

Reshaping Egypt's Economic Geography: Domestic Integration as a Development Platform

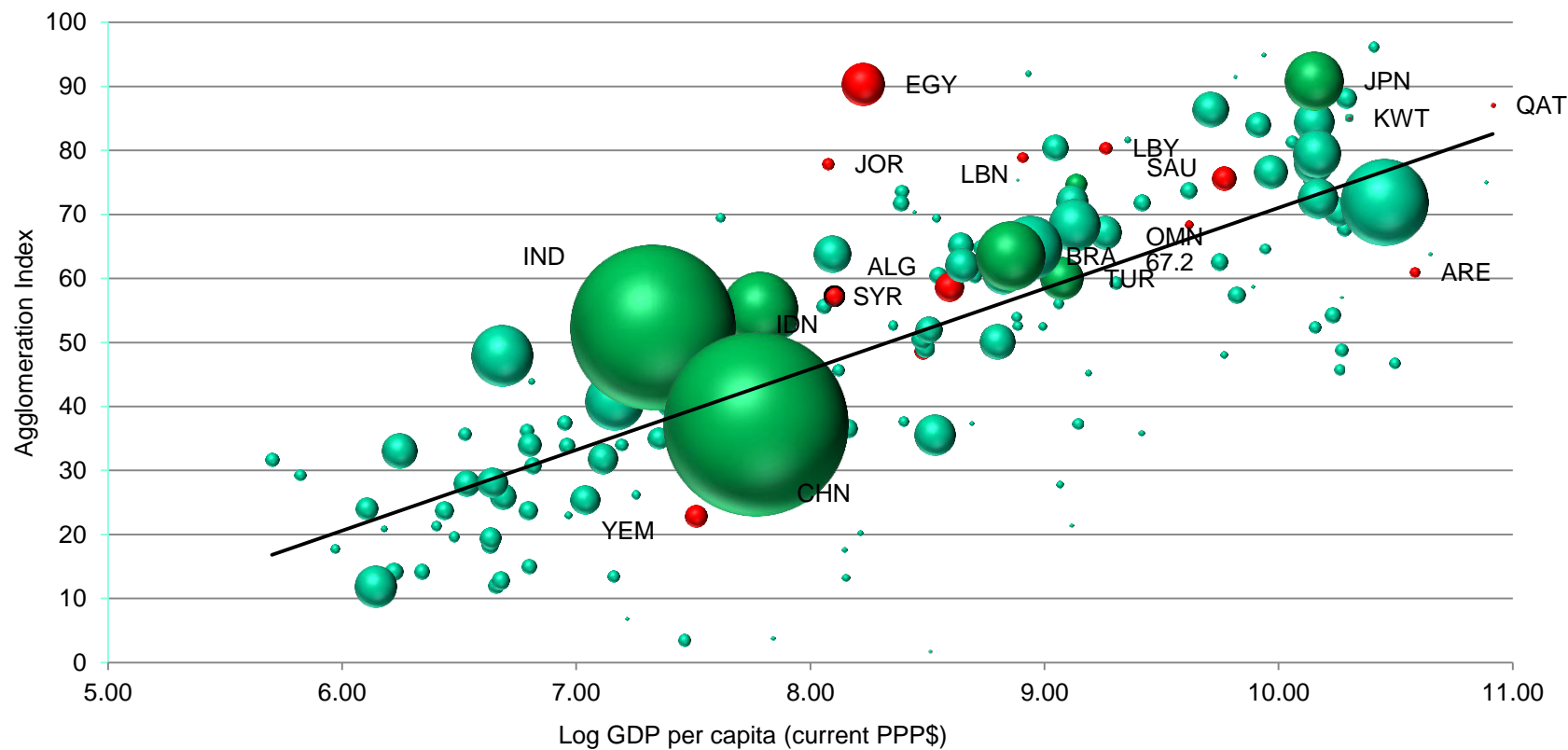
The World Bank

Cairo

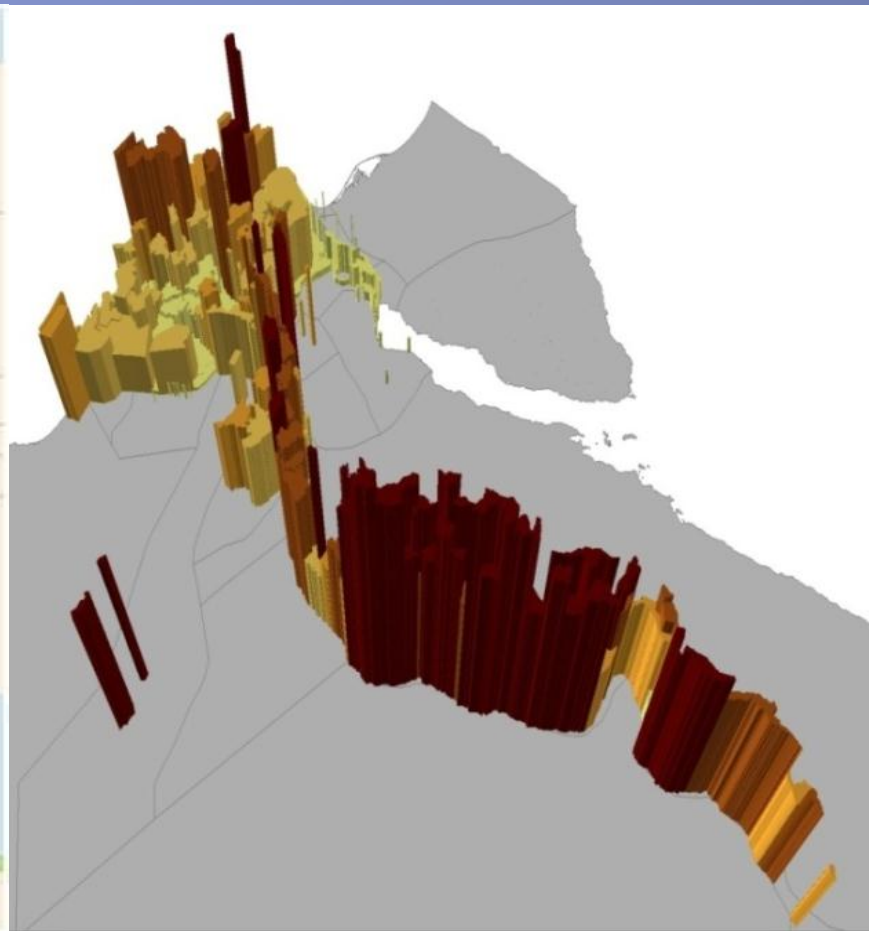
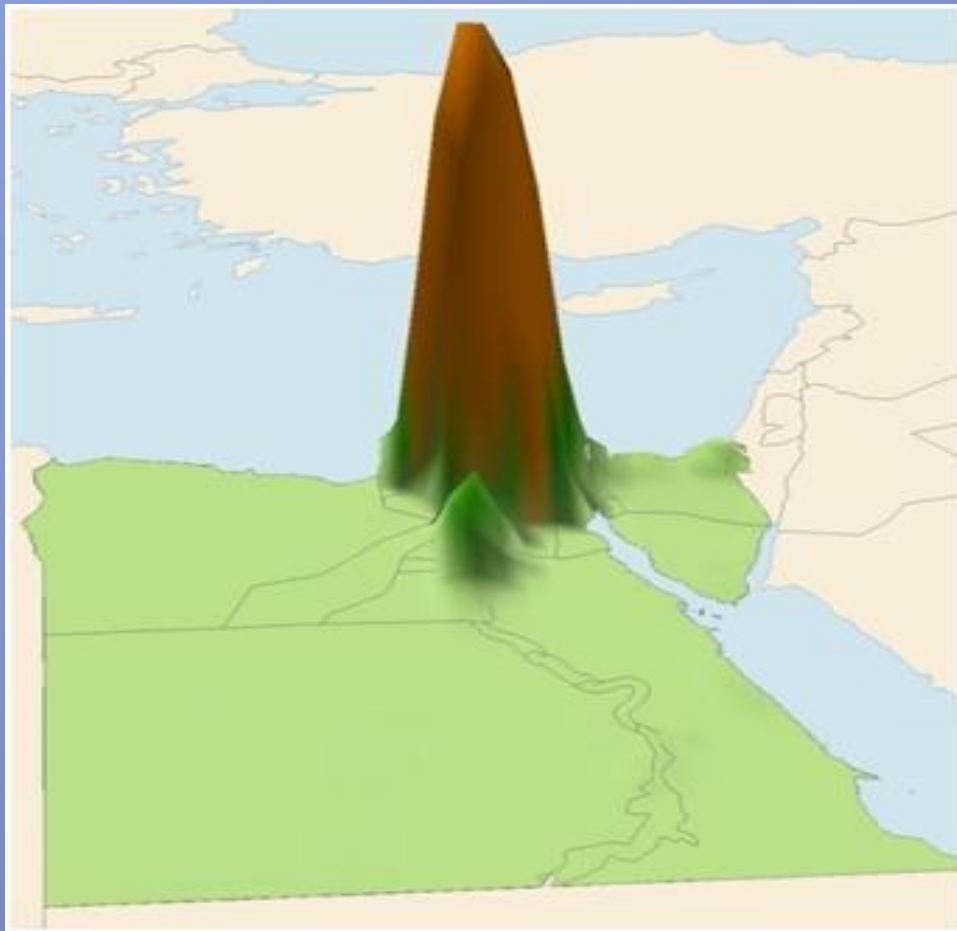
July 2012



