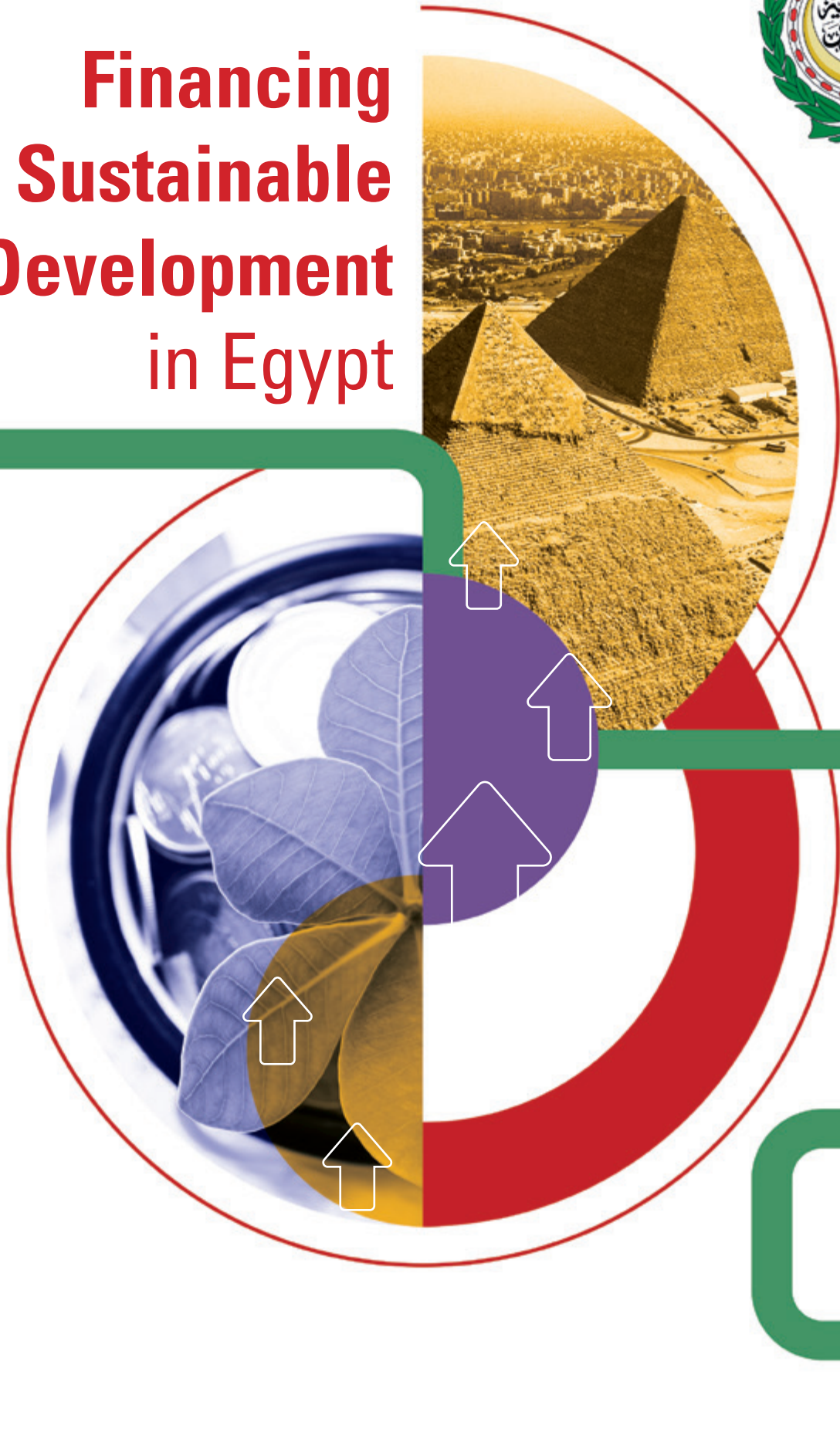




# Financing Sustainable Development in Egypt





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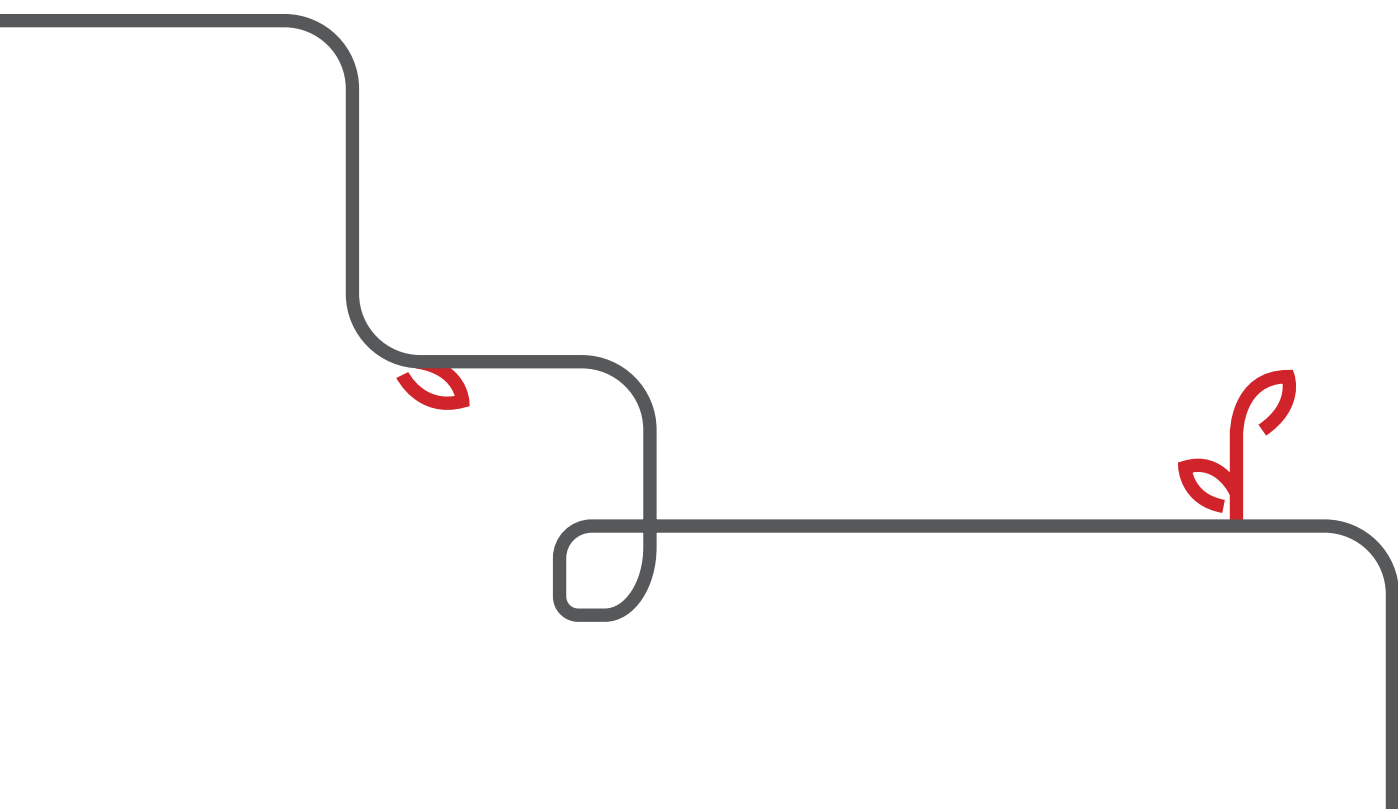
# Financing Sustainable Development in Egypt

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وزارة التخطيط والتنمية الاقتصادية  
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# Foreword



Ahmed Aboul Gheit

*Secretary General of the  
League of Arab States*

Since the beginning of 2020, the world has experienced a health crisis, like no other, revealing several defects in the economic, political and social sectors governing our world roads. This crisis also unfolded what awaits us if we continue to waste resources without considering its impact on the environment and future generations. Consequently, and due to the pandemic and its unforeseen outcomes, our level of awareness about environmental issues has increased putting sustainable development plans as apriority.

The acceleration of implementing post-pandemic development plans has brought the issue of financing back to the forefront as the emerging pandemic posed an additional challenge; directing the vastness of national and international financial resources to address the effects of this crisis.

Committed to promoting joint Arab efforts in the field of sustainable finance, the League of Arab States has sought to adopt a regional mechanism that entails clear operational steps; the mechanism

begins with preparing a report that monitors the Arab situation, identifying the obstacles facing sustainable finance, as well as proposing realistic solutions to overcome them. The League of Arab States is supporting its member states to prepare their national reports, that should be compiled and issued as a unified Arab report as part of its efforts to strengthen cooperation among its member states. The consolidated report collects the outputs of these national reports and constitutes a guide for joint Arab action towards financing sustainable development.

The League of Arab States, in its efforts to implement this Arab vision, has adopted an approach based on building partnerships and unifying efforts to achieve the region's goals. Last January, in cooperation with the United Nations Environment Program (Finance Initiative) and the United Nations Development Program, The Arab League has launched a joint report highlighting sustainable finance in the Arab region along with policy recommendations.

I am delighted that we took a step forward in adopting the Arab mechanism for sustainable financing with the launch of the "Financing Sustainable Development in Egypt Report" in cooperation with the Arab Republic of Egypt. This national report is the first of its kind, with Egypt being the pilot country.

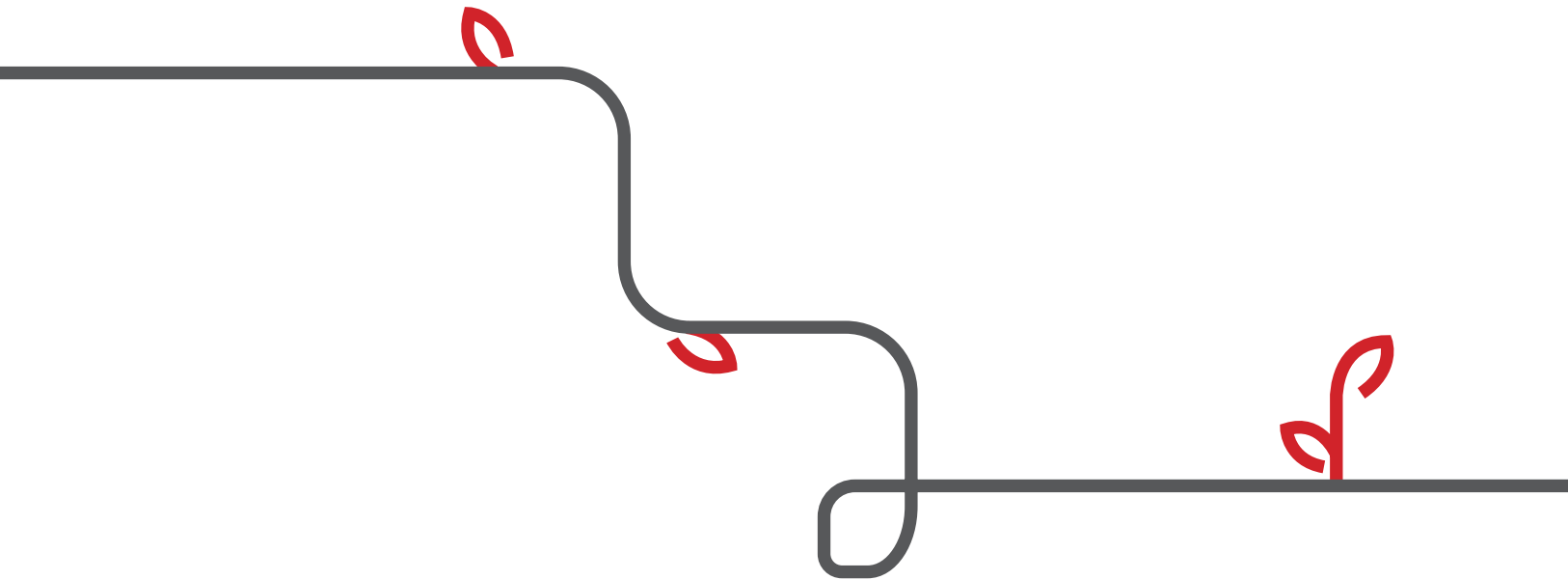
This report was prepared with a participatory approach that brought together local and international entities to assess Egypt's current situation and propose solutions that support the development policies in line with Egypt Vision 2030. I look forward to seeing the benefits of this report unfold in the rest of the Arab region, so that countries can build on it and add to it, when preparing their national reports.

I take this opportunity to commend the efforts of Dr. Mahmoud Mohieldin, The United Nations

Secretary General Special Envoy on Financing the 2030 Agenda and Executive Director, International Monetary Fund, as he efficiently and competently led a group of experts from Egypt to accomplish this report. I also commend the fruitful cooperation with Her Excellency Dr. Hala H. Elsaid, Minister of Planning and Economic Development of Egypt, who was keen to facilitate this effort, and harnessed all

possibilities to make it a success. I look forward to continuing to work with everyone to serve our common goals.

I also extend my thanks to all the international partners, especially the Ford Foundation for providing the necessary funding and generous support, and to commend its distinguished partnership with the Arab League.





Hala El-Said

*Minister of Planning and Economic Development  
Egypt*

It is a great honor to present Egypt's first Finance for Development (FfD) report: "Financing Sustainable Development in Egypt". This report is not only the first in Egypt but also the first national FfD report in the world, as prior reports were mainly designed to capture regional or global financing stance. Egypt's first national FfD report, prepared under the umbrella of the League of Arab States (LAS), attests the long-lasting fruitful cooperation between the Arab Republic of Egypt and LAS. The selection of Egypt as the first country to carry out this project reflects its bold regional leadership as well as its pivotal role in the Arab region. Ideally, the project will be extended to a number of Arab countries, giving way to the preparation of a series of reports on financing for development in the Arab region.

Egypt's FfD report comes during unprecedented circumstances that have swept the whole world due to the spread of the Covid-19 pandemic and its mutated strains. This outbreak, inducing considerable health, economic, and social repercussions, impeded the world's march towards achieving the sustainable development goals (SDGs) and has magnified the financing gap in both developing and developed countries. The problem of finance for development is no longer entirely linked to the inefficient distribution of available resources to projects that accelerate the

implementation of the 2030 Agenda, but rather to a shortfall in the amount of funding available worldwide.

Egypt has made significant developmental strides over the past few years, among which stands out the successful implementation of the first phase of the National Program for Economic and Social Reform in 2016, as well as the initialization of the National Structural Reform Program in 2021. Despite this notable progress, like most countries, mobilizing adequate financing for sustainable development remains a persisting and main challenge facing Egypt especially after the onset of Covid-19 pandemic. This challenge was reflected in Egypt's second and third voluntary national reviews (2018, 2021) and was sought to be surmounted by diversifying the sources of financing and prioritizing sustainable and innovative financing mechanisms.

The "Financing Sustainable Development in Egypt" report is an independent, non-governmental report prepared through a participatory approach that encompasses all development partners from the private sector, civil society and specialized experts, alongside the government. In this vein, I would like to acknowledge the substantial role played by Prof. Dr. Mahmoud Mohieldin, The United Nations Secretary General Special Envoy on Financing the 2030 Development Agenda and Executive Director, International Monetary Fund, who volunteered to supervise the preparation of the report. I would like to thank him for his diligent efforts to ensure that the final product abides by the highest standards, reflecting and capturing in an objective manner the implications of the bold economic and social reforms implemented, and the tangible developmental progress achieved on ground. I also extend my gratitude to each and every one who participated in drafting the FfD report from the distinguished experts and researchers in the fields of economics, finance, and development.

The Ministry of Planning and Economic Development is proud of its coordinating role in

this fruitful partnership, in which it provided the required national data and statistics for authors and coordinated with the concerned national entities to provide their insights on the contents of the report. In addition, The Ministry has assisted in conducting a number of thematic workshops with a multitude of regional and international institutions to benefit from their comments and observations to further enrich the report. This affirms the significant value attributed by the Egyptian government to this publication, given the unparalleled insight it provides on FfD in Egypt in addition to the potential policy solutions it advances to fundamentally deal with this complex challenge.

This report presents an objective, in-depth analysis of the various dimensions of FfD, which substantially affect the achievement of the SDGs. It incorporates an analytical review for the various development and economic sectors, and how they affect the developmental state in the country. Additionally, the report sheds light on the recent government's efforts to mobilize diversified financial resources to finance sustainable development projects in Egypt, such as the establishment of the Egypt Sovereign Fund to facilitate public-private partnerships and the issuance of sovereign green bonds.

The report is not only restricted to the current initiatives implemented by the Egyptian authority but also delves into alternative innovative and promising financing mechanisms to promote impact investment, such as sustainable development bonds, blended financing, and climate financing. The report ultimately provides a set of specific recommendations for decision makers to reflect on and take into consideration, in order to improve the current status and galvanize the country's efforts towards sustainable development.

Finally, I would like to reiterate my sincere appreciation to everyone who contributed to bringing this unique national report to light. I specially thank the League of Arab States for adopting this vital project from the beginning and for its continuous support. I hope that this project marks a new chapter in the cooperation between LAS and Egypt where Egypt can transfer its experience in mobilizing adequate finance for development to the Arab region, under the umbrella of LAS. I am certain that all executive bodies would benefit from this valuable report to develop a national roadmap aiming at enhancing FfD to accelerate the achievement of the 2030 Agenda and Egypt's Vision 2030.



# Preface



Mahmoud Mohieldin<sup>1</sup>

*The United Nations Secretary General Special Envoy on  
Financing the 2030 Agenda*

*and*

*Executive Director,  
International Monetary Fund*

Adopted by all United Nations Member States in 2015, the 2030 Agenda for Sustainable Development provides a blueprint for achieving peace and prosperity for both people and the planet. At the heart of the 2030 Agenda, the 17 Sustainable Development Goals (SDGs) reflect a recognition of the need to integrate and balance economic, social, and environmental dimensions of sustainability with an emphasis on the universal goal of “Leaving No One Behind”. Since its adoption, the 2030 Agenda has been incorporated in the national priorities of many countries, including Egypt. In 2016, Egypt asserted its commitment to sustainable development with the launch of its first Sustainable Development Strategy (SDS): Egypt Vision 2030. The SDS is aligned with the priorities specified in the SDGs as well as the 2063 African Agenda. Moreover, the principles and objectives of the SDGs guide

a number of mega-projects and initiatives in Egypt, including one of the most ambitious projects on the localization of the SDGs (Haya Karima<sup>2</sup>). These endeavours are also in line with the calls of the Decade of Action to enhance national implementation, mobilize financing, and strengthen institutions to accelerate the progress towards achieving the 2030 Agenda.

Against this background, the idea of compiling a report on “Financing Sustainable Development in Egypt” was developed in coordination with the League of the Arab States. The preparation of the report began in June 2020, with 19 experts and 5 researchers in the fields of economics, finance, development, and sustainability came together to work on the different themes identified for the report. Building on the spirit of partnerships emphasized in the SDGs, putting the report together provided a platform for knowledge sharing.

Through excellent coordination efforts from the Ministry of Planning and Economic Development of Egypt, the report was developed in close cooperation with various Government stakeholders and the Central Bank of Egypt (CBE). The authors received updated data and very helpful comments from the Ministry of International Cooperation, the Ministry of Finance, the Ministry of Communication and Information Technology, the Ministry of Social Solidarity, the Ministry of Trade and Industry, and the General Authority for Investment and Free Zones. The authors also received valuable comments from the Central Bank of Egypt. In addition to the engagement with the domestic competent institutions, the authors benefitted from extensive outreach by the Organization for Economic Co-operation and Development (OECD), and the United Nations System.<sup>3</sup> Further discussions and reflections took place with experts in relevant topics through a number of virtual roundtables.

Given the exceptional effort exerted by the authors in drafting the chapters and reflecting the comments received over several drafts, I opted for having each chapter presented with its authorship clearly acknowledged.

The report traces Egypt's aspirations and endeavours towards achieving the SDGs. Chapter 1, written by Racha Ramadan, demonstrates the significant progress made by Egypt on a number of SDGs, but also highlights that the country still faces some major challenges before being on track to achieving the other goals.<sup>4</sup> The chapter also stresses that accelerating progress towards achieving the SDGs depends on three critical factors: dependable data, effective implementation of development policies and programs, and adequate finance.<sup>5</sup>

In chapter 2, Mazen Hassan and Engi Amin, highlight that designing effective and coordinated policy actions, monitoring their progress, and preventing and managing crises require the availability of timely, disaggregated, and good quality data to enhance evidence-based policy making. This, as the chapter points out, calls for investing in data and strengthening data systems.<sup>6</sup> Effective implementation of policies and delivering results at the last mile require work at the grassroots level to close all development gaps that may persist at the subnational level. Suzanna Elmassah in Chapter 11 stresses the importance of custom-made plans to bridge such gaps and emphasizes the localization of the SDGs and pursuing inclusive growth.<sup>7</sup>

Achieving the SDGs and the national development ambitions requires the availability of adequate financing and the alignment of both public and private financial resources with sustainable development. By all measures, the level of financing needs to achieve the ambitious 2030 Agenda was already high even before the COVID-19 pandemic, which only added to these needs. Developing economies faced an SDG financing gap of USD 2.5 trillion per annum. This

gap widened after the pandemic to spike to USD 4.2 trillion.<sup>8</sup> A pre-requisite for dealing with the finance challenge facing the SDGs is to have solid estimates of the cost of achieving them and an accurate mapping of how the different financial flows are utilized.

