Egypt: Reshaping the Economic Geography of Egypt: Towards Improving Living Standards for All

1. Consistency with DFSG objectives:

Objectives of study. The study will attempt to address the constraints to Egypt’s growth through the lens of economic geography. It will look at the policy challenges at the national (between leading and lagging areas, rural and urban) and local level (villages, towns and cities).

Linkages with objectives of DSFG

- Country-level analysis of constraints to growth. The study is grounded on broad-based growth. It adopts an integrated approach in looking at the constraints to growth in the land, labor and capital markets. It also considers the institutional constraints, i.e. the regulatory framework, the market and government failures. In terms of inclusivity, the study focuses on the integration of people to prosperity and the convergence of living standards across places.

- Fragile “state” of Cairo. After years of trying to spread out growth by channeling investments to unsuccessfully develop cities in the desert, the state of public services in Cairo is in disrepair. The ill-functioning land markets has resulted in about 50% of the urban population in informal settlements and squatting in state-owned desert land.

2. Technical soundness and originality:

Building on existing work: The study will draw on the framework developed in the World Development Report 2009: Reshaping Economic Geography. The framework is grounded on a 3x3 matrix based on geographical scales (local, national and international) and complexity of the policy challenges (1, 2 or 3 dimensional). Policy options are considered in Table 1.

(i) At the local scale, the policy challenge is getting the economic “density” right. This refers to the harnessing of market forces to encourage agglomeration and promote convergence in living standards between places (villages, cities and towns). In addition, “distance” can be important as rapid urbanization leads to congestion and division within cities can be manifested in slums/unplanned and informal settlements, as is the case in Egypt.

(ii) At the national scale, the policy challenge is to help firms and workers to reduce the “distance” to “density” by connecting lagging to leading areas. Mechanisms to do so include mobility of labor and the reduction of transport costs through infrastructure investments. In Egypt, there is the additional challenge of the majority of the poor being in the lagging areas, and not benefiting from growth.

Table 1. Policy Responses to Geographical Challenges

<table>
<thead>
<tr>
<th>Complexity of challenge</th>
<th>Place type-local (L), national (N) and international (I) geographic scales</th>
<th>Policy priorities for economic integration</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Institutions Spatially blind</td>
<td>Infrastructure Spatially connective</td>
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<tr>
<td>One dimensional problem</td>
<td>L: Areas of incipient urbanization N: Nations with sparse lagging areas I: Regions close to world markets</td>
<td>•</td>
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<tr>
<td>Two dimensional challenge</td>
<td>L: Areas of intermediate urbanization N: Nations with dense lagging areas I: Regions distant from world markets</td>
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<td>Three-dimensional</td>
<td>L: Areas advanced urbanization N: Nations with dense lagging areas and</td>
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Innovation: Egypt is the first country in the MENA region to apply the framework of the WDR 2009. This study will serve as a template for other countries in the region that have expressed interest in similar work (Morocco, Yemen, and Saudi Arabia). The work will complement traditional survey data and economic growth analysis with Geographic Information System (GIS) tools and geo-referenced data as discussed below.

Surveys and analysis: The study will incorporate micro-level surveys (household income and expenditure, survey, labor market survey, youth employment survey, school census, health service utilization, Demographic and Health survey, industry census), macro-level data (public expenditure data, GDP) and geo-referenced data (maps on distribution of population, firms, schools, health facilities and road networks). We have obtained some of the data in our consultation mission in December, and are in discussions with the various Ministries on collaboration for others.

3. Relevance to country priorities:

Relevance to ongoing country work and dialogue. The work is aligned with the three pillars of our CAS—which are facilitating private sector development; enhancing provision of public services and promoting equity.

Linkages to other AAA work and the CAS: This work will draw on and contribute to in the ongoing Poverty Assessment, programmatic PER, work on the fiscal crisis. For the sector-specific areas on transport will draw on ongoing study on Congestion in Cairo, and Japan International Cooperation Agency (JICA)’s work on the Greater Cairo Area Transport study. The migration work will inform the Operationalization of the WDR 2010: Climate Change and Development in Egypt. On urban and land markets, the study will draw on Bank reports, Land Management, Housing Study (with USAID), and Alexandria City Strategy by Cities Alliance. On HD, the Bank will draw on ongoing survey on health services done by the Bank, in collaboration with the Egypt Demographic and Health Survey (DHS).

In addition to AAA, the study will also inform the lending program on Upper Egypt Integrated Governorates Project (in preparation) and ongoing Decentralization TA, and TA related to the Education Enhancement Project.

Contribution of analysis for policy priorities. The analysis will inform policy priorities on: (i) integration of the lagging Upper Egypt to the rest of the economy (ii) integration of rural and urban areas; (iii) integration of unplanned settlements of Cairo with the Greater Cairo area; (iv) prioritization of investments in infrastructure and other social programs; and (v) decentralization-allocation formulas, gaps in service delivery and local capacity.
4. Knowledge sharing, dissemination and capacity building plan:

**Involvement of local partners.** We have consulted extensively with the key stakeholders on data issues and policy relevance of the study, and have received strong support for the study.

- **Think tanks:** Egyptian Cabinet-Information and Decision Support Center and the Egyptian Center for Economic Studies (ECES)
- **Donors and Academia:** Egypt Population Council, University of Cairo

To ensure commitment for and policy relevance of the study we are establishing a panel of policy advisors at the inception stage who will guide the team throughout the preparation of the report. The panel will likely comprise the Minister of Investment, Economic Advisor to the Minister, (MHUUD), Advisor to the Minister, MoLD, Executive Director of the ECES and the Technical Advisor to the Minister of Transport.

**Dissemination.** Upon completion of the preliminary draft, the team plans to hold workshops to disseminate/consult on the preliminary findings of the study widely. Given that the framework of the study is built on integration of leading and lagging regions, we feel strongly that the study should be disseminated at workshops in both Lower Egypt (leading) and Upper Egypt (lagging), with different levels of government (central administration and governors).

**Capacity building.** We have discussed with the CAPMAS and the IDSC about a 1-day workshop for staff from the two institutions and other interested Ministries on the use of GIS tools for policy making.

5. Client and donor engagement:

**Collaboration with clients.**

- IDSC on the spatial analysis on access to health and education services.
- CAPMAS (Statistics) on the analysis involving the Household Income and Expenditure Survey, to include poverty analysis and spatial incidence of expenditures.
- Ministry of Investment and Industrial Development Authority on analysis of the fiscal costs of spatially targeted interventions

**Collaboration with donors.** We will be collaborating with the Population Council on the analysis of the Youth Employment Survey on employment and labor market issues.