Welfare and agglomeration are associated: location is the most important correlate of individual welfare.



Economic density and poverty density do not overlap in Egypt.



Main messages:

- Inclusive development requires policy focused less on balancing industrial location and more on facilitating factor mobility and spreading out opportunities.
- Policies to promote higher income in lagging regions take time to operate- **START NOW!!**
- Policies work better when they reinforce market signals.



Today's Roadmap

- What has Egypt done to tackle regional imbalances ?
- Where are the gaps? Consumption and opportunities across Egypt.
- How big are they and what explains them?
- What are the policy options to bridge the gaps?



In the last 40 years, Egypt has tackled regional unbalanced development mostly through industrial location policy.

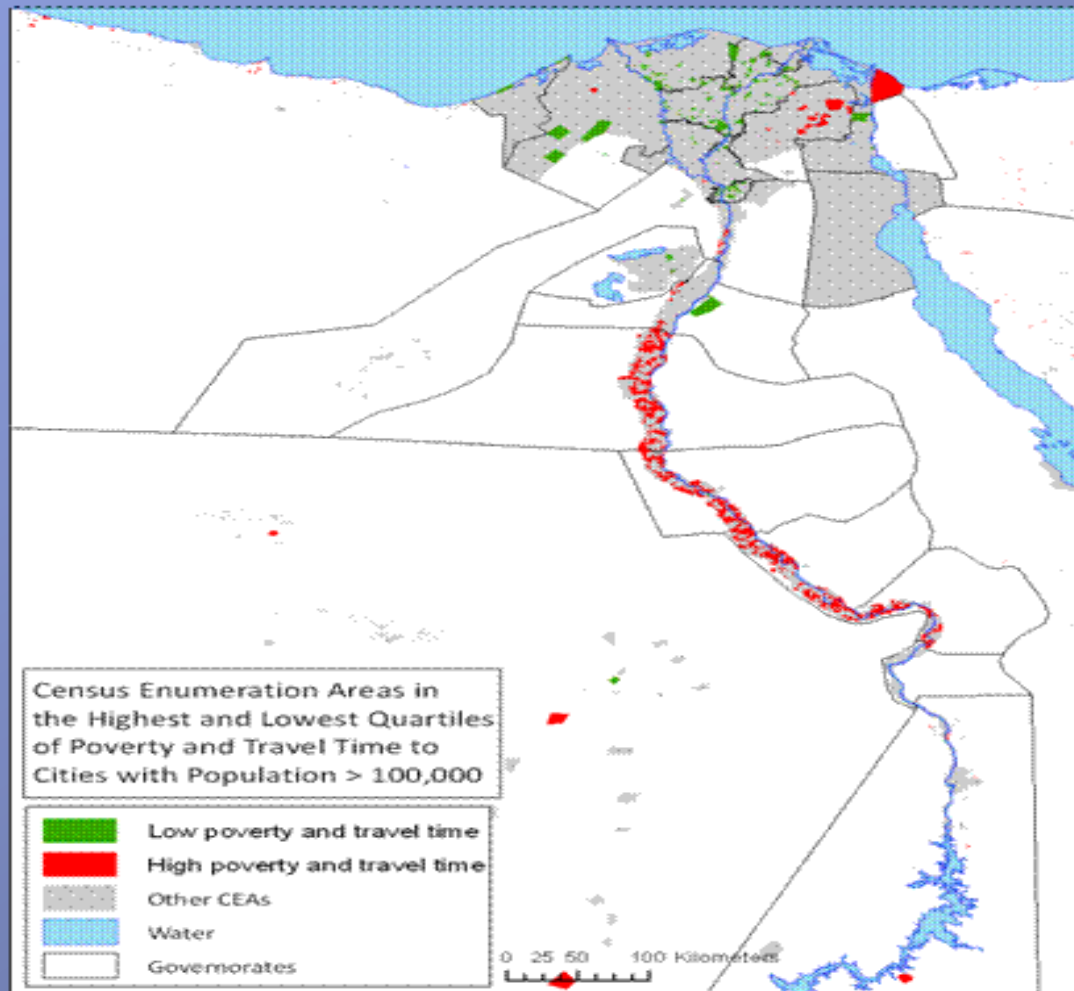


Industrial Zones by affiliation

-  Governorate IZs (75)
-  SEZ, Suez (1)
-  NUCA IZs (21)
-  Investment IZs (3)
-  Free IZs (11)
-  Heavy Industries, IZs (11)



But despite some progress in living standards, poverty remains focused in the same areas.