According to the global study by Gasper and others, prior to COVID-19, low-income developing countries faced an average additional spending of 15 percentage points of their GDP in 2030 to make substantial progress toward the SDGs in the areas of education, health, roads, electricity, water and sanitation. For emerging economies, the average additional total spending required represented 4.2 percentage points of their 2030 GDP.<sup>9</sup> Focusing on the sectors of electricity, transport, water and sanitation, flood protection, and irrigation, Rozenberg and Fay estimate that annual investments of 4.5 per cent of GDP from 2015 to 2030 would allow low-and middle-income countries (LMICS) to reach infrastructure-related SDGs and stay on track to limit climate change to 2 degrees Celsius. LMICS would also need to spend around 2.7 per cent of their GDP annually in maintenance costs for their existing and new infrastructure, increasing the overall investments to be around 7.2 per cent of GDP.<sup>10</sup> When being planned and implemented, investments and national projects need strong monitoring and evaluation systems in place to guarantee better public investment management and infrastructure governance. This is crucial considering the global estimates that show that an average low-income developing country loses around 53 per cent of the return on its investment to inefficient public investment management, in contrast to an efficiency losses of 34 per cent and 15 per cent in emerging market economies and advanced economies, respectively.<sup>11</sup>

These global SDG cost estimates need to be complemented by granular examinations at the national levels as global and regional aggregations tend to mask asymmetric access to finance and



to downplay the role of policy and institutions in implementing national goals. Moreover, costing national development priorities allows countries to assess their future expenditure requirements, to plan their budgets and to pin down the additional resources that need to be mobilized. Such careful identification of the cost and of available financial flows is crucial in the Egyptian case as the country is embarking on ambitious initiatives and mega-projects that could benefit from the multiplier effects and positive externalities inherent in the SDGs, as shown by Dahlia El-Hawary and Miral Shehata in Chapter 13.<sup>12</sup>

Investments in the SDGs that maximize synergies, minimize trade-offs, and address the priorities of the local communities involved can lead to a reduction of the required expenditures of achieving the SDGs in Egypt by 22 per cent, compared to the initial allocation that is calculated based on the sum of individual SDGs costs.<sup>13</sup> The Haya Karima project, which covers approximately 60 per cent of total population and focuses on rural Egypt, is estimated to cost USD 45 billion during its three year implementation period. This is roughly 4.2 per cent of Egypt's GDP. Comparing that figure to the 4.2 per cent of emerging economies average as proposed by Gasper and others, this shows that the estimate is a conservative one.

Several national costing exercises are being undertaken in Egypt. One noteworthy exercise is the SDG Costing Framework designed by the United Nations Economic and Social Commission for Western Asia (ESCWA). The framework is based on a costing sequence that considers methodologies adopted by national authorities as well as the estimates rendered by the United Nations specialized agencies and institutional stakeholders. This framework comes in line with advancing pilots of Integrated National Financing Frameworks (INFFs).

A country's INFF establishes a framework for financing national sustainable development priorities as it spells out how the country's national strategy will be financed and

implemented. As discussed by Daa Noureldin and Reham Morsy in Chapter 3, INFFs consider finance in a wider scope as they study the role of government policies and institutional designs to address funding challenges.<sup>14</sup> It is noteworthy that Egypt is taking solid steps towards developing its INFF through its joint program with the Joint SDG Fund.<sup>15</sup> This step comes in line with an increasing global interest, particularly from the OECD and the European Union, in INFF and cultivating partnerships to support progress in countries towards achieving their national sustainable development priorities.<sup>16</sup>

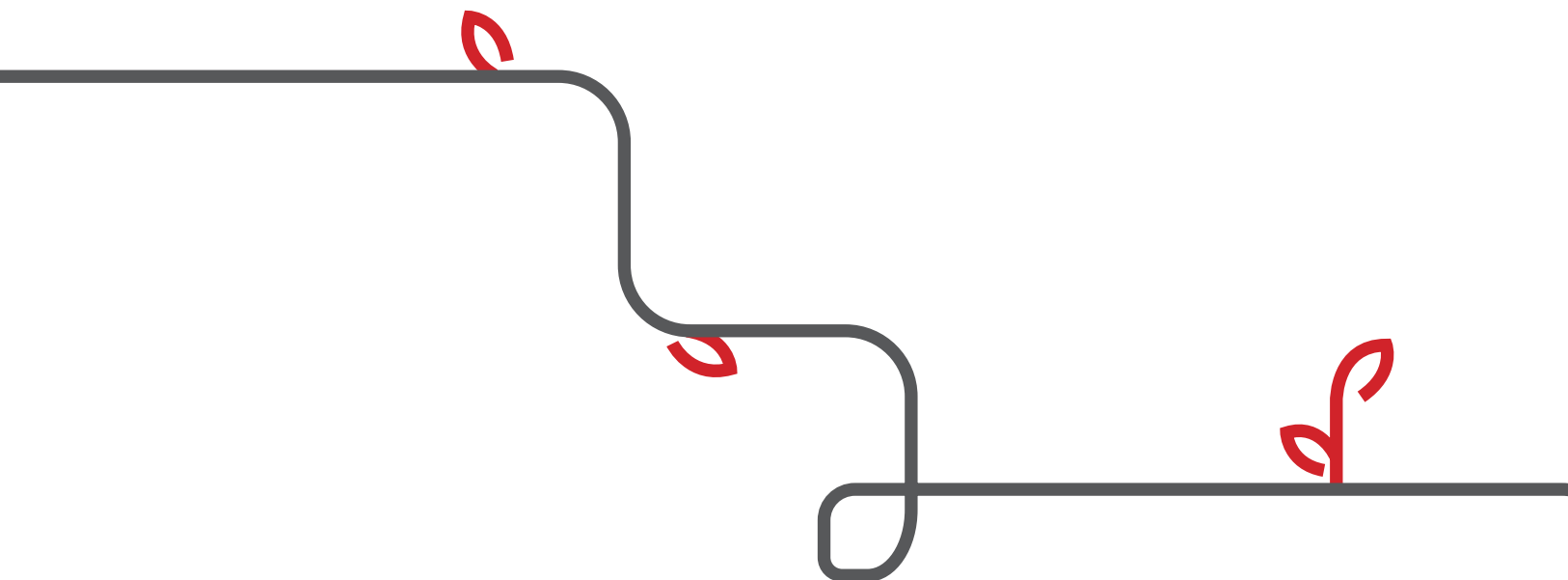
Based on the INFF, and in line with the global Financing for Development (FFD) framework, the report goes on to analyse the different financial flows in the Egyptian financing landscape. The first and the increasingly important source of finance is domestic public finance as analysed by Khaled Zakaria Amin and Israa A. El Husseiny in Chapter 4.<sup>17</sup> Fiscal policies should work to ensure that no one is left behind during the transitional phase of reforms. Walaa Talaat in Chapter 5 shows that this can happen through supporting the development of properly planned and fiscally sustainable social protection systems that improve access to essential services and contribute to breaking the cycle of poverty.<sup>18</sup> These national channels usually need to be complemented with international public finance, through both concessional and non-concessional financing resources. Rawda Ali explains in Chapter 12 the role of international development cooperation and its different tools in financing and contributing to SDGs in the Egyptian context.<sup>19</sup> In most cases, financing the country's development agenda requires resorting to further borrowing that needs to be based on a prudent debt management strategy to ensure debt sustainability as demonstrated by Sarah El Khishin in Chapter 8.<sup>20</sup>

Consistent with public finance policies and resources, Chapter 6 by Moataz Yeken shows how the private sector is a key partner owing to its capacity to compete and innovate as well as its



role as an instrumental contributor to closing the SDG investment gap.<sup>21</sup> Well-functioning businesses should be backed by a supportive financial sector that can efficiently channel the necessary funds towards the implementation of SDGs. In Chapter 7, Noha Emara analyzes the performance of Egypt's banking and non-banking financial sectors and presents an assessment of the challenges and new opportunities for financing sustainable development in Egypt.<sup>22</sup> In addition to finance as a critical enabler for achieving the SDGs, Chahir Zaki shows in Chapter 9 how trade can be a possible engine for inclusive economic growth and poverty reduction.<sup>23</sup> Science, Technology, Innovation, and Digitalization (STI+D) grouped together can be considered as the third enabler. Maged Ghoneima and Khaled El Sayed analyse the STI+D landscape in Egypt in Chapter 10.<sup>24</sup>

Throughout the chapters of the “Financing Sustainable Development in Egypt” report, the key message that is clearly emphasized is that finance goes beyond mere funding. Finance for Sustainable Development is a critical measure as it provides a comprehensive framework to enhance the efficiency of funding and directing the flows of funds. It helps maximize coordination and complementarity among the different sources of funding, and incentivizes warranted changes in investment, production, saving, and consumption. For finance to contribute to sustainable development, it needs to be evidence-based, supported by effective institutions and well-coordinated public policies with frequent monitoring and evaluation so as to achieve the common good aspired to in the SDGs.



# Endnotes

1. Mahmoud Mohieldin began drafting the present report in June 2020. The views expressed herein are entirely his and should not be attributed to the United Nations or the International Monetary Fund, its Executive Board or management.
2. <https://www.hayakarima.com/>.
3. The authors acknowledge the comments received from the following UN bodies: International Trade Centre (ITC); International Labor Organization (ILO); United Nations Children's Fund (UNICEF); United Nations Conference on Trade and Development (UNCTAD); United Nations Department of Economic and Social Affairs (UNDESA); United Nations Development Programme (UNDP); United Nations Economic and Social Commission for Western Asia (UNESCWA); United Nations Entity for Gender Equality and the Empowerment of Women (UN Women); United Nations Joint Team for Technology and Innovation (UNESCO, UNIDO, ITU); United Nations Resident Coordinator Office (UNRCO); and World Intellectual Property Organization (WIPO).
4. Racha Ramadan, Chapter 1: "The State of the SDGs in Egypt: Focus on Poverty and Inequalities".
5. Mahmoud Mohieldin and Miral Shehata, "The SDGs as an Operational Framework for Post COVID-19 Response and Recovery", AD- Minister, No. 38 (2021): 5–42.
6. Mazen Hassan and Engi Amin, Chapter 2: "Data and Data Systems".
7. Suzanna Elmassah, Chapter 11: "Localization".
8. OECD, Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet, (Paris: OECD Publishing, 2020).
9. Vitor Gaspar and others, "Fiscal Policy and Development: Human, Social, and Physical Investment for the SDGs", IMF Staff Discussion Note, (2019).
10. Julie Rozenberg and Marianne Fay. Beyond the Gap: How Countries Can Afford the Infrastructure They Need while Protecting the Planet. (Washington, D.C.: World Bank, 2019).
11. Anja Baum, Tewodaj Mogues, and Geneviève Verdier, "Getting the Most from Public Investment", in Well Spent: How Strong Infrastructure Governance can end waste in Public Investment?, eds. Gerd Schwartz, Manal Fouad, Torben Hansen, and Geneviève Verdier (Washington, D.C.: International Monetary Fund, 2020).
12. Dahlia El- Hawary and Miral Shehata, Chapter 13: "A Way Forward".
13. Jan Gaska. SDGs Indicators as an Input-output System: A Novel Approach to Utilize Interlinkages between SDGs Indicators for Impact Assessment and Projections. (Beirut: UN ESCWA, 2021).
14. Diaa Nouredin and Reham Morsy, Chapter 3: "Integrated National Financing Framework".
15. The United Nations Agencies partnering in this exercise include: UNCTAD, UNDP, UNICEF, UN Women, ILO.
16. For instance, in December 2021, the European Commission and the High Representative for Foreign Affairs and Security Policy launched the Global Gateway which aims to mobilize up to €300 billion in investments between 2021 and 2027 to underpin a lasting global recovery.
17. Khaled Zakaria Amin and Israa A. El Hussein, Chapter 4: "Budget Design and Priorities".
18. Walaa Talaat, Chapter 5: "Social Protection as Budget Priority".
19. Rawda Ali, Chapter 12: "International Development Cooperation".
20. Sarah El Khishin, Chapter 8: "Debt Management in Egypt and Financing the SDGs".
21. Moataz Yeken, Chapter 6: "Role of the Business Sector".
22. Noha Emara. Chapter 7: "Role of the Financial Sector".
23. Chahir Zaki, Chapter 9: "Trade as an Engine for Sustainable Development and Growth".
24. Maged Ghoneima and Khaled El Sayed, Chapter 10: "Science, Technology, Innovation and Digitalization".

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The authors benefitted from thorough discussions and extensive dialogue with leading experts and specialists from the following international entities: the International Labor Organization (ILO), the International Trade Centre (ITC), the United Nations Children's Fund (UNICEF), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Department of Economic and

Social Affairs (UNDESA), the United Nations Development Programme (UNDP), the United Nations Economic and Social Commission for Western Asia (ESCWA), the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), the United Nations Joint Team for Technology and Innovation (UNESCO, UNIDO, ITU), the United Nations Resident Coordinator Office (UNRCO), and the World Intellectual Property Organization (WIPO). The Organization for Economic Co-operation and Development (OECD) provided informative comments at an early stage of drafting the present report.

Ms. Elena Panova, United Nations Resident Coordinator in Egypt, and her office provided invaluable help and support in facilitating productive engagement with the United Nations system.

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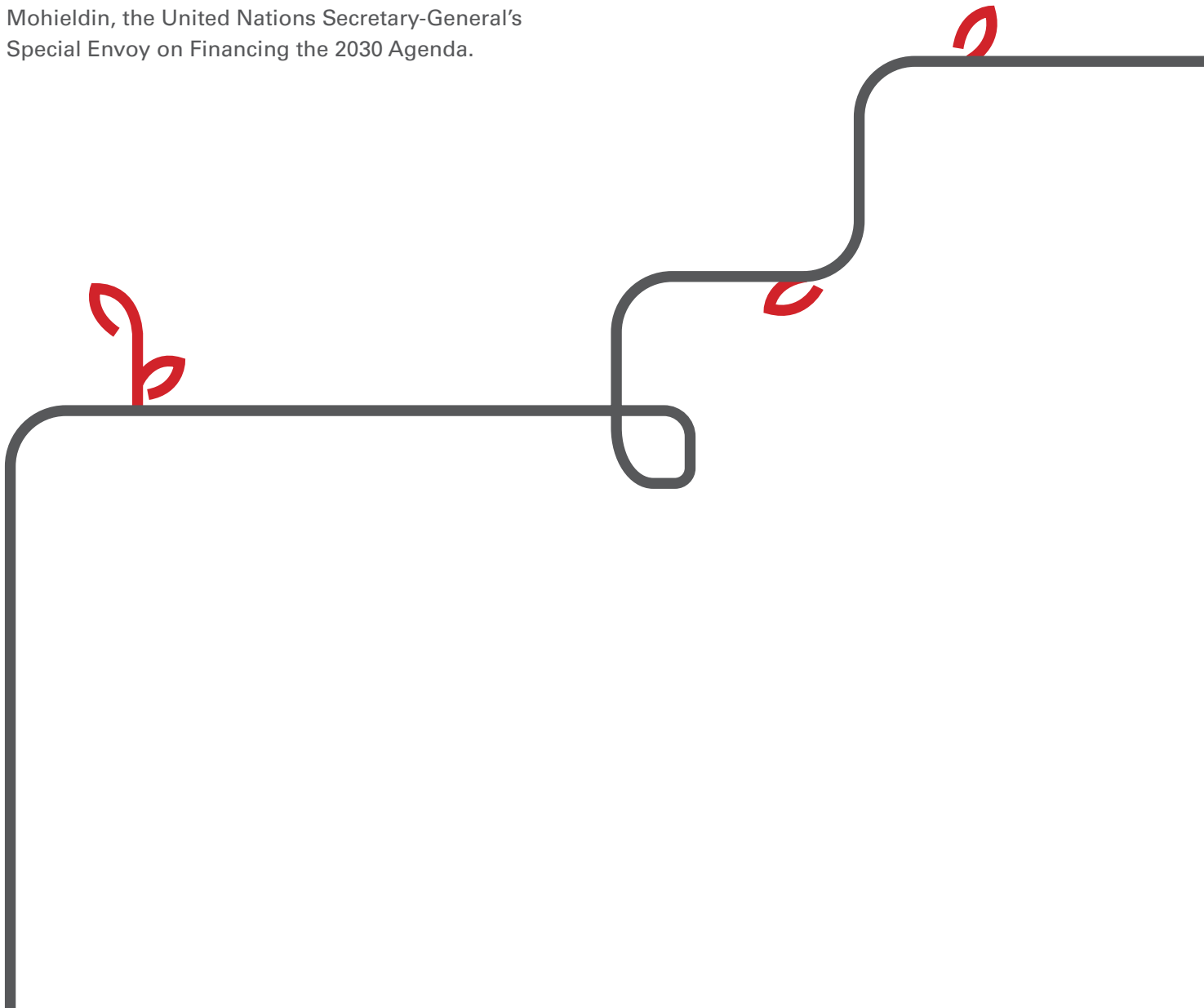
The role of the Ford Foundation and Ms. Noha El-Mikawy, the representative of the Ford Middle East and North Africa Office in Cairo, is gratefully acknowledged.

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We thank ESCWA for their dedicated efforts and excellent work in editing the English version of the present report. We would also like to thank Al-Ahram Center for Translation and Publishing for translating the report from English to Arabic.

The report team recognizes the much-appreciated assistance by the Office of Mr. Mahmoud Mohieldin, the United Nations Secretary-General's Special Envoy on Financing the 2030 Agenda.



# Key policy recommendations

## No poverty, reduced inequalities and social protection

Goal 1: No poverty

Goal 10: Reduced inequality

- Ensure equal access to health, quality education, technology and economic opportunities for all.
- Address gender inequality by ensuring women's equal access to economic opportunities and sustainable sources of income, especially in rural areas.
- Reduce spatial inequality by ensuring adequate investment in social and physical infrastructure of rural and urban areas in all governorates.

Social Protection System

- Expand Social Safety Net programs horizontally by adding new beneficiaries and vertically by increasing the benefit size (inflation indexing), while also revising the targeting methods.
- Improve reach out and targeting through building a comprehensive database using the Unified National Registry and connecting it to the civil registry.

## Integrated National Financing Framework (INFF) and public financial flows

Integrated National Financing Framework

- Maintain current efforts on the first and second building blocks of the INFF: assessment and diagnostics and the financing strategy while closing the cycle by activating its third and fourth blocks: monitoring and review as well as governance and coordination.
- Continue the recent path of fiscal consolidation and reduce reliance on foreign borrowing and volatile external inflows to address the twin deficit dynamic of government budget and the current account.

Fiscal policies and public domestic resources

- Reform the public financial management system. On the expenditure side, strengthen program and performance-based budgeting and introduce a medium-term expenditure framework.
- Strategically identify the optimal tax mix and invest in tax administration system in terms of:
  - transparency
  - efficiency
  - compliance
  - collection effort
  - enforcement

External public flows

- Consolidate efforts through the adoption of a national development cooperation policy framework that covers a broader scope of external finance resources: official development assistance (ODA) and beyond, to better support the INFF, increase the coherence and effectiveness of development cooperation, and identify clear roles and responsibilities for all relevant stakeholders.
- Optimize the use of ODA flows for catalytic purposes to leverage private investments and maximize finance for development.
- Create a roadmap for blended finance highlighting national priority development sectors and projects that can benefit from this financing modality.
- Form a dedicated mechanism to support tackling illicit financial flows to effectively coordinate between all entities involved in curbing such flows.

- Enhance technical assistance, capacity development and knowledge transfer associated with development cooperation.
- Strengthen the development cooperation coordination and information management through using advanced information technology and data systems for managing ODA and alike-flows.

Public debt management

- As a rule of thumb for development finance, maintain a priority for investment over borrowing.
- Ensure a declining trajectory for public debt, both domestic and

foreign, as a ratio of GDP as well as for debt service as a ratio of exports of goods and services.

- Within prudent limits, prioritize domestic currency borrowing for lines of finance that do not have foreign returns.
- Increase the tradability and liquidity of the debt instruments and strengthen Egypt's financial markets to fund SDGs spending gaps.
- Develop prudent measures and strengthen the institutional framework to govern the new types of innovative financing instruments; such as sovereign green bonds, Islamic sukuk and climate-SDGs debt swaps.
- Strengthen fiscal risk management and enhance fiscal and debt rules to promote debt transparency, accountability and reporting.

## Business and financial sectors

Business sector

- Translate the national planning framework into quantifiable targets to identify gaps and required investments, highlighting the potential for private investment through information sharing.
- Improve the dialogue with the business sector, domestic and foreign, and emphasize knowledge sharing in a dynamic way while focusing on sectoral and geographic potentials.
- Realize the potential of public-private partnership through a new approach based on international best practices and enhance institutional responsibilities, governance and coordination among the public entities and emphasize the investment promotion approach of the public-private partnership framework
- Adopt a clear business engagement model with the private sector based on well-defined "traffic light" signal- system:
  - Areas for full private sector engagement under effective regulations (green).

- Areas for possible partnerships with the State (orange).
- Clearly restricted areas for operations (red).
- Align the mandate of existing zones: economic, investment, free and industrial with development goals, at the national, governorate and sectoral levels, while reinforcing export promotion, private sector engagement, foreign direct investment, and integration into global value chains.
- Ensure that investment and production are green and smart, supported by digitalization, innovation, and effective logistics.
- Enhance the integration of environmental, social and governance considerations into the business sector's core strategies and operations and showcase some of the good examples of firms' compliance in the context of the preparation for COP27.

