

Task Order No. 832

USAID Contract No. PCE-I-00-96-00002-00

**Egyptian Environmental Policy Program  
Program Support Unit**

**WORK ASSIGNMENT REPORT**

**Tranche 1, Objective 5**

*Assessing Potential Use of Economic Instruments and  
Incentives for the Environmental Protection Fund*

*Dr. Alaa Sarhan*

October 2000

PSU-32

for  
**U.S. Agency For International Development  
Cairo**

by  
**Environmental Policy & Institutional Strengthening  
Indefinite Quantity Contract (EPIQ)**

**A USAID-funded project consortium led by International Resources Group, Ltd.**

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**FACT SHEET**

USAID Contract No.: PCE-I-00-96-00002-00  
Task Order No. 832

Contract Purpose: Provide core management and analytical technical services to the Egyptian Environmental Policy Program (EEPP) through a Program Support Unit (PSU)

USAID/Egypt’s Cognizant Technical Officer: Holly Ferrette

Contractor Name: International Resources Group, Ltd.

Primary Beneficiary: Egyptian Environmental Affairs Agency (EEAA)

EEAA Counterpart: Eng. Dahlia Lotayef

Work Assignment Supervisor: Harold van Kempen

Work Assignment Period: September 2000

## Preface

Through competitive bidding, the U.S. Agency for International Development (USAID) awarded a multi-year contract to a team managed by International Resources Group, Ltd. (IRG) to support the development and implementation of environmentally sound strategic planning, and strengthening of environmental policies and institutions, in countries where USAID is active. Under this contract, termed the Environmental Policy and Institutional Strengthening Indefinite Quantity Contract (EPIQ), IRG is assisting USAID/Egypt with implementing a large part of the Egyptian Environmental Policy Program (EEPP).

This program was agreed-to following negotiations between the Government of the United States, acting through USAID, and the Arab Republic of Egypt, acting through the Egyptian Environmental Affairs Agency (EEAA) of the Ministry of State for Environmental Affairs, the Ministry of Petroleum’s Organization for Energy Planning, and the Ministry of Tourism’s Tourism Development Authority. These negotiations culminated with the signing of a Memorandum of Understanding in 1999, whereby the Government of Egypt would seek to implement a set of environmental policy measures, using technical support and other assistance provided by USAID. The Egyptian Environmental Policy Program is a multi-year activity to support policy, institutional, and regulatory reforms in the environmental sector, focusing on economic and institutional constraints, cleaner and more efficient energy use, reduced air pollution, improved solid waste management, and natural resources managed for environmental sustainability.

USAID has engaged the EPIQ contractor to provide Program Support Unit (PSU) services to EEPP. The PSU has key responsibilities of providing overall coordination of EEPP technical assistance, limited crosscutting expertise and technical assistance to the three Egyptian agencies, and most of the technical assistance that EEAA may seek when achieving its policy measures.

The EPIQ team includes the following organizations:

- Prime Contractor: International Resources Group
- Partner Organization:
  - Winrock International
- Core Group:
  - Management Systems International, Inc.
  - PADCO
  - Development Alternatives, Inc.
- Collaborating Organizations:
  - The Tellus Institute
  - KBN Engineering & Applied Sciences, Inc.
  - Keller-Bliesner Engineering
  - Conservation International
  - Resource Management International, Inc.
  - World Resources Institute’s Center For International Development Management
  - The Urban Institute
  - The CNA Corporation.

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## Contents

<b>Economic Instruments Presently Applied in Egypt.....</b>	<b>1</b>
User charges for solid waste collection and disposal .....	1
User charges (visiting fees) for access to natural protectorates.....	2
User fees for the exploitation of mines and quarries .....	2
Deposit-refund schemes on certain containers that are reused on recovery .....	3
Environmental charges on the cement industry of L.E. 5 per ton .....	3
Air Ticket Charge .....	3

## Economic Instruments Presently Applied in Egypt

There are a number of economic instruments currently applied in Egypt comprising the following:

### User charges for solid waste collection and disposal

The waste generators (households, etc...) pay on a monthly basis these charges to Zabbaleens and private contractors. There is a price differential for the charge existing among households and between households and other types of economic activities. Private contractors collect, sort and dispose solid wastes from households, service sector and industry, particularly in areas, where wastes include valuable recyclable materials. However, Solid waste collection does not cover all solid waste generated especially in the Greater Cairo area due to shortage equipment and personnel. In some cases, only 60% of the daily quantity of solid waste is lifted while the rest stays overnight.

The user charge for solid waste management is paid directly to the private contractors and is charged per unit of housing whether residential or business. The fee is a monthly flat rate that is neither related to the volume or weight of the waste generated. Unfortunately, there is no exact record or data pertaining to the number of subscribers to such a service or the proceeds resulting from such a charge. This is attributed to a number of factors, primarily:

- a. This fee /charge is paid on a voluntary basis. That is, should waste generators not wish to receive this service, and then there is no obligation to pay the monthly charge/fee.
- b. If residential units (or offices etc...) are unoccupied for any reason, the tenants or the owners are not obliged to pay the fee to the SW contractors.
- c. All monthly payments made are not recorded in any official way. This is the case, as the private contractor does not issue any receipts or official document of any sort to prove any kind of contractual agreement or financial transaction taking place between the two parties.

Lack of supervision and close monitoring by the local authorities is the primary reason for the system's inability to deliver and function efficiently. In many instances, the usual waste pick-ups are missed quite frequently and so the waste is left abandoned on streets in front of houses and offices, etc... until a pick-up is made. The abandoned waste is a suitable environment for stray cats to carry out scavenging which is also done frequently by the traditional zabbal who sometimes collects only parts of the waste that has economic value like paper and carton boxes.