Welfare disparities are associated
with the duality of space.

Metropolis/rest of
the country

Lower-Upper

Urban-rural



Since disparities are spanned in three dimensions, three types of instruments are needed.

- Spatially blind institutions
- Spatially connective infrastructure
- Spatially targeted interventions



Examples of proposals discussed in the report:

- **Spatially blind institutions-universal coverage**
 - Regulation of land market.
 - Taxation of land and real estate.
 - Rent decontrol and out-of-court mediation for owners and tenants.
 - Equalization transfer to local governments.
 - Functional cooperatives-land dispute resolution.
 - Improving coverage and quality of education.



Examples of proposals discussed in the report:

- **Spatially connective** infrastructure
 - Goods and factor mobility
- **Spatially targeted** intervention
 - Conditional cash transfer –Upper rural Egypt
 - Cairo Ring Road

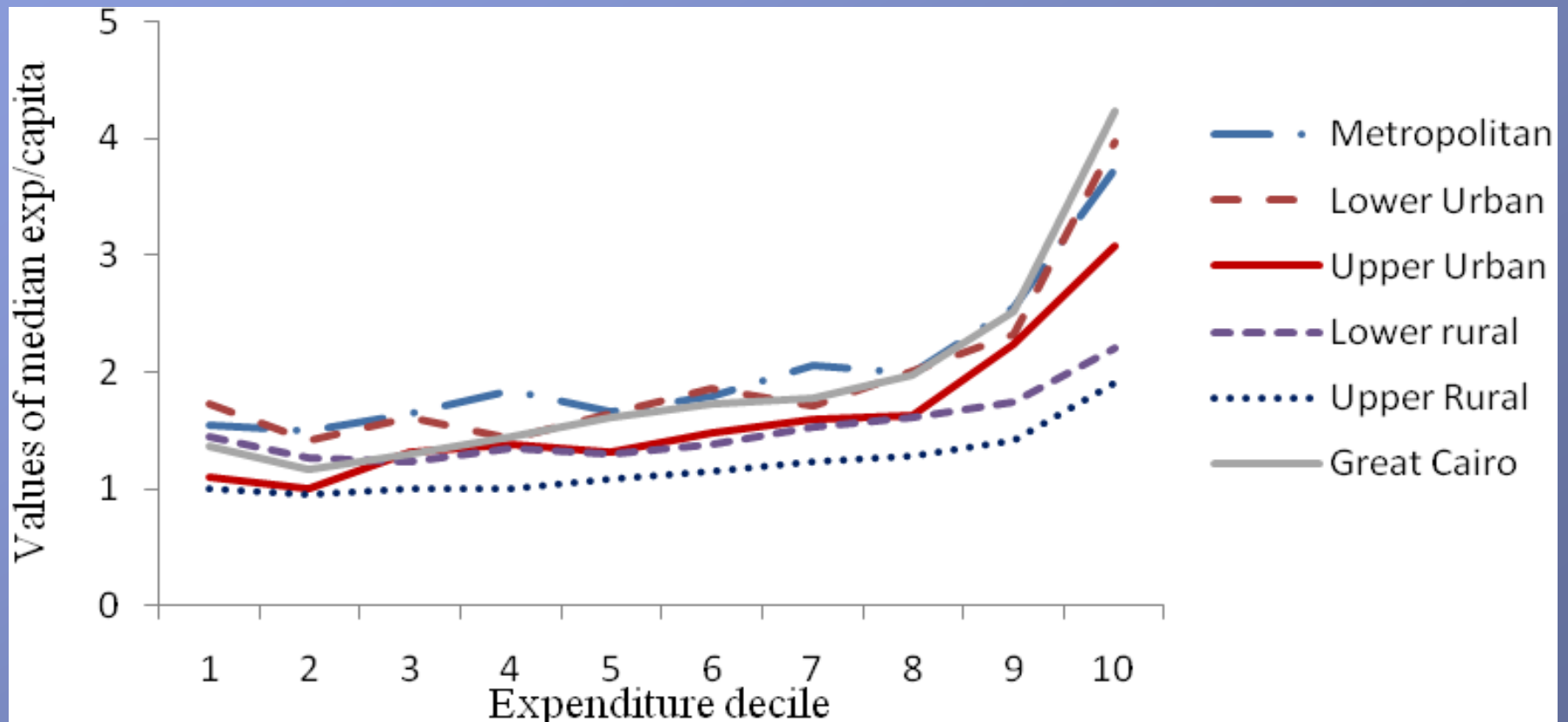


There are consumption and opportunity gaps between leading and lagging regions. This report...

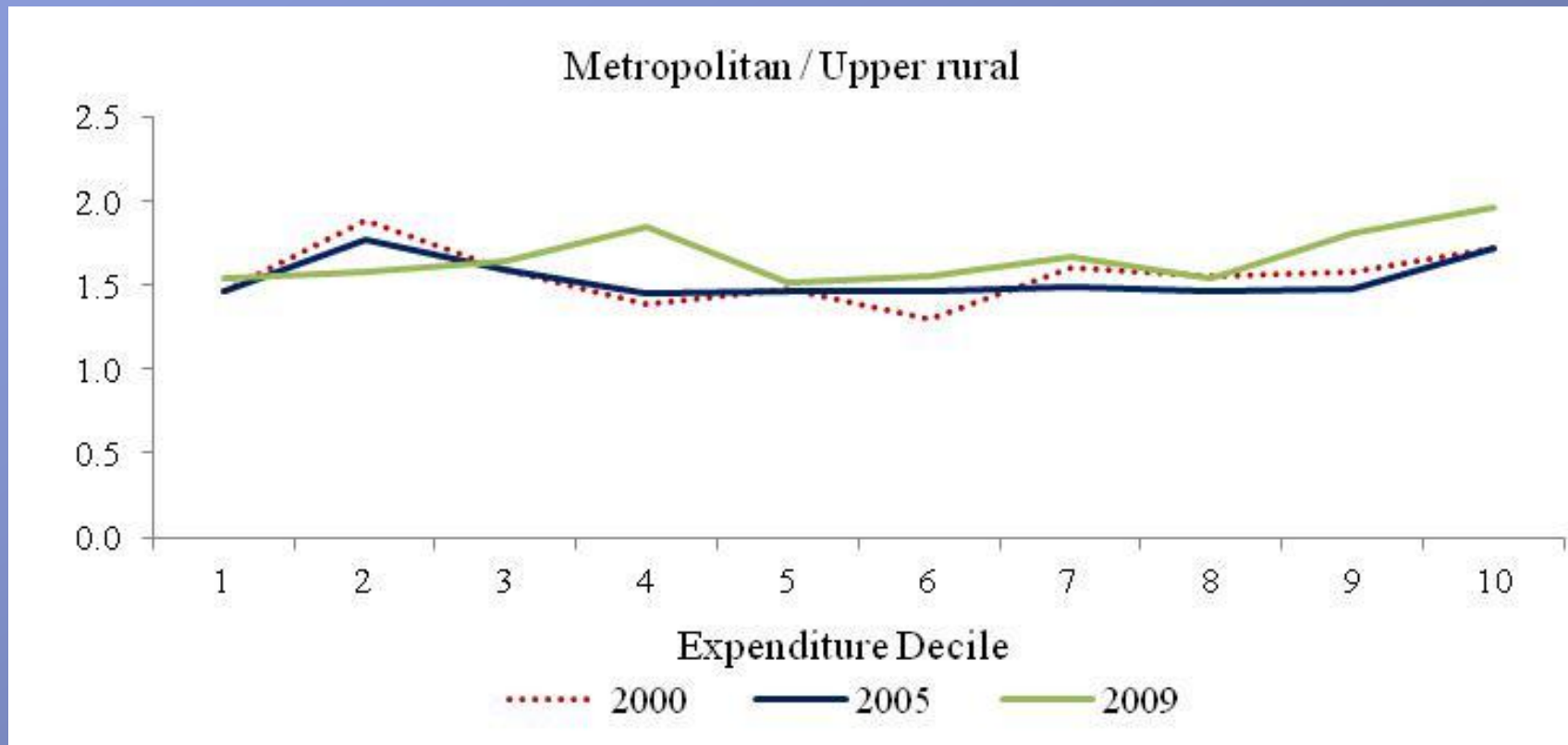
- **Shows** how big are the gaps.
- **Explains** the gaps.
- **Proposes** policy options to bridge the gaps without sacrificing growth.