#### Financial sector

- With an average share of private sector credit to total credit hovering around 22%, and an average market capitalization ratio to GDP reaching 14%, over the past three years, this demonstrates a critical need for improving private sector's access to finance.
- Improve other areas of financial services such as insurance and leasing based on international standards.
- Develop a comprehensive policy for financial development to support funding Vision 2030 ambitions and the required growth strategy. This is critical to complete the requirement for development finance which is normally based on effective regulations, competitive market and adequate policy framework.
- Promote the role of the financial sector in funding socially responsible and environment friendly investment by:
  - Providing incentives for incorporating environmental, social and governance considerations into their activities.
  - Ensuring financial sector's compliance with new rules related to sustainability, as informed by the Task Force on Climate-related Financial Disclosures.
- Provide adequate investment in digital infrastructure and new modalities for providing financial services through digital platforms and enhancing relevant financial literacy to maximize the benefits of the digital dividends and minimize the challenge of digital divide.



#### Trade

- Develop and implement an export strategy with concrete measures to achieve the \$100 billion target of exports of goods, while capitalizing on competitive advantage and geographic proximity.
- Diversify exports and raise their complexity and GDP contribution by enhancing policies related to education, labor, governance, institutions, infrastructure, technological readiness and open trade.
- Promote trade with regional partners, including Arab, African and European countries.
- Tap on new markets by promoting connectivity through better transportation systems, effective logistics, easing trade barriers, fostering the adoption of technology and investing in information communication technology to support digitalization.
- Provide institutional support for export finance, advancing credit and improving guarantees, to support export promotion.
- Provide special incentives to foreign direct investment which fosters innovation, R&D, technology transfer and higher value addition to reinforce export orientation.
- Increase domestic and foreign investment in the manufacturing and priority sectors, to better integrate into global value chains.



#### Science, technology, innovation and digitalization (STI+D)

- Adopt an overarching national innovation strategy that ensures sustainable operationalization by setting measurable targets and enforcement mechanisms.
- Increase investment in digital infrastructure, data systems and platforms in cooperation with the private sector.

- Enhance the primary and preparatory education curricula through introducing science, technology and innovation-enabling subjects, such as, scientific thinking, research methods, artificial intelligence and information technology skills.
- Continue the current path of digital transformation of government services while improving the quality, accessibility, and inclusiveness of the digital ecosystem.
- Strengthen the regulatory framework to address emerging risks associated with digitalization, such as cyber security.



#### Data and data systems

- Develop capacities in managing data collection and data streaming processes.
- Create binding benchmarks for SDG data updating frequency and level of disaggregation, including data at the governorate level.
- Develop initiatives to use big data to monitor and evaluate the impact of development projects.
- Adopt legislative reforms that contribute to strengthened governance, particularly laws on freedom of information and data security.



#### Localization

- Capitalize on the investments of Haya Karima by enhancing productivity and competitiveness to guarantee that the newly developed rural Egypt becomes a major contributor to production, job creation, and the export orientation of the economy.
- Adopt a financial ecosystem for localizing the SDGs by ensuring adequate budgetary allocations and strengthening the local revenue mobilization capacity.
- Ensure multi-stakeholder engagement for the ownership of development goals and targets, following the participatory approach adopted by Haya Karima.

# Acronyms

|                 |  |                 |  |
|-----------------|--|-----------------|--|
| <b>ATM</b>      | automated teller machine                                       | <b>MSMEs</b>    | micro-, small and medium-sized enterprises                             |
| <b>CAPMAS</b>   | Central Agency for Public Mobilization and Statistics          | <b>NGO</b>      | non-governmental organization  |
| <b>CBE</b>      | Central Bank of Egypt  | <b>ODA</b>      | official development assistance  |
| <b>CD</b>       | compact disk   | <b>OECD</b>     | Organization for Economic Cooperation and Development                  |
| <b>COVID-19</b> | coronavirus disease  | <b>PDF</b>      | Portable Document Format   |
| <b>DESA</b>     | United Nations Department of Economic and Social Affairs       | <b>SDGs</b>     | Sustainable Development Goals  |
| <b>DFA</b>      | development finance assessment                                 | <b>SMEs</b>     | small and medium-sized enterprises                                     |
| <b>ECE</b>      | Economic Commission for Europe                                 | <b>SOE</b>      | State-owned enterprise   |
| <b>ERF</b>      | Economic Research Forum  | <b>STI</b>      | science, technology and innovation                                     |
| <b>ESCWA</b>    | United Nations Economic and Social Commission for Western Asia | <b>STI+D</b>    | science, technology, innovation and digitization                       |
| <b>FDI</b>      | foreign direct investment                                      | <b>UNCTAD</b>   | United Nations Conference on Trade and Development                     |
| <b>FFD</b>      | financing for development                                      | <b>UNDP</b>     | United Nations Development Programme                                   |
| <b>G20</b>      | Group of 20  | <b>UNESCO</b>   | United Nations Educational, Scientific and Cultural Organization       |
| <b>GDP</b>      | gross domestic product   | <b>UNICEF</b>   | United Nations Children's Fund   |
| <b>GII</b>      | Global Innovation Index  | <b>UNIDO</b>    | United Nations Industrial Development Organization                     |
| <b>GNI</b>      | gross national income  | <b>UNODC</b>    | United Nations Office on Drugs and Crime                               |
| <b>GNP</b>      | gross national product   | <b>UNRCO</b>    | United Nations Resident Coordinator Office                             |
| <b>ICT</b>      | information and communications technology                      | <b>UNSD</b>     | United Nations Statistics Division                                     |
| <b>IFPRI</b>    | International Food Policy Research Institute                   | <b>UN-Women</b> | United Nations Entity for Gender Equality and the Empowerment of Women |
| <b>ILO</b>      | International Labour Organization                              | <b>VAT</b>      | value added tax  |
| <b>IMF</b>      | International Monetary Fund                                    | <b>VNR</b>      | voluntary national review  |
| <b>INFF</b>     | integrated national financing framework                        | <b>WHO</b>      | World Health Organization  |
| <b>ITC</b>      | International Trade Centre                                     | <b>WIPO</b>     | World Intellectual Property Organization                               |
| <b>ITU</b>      | International Telecommunication Union                          | <b>WTO</b>      | World Trade Organization   |
| <b>LA21</b>     | Local Agenda 21  |                 |  |
| <b>MDGs</b>     | Millennium Development Goals                                   |                 |  |
| <b>MENA</b>     | Middle East and North Africa                                   |                 |  |



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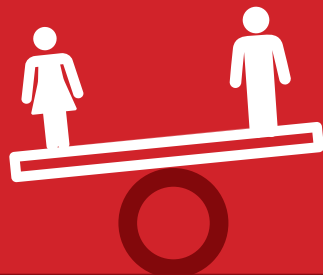
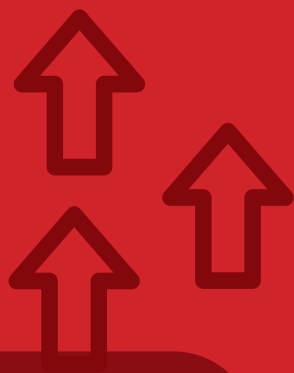
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# The state of the Sustainable Development Goals in Egypt: focus on poverty and inequality

*by Racha Ramadan*



# 01











The outbreak of COVID-19 and the economic slowdown may increase poverty and inequality and erode progress made in the development agenda.

## Background

**Egypt is committed to achieving the Sustainable Development Goals (SDGs) by 2030, and progress had been made under many indicators since 2015. According to the Sustainable Development Report 2021, the country has received an SDG Index Score of 68.6 per cent and is ranked eighty-second among 165 countries.<sup>1</sup>**

Nevertheless, significant challenges remain, especially in the context of the coronavirus pandemic (COVID-19). The economic growth that Egypt had achieved did not create enough decent jobs for participants in the labour market and adversely impacted Egyptian households. Individuals working in the informal sector and in poor working conditions were more vulnerable to the economic impacts of the pandemic. Although the percentage of individuals living in extreme poverty decreased to 4.6 per cent, the national poverty headcount ratio was 29.7 per cent in 2019/20. Furthermore, the country's moderate Gini coefficient conceals spatial and gender inequality in several areas, such as education and economic opportunities.<sup>2</sup>





The outbreak of COVID-19 and the economic slowdown may increase poverty and inequality and erode progress made in the development agenda; however, the economic reforms implemented in 2018 to achieve higher economic growth, macroeconomic stability and sustainable public finance have increased the Egyptian economy's resilience to the pandemic.<sup>3</sup>

National development priorities should guide the achievement of the SDGs since solutions will differ based on the constraints and initial conditions of the indicators. Eradicating poverty (Goal 1) and reducing inequalities (Goal 10) are prioritized in the national development agenda, as these issues continue to face significant challenges.<sup>4</sup> They are connected to a number of other SDGs, such as quality education (Goal 4), gender equality (Goal 5) and decent work and

economic growth (Goal 8). The Sustainable Development Strategy: Egypt Vision 2030 reflects the national development goals, which consider the national context and development priorities and are interlinked with the SDGs.<sup>5</sup> The objective of the Strategy is to address the constraints hindering development and increase the economy's resilience to any shocks. The Egyptian Government works to build and strengthen capacity and awareness for achieving the SDGs by promoting analytical tools to measure progress and encouraging multi-stakeholder partnerships through the Strategy.

This chapter provides an overview of the status of the SDGs in Egypt and the policies that have been implemented to achieve them. It focuses on eradicating poverty and reducing inequalities, given the impact of these issues on the development process in Egypt. Section A tracks the changes in several SDG indicators since 2015 using the most recent available data. The indicators were selected based on their potential interlinkages with poverty and inequality, as well as data availability. Section B addresses poverty in Egypt, both money-metric and multidimensional poverty, as well as the characteristics of the poor. Section C discusses the different types and dimensions of inequality: income inequality, inequality of outcomes and inequality of opportunities. Section D provides an overview of the different programmes and policies implemented by the Egyptian Government to eradicate poverty and reduce inequality, and section E concludes with policy recommendations.

## A. The Sustainable Development Goals in Egypt

The progress Egypt has made towards achieving the SDGs is not uniform across all Goals. While progress has been achieved in many indicators, major challenges remain in various development

targets, and the country is underperforming in achieving some Goals.<sup>6</sup> Major challenges persist in 7 of the 17 SDGs, including zero hunger (Goal 2); good health and well-being (Goal 3); gender



equality (Goal 5); decent work and economic growth (Goal 8); life below water (Goal 14); life on land (Goal 15); and peace, justice and strong institutions (Goal 16). Goals 2, 3, 8 and 16 have seen moderate improvement over the years, while Goals 5, 14 and 15 have stagnated. Several indicators are on track, such as the proportion of urban population living in slums, the maternal mortality ratio, the need for family planning satisfied with modern methods, and the proportion of the population covered by at least a 4G mobile network. Stagnant indicators include the number of researchers per million inhabitants, the proportion of seats held by women in Parliament, the proportion of the population using basic sanitation services and carbon dioxide emissions from fuel combustion and cement production.<sup>7</sup>

Moreover, significant challenges remain concerning Goals 1 and 10,<sup>8</sup> which are prioritized in the national development agenda. As the SDGs are not isolated objectives, progress in some SDGs may reveal synergies with others. For instance, eradicating poverty would ensure zero hunger and good health and well-being. Reducing inequalities would provide equal access to education, services and economic opportunities, and it would benefit the entire economy. Ensuring gender equality would yield lower levels of poverty, higher economic growth and increased investments in health and education. Additionally, promoting economic growth and providing decent jobs is essential to reducing poverty and inequalities.<sup>9</sup>

This section explores the progress achieved in some of the SDGs, chosen for their potential interlinkages with poverty and inequality. The indicators used to track these Goals were primarily chosen based on data availability.

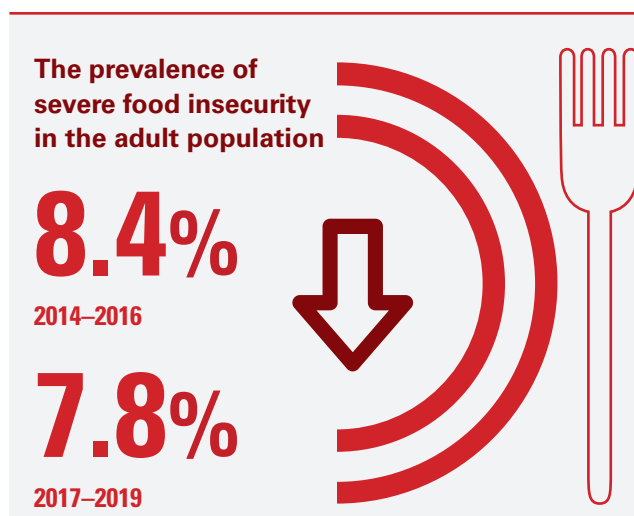
## 1. Goal 2: zero hunger

Egypt has achieved progress in many of the indicators under Goal 2, but some challenges remain. Since 2015, the prevalence of undernourishment (Indicator 2.1.1) has

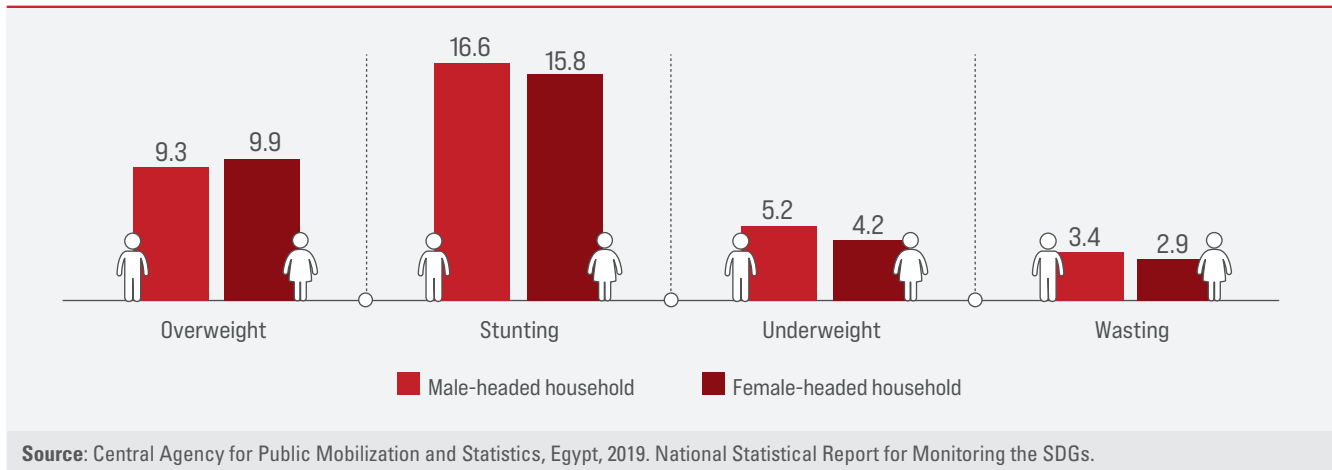
remained stagnant at approximately 4 per cent of the total population, even during the pandemic.<sup>10</sup> The prevalence of severe food insecurity in the adult population decreased from 8.4 per cent during the period 2014–2016 to 7.8 per cent during the period 2017–2019.<sup>11</sup>

But some challenges remain. Egypt suffers from the triple burden of malnutrition (Indicator 2.2.2): obesity, stunting and micronutrient deficiencies (anemia). Stunting is the primary challenge. In 2015, 16.6 per cent of children under 5 years of age suffered from stunting in male-headed households, with 15.8 per cent in female-headed households. The prevalence of underweight and wasting among children under 5 years of age was less than 10 per cent in 2015, with a higher prevalence among male-headed households (figure 1).

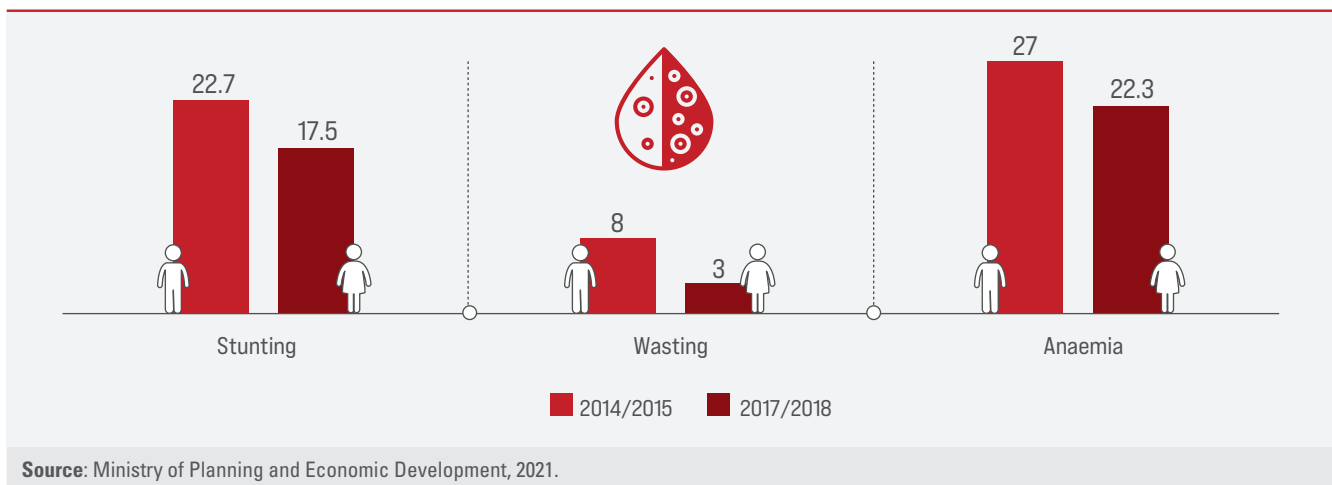
In children under 5 years of age, the prevalence of stunting decreased from 22.7 per cent in 2014/15 to 17.5 per cent in 2017/18. Similarly, the prevalence of wasting decreased from 8 per cent to 3 per cent over the same period, and the prevalence of anemia decreased from 27 per cent to 22.3 per cent.<sup>12</sup> The prevalence of anemia among women aged 15 to 49 years, both pregnant and non-pregnant, (Indicator 2.2.3) decreased between 2015 and 2019 but remained above 25 per cent (figure 3).



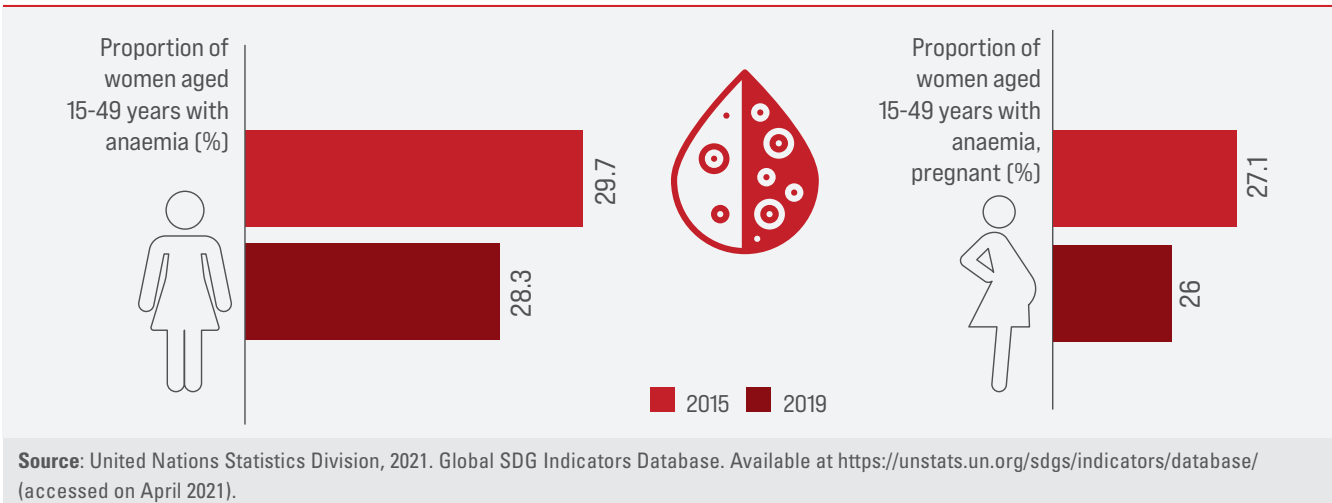
**Figure 1.** Prevalence of malnutrition among children under 5 years of age, by gender of the head of household as determined using the 2015 Household Income, Expenditure and Consumption Survey



**Figure 2.** Prevalence of stunting, wasting and anemia for children under 5 years of age



**Figure 3.** Prevalence of anemia among women (pregnant and non-pregnant)



## 2. Goal 3: good health and well being

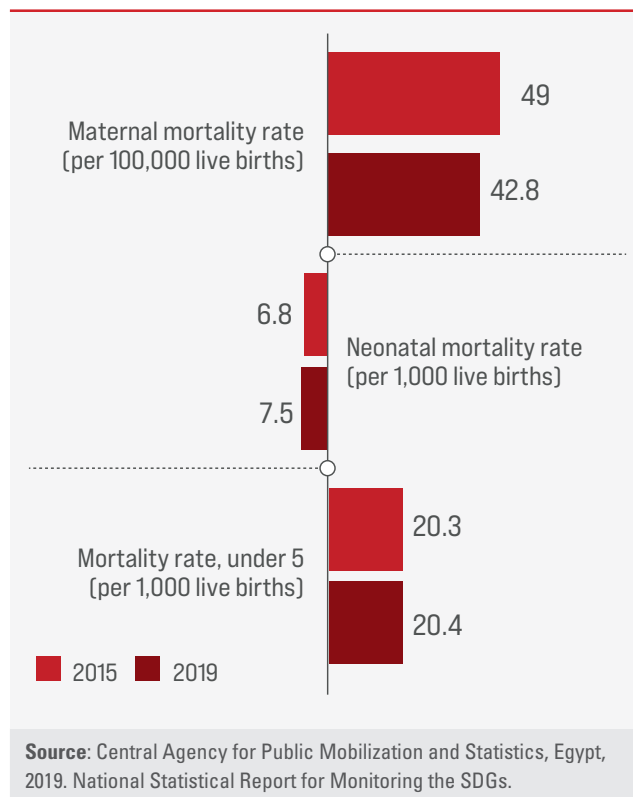
Egypt succeeded in reducing the maternal mortality ratio (Indicator 3.1.1) between 2015 and 2019. The neonatal mortality rate (Indicator 3.2.2) per 1,000 live births increased from 6.8 in 2015 to 7.5 in 2019, and the mortality rate for children under 5 years of age (Indicator 3.2.1) remained almost constant (figure 4).<sup>13</sup>

Over the same period, there was a decrease in indicators concerning tuberculosis incidence; the adolescent birth rate; and the mortality rate attributed to cardiovascular disease, cancer, diabetes or chronic respiratory disease. The number of deaths attributed to non-communicable diseases increased by approximately 1 per cent between 2015 and 2019 (table 1).