As regards construction waste, the picture is somehow different. That is, for one to obtain a construction permit, a charge (variable) is levied as a kind of performance bond for construction/demolition waste. In theory, this charge is reimbursable once construction activities are over and the site is clear of any waste. However, in practice, probably no reimbursements were ever made regardless of the state of rehabilitation of the construction sites. There is therefore no interest or incentive for building contractors to remove the waste coupled with no effective enforcement on the part of the municipality/local administration. All of which is reflected in the picture observed in many of the construction sites today.

Nonetheless, removal of construction waste is yet another complicated matter. It is a relatively expensive operation as there are some restrictions on the movement of trucks on the streets of Cairo. Moreover, there is a charge levied on the disposal of waste in landfills (dump sites). Such factors culminate by scattering construction waste in unused land plots in the midst of residential areas or simply nearby construction sites.

There is, however, another charge levied on all housing units by the municipality and is also related to general street cleansing and waste management services in general. This cleansing charge is set at 2.5% of the value of property tax determined for each housing unit. This charge is mandatory in comparison to the user charge for solid waste management (aforementioned), which is paid to the contractor for services rendered. However, in any case, the owners have to pay the cleansing charge to the municipality.

The governorate of Alexandria has embarked at present on a pioneering approach in the imposition of a mandatory user charge for SW management. For many years, Alexandria – with a great deal of similarities to Cairo- has experienced many problems in managing municipal solid waste. The problems started with collection and ended up with proper disposal. The current governor is determined in adopting a state-of-the-art approach in SW management, which entails an RFP for international firms with the necessary expertise and hardware needed to implement the project. The reasoning behind the choice of an international firm lies in the belief that Alexandria needs to gain from the experience and lessons learned in other similar cities around the world in the ways of handling their solid waste. The design and construction of a sanitary landfill is also believed to require the experience of a competent international firm. As regards hardware and technology, the governorate of Alexandria are of the opinion that large international firms have the financial means and capacity to bring these along and be able to operate them efficiently. In contrast, local firms dealing with SWM are believed to be somehow inefficient in operating hardware and machinery, let alone acquiring them in the first place.

In an unprecedented step, Alexandria has levied a monthly surcharge on electricity bills regardless of actual occupancy. The latter is of particular importance to a summer resort city like Alexandria where many housing units are only occupied during the summer season. However, in this case, tenants or owners will have to pay such a surcharge irrespective of occupancy or services rendered. The monthly charge varies is either L.E. 1, 2, 3, or 5 depending on the district and type of housing unit ranging from low-income or the luxury type. However, it is still early days to draw any conclusions from such a case.

### **User charges (visiting fees) for access to natural protectorates**

Paid by visitors to finance environmental activities and maintenance of the protectorates. The proceeds are directed to the EPF. However, the natural protectorates have not received any funding from the EPF to-date. The reason for that is due to the fact that the protectorates have not yet developed clear strategies with details of their mandates and activities as well as the budget required for implementation of such strategies.

### **User fees for the exploitation of mines and quarries**

The governorates collect these fees on behalf of the government and then the proceeds are transferred to the Ministry of Finance accounts in the form of government revenues for the state budget. The governorates do not withhold any amounts for activities related to the



maintenance of the mines or for any similar activities. To compensate for that, the governorates levied a surcharge on each truckload coming out of the quarry areas. The proceeds from the truck-related charge would go to a special fund set up by the individual governorate to be disbursed according to preset executive regulations. It is believed that this special fund disburses certain undisclosed amounts of money for special purposes. Some of these purposes include bonuses and incentives for staff of the mines management department in the governorate.

### **Deposit-refund schemes on certain containers that are reused on recovery**

This is the case on certain beverage bottles and on Liquefied Petroleum Gas (LPG) containers. I believe that such schemes are quite efficient and can achieve their targets with a high degree of success. Moreover, a post-audit can be conducted on this instrument with a fair amount of ease.

### **Environmental charges on the cement industry of L.E. 5 per ton**

As public concern with regard to the cement industry in Egypt and its negative impacts on human health and the environment at large has reached its peak by the end of the 1980s and the beginning of the 1990s, the government took some important steps in this regard. First and foremost, the cement companies who were then owned 100% by the government, were to install hardware (or mitigation measures) like bag filters and electrostatic precipitators. Secondly, the imposition of an L.E. 5 per ton to be born by the consumer and the proceeds of such a charge is earmarked for environmental protection projects. The annual revenue amounts currently to approximately L.E. 135 million. The Minister of Public Enterprise whose responsibility then included the cement companies introduced the charge in July 1995 by virtue of a ministerial decree. The cement charge is divided into two parts:

- a. 60% of the charge (i.e., L.E. 3) is deposited in the Cement Fund which covers the expenses of ASEC/ASENPRO which is the company established specifically for the purpose of upgrading cement filters as well as carry out their maintenance.
- b. The residual of the cement charge (i.e., L.E. 2) is left for the cement companies to finance projects to improve the indoor environment as well as the surrounding environment.

However, it is not certain how investors who have started producing cement or have taken over ownership from the public sector will deal with such a charge. It is not even clear whether they will acknowledge the presence of the charge especially at present when cement producers are under-cutting prices.

### **Air Ticket Charge**

A 12.5 - 15% value charge is levied on international air tickets. The proceeds of the charge are channelled to the Environment and Tourism Fund whose Secretary General is the Minister of State for Environmental Affairs in addition to the presence of three other cabinet ministers sitting on its board. At present, the fund is providing financial assistance to a number of government run projects in the areas of environment and tourism.