Consumption increases with welfare, and the gap across regions increases for the better-off.



The consumption gap between leading and lagging regions is stable over time, except for the top deciles.



What explains the consumption gaps?

Endowments of capital (human or physical)?

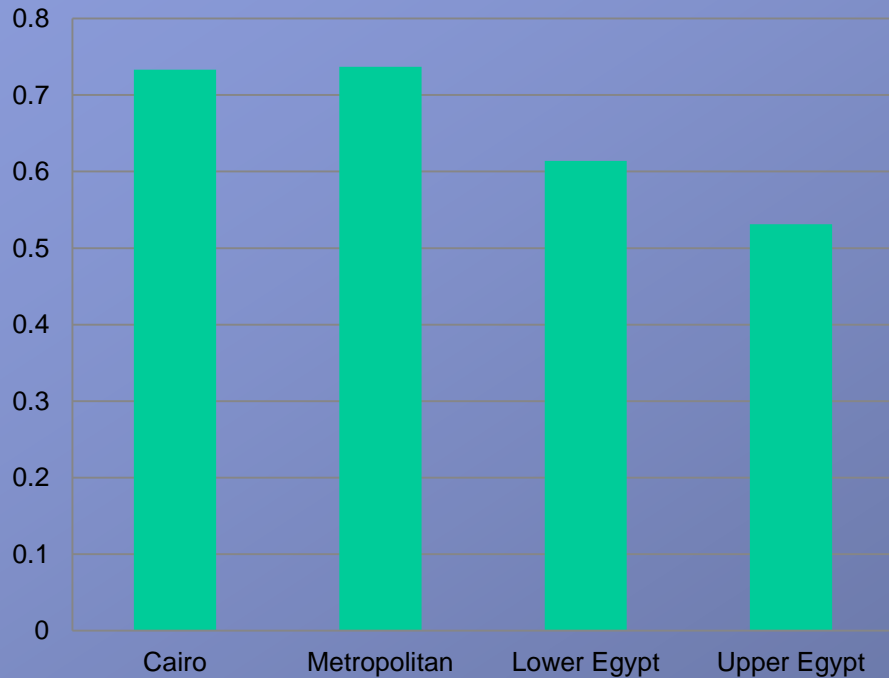
Or returns to endowments?



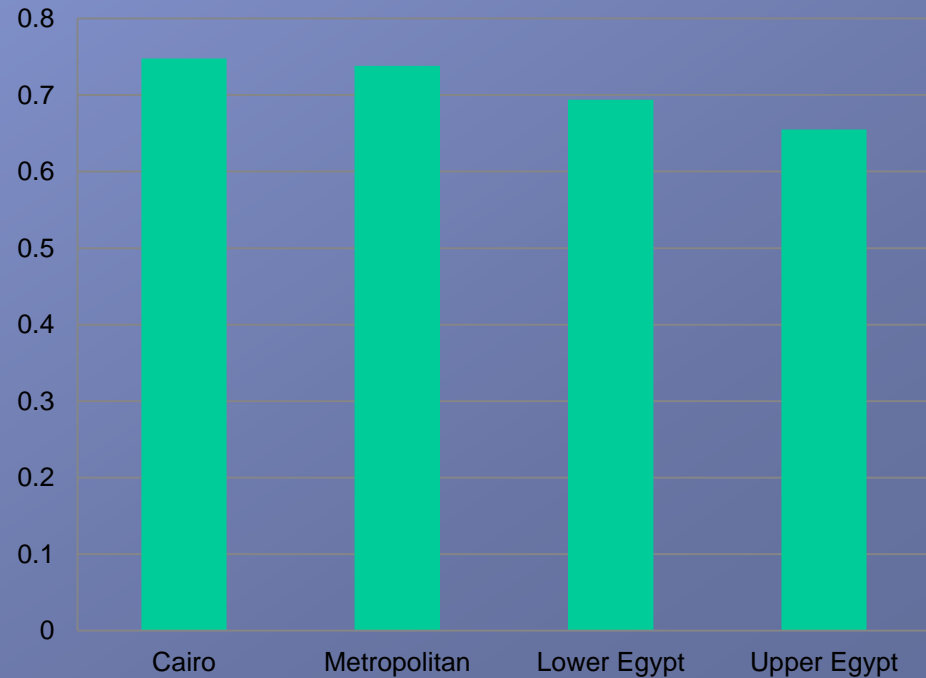
Increasing coverage of basic services has led to convergence in some endowments