The COVID-19 pandemic sheds the light on the importance of the health sector. A substantial increase in health financing and the development of the health workforce (Target 3.c) is critical to ensuring the resilience of the health sector and its ability to face the current pandemic and any future

health crises. It is worth noting that the universal health coverage (UHC) service coverage index for Egypt increased between 2015 and 2017 (table 1).

**Figure 4. Trends in selected indicators under targets 3.1 and 3.2**



**Table 1. Selected indicators for Goal 3**

| Target | Indicator | Description  | 2015      | Latest value | Year of latest value |
|--------|-----------|--|-----------|--------------|----------------------|
| 3.3    | 3.3.1     | Number of new HIV infections per 1,000 uninfected population, by sex and age (per 1,000 uninfected population)     | 0.03      | 0.05         | 2019                 |
| 3.3    | 3.3.2     | Tuberculosis incidence (per 100,000 population)  | 15        | 12           | 2019                 |
| 3.3    | 3.3.5     | Number of people requiring interventions against neglected tropical diseases (number)                              | 1,640,557 | 6,894,411    | 2019                 |
| 3.4    | 3.4.1     | Mortality rate attributed to cardiovascular disease, cancer, diabetes or chronic respiratory disease (probability) | 28.2      | 27.7         | 2016                 |
| 3.4    | 3.4.1     | Number of deaths attributed to non-communicable diseases, by type of disease and sex (number)                      | 383,328   | 386,184      | 2019                 |
| 3.7    | 3.7.2     | Adolescent birth rate (per 1,000 women aged 19–15 years)   | 59.0      | 51.8         | 2018                 |
| 3.8    | 3.8.1     | Universal health coverage (UHC) service coverage index   | 65        | 68           | 2017                 |

Source: United Nations Statistics Division, 2021. Global SDG Indicators Database. Available at <https://unstats.un.org/sdgs/indicators/database/> (accessed on April 2021).

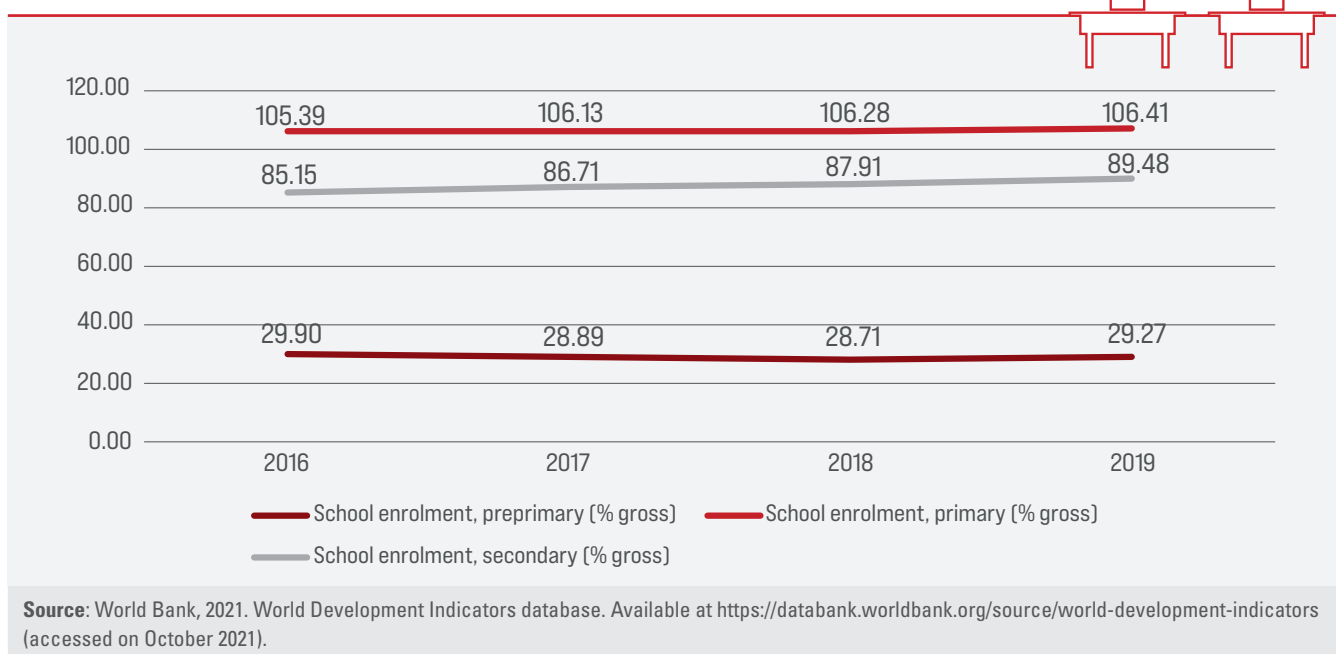
### 3. Goal 4: quality education

Ensuring quality education is a key determinant and one of the strongest and most stable mechanisms for sustainable development. Better education leads to reducing poverty, empowering women and achieving food security and healthy lifestyles. Gross enrolment in primary and secondary education has increased in Egypt since 2015, reaching over 100 per cent and 85 per cent,

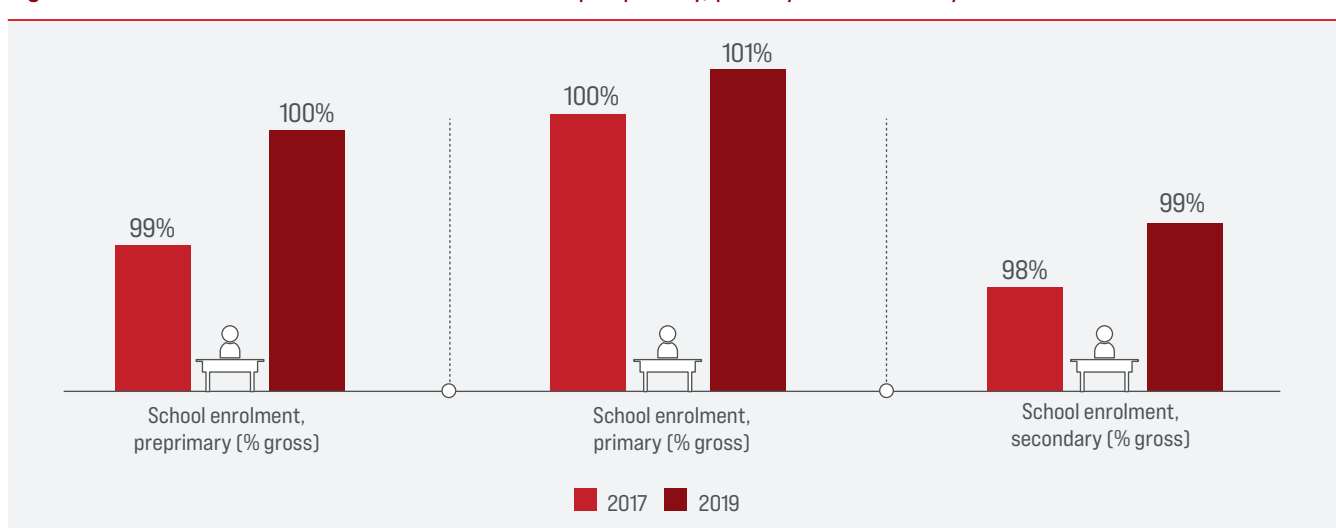
respectively (figure 5). With regard to tertiary education, the gross school enrolment rate was 35.78 per cent and 34.58 per cent for women and men, respectively.

The gender gap in education has decreased over the years, with females performing better than males at all levels. The female to male ratio of school enrolment at pre-primary, primary and secondary levels is over 95 per cent (figure 6).

**Figure 5. Percentage of gross school enrolment**



**Figure 6. Female-to-male ratio of school enrolment at pre-primary, primary and secondary levels**



## 4. Goal 5: gender equality

Egypt faces significant challenges in achieving Goal 5 and has not seen improvement in a number of indicators. Gender equality is not only a basic right but also a necessary condition for development, peace and prosperity. In order to empower women, all forms of violence against them must be eliminated in public and private spaces. Approximately 18 per cent of Egyptian women between the ages of 18 and 64 years have been the victim of domestic violence, resulting in a total cost of LE 2.17 billion (Egyptian pounds) borne by the women and their families.<sup>14</sup>

Target 5.3 is to eliminate all harmful practices, such as child, early and forced marriage and female genital mutilation. According to the latest available data, 20.6 per cent of women aged 20 to 24 years were married before the age of 18 years, and 89.5 per cent of girls and women aged 15 to 49 years have undergone female genital mutilation.<sup>15</sup>

At the economic level, female labour force participation in Egypt is among the lowest in the world, at only 18.46 per cent in 2019.<sup>16</sup> Egyptian women are prevented from having equal access to economic opportunities, owing to society's gender roles and the fact that they are often the main caregiver in the household. Women spend more time in unpaid care work, regardless of their employment or marital status. Employed married women spend approximately 28 hours per week in care work, compared to only 4 hours spent by

men.<sup>17</sup> The responsibility to provide care work is expected to increase with the pandemic and lockdown measures, particularly in the context of e-learning and remote work.

Limited access to economic opportunities may also be explained by limited access to assets such as agricultural land and digital assets. According to the Central Agency for Public Mobilization and Statistics,<sup>18</sup> 99 per cent of the male population had agricultural holdings, compared to 1 per cent of women, in 2009/10. In 2017, only 25 per cent of the female population aged 15 years or older had access to the Internet, compared to 44 per cent of men in same age group.<sup>19</sup> The COVID-19 pandemic has enhanced the use of enabling technology through e-learning and remote work. As a result, ensuring equal access to technology and digital assets is a key factor in promoting women's empowerment. Lastly, Egyptian women also face challenges in the political sphere; only 15.1 per cent of the seats in the Egyptian Parliament were held by women in 2020.<sup>20</sup>

## 5. Goal 8: decent work and economic growth

The promotion of sustained, inclusive and sustainable economic growth; full and productive employment; and decent work for all is a critical condition to inclusive growth and poverty reduction. Nevertheless, the economic growth achieved in Egypt did not produce enough decent jobs for new entrants to the labour market, resulting in an increase in informal employment. Informal workers, defined as those employed without social insurance, accounted for 55.3 per cent of total employment in 2020, with 28.4 per cent of women and 59.8 per cent of men working in the informal sector. Unemployment decreased to 7.2 per cent in the fourth quarter of 2020, compared to 11.3 per cent in the same quarter of 2017.<sup>21</sup> These informal workers, who work in poor conditions with no social protections, were most affected by the

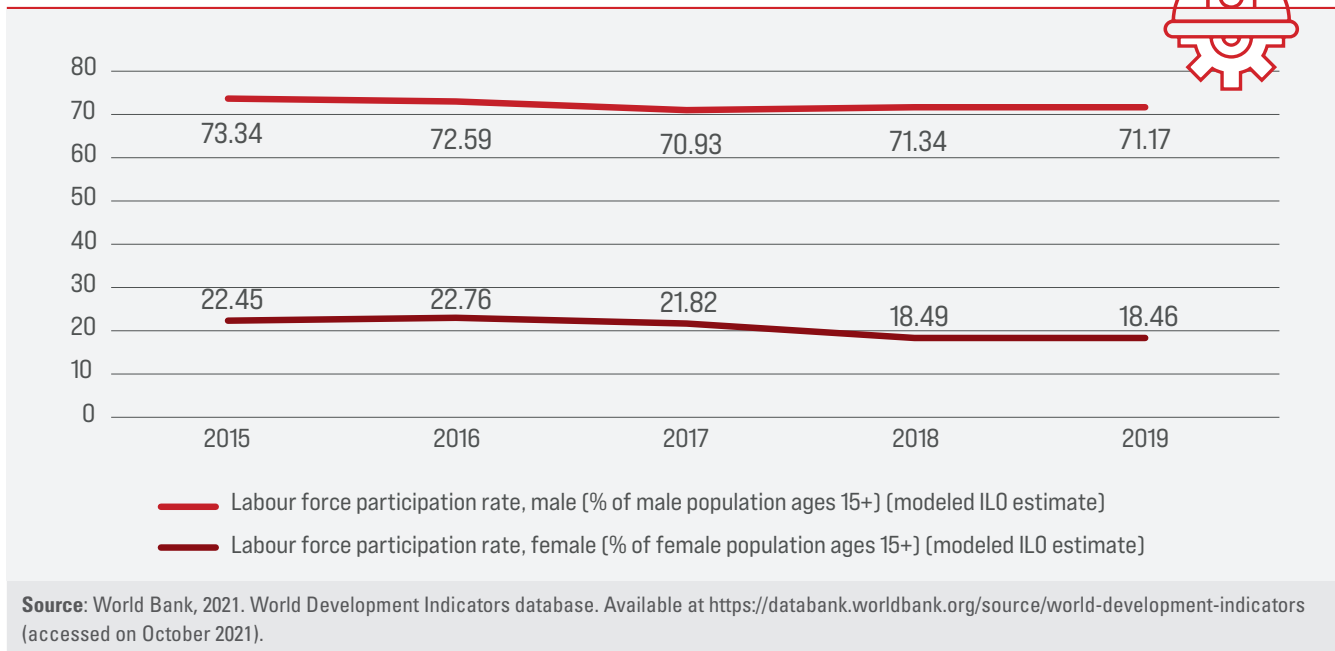


pandemic and are more likely to fall into poverty as a result of job loss and income reduction.

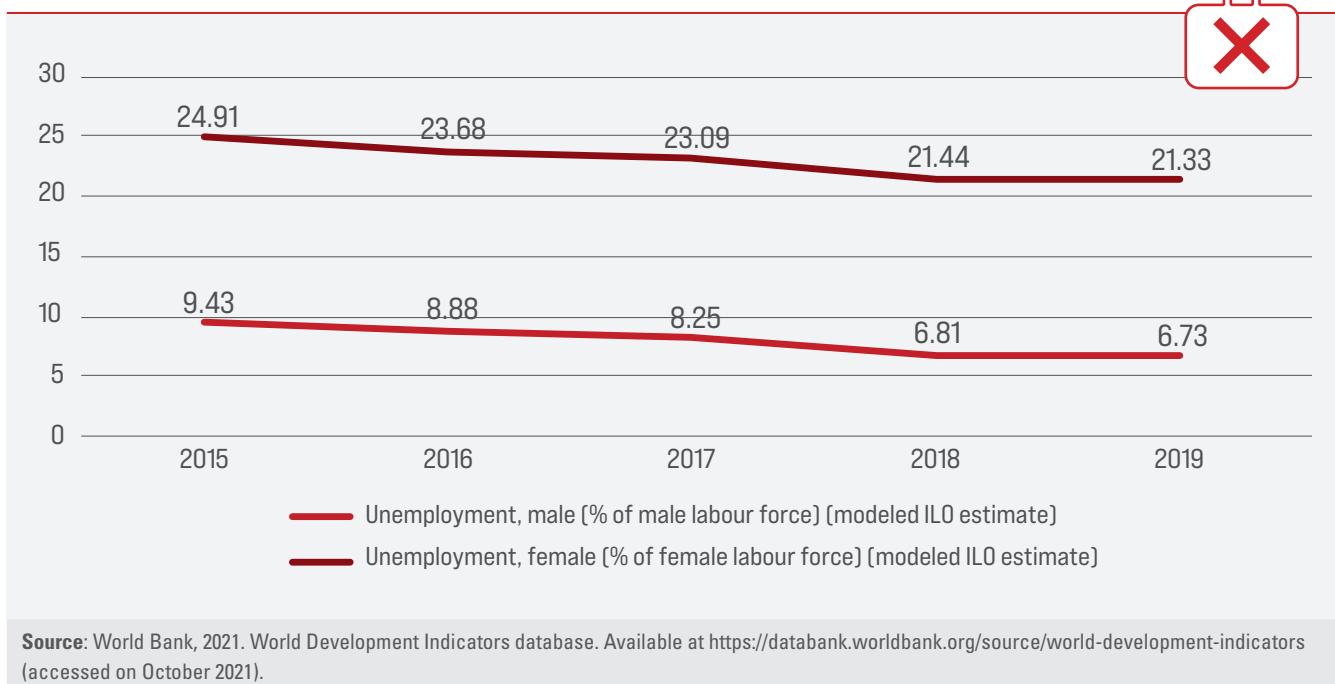
Women are another vulnerable group. Although the gender gap in education has nearly closed, it has not translated into better access to economic opportunities for Egyptian women. Female

labour force participation in Egypt is the lowest in the world, with only 18.46 per cent of women, compared to 71.17 per cent of men, participating in the labour force (figure 7). Women who are in the labour force are primarily unemployed, with a 21.33 per cent unemployment rate in 2019, compared to only 6.73 per cent for men (figure 8).

**Figure 7. Female and male labour force participation rates (modelled ILO estimate)**



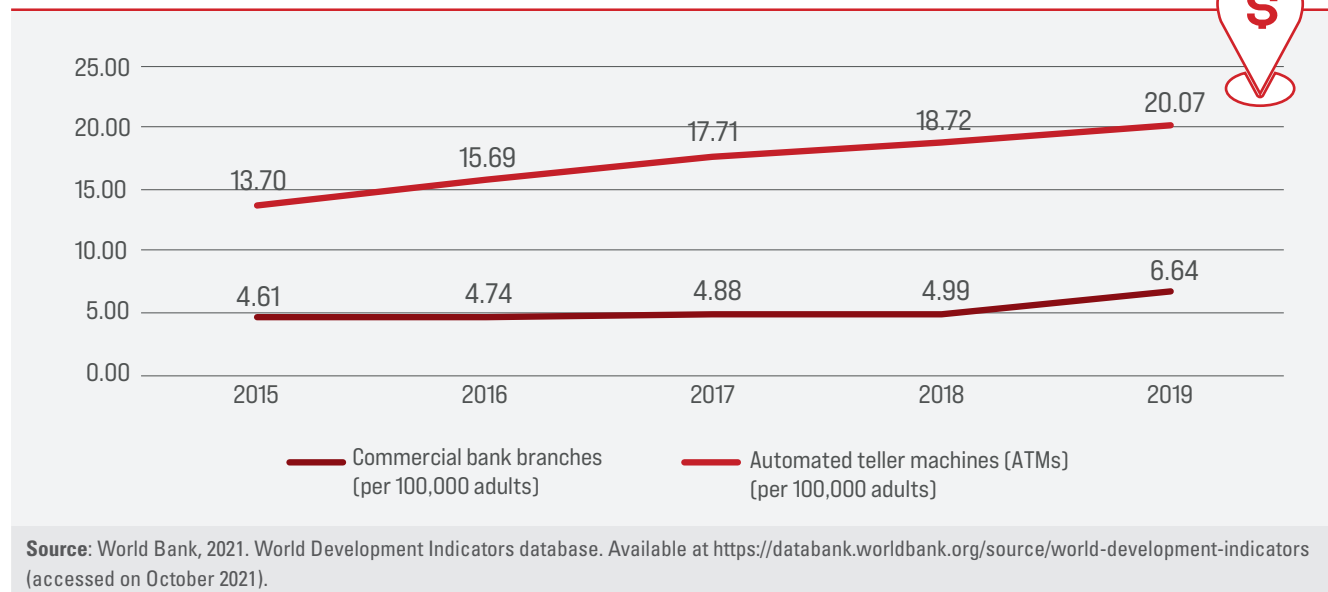
**Figure 8. Female and male unemployment (modelled ILO estimate)**



Egypt achieved progress in the two indicators under Target 8.10: strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all. Since 2015, the number of commercial bank branches and automated

teller machines (ATMs) per 100,000 adults has increased to 6.64 and 20.07, respectively (figure 9). Additionally, the proportion of adults with an account at a financial institution or with a mobile-money-service provider increased from 14.13 per cent in 2014 to 32.78 per cent in 2017.<sup>22</sup>

**Figure 9. Commercial bank branches and automated teller machines per 100,000 adults**



## B. Goal 1: end poverty in all its forms everywhere

For money-metric poverty, Egypt succeeded in reducing the proportion of the population living in extreme poverty (on less than \$1.90 per day) from 6.2 per cent in 2017/18 to 4.6 per cent in 2019/20. Similarly, the poverty headcount ratio at \$3.20 per day decreased from 16.94 per cent in 2015 to 9.5 per cent in 2019. In addition, 2.2 per cent of the employed population lives below the international poverty line. While the poverty headcount ratio at the national poverty line increased from 27.8 per cent in 2015 to 32.5 per cent in 2017/18, it then decreased for the first time in 20 years to reach 29.7 per cent in 2019/20.<sup>23</sup>

According to Sen's capability approach, poverty is a multidimensional phenomenon, and money-metric poverty is not sufficient to understand the

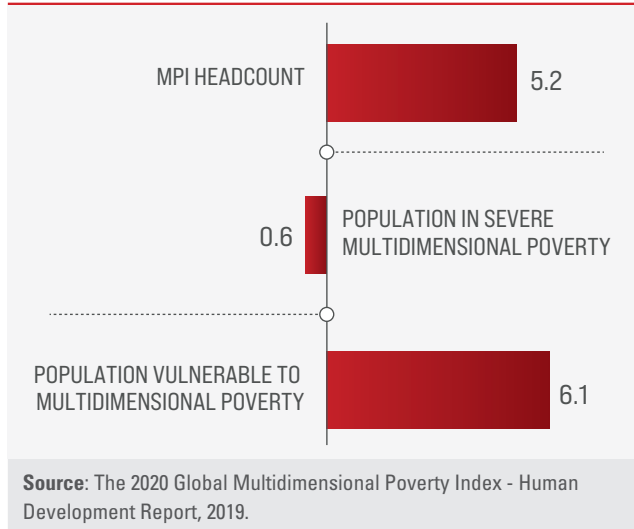
poverty situation. The Multidimensional Poverty Index captures multiple deprivations and the ways in which they overlap in terms of basic services and capabilities, such as education, health and standard of living. The indicators used in the calculations are interlinked with the SDGs. The Index is relevant to policy implementation, as it helps understand the characteristics of the poor and the contribution of each socioeconomic factor (or indicator) to total poverty.

