
How to raise revenues by lowering fees

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Over the last decade Egypt's economy grew rapidly. But its property market remained far below its economic potential—for government revenues and as an investment vehicle for citizens. In July 2006 the government collected just EGP 6.1 million in registration fees, less than the price of an apartment in “The First Residence,” a luxury building in an affluent Cairo neighborhood. Old property registration laws from 1964, high fees, and inefficient government agencies hindered the formalization of real estate.

A 2004 World Bank study found that 60% of Egyptian domestic firms identified tax administration as a major constraint, 53% identified corruption as a major constraint, and 26% expected to pay informal payments to get things done. Firms not able to pay were excluded from regular business. Ranked 147 of 175 countries on the *Doing Business* registering property indicator, Egypt was behind all but 2 countries in the Middle East and North Africa. But reform in 2006 helped Egypt cut registration fees from 5.9% to 1% of property value. And meanwhile state revenues rose—along with the country's *Doing Business* ranking.

A fortune in unregistered property

Of Egypt's estimated 25 million urban properties, only 7% were formally registered. According to Hernando De Soto, unregistered property in Egypt is worth \$241 billion—55 times the foreign direct investment the country received over the last 200 years, including the Suez Canal and the Aswan Dam, or 30 times the value of the Cairo stock exchange.

In 2005, 90% of properties were either unregistered or registered at underestimated values.¹ Transferring a property between domestic companies cost 5.9% of property value. Compare that with less than 0.5% in New York. Egypt's fee based on a percentage of the property value encouraged undervaluation, complicated property registration, and required more regulation to secure tax revenues. It also created opportunities for corruption.

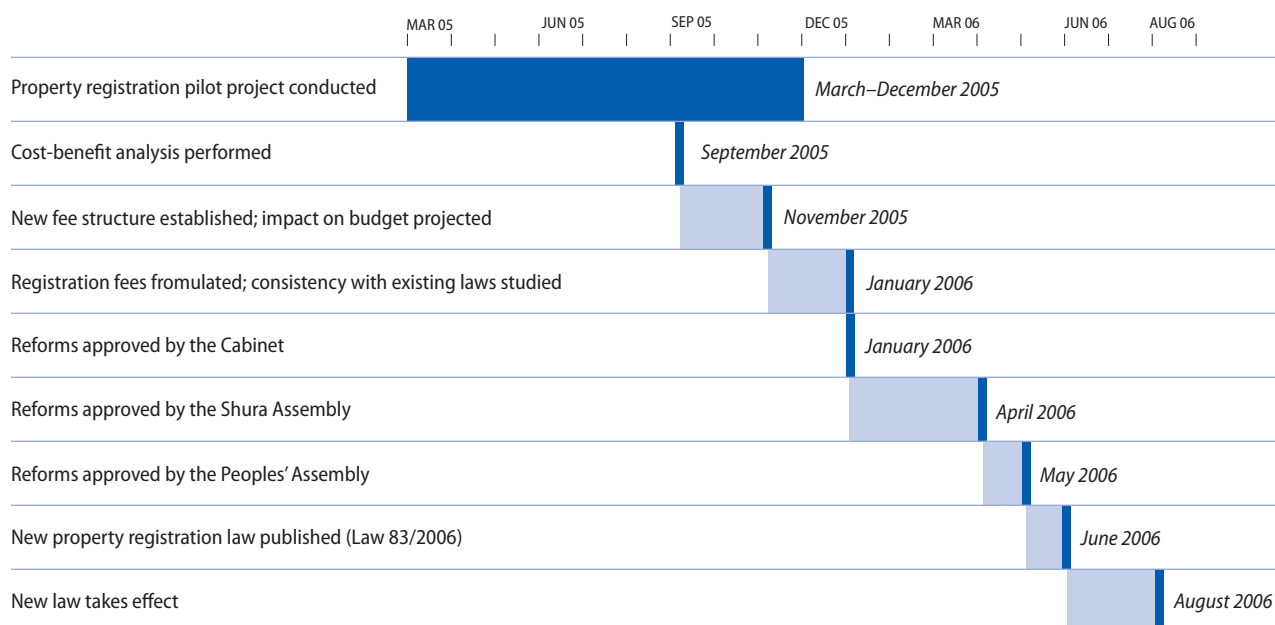
Empowering winners

The government identified 2 problem areas: high costs and cumbersome procedures. According to Emad Hassan, director of National Database Program of the Ministry of State for Administrative Development, the goal was to bring informal property into the official national framework by formalizing it. How? By reducing property registration fees, simplifying the property registration

FIGURE 1

Timeline of property reform in Egypt

Source: Doing Business database.



process, and encouraging citizens and companies to obtain titles. An inspiration was Peru's 2003 nationwide titling program, which quickly converted informal property into securely delineated holdings.