HDI-Education

1999



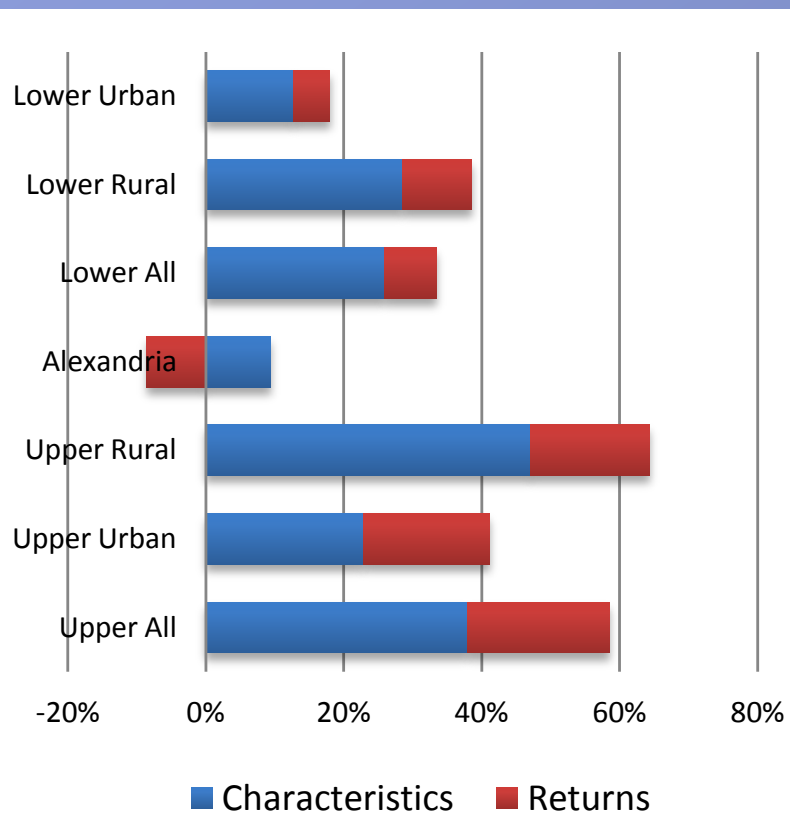
2008



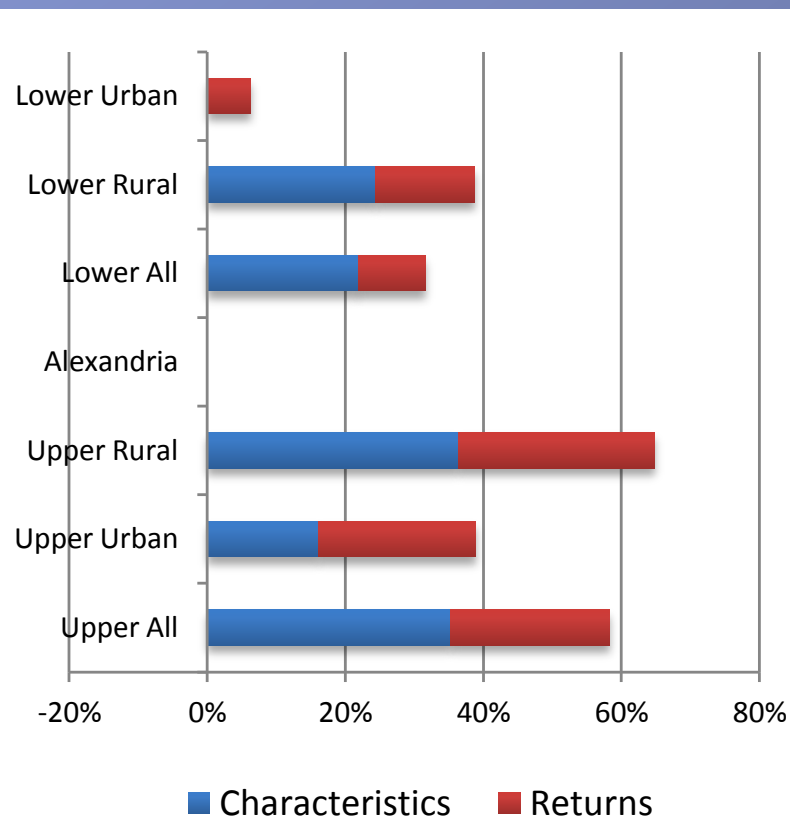
Returns to endowments matter more now.

Size and explanation of the welfare gap between GCA and other regions

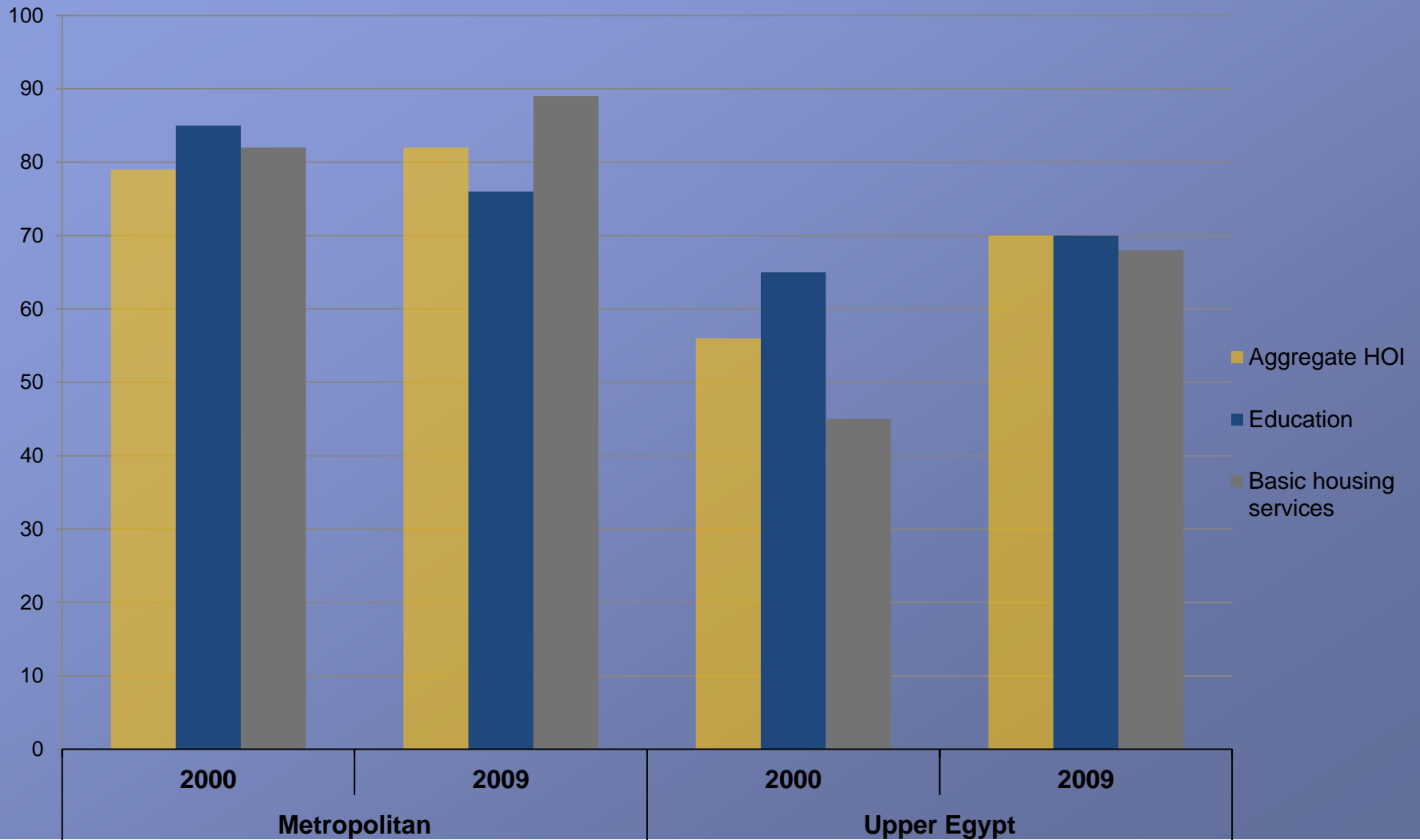
2000



2009



Opportunities are more available in metropolitan areas. There was uneven progress in equality of opportunities.