According to the latest Egyptian Demographic and Health Survey, conducted in 2014, 5.2 per cent of the Egyptian population is considered multidimensionally poor, 6.1 per cent are vulnerable to multidimensional poverty and 0.6 per cent live in severe multidimensional

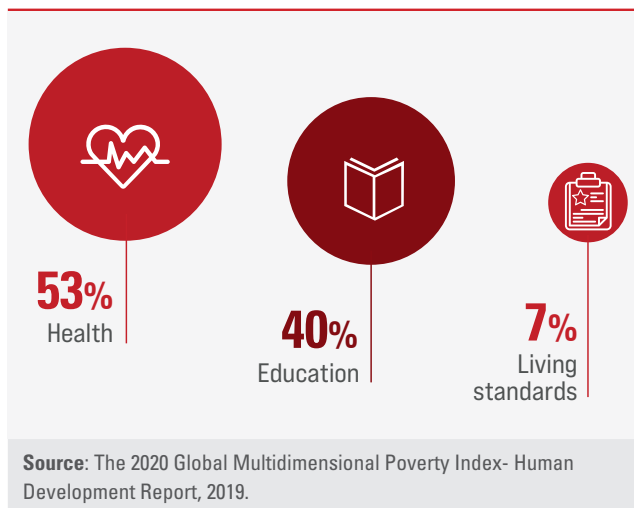


poverty. Insufficient education is a key factor in multidimensional poverty and contributes to 53.2 per cent of overall multidimensional poverty, followed by poor health (39.8 per cent) and a low standard of living (7 per cent).<sup>24</sup>

**Figure 10. Multidimensional Poverty in Egypt, 2014**



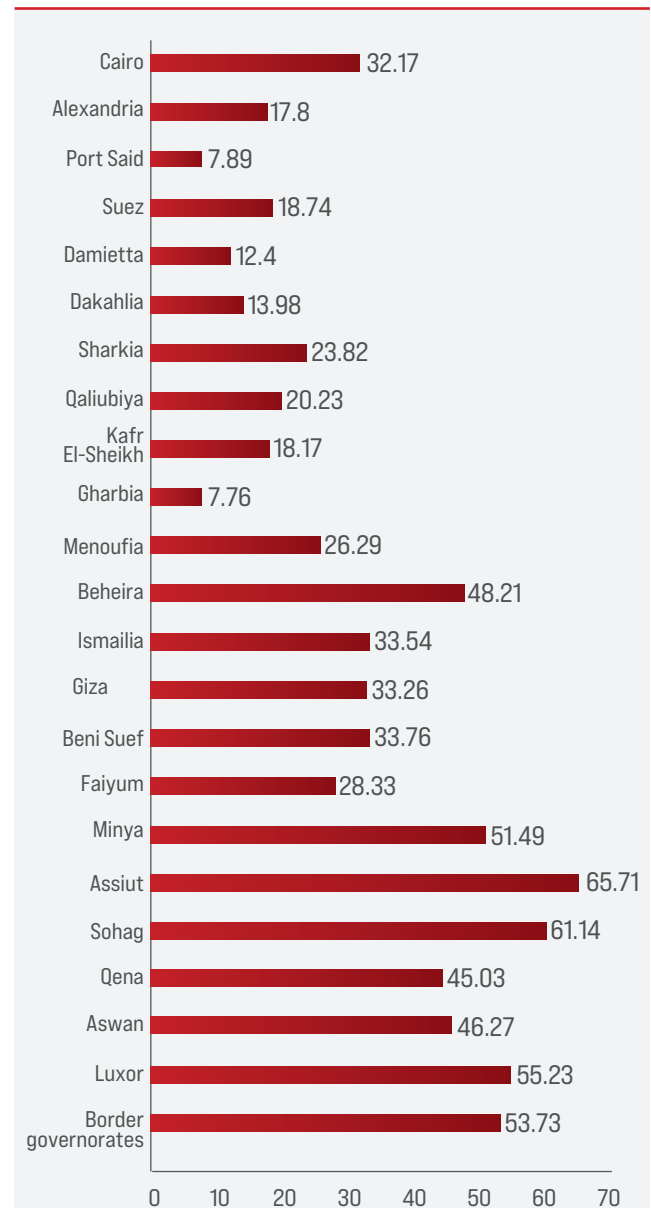
**Figure 11. Contribution of deprivation in different dimensions to overall multidimensional poverty (MPI) (percentage)**



In order to eradicate poverty and make progress in the 2030 Sustainable Development Agenda, the Government must identify vulnerable groups and understand their main characteristics. According to the 2017 Household Income, Expenditure and Consumption Survey,<sup>25</sup> approximately 48 per cent of the poor are female. Poverty is concentrated in rural areas, with 67 per cent of the poor population. The

unequal geographical distribution of income and services is reflected in the concentration of the poor in Upper Egypt governorates; poverty prevalence is higher than 40 per cent in Minya, Assiut, Sohag, Qena, Aswan and Luxor (figure 12). Education is essential to reducing poverty, as 39.48 per cent of the illiterate are poor, compared to only 11.50 per cent of those with a higher university degree.

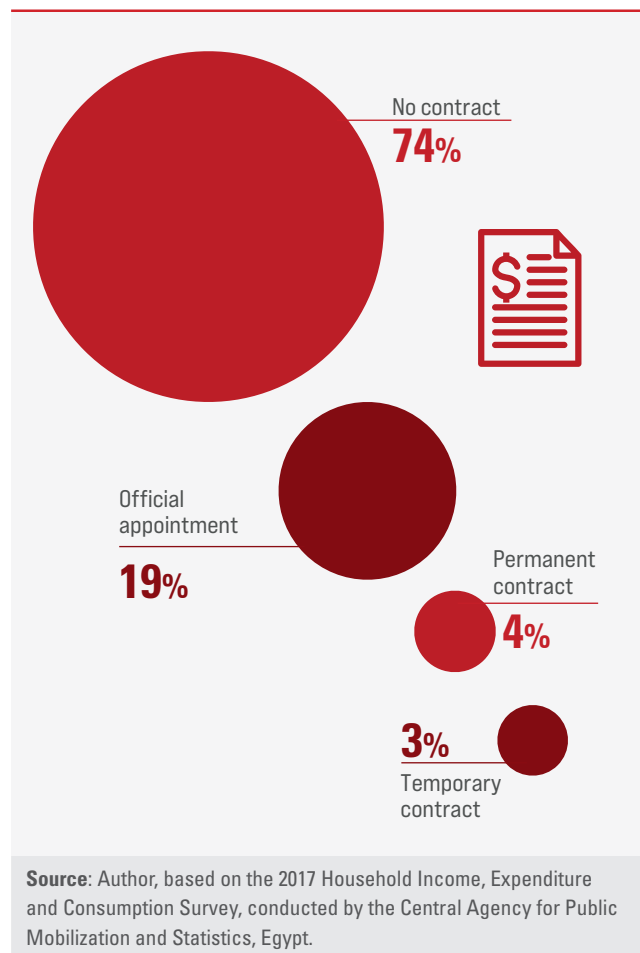
**Figure 12. Prevalence of poverty (national poverty line) by governorate, as a percentage**



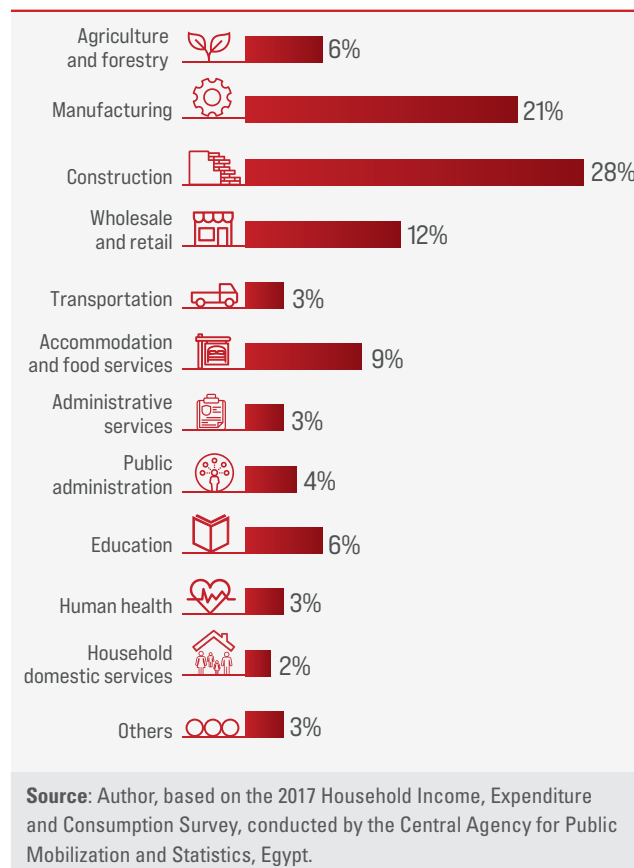
**Source:** Author, based on the 2017 Household Income, Expenditure and Consumption Survey, conducted by the Central Agency for Public Mobilization and Statistics, Egypt.

Poor individuals are primarily employed in the informal sector. According to the Survey, approximately 74 per cent of the poor are employed with no contract (figure 13). They work primarily in construction (27.62 per cent), manufacturing (21.28 per cent), accommodation and food services (9.36 per cent) and agriculture (6 per cent) (figure 14).

**Figure 13.** Distribution of the poor by contract type



**Figure 14.** Distribution of the poor by economic sector



In the current context of the COVID-19 pandemic, both money-metric and multidimensional poverty are expected to increase; 73.5 per cent of households declared a decrease in their income, primarily as a result of the preventive measures, unemployment or a reduction in wages. The negative impact of the pandemic is higher in rural areas. Estimates of extreme poverty rates were revised in 2020, with an expected decrease to 4.4 per cent rather than 4.1 per cent, compared to 4.6 per cent in 2019.<sup>26</sup>

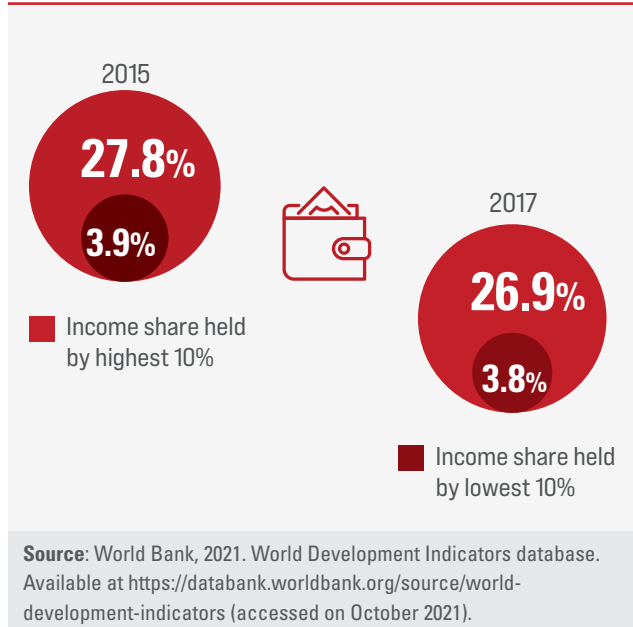
## C. Goal 10: reduce all types of inequalities

Income inequality in Egypt is perceived as relatively low and has been decreasing over the years. The country had a Gini coefficient of 29 in 2019, compared to 33.7 in 2017.<sup>27</sup> Nevertheless, the income gap between the lowest 10 per cent and

the highest 10 per cent has been consistently large; the income share held by the highest 10 per cent is over five times the income share held by the lowest 10 per cent (figure 15). In 2017, the annualized average growth rate in per capita real survey mean

consumption (or income) of the bottom 40 per cent of the population (Indicator 10.1.1) was -2.5 per cent, compared to -1.14 per cent for the total population.<sup>28</sup> In addition, 5 per cent of individuals live on less than 50 per cent of the median income (Indicator 10.2.1).<sup>29</sup>

**Figure 15.** Income share held by the highest 10 per cent and the lowest 10 per cent



Sociodemographic characteristics such as gender, geographical location, education level and employment status are key factors in explaining inequalities in Egypt. In 2019/20, the growth rates of household income and expenditures in urban areas were 16.3 per cent and 19 per cent, respectively, and 13.2 per cent and 12 per cent in rural areas.<sup>30</sup>

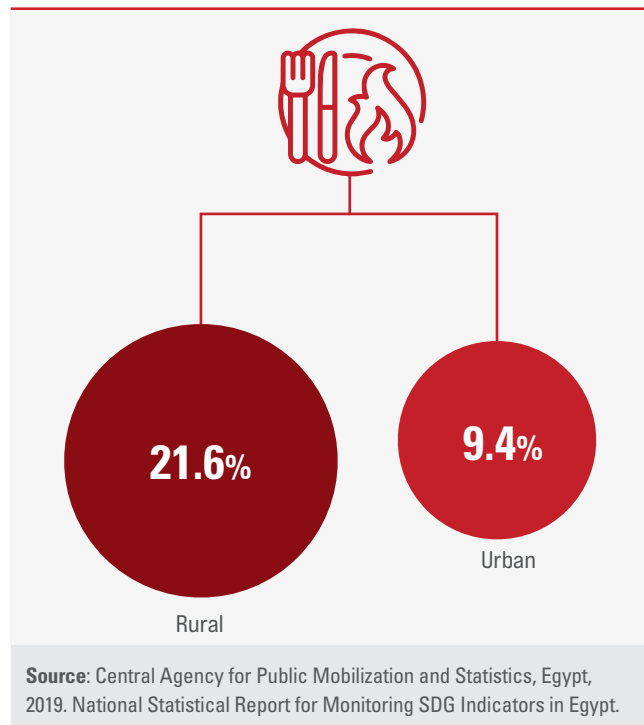
Similarly, non-economic inequality based on gender and geographical location is persistent. Regarding geographical location, the prevalence of caloric deficiency in rural areas is twice that of urban areas (figure 16); however, malnutrition among children under 5 years of age is higher in urban areas, particularly the prevalence of overweight, stunting and wasting. This geographical gap may be explained by a difference in dietary habits and access to services such as clean water and sanitation in the two geographical areas (figure 17).



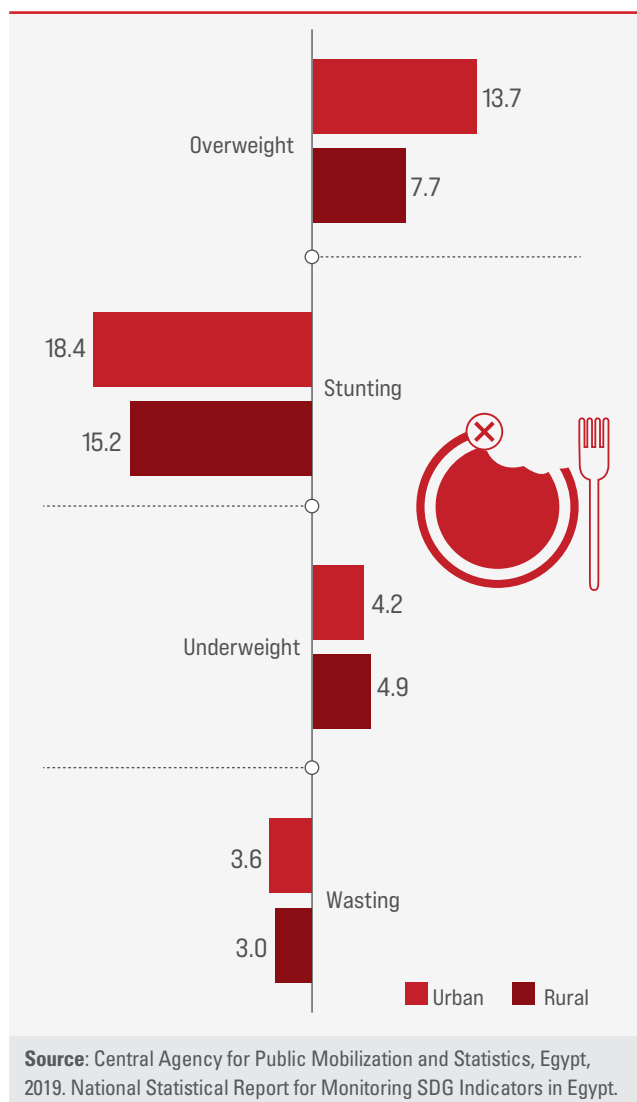
**Sociodemographic characteristics such as gender, geographical location, education level and employment status are key factors in explaining inequalities in Egypt.**

Regarding the gender gap, the under-five mortality rate has decreased since 2015 for both males and females but is higher among males (figure 18). The prevalence of caloric deficiency is lower among female-headed households, compared to male-headed households (figure 19). This confirms that a mother who has access to sources of income and has the power to make decisions might invest more in food security and human capital for her household.

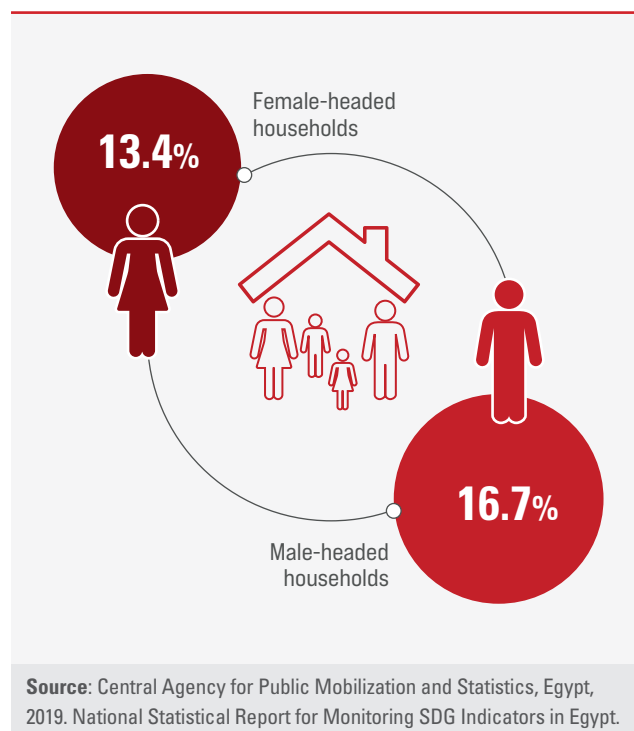
**Figure 16.** Prevalence of caloric deficiency by region, 2015



**Figure 17: Malnutrition among children under five years of age by geographical location, as a percentage, 2019**

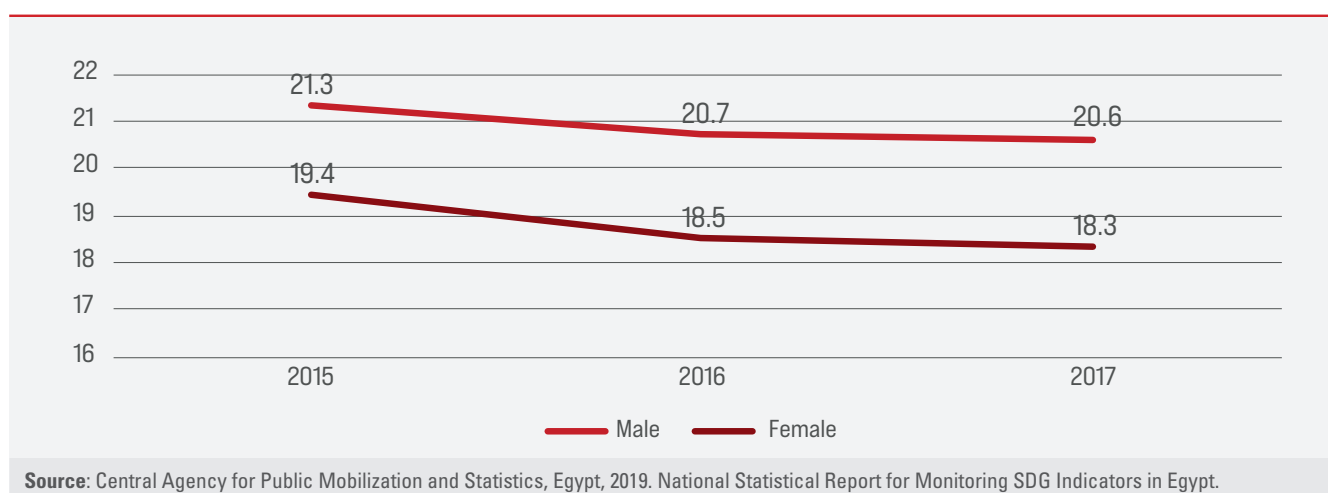


**Figure 19: Prevalence of caloric deficiency by gender of the head of household, 2015**



Lastly, there is growing consensus that promoting equality of opportunities is a key factor for social and economic justice. Inequality of opportunities arises from circumstances beyond the control of individuals, such as their gender, place of birth, wealth and the level of education of their head of household. It correlates to inequality of outcomes because the standard of living where individuals are born may affect their future outcomes.