Reducing registration fees was not a new idea in Egypt. But before 2004 the program focused on cutting the fees to 3% of property value. From March 2005 a new vision emerged, based on the assumption that the property registration is a public service, so fees should just equal the real cost to the government. The new model for reform recommended changing the fees structure from one based on percentages to one based on fixed fees.

The focus was on empowering the winners from reform and engaging stakeholders. To determine who could affect the success of the reform, the Ministry of State for Administrative Development conducted stakeholder mapping. First, staff created a comprehensive stakeholders list. Second, they brainstormed about how each person or group could make a tangible contribution to the reform—they did not want relevant people to sit on the sidelines because they were not given a role and asked to participate. Third, they identified steps to mitigate potential resistance.

Cooperating with the Ministries of Justice and the Property Tax Authority, the Ministry of State for Administrative Development led a pilot project between March and December 2005 to study property registration. Representatives of the

government departments met 6 times, once a month. In 3 meetings they also invited bankers, technical experts from the World Bank and the International Finance Corporation, and members of the Lawyers' Syndicate to present their opinions.

The reformers understood the importance of involving the stakeholders in face-to-face meetings, forming a stakeholder working group in April 2005. It comprised the Ministry of Investment, with its 2 arms, the General Authority for Investment and the Mortgage Finance Authority; the Ministry of State for Administrative Development; the Ministry of Justice; 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 and Irrigation; and governorates and municipalities under the Ministry of State for Local Development.

In November 2005 the working group delivered its final report. Its conclusion: if only half the informal properties became registered after the reform, the revenues would be EGP 5.5 billion, more than half of that net profits.

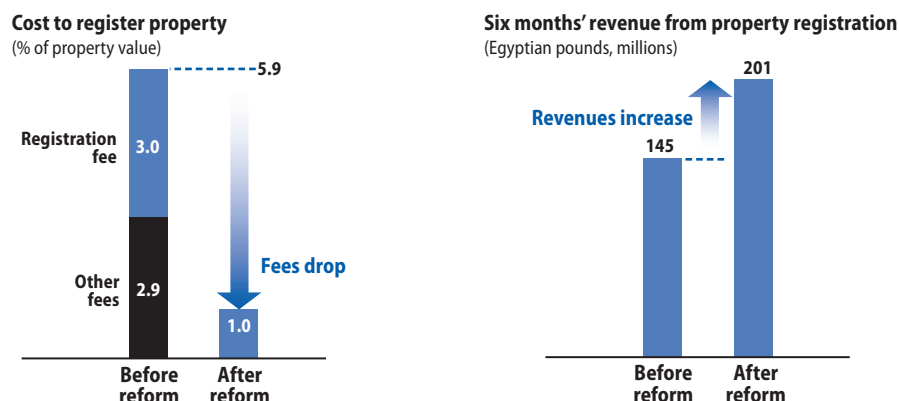
The Ministry of State for Administrative Development used a cost-benefit model to identify the real cost of registering property: EGP 23 for drafting a title, EGP 40 for surveying and measurements services, and EGP 37 for registration services—for a total of EGP 100.

Capping fees

In December 2005 the highest ministerial committee of the Council of Ministers approved the study. The council instructed Mamdouh Marei, minister of justice to make the necessary legislative adjustments. A draft law was prepared in January 2006, along with a study to measure the draft law's effects on other laws. The aim was to make property registration fees comparable to those in other emerging economies—less than 2% of property value in Georgia, Russia, and Chile. The new cost structure would lower or eliminate excessive fees for inspections and requesting registration.

The Shura Council approved the amendment of Law No. 70 of 1964 concerning notarization and registration fees and the land register system law in April 2006, only months after the Ministry of Justice formulated the new registration fees schedule in January. The Peoples' Assembly approved Law 83 in May 2006, and it was issued in June 2006 and enforced in August 2006. The premise was simple: the larger the area, the higher the fee, because people with more can afford higher fees.² Other key provisions:

FIGURE 2

Cutting fees increased revenue in Egypt

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

- The fees for document registration, initiatory pleadings, and related works are capped at EGP 2,000 (\$350).
- The notarization and registration fees are capped at EGP 30 (\$5.21).
- 14 other registration fees are now merely symbolic, each less than \$6.
- Fees for inspections and requesting registration are now gone.