The five factors more closely associated with opportunity gaps in Egypt also explain gaps in other countries.

- Household income per capita
- Regional location (Upper/Lower/Metropolitan)
- Number of children in the household
- Urban-rural location
- Parent's education level



Policy options to support domestic integration and bridge gaps:

- Promoting labor mobility.
- Enabling capital mobility.
- Mitigating the diseconomies of agglomeration.
- Providing equalization transfer to local governments -enables them to provide basic services.
- Making a conditional cash transfer to Rural Upper Egypt households-supports demand for basic services.

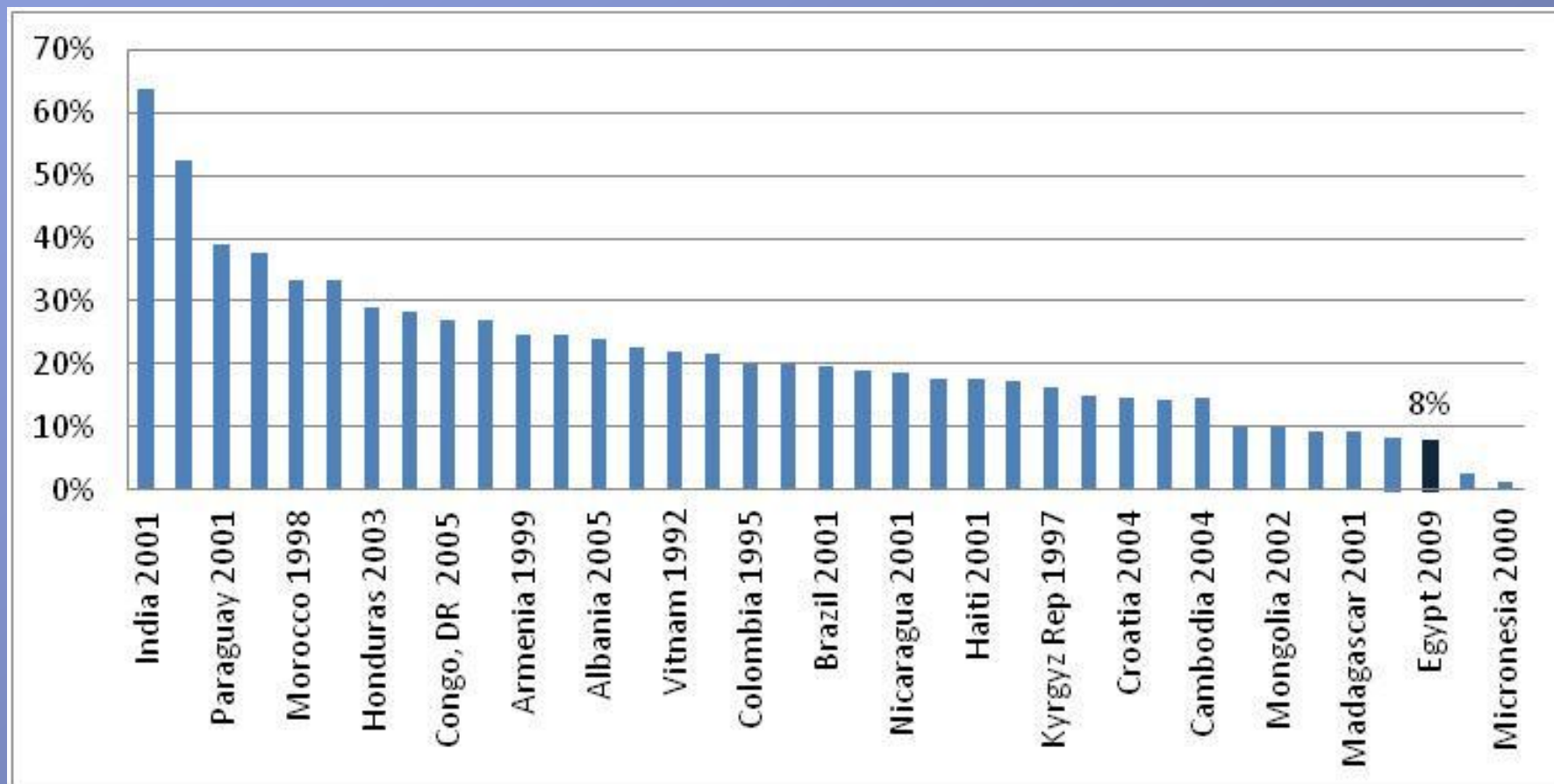


Policy options and types of instruments

- Labor mobility (spatially blind, spatially connective)
- Capital mobility (spatially blind)
- Diseconomies of agglomeration (spatially blind, spatially connective, spatially targeted).
- Equalization transfer (spatially blind)
- Conditional cash transfer (spatially targeted)