**Figure 18: Under-five mortality rate per 1,000 individuals, by gender**



Inequality of opportunities and inequality of outcomes are not moving in tandem. For example, inequality of opportunities increased with respect to higher educational attainment.<sup>31</sup> The two main contributors to inequality of opportunity in terms

of health and education are wealth and the level of education of the head of household. When examining the gender of the head of household, educated mothers play a strong, positive role in the health and education of their children.

## D. Government programmes and policies to eradicate poverty and reduce inequality

Recent economic reforms implemented by the Egyptian Government resulted in economic growth of 5.6 per cent in the fiscal year 2018/19, compared to nearly 2.92 per cent in 2014. As a result, the Egyptian economy is more resilient to the current health and economic crisis. Economic growth was 3.57 per cent in 2019/20 and is expected to be nearly 2.8 per cent in 2020/21. Egypt is considered the best performer in the Middle East and North Africa (MENA) Region and among emerging economies.<sup>32</sup>

The reforms aim to achieve macroeconomic stability and sustainable public finance. The main components of these reforms include exchange rate liberalization, fiscal consolidation and subsidies reforms. Various megaprojects and several programmes were implemented in the energy sector, such as increasing electricity production using efficient technology and reforming the regulatory framework of the electricity sector. In the housing sector, they include housing projects targeting various income groups and cities. In the water sector, projects seek to promote efficient use and expand the availability of clean water.

The policies implemented by the Government of Egypt take into consideration national development priorities. The national Sustainable Development Strategy is the governing framework for all the development projects and programmes implemented to eradicate poverty; promote equality; ensure social justice; empower women, youth and persons with disabilities; and achieve

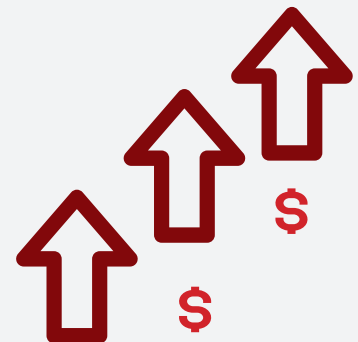
balanced regional development.<sup>33</sup> The eight goals of the Strategy are aligned with the SDGs and the Agenda 2063 of the African Union. The first goal of the Strategy aims to raise the standard of living and ensure a decent life for all Egyptians. It consists of eradicating poverty, providing a social safety net, controlling population growth and ensuring equal access to education and other services, such as clean water and sanitation.<sup>34</sup>

Social protection programmes<sup>35</sup> in Egypt play a key role in reducing poverty and ensuring food security, especially during periods of crisis. Food subsidies reduced the poverty rate by three percentage points in 2019.<sup>36</sup> Implemented in 2015, the conditional cash transfer “*Takaful*” ensures investments in the human capital of future generations and empowers women. According to an impact evaluation study conducted by the International Food Policy Research Institute (IFPRI), *Takaful* beneficiaries increase their food consumption and improve the quality of their diets, compared to those who do not receive the

Economic  
growth of

**5.6%**

in the fiscal year  
2018/19



cash transfers. Additionally, beneficiaries spend more on school supplies and transport to school.<sup>37</sup>

Beneficiaries of *Takaful* may benefit from other social protection programmes, such as food ration cards and the programme “No illiteracy with Takaful”. Other programmes include “Two is enough”, to control population growth, and “*Sakan Kareem*”, to improve infrastructure and access to basic housing needs such as sanitation and clean water.<sup>38</sup> The latter targets 67,000 households in poor rural areas in Minya, Assiut, Sohag, Qena and Luxor.<sup>39</sup>

Pro-poor growth that creates decent jobs and provides poor individuals with income-generating activities is necessary to ensure that poor individuals graduate from social protection programmes. The programme “*Forsa*”, implemented by the Ministry of Social Solidarity, is intended to help be the *Takaful* graduation tool. It links *Takaful* beneficiaries to employment services, employability trainings and asset transfers. *Forsa* offers various activities to improve access to economic opportunities and promise financial inclusion.<sup>40</sup>

Financial inclusion is another key factor in reducing poverty and fostering economic growth. In that connection, the Central Bank of Egypt (CBE) has introduced several regulatory reforms, which include launching a microfinance initiative that serves the unbanked and underbanked; mapping demand-side and supply-side data that cover households as well as micro-, small and medium-sized enterprises (MSMEs); and launching a mortgage finance initiative targeting low- and middle-income beneficiaries. Furthermore, some reforms and initiatives have been implemented to ensure women’s financial inclusion. These include the promotion of village savings and loan associations and the creation of mobile money products specifically tailored for divorced women to receive electronic alimony payments in cooperation with Nasser Social Bank.<sup>41</sup> CBE issued guidelines to banks for collecting and reporting gender-disaggregated data in order to track progress in women’s financial inclusion.

Other reforms include harmonizing the definition of women-owned businesses and issuing new mobile banking regulations.<sup>42</sup> To include underserved segments in financial services, CBE succeeded in empowering marginalized groups by collaborating with banks and service providers to propose more advanced products and projects tailored to persons with disabilities, in addition to smart cards for Egyptian farmers.<sup>43</sup>

Another initiative aiming to eradicate poverty and eliminate spatial inequality is “*Haya Karima*”, which means “decent life”. It was implemented in 2019 with the goals of providing a decent life in rural villages with a high poverty rate by offering support for health, education, housing and infrastructure, in addition to promoting microenterprises and economic empowerment. The initiative has reached 186,000 beneficiaries.<sup>44</sup>

With the outbreak of COVID-19, the Government of Egypt reacted quickly to protect the population from the painful health and economic impacts of the pandemic. It expanded the coverage of the programmes “*Takaful*” and “*Karama*” to mitigate the impact on vulnerable households, extending benefits to an additional 411,000 families.<sup>45</sup> Furthermore, the Government provided monthly cash transfers of LE 500 for three months to irregular workers in the most hard-hit sectors, reaching approximately 1.6 million beneficiaries.<sup>46</sup>

Additionally, the Government announced a stimulus package of LE 100 billion (\$6.13 billion) to boost the economy. Other measures include postponing loan repayment, rescheduling taxes and reducing the price of utilities.<sup>47</sup> To support hard-hit sectors, CBE reduced the preferential interest rate from 10 per cent to 8 per cent on loans in the tourism, industrial, agriculture and construction sectors, as well as for housing that targets low- and middle-income families.<sup>48</sup> CBE deferred all customer payments for corporations, individuals and small and medium-sized enterprises (SMEs), and facilitated the use of electronic payment methods to encourage cashless transactions.<sup>49</sup>

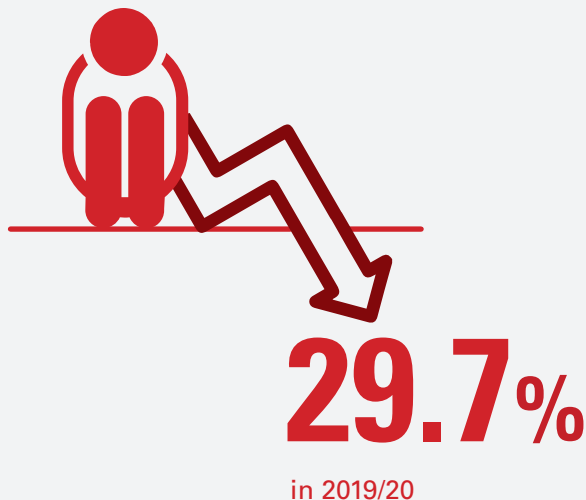
## E. Concluding remarks and policy recommendations

Egypt is expected to achieve several development goals by 2030; however, challenges remain in terms of eradicating poverty, reducing inequality, empowering women and creating decent jobs. These challenges increased with the outbreak of COVID-19, given the related health cost and economic slowdown.

This chapter provides an overview of the current status and trends of selected SDG indicators since 2015, which represent development priorities and constraints in Egypt. It focuses primarily on Goal 1 on eradicating poverty and Goal 10 on reducing inequalities.

Egypt achieved progress in reducing the number of individuals living in extreme poverty. According to the latest available data, the proportion of individuals living below the national poverty line decreased for the first time in 20 years, to 29.7 per cent in 2019/20. Poor individuals are mainly concentrated in rural Upper Egypt. They are illiterate, informally employed and work primarily in the construction

**The proportion of individuals living below the national poverty line decreased to**



**The Government implemented several economic reforms and expanded its social protection programmes to protect vulnerable households against the health and economic impacts of the pandemic and to ensure that the Egyptian economy is resilient to any future shocks.**

sector. Income inequality as measured by the Gini coefficient is considered moderate and has been decreasing over the years. Nevertheless, the income gap between the highest 10 per cent and the lowest 10 per cent is consistently high. Similarly, the gender gap in economic opportunities and the geographical gap in access to services are persistent. Moreover, inequality of opportunities has increased; wealth and the level of education of the head of household are the two main contributors.

The outbreak of COVID-19 and the economic slowdown may increase poverty and inequality and erode any progress made in the development agenda. In this context, the Government implemented several economic reforms and expanded its social protection programmes to protect vulnerable households against the health and economic impacts of the pandemic and to ensure that the Egyptian economy is resilient to any future shocks.



The Government's policies will determine the path for achieving the SDGs. An integrated, long-term approach should be implemented to address the main development constraints and target various Goals simultaneously, taking into consideration the interlinkages and trade-offs among the Goals. The following recommendations may be considered to eradicate poverty, reduce inequalities and achieve other SDGs:

1

Ensure equal access to education, which is the main contributor to poverty. With the increase in remote work and e-learning as a result of the COVID-19 pandemic, unequal access to digital devices may increase inequality in terms of access to education and income. Government policies must ensure equal access to education, technology and economic opportunities for all individuals, regardless of their income group, gender or geographical location.

2

Tackle gender inequality by ensuring that women have equal access to economic opportunities and sustainable sources of income. This would close the gender economic gap and increase investment in the education and health of future generations.

3

Reduce spatial inequality by ensuring equal investment in the social and physical infrastructure of rural and urban areas in all governorates.

4

Increase investment in the manufacturing, infrastructure and agribusiness sectors to ensure economic diversification and resilience and to generate additional decent jobs.

5

Reform and expand social protection programmes and ensure their effectiveness using evidence-based research to analyse the distributive and fiscal impacts of the various programmes.



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# Data and data systems

*by Mazen Hassan and Engi Amin*



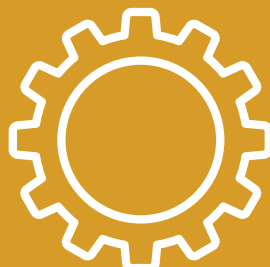
# 02







Accessibility and disaggregation could also be improved while maintaining confidentiality.



## A. The role of data availability in policy selection

Data are produced at an unprecedented scale. According to Oracle, a computer technology corporation, approximately 90 per cent of the world's data were created in the last two years. Every two years, the volume of data across the world doubles in size. Data have become an essential part of running operations and making decisions in both the public and private spheres. This chapter focuses on the connection between data and sustainable development in Egypt by investigating three questions:

**90%**

of the world's data were created in the last two years.







Data collected by various government institutions are scattered across different platforms, published in different formats and are not integrated in a central database.

2

1

To what extent are data on the SDGs available, accessible and usable in Egypt, and how could they help the Government to identify possible gaps and courses of action?

2

What possible bottlenecks need to be addressed to improve the speed and efficiency of the Government's data generating process?

3

Even if not fully updated or complete, could available data inform the Government on where best to mobilize resources in order to achieve the maximum possible impact for development?

The objective of this chapter is to encourage investing in efficient data systems to further support data-driven decisions related to development. Section B demonstrates the significance of generating reliable data for the current situation in Egypt. Section C assesses official public data, particularly on the SDGs, using various data quality parameters (primarily availability and timeliness). Section D presents a qualitative analysis of data generation bottlenecks that, if addressed, could make the process much smoother. Section E shows the result of a brief exercise demonstrating how data could drive development policy trade-offs. Section F concludes with policy recommendations.

## B. The need for data-driven decisions

Given the country's ongoing and unprecedented level of public spending and reforms, the need for data-driven decisions has never been greater. Before exploring the three questions mentioned in the previous section, it is worth exploring the

arguments in favour of investing in and making use of credible data systems.

The Egyptian Government is embarking on a significant public investment programme, likely



to be of unprecedented scale. Deciding on a course of action has therefore never been more consequential. The Government has spent over LE 4 trillion on public investments in the past six years, a figure that is unmatched by any comparable period in recent history. As a result, spending decisions have become extremely consequential. Given that spending levels might not continue to rise for long, the Government should make the most of current opportunities. It is therefore clear that public spending decisions must be data-driven. There are countless examples, including determining whether to continue subsidizing school meals, prioritize additional metro lines or increased capacity for ports, and prioritize schools over hospitals and vice versa. The price tag for each of these decisions has never been higher, given the large and justified appetite for public investments. The data guiding these decisions must therefore be reliable and complete.

In addition, Egypt is undergoing a transformational institutional reform. Parliament is establishing laws at an almost incomparable rate; nearly 900 laws were passed in the most recent legislative term. The Government is also expanding institutionally. New organizations are

being created, new cities are being constructed and a new administrative capital is being erected. In this context, data are particularly relevant to continuously monitor performance and to ensure that expanding State institutions are fit for purpose. More importantly, data are needed to pre-emptively avert potentially harmful civil service practices, which far too often accompany government expansion in emerging economies.

Lastly, governments in general, and the Egyptian Government in particular, have perhaps never been in greater need of objective, neutral and impression-free foundations for decision-making. They are under rising pressure to justify decisions, a task that could be better accomplished with greater access to data-driven arguments. In Egypt, where a majority of young people aged 18 to 35 years are informed via social media, the public debate over government decisions must be continuously enriched with sound, data-informed arguments. The more data are made available, and the more credible and up to date they are, the more informed the public will be. There would also be less room for baseless or politicized views. Furthermore, decision-making processes inside the Government itself would benefit from impartial data to make better choices.

## C. Assessment of multiple data quality parameters

This section presents the results of an evaluation of the availability, accessibility and completeness of official data on development indicators produced by the main statistical institutions in Egypt.<sup>1</sup>

### 1. The Central Agency for Public Mobilization and Statistics

The Central Agency for Public Mobilization and Statistics (CAPMAS) is the official statistical agency of Egypt responsible for collecting, storing, processing and publishing data in all

major national and State fields at the national, governorate and subgovernorate levels.<sup>2</sup> CAPMAS is also the only official agency charged with conducting the national population and housing census and has recently begun conducting an economic census as well.

This section assesses the quality of data publicly available on the CAPMAS website and published in its reports and bulletins. To this end, the seven data quality dimensions adopted by OECD will be examined (i.e. accessibility, coherence, credibility, accuracy, interpretability, timeliness

and relevance).<sup>3</sup> Additionally, three other data dimensions that are particularly relevant to this exercise will be assessed: data completeness, and the frequency and level of data collection.<sup>4</sup>

Accessibility refers to the extent to which data are available and whether they can be retrieved quickly and easily. In general, primary data produced by CAPMAS are not publicly available.<sup>5</sup> The website does offer public access to select reports, such as the economic census and an annual statistical yearbook that includes descriptive tables and charts for demographic, social and economic data collected throughout the year. These data, however, are only available in Portable Document Format (PDF), which makes processing them for further analysis very time-consuming. Registered users can download additional publications, such as monthly, quarterly, biannual and annual statistical bulletins that contain data tables for several indicators (also available in PDF rather than spreadsheets). There are macro time-series data for a few indicators that can be downloaded as a spreadsheet but only with a maximum of two columns (year and value). This format makes it difficult to build data files with multiple variables, which are necessary to perform in-depth statistical analyses. The CAPMAS website does incorporate an interactive tool that contains data from the 1996 and 2006 censuses. It allows users to create queries and generate tables, charts and maps. Unfortunately, data from the 2017 census are not available. In conclusion, although some valuable data sets appear to be available, accessibility requires further improvement.

Completeness refers to the number of missing entries in the data. CAPMAS collects data at the micro and macro levels.<sup>6</sup> At the micro or individual level, data are collected primarily through surveys. Since primary data are not publicly available, the only way to assess the completeness of individual-level data is through the response rates and sampling procedures provided in the appendices or metadata sections of published reports. Based on these criteria, CAPMAS enjoys a respectable reputation

for following sound sampling and statistical procedures when conducting surveys. At the macro level, the indicators, particularly economic indicators, are mostly complete as a result of the automated nature of data collection (e.g. exchange rates, stock market performance, financial accounts, etc.). Other national institutions are also responsible for monitoring national economic performance indicators, namely CBE, the Ministry of Finance, and the Ministry of Planning and Economic Development, in collaboration with CAPMAS under the Special Data Dissemination Standard framework.

Coherence refers to the extent to which data are presented in the same format for comparability across different time points and data sets. CAPMAS closely follows international statistical standards in the collection and reporting of internationally defined indicators. There is coherence in terms of the units of measurement as well as consistent representation of data by CAPMAS, thus ensuring comparability across time and for country comparisons.

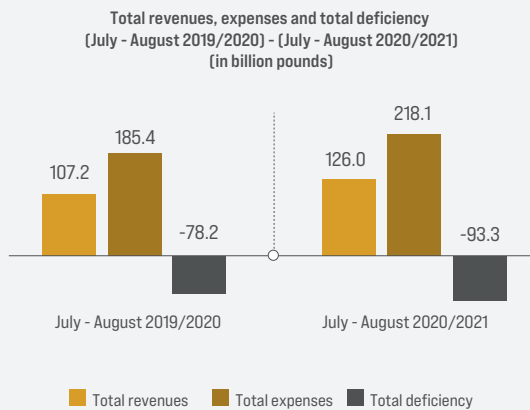
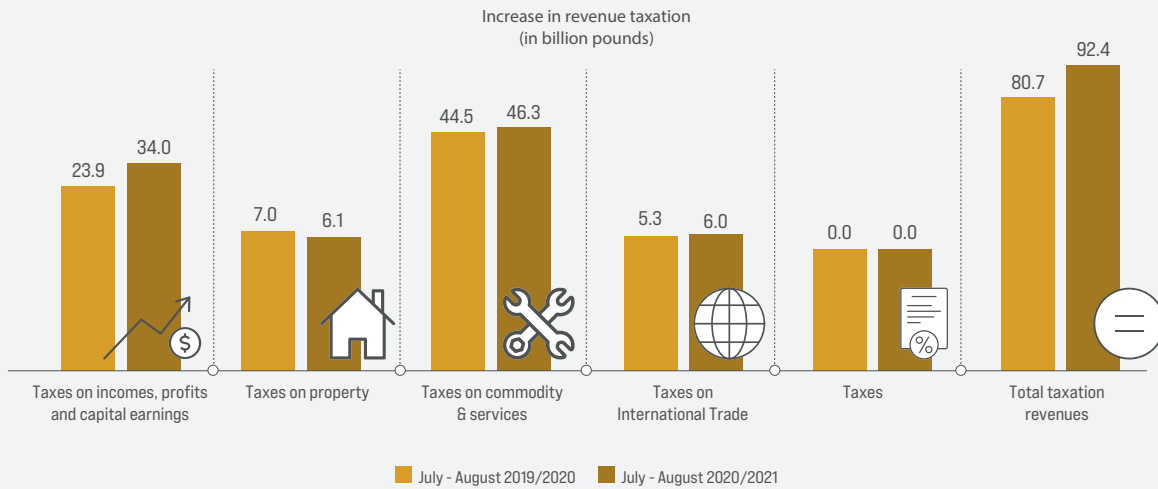
Credibility refers to the reputation of the data producer and user confidence. Accuracy refers to the degree to which data are correctly estimated and described. CAPMAS does enjoy an established track record as the main statistical body in Egypt, and the Agency follows international protocols for reporting statistics. Every report published by CAPMAS includes a methodology and/or a metadata section that documents all sampling, collection, statistical procedures and calculations to ensure both credibility and accuracy.

