registered after the reform in rural and urban areas in Egypt can serve as evidence of the impact of the reform (see figures 2 and 3).

Moving forward

In addition to making property registration reforms sustainable and effective, the challenge now is to reduce the time needed to register property. Currently it takes an entrepreneur more than six months – too long – to register a property transfer in Cairo (see figure 4). To continue, computerizing the registry and training its staff members, keeping records updated, cut unnecessary procedures, and combining other procedures could be the next steps.

Figure 4



About the Author

Jamal Ibrahim Haidar is a private sector development consultant and a member of the Doing Business team. He contributed to the global Doing Business 2008 report as well as the Doing Business reports for Egypt, Ukraine, and Morocco. Before joining the World Bank, Jamal was a research fellow at the Institute of International Finance in Washington D.C., where he worked on research projects related to Islamic Finance, Corporate Governance, Debt Relief Initiatives in Africa, and Anti-Money Laundering in the Middle East. In recent research, he looked at the relationship between financial performance and privatization in Jordan, Saudi Arabia, Tunisia, and Morocco.

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