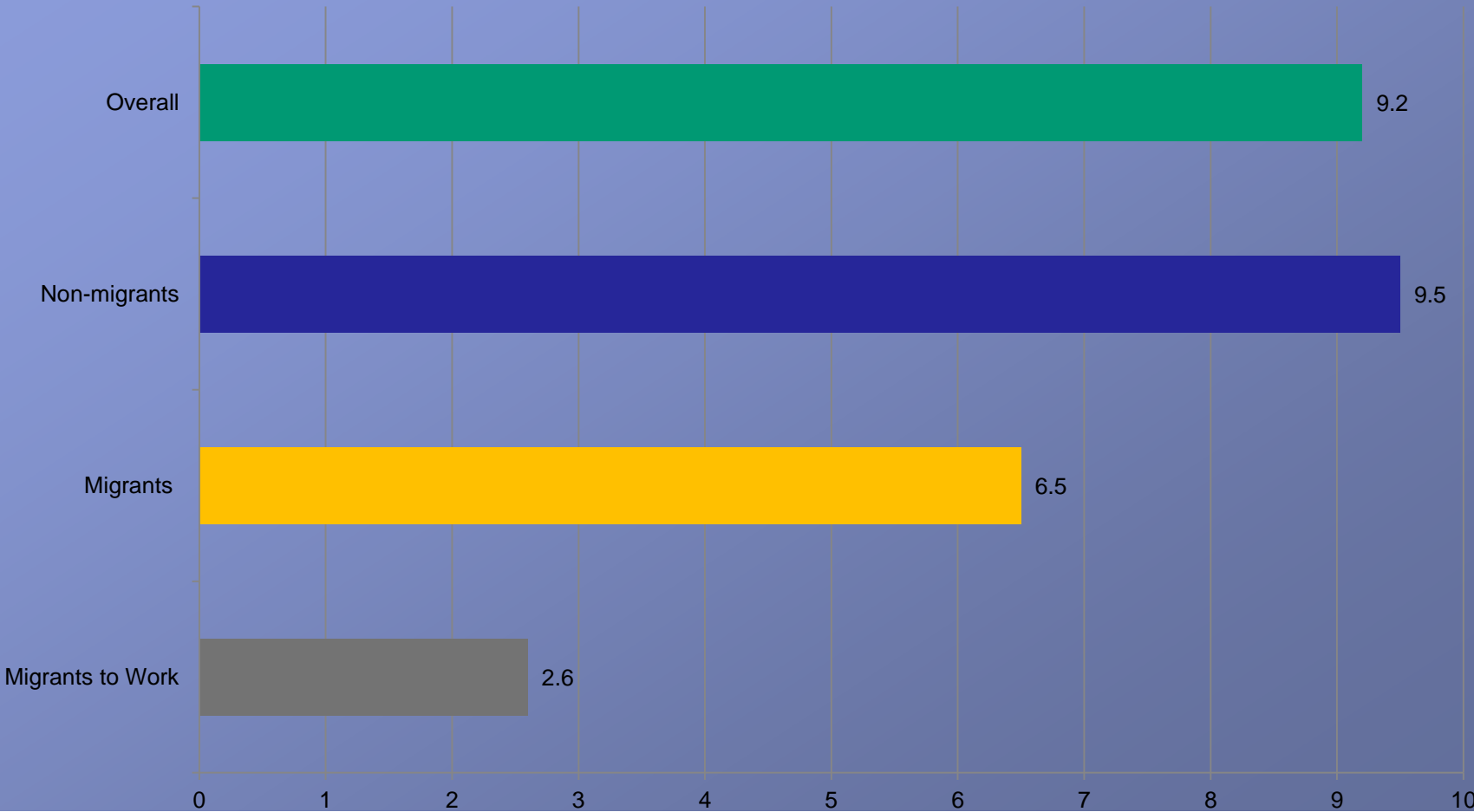


Egypt has low internal labor migration by international standards.

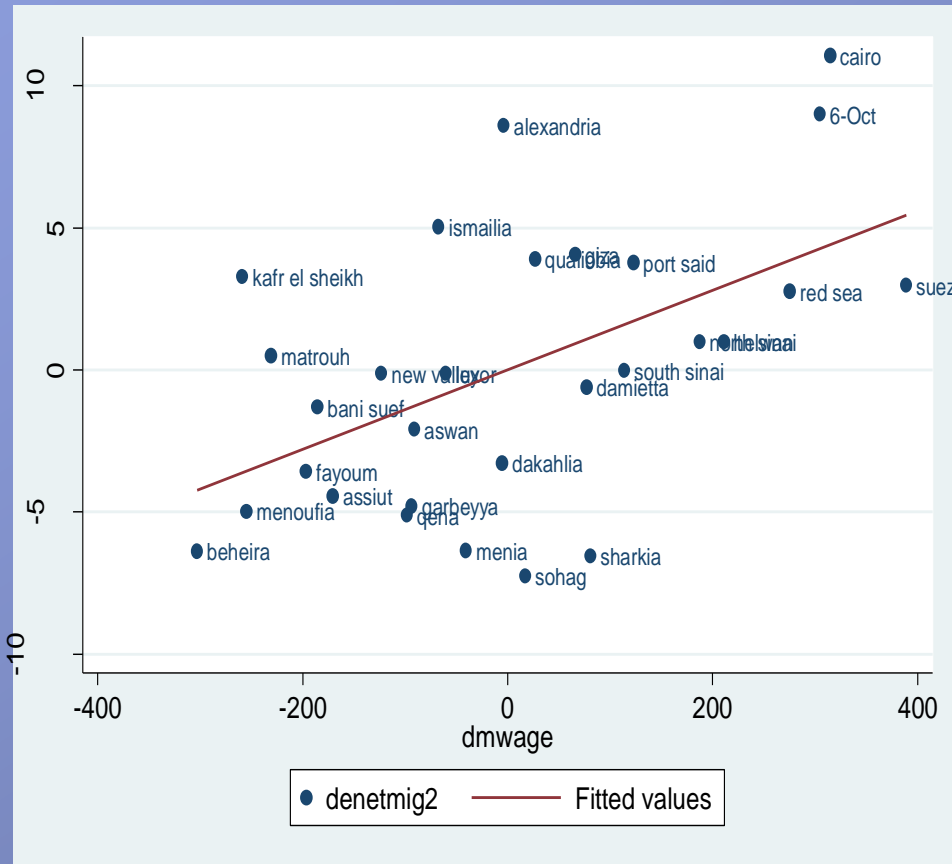


The mechanistic link between migration and unemployment does not operate in Egypt: migrants are more likely to have a job than non-migrants.

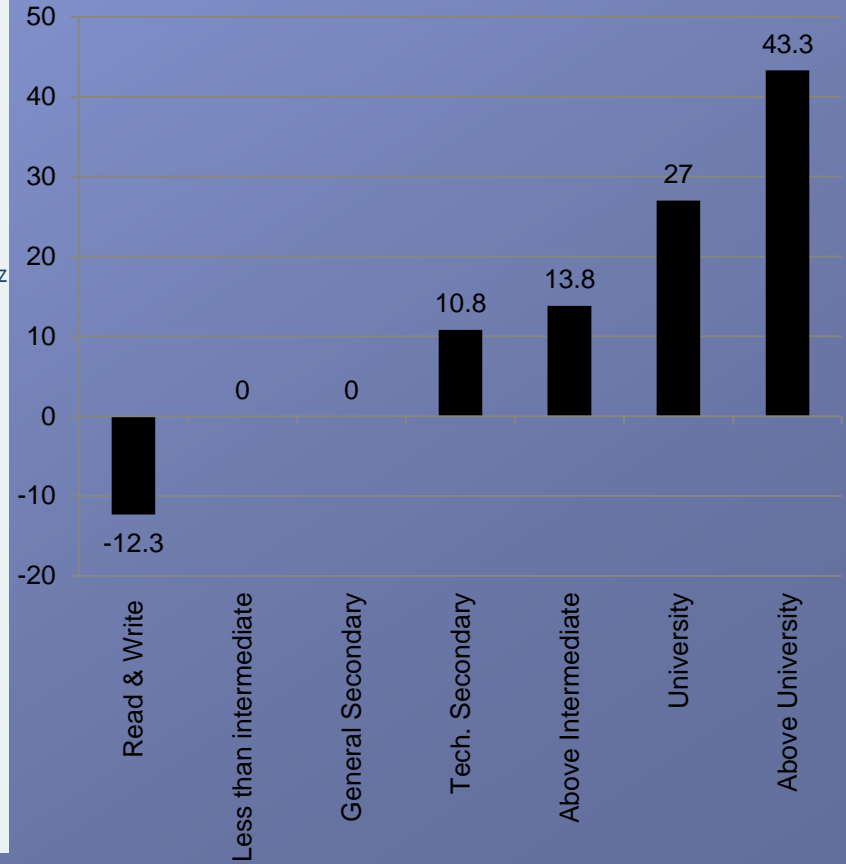
Unemployment Rate 2010



Migrants earn higher wages on average, but those with less education do worse.