Interpretability refers to the ease with which users can understand the data produced and the extent to which data are reported in appropriate units, language, definition, etc. As mentioned, any data or statistics reported by CAPMAS are accompanied by full documentation on the way in which they were collected, produced and measured. All available figures and graphs contain defining information and variable description.

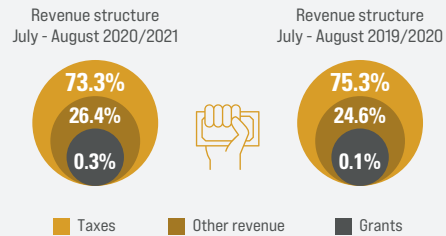
With regard to the frequency of data collection, this section focuses on data that must be collected from the field and are not generated automatically, particularly nationwide surveys tracing longitudinal, SDG-related data on the individual.<sup>7</sup> In Egypt, such surveys include the Household Income, Expenditure and Consumption Survey, the Demographic and Health Survey, and the Labour Force Survey. Since 2008/09, the Household Income, Expenditure and Consumption Survey has been conducted every two years instead of every five; however, the last available survey dates to 2017/18. As for the Demographic and Health Survey, its standard version is carried out by the Ministry of Health and Population rather than CAPMAS, and it is typically fielded every five years to form a database with longitudinal data. There are also interim surveys, fielded between the standard surveys, to provide updated data on key performance monitoring indicators. The latest standard survey, however, was conducted in 2014, and no interim surveys have been conducted to date, to the authors' best knowledge. Lastly, CAPMAS conducts a quarterly Labour Force Survey that includes longitudinal data on the size of the labour force, its characteristics and geographical distribution. This Survey also experiences some delays in the publication of its data, as will be discussed in the following paragraph. In conclusion, delays exist in fielding many of these longitudinal surveys, some of which were due in 2019 and 2020 but were not fielded until the first quarter of 2021. The COVID-19 pandemic was partially to blame and also exacerbated such delays. To address this problem, examples from developed countries provide innovative solutions to fielding censuses during the pandemic.<sup>8</sup> Although phone surveys present a number of constraints, such options could be explored in order to collect data on crucial SDG indicators quickly and to avoid any further delays. In fact, the urgency of the COVID-19 pandemic drove several United Nations bodies to conduct a number of phone surveys in collaboration with CAPMAS and relevant line ministries, with a view to assessing the pandemic's impact on vulnerable groups such as women and MSMEs in 2020. These rapid data

collection efforts prove that data could be collected more quickly. The results of such crisis-driven surveys could also be linked to the SDG framework and indicators for monitoring purposes.

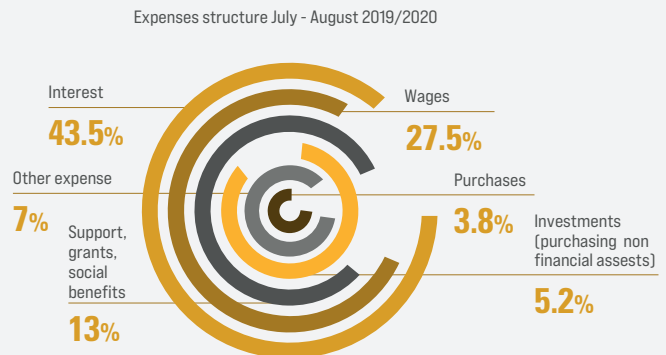
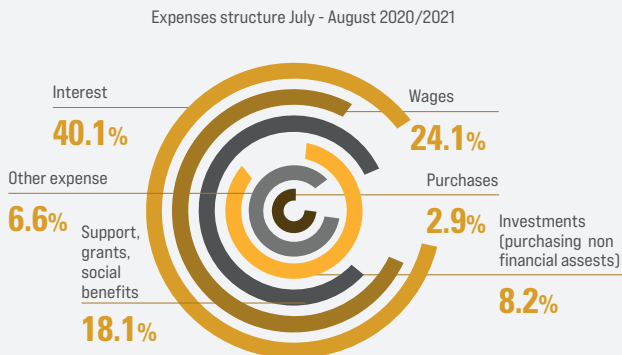
Timeliness refers to the extent to which data are up to date and whether lags exist between the observation date and the publication date. CAPMAS reports are published based on the frequency of data collection and measurement: monthly, quarterly, biannual, annual and special reports. Since data can only be accessed through reports and bulletins, time lags exist between the date on which data are measured and their publication on the website. For example, monthly bulletins provide information on indicators that are primarily economic, such as average consumer prices for most food commodities, consumer and producer price indices and foreign trade. Although a separate report is published for each of these indices every month, there is usually a lag of two to three months, sometimes more, before the bulletin is published. Figure 20 shows some statistics from the Informatics Monthly Statistical Bulletin for November 2020, published by CAPMAS, which was made available on the website at the beginning of December 2020. Most of the statistics are from August 2020 or earlier; very few indicators are actually from November 2020. Although improvements have been made regarding data timeliness compared to previous years, it could be improved even further. Quarterly bulletins, such as the Labour Force Survey, are also published at the end of the following quarter. An examination of these reports also reveals several lags in the reported data for biannual and annual bulletins. Most of the indicators reported (e.g. those related to information and communications technology (ICT), utilities and services, health care, security and safety) have a lag of one year. As such, the yearly bulletins published at the end of 2020 contain figures from 2019.<sup>9</sup> Timeliness therefore is indeed a significant drawback to the data made available through the CAPMAS website. Significant improvements could be made if data are collected and made available more quickly.

**Figure 20.** Excerpt from the CAPMAS informatics monthly statistical bulletin of November 2020

Increase in revenue taxation in July - August 2020/2021  
compared to the same period of previous year



Increase in wages in July - August 2020/2021 compared to the same period of previous year



Source: CAPMAS, Egypt, 2020. Informatics Monthly Statistical Bulletin (November), pp. 21-22.

The level of data, or disaggregation, reflects the level at which indicators are broken down by subcategories such as gender, income, age, employment sectors, geographic location and others. Disaggregated data are a core requirement for measuring and keeping track of sustainable development indicators. They reveal inequalities between different sub-categories that are essential for policymaking. Demographic indicators reported in CAPMAS' bulletins and reports are usually sub-grouped by gender, age groups, urban/rural areas, and sometimes governorates. However, there is more room for reporting statistics using further disaggregation, especially on a geographic and administrative level. Egypt is divided into three levels of administrative hierarchies (governorates; cities/districts (marakez) and neighbourhoods/villages). Each level at the same hierarchy is heterogeneous, making the task of measuring development indicators indispensable.

Relevance assesses the extent to which data produced are relevant to the intended task. Based on the analysis conducted, data produced on a majority of the SDGs and their respective indicators speak to the designated indicator. Although published data might be outdated or incomplete, they correctly track relevant phenomena or conditions.

In conclusion, at least three dimensions could be improved to realize greater potential from CAPMAS data in monitoring performance on the SDGs and in guiding policies. First, data must be made available more quickly to avoid diminishing their value. Second, accessibility and disaggregation could also be improved while maintaining confidentiality. Interactive platforms could be integrated to offer instant graphs, multiple selections, trend analysis, breakdowns by quantile and other features.<sup>10</sup> Disaggregation requires gathering more data at subnational levels, which might mean higher costs. Nevertheless, given the high scores on data reliability and consistency at CAPMAS, it is unfortunate that the full potential of data cannot be realized because of delays in publication or the use of formats that complicate data processing.

Lastly, even though CAPMAS is the country's official data hub, it serves as the primary source of data for fewer than half of the SDG indicators, covering only 8 of the 17 Goals in the 2021 voluntary national review (VNR). For the remaining Goals, various ministries are responsible for compiling data. These include the Ministries of Education and Technical Education, Health and Population, Water Resources and Irrigation, Electricity and Renewable Energy, and Environment. Since their primary function is to provide public services, compiling SDG data and making them available to the public or to CAPMAS is not a priority. It is therefore essential to improve the ability of these ministries to collect relevant data and share them more efficiently with CAPMAS or a wider audience.

It should be noted that the National Strategy for the Development of Statistics was launched by CAPMAS in 2019/20. It aims to achieve better coordination between data producers and data users and make available the data required for development decisions.<sup>11</sup> Such a strategy is an essential first step. As it is still in the early stages, its progress and funding requirements must be closely monitored in order to achieve these objectives and carry out the suggested improvements.

## 2. Other public institutions providing data related to the Sustainable Development Goals

Other national institutions collaborate with CAPMAS to produce and disseminate economic and financial statistics and data.<sup>12</sup> This section focuses on four of these institutions: CBE, which provides data for the financial, banking and external sectors; the Ministry of Finance, which provides public finance statistics; the Ministry of Planning and Economic Development, which provides national accounts and production index statistics based on data from other ministries as well; and the Egyptian Cabinet's Information and Decision Support Center.



The CBE website has an online portal that publishes data on a monthly basis for economic indicators regarding the performance of the financial and banking sectors in Egypt. Statistics on inflation rates, exchange rates, liquidity, interbank rates and volumes, economic indices and stocks are all publicly available and downloadable in the form of spreadsheets. The statistics are complete, consistent and provided in a timely manner every month. Given the macro nature of economic and monetary data and statistics, they are expected to be of higher quality than demographic and social microdata. It is also important to mention that the design and user engagement of the CBE website is much better than that of CAPMAS.

The Ministry of Finance has recently updated its website and data portal to include a monthly financial bulletin that reports statistics on general economic and financial outlooks, sector indicators, domestic prices, government debt and fiscal and monetary sectors. The bulletin also has a comparative analysis section that compares the performance of Egypt with other comparable countries in key economic indicators. Statistics on fiscal indicators (i.e. tax/non-tax revenues and expenditures breakdown) can be downloaded in a spreadsheet format. The website has undergone significant improvements to incorporate interactive components, adopted a user-friendly interface, and made important fiscal data and performance indicators available online. Nevertheless, a timeliness issue remains. There is a lag of approximately two to three months for the monthly financial bulletin.<sup>13</sup> Moreover, some indicators and data included in these bulletins have a lag of one to two months (table 2). It should be noted that these data lags are much shorter than those found on other governmental websites, hence data are more up to date.





**Table 2. Credit provided by Banks**

|   | Jun - 16       | Jun - 17       | Jun - 18         | Jun - 19         | Jun - 20         | Dec - 20         | Jan - 21         | Feb - 21         | Mar - 21         |
|---|----------------|----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Total lending</b>  | <b>717,999</b> | <b>925,660</b> | <b>1,426,457</b> | <b>1,629,664</b> | <b>1,854,326</b> | <b>2,493,370</b> | <b>2,532,469</b> | <b>2,573,022</b> | <b>2,648,549</b> |
|   | (22.1)         | (30.4)         | (51.3)           | (14.2)           | (13.8)           | (30.5)           | (24.0)           | (22.9)           | (22.9)           |
| <b>To Government<sup>2/</sup></b>   | <b>66,421</b>  | <b>172,047</b> | <b>354,723</b>   | <b>452,917</b>   | <b>542,446</b>   | <b>853,888</b>   | <b>861,833</b>   | <b>881,110</b>   | <b>932,049</b>   |
|   | (62.8)         | (173.1)        | (104.2)          | (27.7)           | (19.8)           | (60.2)           | (47.6)           | (37.7)           | (41.4)           |
| In local currency   | 10,855         | 100,473        | 142,710          | 216,549          | 235,838          | 560,590          | 587,139          | 607,138          | 658,937          |
| In foreign currency   | 55,566         | 71,574         | 212,013          | 236,368          | 306,608          | 275,298          | 274,694          | 273,972          | 273,112          |
| <b>The non-government</b>   | <b>651,578</b> | <b>753,613</b> | <b>1,071,734</b> | <b>1,176,747</b> | <b>1,311,880</b> | <b>1,657,481</b> | <b>1,670,636</b> | <b>1,691,912</b> | <b>1,716,500</b> |
|   | (19.1)         | (16.5)         | (39.4)           | (9.8)            | (11.5)           | (19.4)           | (14.6)           | (16.3)           | (14.8)           |
| In local currency   | 468,502        | 556,967        | 724,503          | 849,775          | 1,038,221        | 1,406,849        | 1,420,939        | 1,441,445        | 1,469,754        |
| In foreign currency   | 183,076        | 196,646        | 347,231          | 326,972          | 273,659          | 250,633          | 249,697          | 250,467          | 246,746          |
| <b>Memorandum items (per cent)</b>  |                |                |                  |                  |                  |                  |                  |                  |                  |
| Credit to private sector <sup>3/</sup> / Total credit                     | 82.0           | 72.0           | 64.7             | 62.4             | 62.0             | 60.1             | 59.8             | 60.2             | 59.4             |
| Non government loans/Deposits <sup>4/</sup>                               | 43.8           | 43.6           | 42.6             | 38.8             | 38.6             | 38.3             | 38.3             | 38.2             | 37.8             |
| Government loans/Deposits   | 26.3           | 49.0           | 67.6             | 84.9             | 88.8             | 96.2             | 93.6             | 93.2             | 95.0             |
| Foreign currency denominated credit to total credit                       | 33.2           | 29.0           | 39.2             | 34.6             | 31.3             | 21.1             | 20.7             | 20.4             | 19.6             |
| Government foreign currency denominated credit to total government credit | 83.7           | 41.6           | 59.8             | 52.2             | 56.5             | 32.9             | 31.9             | 31.1             | 29.3             |
| Denominated credit to total non-government credit                         | 28.1           | 26.1           | 32.4             | 27.8             | 20.9             | 15.1             | 14.9             | 14.8             | 14.4             |

**Source:** Ministry of Finance, Egypt, 2021. The Financial Monthly, vol. 16, No. 7 (May), p. 50.

The Ministry of Planning and Economic Development is responsible for establishing sustainable development plans and implementing the country's strategic vision in coordination with other ministries, stakeholders and development partners. It is the national institution in charge of developing the statistical capabilities to measure the impact, performance and project completion rates to achieve the SDGs and the Egypt Vision 2030. The Ministry's website has a National Accounts interactive data portal that contains statistics on the gross domestic product (GDP) and public investments calculated at current and fixed prices. It can be queried for various economic activities, time frequencies and governorates. The Ministry collaborates with CAPMAS, CBE, and the Ministry of Finance to produce and publish these statistics. According to the website of the Ministry of Planning and Economic Development, Egypt meets the requirements of the IMF Special Standard for Data Dissemination in the dissemination of economic and financial data to the public with regard to the timing of publication and the availability of economic and financial data (i.e. on a quarterly basis with a maximum lag of three months).

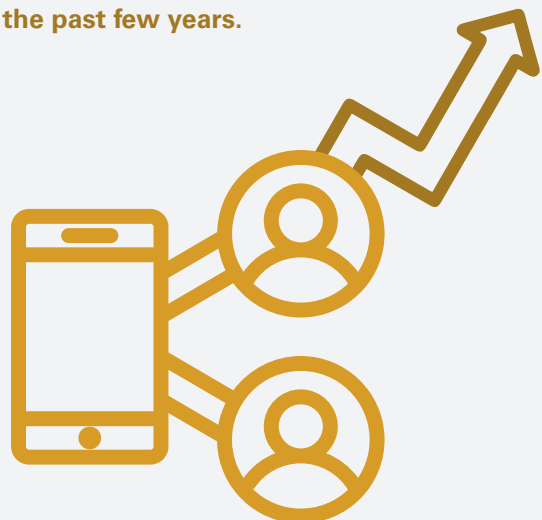
The Information and Decision Support Center, founded in 1985, is considered the think tank of the Egyptian Cabinet and provides information and expertise to support policy and decision-making. One of the Center's recent strategic goals is to provide information and knowledge not only to support policymaking but also to support the transformation to an information-based society. The Center conducts public opinion polls and publishes the results in periodic reports. In 2021, it created a dedicated portal and mobile application that provide a number of national, African and global data points, performance indicators and statistics. In addition to providing data in the form of downloadable reports and Excel tables, there are also interactive dashboards and maps. The mobile application increases accessibility for a larger sector of the public, given that the number of mobile users in Egypt has grown exponentially in the past few years. These data are not generated

by the Center itself but are predominantly collected and provided by other sources.

Other ministries that provide SDG-related data include the Ministry of Communications and Information Technology, which publishes a monthly report on ICT indicators. In 2020, the Ministry of International Cooperation established a mechanism to analyse the contribution of development cooperation to the SDGs by mapping all ongoing projects in its portfolio to align them with the relevant SDGs. Within this mapping exercise, two distinct approaches were used: (a) single SDG mapping, which identified the primary SDG towards which each project contributed; (b) multiple SDG mapping, which considered the multidimensional linkages that projects might have to different SDGs.<sup>14</sup>

Until 2017, the Ministry of Environment published a yearly State of the Environment Report, comprising data related to environmental and climate change indicators. The Ministry of Trade and Industry also has an interactive dashboard (in Arabic) with indicators related to economic development. The Ministry of Electricity and Renewable Energy publishes yearly reports on indicators related to energy, the most recent of

**The number of mobile users in Egypt has grown exponentially in the past few years.**



which was for 2018/19. Although the Ministry of Health and Population is primarily responsible for the Demographic and Health Survey and other surveys from which all data related to health indicators are derived, it does not have a data portal. Instead, health data are made available through international institutions such as the Demographic and Health Surveys Program or UNDP. It is therefore clear that data collected by various government institutions are scattered across different platforms, published in different formats and are not integrated in a central database (such as CAPMAS). While initiatives by ministries or CBE to disclose information and publish data are to be commended, the data collection process would be accelerated by assigning the responsibility of SDG indicators to one entity and ensuring coordination among government bodies.

### 3. The need to complete and update data on Sustainable Development Goals

The United Nations classifies SDG indicators into three tiers based on the following criteria: whether the indicator is conceptually clear, whether it has an internationally established methodology and whether data are regularly produced by a majority of countries.<sup>15</sup> An indicator that meets the three criteria is placed in Tier 1. An indicator with a clear concept and established methodology that lacks regular data belongs to Tier 2. An indicator that does not meet the three criteria is placed in Tier 3. At the time of writing this chapter, three major national sources had reported on the availability of SDG data and statistics in Egypt.

The VNR was published by the Ministry of Planning and Economic Development with the support of UNDP in 2018 and 2021.<sup>16</sup> Only 35.7 per cent of indicators in the 2018 report are classified as Tier 1. Some of these indicators were further refined by the United Nations Statistics Division (UNSD) in 2020

in order to measure goals with higher specificity,<sup>17</sup> which further reduced the percentage of Tier 1 indicators. Irrespective of the tier classification, the 2018 report states that data exist on 106 of the 244 indicators, or 43.5 per cent. That number increased to 47.5 per cent in the 2021 VNR.<sup>18</sup>

According to the National Statistical Report for Monitoring SDGs in Egypt, published by CAPMAS in 2019, data are available for 116 indicators (47.5 per cent).

The website of the Egypt SDG Observatory, operated by CAPMAS, is an official national digital platform for SDG indicators and data. As at 14 October 2021, data on the website were mostly outdated, not sufficiently disaggregated and missing many key indicators that were present in both the 2018 VNR and the 2019 CAPMAS National Statistical Report. Only 53 of the 247 indicators are available (or 21.5 per cent). Table 3 displays the extent to which data on the SDGs (as defined by the 2020 global indicator framework) are available for Egypt through the official SDG Observatory website.

It is worth mentioning that an independent Egyptian Women's Observatory provides data on indicators related to women's empowerment and gender equality (Goal 5), as well as some updated statistics related to other indicators. It is published by the National Council for Women in cooperation with Baseera, the Egyptian Center for Public Opinion Research, an independent and non-partisan organization established in 2012.

**Data are available  
for 116 indicators  
of 244**

**47.5%**  
in 2021 VNR



**Table 3.** Tallying available Sustainable Development Goal indicators on the SDG Observatory

| SDG  | Number of targets | Total number of indicators | Available  | Missing     | Date of most recent indicator | Indicators with at least one level of disaggregation |
|--|-------------------|----------------------------|------------|-------------|-------------------------------|--|
| 1. No poverty                              | 7                 | 13                         | 4 (30.8%)  | 9 (69.2%)   | 2016                          | 2  |
| 2. Zero hunger                             | 8                 | 14                         | 5 (35.7%)  | 9 (64.3%)   | 2016                          | 2  |
| 3. Good health and well-being              | 13                | 28                         | 9 (32.1%)  | 19 (67.9%)  | 2016                          | 5  |
| 4. Quality education                       | 10                | 12                         | 4 (33.3%)  | 8 (66.7%)   | 2017                          | 3  |
| 5. Gender equality                         | 9                 | 14                         | 7 (50%)    | 7 (50%)     | 2017                          | 5  |
| 6. Clean water and sanitation              | 8                 | 11                         | 1 (9.1%)   | 10 (90.9%)  | 2015                          | 0  |
| 7. Affordable and clean energy             | 5                 | 6                          | 1 (16.7%)  | 5 (83.3%)   | 2016                          | 0  |
| 8. Decent work and economic growth         | 12                | 16                         | 6 (37.5%)  | 10 (62.5%)  | 2016                          | 4  |
| 9. Industry, innovation and infrastructure | 8                 | 12                         | 4 (33.3%)  | 8 (66.7%)   | 2016                          | 0  |
| 10. Reduced inequalities                   | 10                | 14                         | 1 (7.1%)   | 13 (92.9%)  | -                             | 0  |
| 11. Sustainable cities and communities     | 10                | 14                         | 1 (7.1%)   | 13 (92.9%)  | 2015                          | 1  |
| 12. Responsible consumption and production | 11                | 13                         | 1 (7.7%)   | 12 (92.3%)  | -                             | 0  |
| 13. Climate action                         | 5                 | 8                          | 0 (0%)     | 8 (100%)    |                               | 0  |
| 14. Life below water                       | 10                | 10                         | 2 (20%)    | 8 (80%)     | 2015                          | 0  |
| 15. Life on land                           | 12                | 14                         | 1 (7.1%)   | 13 (92.9%)  | 2015                          | 0  |
| 16. Peace, justice and strong institutions | 12                | 24                         | 2 (8.3%)   | 22 (91.7%)  | 2015                          | 1  |
| 17. Partnerships for the Goals             | 19                | 24                         | 4 (16.7%)  | 20 (83.3%)  | 2017                          | 1  |
| Total                                      | 169               | 247                        | 53 (21.5%) | 194 (78.5%) |                               | 24   |

**Source:** Author, with information from the Egypt SDG Observatory dashboard.

**Note:** Produced in October 2020 and updated in October 2021.

The discrepancy in the percentages on data availability reported in the three national resources highlights a problem with data integration. SDG data are scattered across various repositories, making it more difficult to assess data availability and quality. A mechanism for integrating existing and new sources of data is therefore essential in order to build an inclusive national database that can guide policies more effectively.