The total property registration fees decreased from 5.9% of property value to 1%. Revenues from title registrations rose 39% between the 6 months before the reform and the 6 months after.

Overcoming opposition with a shared vision

“The aim was not to reach consensus but to facilitate acceptance of the reform idea among relevant agencies. In addition to identifying the reform and its impact, we had to build a common understanding of the case across the relevant public and private agencies,” says Hassan, director of National Database Program. The initial focus was on the ministers of investment, justice, and finance, then on key stakeholders in the economy as a whole. The Ministry of State for Administrative Development held specialized conferences and workshops tackling the housing industry, mortgage finance, and property registration, and the Lawyers’ Syndicate, major taxpayers, and banking industry provided positive feedback.

The Egyptian opposition was initially skeptical about who would benefit from the reform. “If we reduce the cost of registering property, what would be the impact on the property capital and credit market? How would the poor benefit?”

asked an opposition parliamentarian. To address those challenges, Mahmoud Mohieldin, minister of investment, developed a shared vision. He ensured that the new cost structure would cut excessive fees and make the cost of registering property affordable without affecting government revenues. In a January 2006 speech at the Peoples' Assembly, he emphasized that the reform would benefit the most people possible.

India was his example. In July 2004 the state of Maharashtra cut stamp duties from 10% to 5%—and boosted total stamp duty revenues by 20%, about 80% of that from property transfers. Now more properties are registered, and the registry holds better information on property values and on who owns what. That supports the collection of capital gains and property taxes as well.

Ambitious goals

Introducing a higher flat fee for larger properties helped overcome the initial criticism that poor people would not benefit. The People's Assembly demanded a broad target group for the reform. The minister of Investment understood this and backed up the reform with the right legislation. Osamah Saleh, Chairman of Mortgage Finance Authority, says "We were aiming to reduce property registration fees so that every property holder will have the chance to receive a formal title. The poor especially would benefit because they would have the chance to use their properties as collateral, start *Doing Business*, and achieve their dreams."

As a reform leader, Professor Ahmad Mahmoud Othman Darwish, minister of state for administrative development, ensured that the work plan was robust, the milestones were achievable, and the appropriate resources were committed to do the work. He set clear expectations up front on the time individuals and teams would have to commit to the effort. He also determined how individual and team performance would become part of the regular appraisal process. Departments rewarded contributions to the success of the transformation formally (by public recognition) and professionally (by promotions).

The Egyptian property registration reform aims to formalize 1 million properties during 2007/08, 2 million during 2008/09, 4 million during 2009/10, and 6 million a year during 2010–10. Citizens and businesses in both rural and urban areas got encouragement to register their properties. Within a year of the law's passage, revenues from title deeds jumped from EGP 100,000 to EGP 2 million, and total registration revenues from EGP 6.3 million to EGP 41.5 million.

The message—a new era for property registration

The Ministry of Finance's successful media campaign about its tax reforms in January 2006 ushered in a new era for communicating legal reform to the public. The Ministry of Investment used the same approach to communicate the property registration reform, conveying news, key milestones, and the benefits to the public. It distributed the approved law to the private sector and nongovernmental organizations and held roundtables with the Lawyers' Syndicate, major taxpayers, and the banking industry. It also convinced banks to market new mortgage offerings to attract more property into the Egyptian formal economy.

Long time still a problem

A remaining challenge for Egypt is to reduce the time it takes to register property. Today, it still takes an entrepreneur more than 6 months to register a property transfer in Cairo.

Hani, who sells newspapers in the streets of Cairo, sums up the dilemma: "My house is mine and not mine. It is mine because I inherited it from my father. It is not mine because it is not registered in my name. I cannot spend 6 months without work in order to go through the property registration process. My mother works at home. I often worry that people will seize my house when I'm away."

Simplifying and combining procedures, keeping registry records updated, continuing to digitize records, and introducing fast-track procedures could be next steps to help Hani and others like him.

Notes

1. OPIC, Office of Economic Development, Issue Paper 1:2005, July 2005.
2. If the property area is less than or equal to 100 square meters, registration fees are EGP 500 (less than 100). If the property area is more than 100 but less than or equal to 200 square meters, registration fees are EGP 1000 (less than \$200). If the property area is more than 200 but less than or equal to 300 square meters, registration fees are EGP 1500 (less than \$300). If the property area is more than 300 square meters, registration fees are EGP 2000 (less than \$400).