Migrants Wage Premium (%)



To facilitate labor mobility:

- Improve **education** coverage and quality: reduces distance to markets.
- Increase **productivity of agriculture: reducing the distance of small farmers to markets:**
 - ensure land tenure security for contract farming;
 - land titles can facilitate mortgage credit, has to be complemented by collateralizing mobile assets;
 - reform of cooperative law to make cooperatives supportive of innovation and generators of value added by linking farmers to markets.



To facilitate labor mobility:

- Increase **supply of affordable housing** in Cairo, Alexandria (vacancy reflects resource misallocation, rent decontrol, out-of-court mediation, taxing real estate).
- **Reduce congestion.** International evidence shows that lowering commuting costs by 10 percent increases labor productivity by 1-2 percent, and reducing travel times by 10 percent increases job creation by 2.5-5 percent



To enhance capital mobility:

- Let **land markets operate with adequate planning and information systems** (supply-driven sectoral approach leads to policy fragmentation and dysfunctional land market)
 1. Freeze temporarily public land sales.
 2. Make inventory of available public land with external audit.
 3. Establish a land management committee that centralizes strategic policy decisions.
 4. Gradually decentralize all land sales to the governorate level.



To enhance capital mobility:

- Ensure seamless operation of **industrial zones** (lack of transportation and connectivity to Cairo; lack of services and infrastructure; licensing delay in spite of GAFI one-stop shops).
- **Simplify property registration and taxation** (start with industrial zones and new towns)



Dealing with diseconomies of agglomeration

Congestion in Cairo costs 1.2% of GDP yearly.

- Adjust gasoline price and tax mileage.
- Implement dedicated bus lanes and extend metro (subsidized rates).
- Enforce traffic management.
- Enforce proper vehicle inspection.
- Monitor public spending: one dollar of road spending reduces commuting costs by 11 cents.

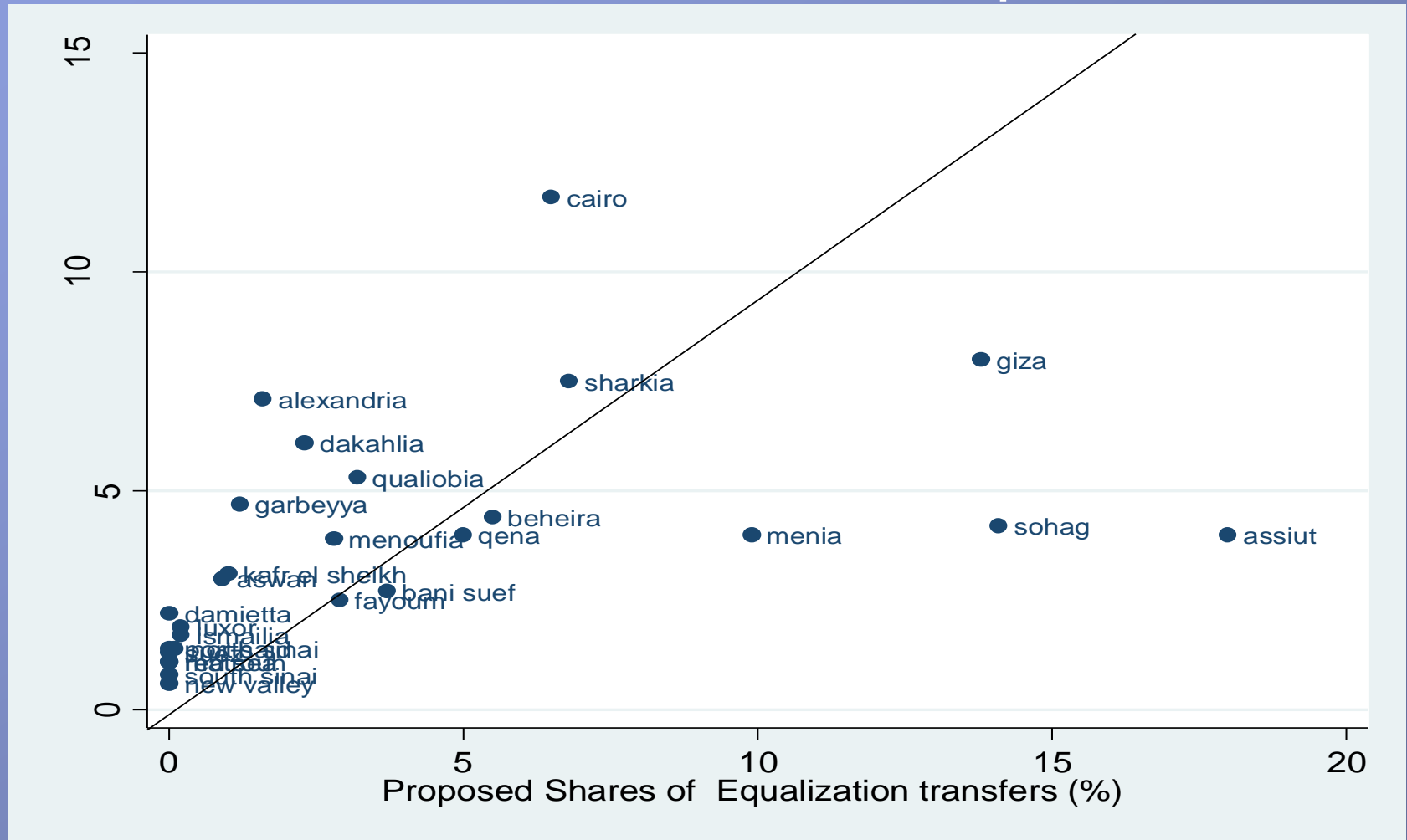


A needs-based equalization transfer (ET) would allow local governments provide basic services

- Proposed ET is a function of population and poverty. In many countries, it is constitutionally mandated.
- Based on Brazil's distribution to municipalities, an illustrative distribution across governorates can be obtained.
- The ET has to be fiscally sustainable and must be complemented by reforms in accountability in the use of public funds and monitoring of public spending at the local level.



Equalization transfer- the current distribution cannot be used as blueprint.



To bridge opportunity gaps, countries have used spatially targeted conditional cash transfers, with positive impact on education and nutrition outcomes.

- *Bolsa Familia* (Brazil)
- Female Secondary School Assistance Program (Bangladesh)
- *Familias en Accion* (Colombia)
- *Oportunidades* (Mexico)
- Punjab Female School Stipend Program (Pakistan)



Summing up

More inclusive development, with fewer disparities across regions, requires a policy focused less on balancing industrial location and more on facilitating factor mobility and spreading out opportunities in access to basic public services.