Additionally, delving deeper into data gaps per indicator in these reports<sup>19</sup> shows that some SDGs have a particularly small number of indicators for which data are available (Goals 11 to 15, which are

mainly related to the environment). Goal 11 on sustainable cities and communities, for example, has only three data points in the CAPMAS report and one data point in the Observatory (out of 14). Goal 12 on responsible consumption and production has only one data point in the CAPMAS report and one in the Observatory (out of 13). Goal 13 on climate action has three data points in the CAPMAS report and none in the Observatory (out of 8). Goal 14 on life below water has three data points in the CAPMAS report and two in the Observatory (out of 10). Goal 15 on life on land has five data points in the CAPMAS report and one in the Observatory (out of 14).

## D. Effectiveness of data collection mechanisms

This section shares some of the insights gained from attempts to obtain development data on Egypt. The authors also conducted interviews<sup>20</sup> to pinpoint whether there were structural problems or bottlenecks in generating official development data that impacted their potential to guide decision-making. Two groups of obstacles were identified.

### 1. Problems at the source

There seems to be a lack of what could be called “trained data officers” in various ministries and government departments, particularly at the local level where disaggregated data are supposed to be collected. While the Government has recently embarked on an ambitious project to create digital transformation units in all government offices, it is still unclear how much training or authority the responsible officers will have. Although CAPMAS and the Ministry of Planning and Economic Development organized workshops in 2019 to train data officers in collecting and sending SDG data, the high turnover rate in these positions sometimes hampers the execution of this process. For example, in some cases, CAPMAS had to resend the methodologies agreed upon to the individual ministries because the officers who had been trained had moved to other departments. Consequently, there is a need for continuous rather than one-time capacity-building training for these officers,<sup>21</sup> as well as measures to decrease turnover. For example, officers who receive training could be required to remain in their positions for one or two years. The National Strategy for the Development of Statistics, supported by the World Bank, does include a component on capacity-building, and its effective implementation is crucial.

The digital transformation initiative began in 2019, so it might still be too early to evaluate its progress. Nevertheless, based on interviews

conducted by the authors, some institutions are still applying a slow, low-tech process for gathering and sharing data. One such example is sending a PDF, which either has to be retyped as a Microsoft Word document or filled out manually, both of which cripple data collection and the application of reliability checks. Another example involves saving the forms on compact disks (CDs), which must be sent back and forth by courier, and many new computers no longer have CD drives. Although this observation certainly does not apply to all government departments (CAPMAS, for example, conducted the latest census using electronic rather than paper forms), such institutional variation slows down the overall process. Lastly, some ministries also tend to wait to collect as much data as possible before sending their SDG data reports to CAPMAS, which means that data collected earlier become outdated while other data are being completed. Real-time sharing of data therefore is an option that could be utilized more often.

Stronger networking among CAPMAS, the Ministry of Planning and Economic Development and other ministries could also speed up the data collection process and help to identify bottlenecks more quickly. In many cases, CAPMAS cannot directly contact data collection officers in the ministries because requests must be sent to the minister’s office. Again, such bureaucratic hurdles slow down the process.

### 2. The lack of a legal framework for data availability

Egypt has made various attempts to produce its own Freedom of Information Act. According to interviews with individuals who have been involved in such attempts over the years, there have been at least five draft laws. Some were

drawn up exclusively by the Government and some exclusively by civil society institutions, which sometimes included the private sector. There was also one joint draft put forward by the Government and civil society. Although attempts began as early as 2008, no such law has been passed and no bill appears to be in the pipeline. Based on interview data, the authors posit that the two main obstacles are a lack of ownership and concerns about the misuse of data. Both must be addressed to allow Egypt to begin producing better data at a faster pace in order to guide development decisions.

With regard to the lack of ownership, previous drafts of the bill have been introduced by different ministries. For example, the Ministry of Justice introduced the bill to address legal procedures, and the Ministry of Communications and Information Technology introduced it to address technical issues surrounding the publication of data. Other ministries have been on board at different times as well. While their participation is essential, given the bill's complexity, no single ministry has taken ownership of the process in order to push it forward. Admittedly, this is a common problem when regulating new and multifaceted areas. Nevertheless, the issue must be solved for the bill to be taken up again. Assigning responsibility to one institution would be a first good step.

Members of Parliament have repeatedly expressed concerns about the misuse of data to fuel the production of “fake news,” which also explains the lack of legislative enthusiasm for the bill. While this is a reasonable concern, it must be emphasized that a lack of data would not solve the problem of misuse of information. Misinformation and disinformation have become a fact of life in a world where billions of inhabitants are connected to social media every day.

Two further dimensions stress the need to produce such a law. First, it remains an unfulfilled constitutional requirement. According to article 68 of the Constitution, on access to information and official documents: “Information, data, statistics and official documents are owned by the people. Disclosure thereof from various sources is a right guaranteed by the State to all citizens. The State shall provide and make them available to citizens with transparency. The law shall organize rules for obtaining such, rules of availability and confidentiality, rules for depositing and preserving such, and lodging complaints against refusals to grant access thereto.”<sup>22</sup> Although the Constitution does not set a time frame for such a law to be promulgated, its value to development in Egypt underlines its urgency. Second, Egypt has achieved several successes in fighting corruption, and each periodic anti-corruption government strategy underscores the need for information to be free and publicly available.

## E. How data could guide development decisions

This section explores the potential for data to guide development decisions with an exercise that demonstrates that even incomplete data could inform decisions concerning where to direct resources to achieve maximum impact. It uses principal component analysis for each Goal to determine the relative weight of its individual indicators<sup>23</sup> in driving change. This can be used as a first step to guide policy

decisions when choosing among several courses of action.

The exercise began by examining SDG data for Egypt from 2000 to 2018.<sup>24</sup> Data from the UNSD Global SDG Indicators Database were used, as there are insufficient historical data points in official national sources.<sup>25</sup> Indicators missing over 60 per cent of the data points were excluded. Missing



values for indicators with less than 40 per cent of the data points missing were imputed.<sup>26</sup> Redundant indicators were dropped (Spearman's rank-order correlation > 0.9), and then the principal component analysis with rescaling was conducted.<sup>27</sup> Results are shown in table 4. Detailed information on the indicators used, the principal components and the eigenvalues (i.e. loadings) are presented in annex 3 and are available upon request.

With respect to Goal 1 (no poverty), policies lifting people from below the poverty line appear to be the most important, particularly with a focus on access to basic services among the poor (e.g. education, health care, water and sanitation, etc.). The Egyptian Government recently announced a

large-scale programme to spend approximately \$32 billion on the poorest Egyptian villages. Given the results of this exercise, the data appear to justify this programme.

With regard to Goals 2 and 3 (zero hunger and good health and well-being), a particular focus on children, in terms of nutrition and mortality rates, is most capable of making progress. As for Goal 8 (decent work and economic growth), providing aid for exports and reducing unemployment should receive particular attention. The Egyptian Government has announced an ambitious goal to increase exports from \$26.1 billion to \$100 billion. Concrete policies in this regard are likely to provide a significant boost to growth.

**Table 4. Most influential indicators per Sustainable Development Goal**

| SDG                                     | The two most influential indicators in improving the relevant Goal   | Number of indicators included |
|---|--|-------------------------------|
| Goal 1: No poverty                      | - Proportion of population living below the national poverty line (percentage)<br>- Proportion of population with access to basic drinking water services (percentage) | 6                             |
| Goal 2: Zero hunger                     | - Prevalence of malnutrition among children (wasting and overweight)<br>- Agriculture orientation index for government expenditures                                    | 7                             |
| Goal 3: Good health and well-being      | - Infant mortality rate<br>- Neonatal mortality rate   | 10                            |
| Goal 4: Quality education               | - Gender parity index for participation rate in organized learning<br>- Total official flows for scholarships  | 4                             |
| Goal 5: Gender equality                 | N/A <sup>a</sup>   | 2                             |
| Goal 8: Decent work and economic growth | - Total official flows (disbursement) for Aid for Trade<br>- Unemployment rate<br>- Number of commercial bank branches per 100,000 adults                              | 7                             |

**Source:** Authors' calculations.

<sup>a</sup> Not enough data to perform analysis.

## F. Conclusion and policy recommendations

This chapter set out to examine the extent to which national data on SDGs are available, accessible and usable in Egypt. The analysis points to a need for SDG data to be produced more quickly and with more detailed disaggregation in order to better identify both geographical and social gaps in development. A mechanism for integrating existing and new

sources of SDG data, which are currently scattered across different repositories, is essential to building an inclusive national database. Moreover, some data bottlenecks could be addressed to improve the efficiency of the Government's data generating process. These mainly pertain to training data officers and improving networking among the various data gathering institutions.

There are two additional arguments in favour of data-informed development decisions. First, the coming years will almost certainly be even more data-driven, as both individuals and Governments are doing more online than ever before. The COVID-19 pandemic has only accelerated this trend, which provides an opportunity for the Egyptian Government to collect more data in real time. This trend also creates the potential for big data analysis, particularly as the Egyptian Government is launching a number of e-portals to provide specific services. While some government projects already use big data, mainly to detect fraud and suspected corruption, there do not appear to be any initiatives to monitor development, assess the impact of development projects or compensate for the lack of data on many SDG indicators. The use of big data would first require investing in data specialists, which would be a good starting point to unlock this potential.

Second, in the age of misinformation, continuous publication of data is the best way to counter “fake data”. In today’s world, individuals are and will continue to be hungry for data every day, if not every hour. Whether governments approve or not, data about government performance and indicators will continue to pour from unauthorized sources. Sustainable development indicators are prime candidates for potential fake data. Indicators on poverty, the spread of diseases, pollution and social spending are but a few examples. Consequently, disclosing data about such indicators in a timely, transparent and accessible manner is becoming essential for a country in which a majority of the population obtains information from social media outlets. By investing in a culture of trust in government data, whether they are positive or negative, the space for fake data shrinks. If accurate official data are easily accessible to all (the public, researchers, decision makers, media and intelligentsia), users would develop a collective resistance to fake data.

In light of the analysis presented in the chapter, the authors would like to propose the following policy recommendations in the area of strengthening data and data systems:



## Stronger networking among CAPMAS, the Ministry of Planning and Economic Development and other ministries could also speed up the data collection process and help to identify bottlenecks more quickly.

2

1

Training – and decreasing the turnover of – data officers at the different line ministries while achieving greater networking between them and CAPMAS. The purpose of that training would be to increase human capacities in managing the data collection and data streaming processes. Such training could be supported by several UN bodies.

2

Ensuring greater integration of SDGs indicators into the periodic surveys published by CAPMAS. These surveys have the advantage of being tailored for disaggregated data and are conducted frequently. Linking them to the SGD framework would ensure that more SDG-related data are generated regularly. (short term)

3

Creating some binding benchmarks regarding the updating frequency and level of disaggregation of SDG data. These benchmarks should then be met by government agencies. Obviously, before the issuing of such benchmarks, the relevant resources (human and technological) have to be made available to enable meeting the benchmarks. (medium term)

4

Unifying data the depository for SDG data (possibly at CAPMAS), to make sure SDG data are integrated in one national and all-inclusive source that can be used more effectively to guide policies. (medium term)

5

Develop initiatives to use Big Data to monitor development, assess the impact of developmental projects or compensate for the unavailability of data on many SDG indicators. Certainly, Big Data is an area that first requires investing in data specialists. This would be a good starting point to unlock such potential. (short term)

6

Disclose data about SDG indicators, in a timely, transparent, and accessible manner and invest in a culture that supports trust in government data – whether positive or negative – the space for ‘fake data’ shrinks. This should be associated with adopting legislative reforms that contribute to strengthened governance, particularly laws on freedom of information. (short term)



The Egyptian Government announced a large-scale programme

**\$32**  
BILLION



The poorest  
Egyptian villages

The Egyptian Government has announced an ambitious goal to increase exports

**\$26.1**  
BILLION



**\$100**  
BILLION

How data could guide development decisions



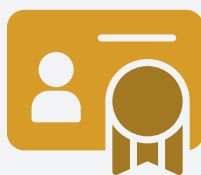
No poverty



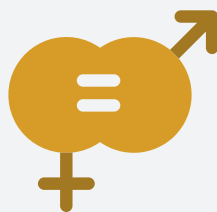
Zero hunger



Good health and well-being



Quality education



Gender equality



Decent work and economic growth

## Endnotes

1. Additional data on SDG indicators for Egypt are available on international data portals managed by the United Nations and its specialized agencies (e.g. ILO, UNCTAD, FAO, etc.). However, this data assessment section is only concerned with national Egyptian sources that are used to provide national policy recommendations.
2. These include public finance and national accounts, macroeconomic indicators, domestic and foreign investments, domestic and foreign trade, income and standards of living, poverty, subsidies, manufacturing, markets and prices, the labour force, transport, mining, information and communications technology, utilities and services, health care, security and safety, education and research, entrepreneurship, agriculture, water resources and irrigation, food security, demographics, youth, women, childhood and maternity, sports, social insurance, the environment, and press and media.
3. OECD, 2017.
4. Pipino and others, 2002.
5. For example, researchers or academics who wish to acquire raw data must submit a formal request for approval and pay a fee corresponding to the amount of data requested.
6. On the individual or micro level, CAPMAS conducts national surveys to collect data on population demographics, health care, education and access to services and technology, among others. On the macro level, CAPMAS collaborates with other public institutions such as the CBE, the Ministry of Finance and the Ministry of Planning and Economic Development to produce macroeconomic data (i.e. data on public finance, national accounts, trade, and domestic and foreign investments).
7. The authors differentiate between longitudinal and panel data in that longitudinal data arise from collecting observations from different units (i.e. individuals) over time (i.e. equivalent to time series), while panel data arise from repeated observations of the same unit (i.e. individuals) over time.
8. The Economist, 2021.
9. While the most recent biannual bulletin available on the CAPMAS website (accessed in December 2020) was dated December 2020, the second most recent issue dated back to 2017, leaving a significant time lag. Moreover, the latest annual bulletin available on the CAPMAS website was published in October 2020 but contained statistics on marriage and divorce from 2019.
10. While writing this chapter, the authors were informed that there were plans to upgrade the CAPMAS website substantially. This would certainly be a step in the right direction.
11. For more details, see the 2020 CAPMAS Quality Assurance Framework for Statistical Data.
12. Attempts were made to preserve the distinction between data (raw numbers and/or information) and statistics (data compiled and treated for later use) wherever possible when describing the information provided by each institution. Nevertheless, it should be noted that sometimes the lines of demarcation are not very straightforward.
13. For example, when accessed on 21 August 2021, the latest financial report available on the website was for May 2021.
14. More information on the mapping methodology can be found on the Ministry's website: <https://www.moic.gov.eg/en-US/Sectors/Index?na=110>.
15. UNSD, 2020.
16. Egypt published its third VNR in July 2021, highlighting challenges caused by the COVID-19 pandemic. Annex 2 has been updated to include the indicators available in that report.
17. Annual refinements of indicators are included in the global indicator framework as they occur.
18. For a list of available indicators and their sources, see annexes 1 and 2 in the VNRs.
19. Annex 2 includes details on the available indicators for the three national sources. For indicators with available data, the annex provides the year of the latest figure available and the levels of disaggregation (if they exist). Note that annex 1 of the 2018 VNR of Egypt provides the aggregate availability of data according to CAPMAS in 2018, while annex 2 reports the actual data points for some of the indicators, which are fewer than those reported in annex 1. The authors included indicators available for the 2021 VNR as well.
20. The authors conducted interviews with a senior official at CAPMAS responsible for managing SDG-related data that flow in from various government ministries. An interview was also conducted with a former advisor at the Ministry of Planning and Economic Development.
21. For example, Egypt may benefit from support from UNCTAD to improve the generation of statistics on trade in services. For more information, see the project "Strengthening statistics on internationally trade-in-services" for countries of the West African Economic and Monetary Union, as well as the project "Train for trade".
22. Constitute, 2021, p. 24.
23. Lafortune and others, 2018. Principal component analysis is a technique for dimensionality reduction and feature selection. The analysis is conducted using SDG data to elicit the most important indicators (i.e. assign them weights) to determine which are the main drivers of performance. Given that there are 17 Goals comprising 247 indicators, it is reasonable to assume that not all indicators have the same importance or significance in driving progress. Principal component analysis can help decision makers to set priorities in targeting demanding issues that hinder progress.
24. The authors acknowledge that indicators have changed during this period and include only consistent indicators and proxies.
25. Data downloaded from the Global SDG Indicators Database on 13 January 2021.
26. Imputation was done using the regularized iterative principal component analysis algorithm.
27. Eigenvectors (i.e. the main components that carry change and in which the most variance or information lies) are calculated and sorted to determine the principal components. The first principal component holds the most variance, then the second, then the third, etc. After determining the eigenvectors, eigenvalues (i.e. loadings) attached to each eigenvector are listed to give the amount of variance carried in each principal component. These loadings determine the weight or importance of each indicator in the principal component. In order to determine the most influential indicators that govern change for each Goal, loadings of the first principal component are investigated. Indicators with the highest loadings (i.e. eigenvalues) in the first component are therefore the most influential in determining the change in performance for the respective Goal. Knowing the most influential indicators can help decision makers to pinpoint the main indicators that drive change in SDG performance and act accordingly.

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# Integrated national financing framework

*by Diaa Noureldin<sup>1</sup> and Reham Morsy*



# 03











The INFF is an integral component of a holistic, results-driven framework to measure progress towards the SDGs.



## Background

Achieving the SDGs at the country level depends largely on the ability to harness different sources of financing, whether private or public, through domestic or external flows. Countries with significant gaps in terms of achieving the SDGs are expected to simultaneously increase the volume of financial flows and enhance their diversity. Fortunately, countries are now facing a financing for development (FFD) landscape that is more diversified and therefore offers various financing opportunities. Nevertheless, it is also becoming clear that the global financing agenda for the SDGs will not be sufficient to meet the growing challenges. This is particularly true given the significant economic scarring from the COVID-19 pandemic and its medium- to long-term impact on indebtedness. As a result, countries must inevitably rely on home-grown solutions as 2030 approaches.





The objective of this chapter is to contribute to the development of an integrated national financing framework (INFF) for Egypt. The framework is useful in assessing the financing challenges and opportunities regarding the achievement of the SDGs, and it is being increasingly adopted by developing and emerging economies. It is fundamentally a tool to gauge the adequacy of the scale and mix of current FFD flow in terms of achieving the SDGs. The framework is composed of four building blocks: assessment, financing strategy, monitoring and governance. It also studies the role of government policies and institutional design in addressing financing challenges, which allows for the identification of gaps and missed opportunities. This information can be utilized to leverage new flows, scale up existing ones and change the mix of flows to deliver better outcomes. It is an integral component of a holistic, results-driven framework to measure progress towards the SDGs.

At the core of the INFF is the development finance assessment (DFA), which is considered the first building block. It provides a quantitative and qualitative assessment of the current flows and the ability of the

Government's financing strategy to identify potential risks and highlight sustainability concerns. In other words, the DFA is the diagnostic component of the INFF. Based on the DFA, a more policy- and action-oriented assessment is undertaken to identify priority flows and discuss the options by which policy and institutional reforms can strengthen the existing financing framework. The DFA and subsequent policy assessment are undertaken in sections B and C, respectively, of this chapter. Section A provides a brief overview of the recent progress made by Egypt on various socioeconomic indicators with direct links to the SDGs and discusses the pillars of the country's long-term development strategy. Subsequent chapters in the report delve deeper into the assessment and diagnostics of each financial flow, with more specific policy assessments and recommendations.

While this chapter focuses on assessing the financing landscape in Egypt and provides potential policy solutions, it is worth emphasizing that a comprehensive INFF goes beyond the analytical framework. It requires government-led policymaking that articulates a clear financing strategy to match national developmental objectives, as well as institutionalization efforts that establish relevant mechanisms for coordination, monitoring and governance. In fact, in March 2021, the Government of Egypt, represented by the Ministry of Planning and Economic Development, signed a cooperation protocol with the Joint Sustainable Development Goals Fund to assess the financing needed to meet its developmental objectives.<sup>2</sup> In that respect, this chapter acts as a supportive analytical guide and will serve as a solid foundational base in establishing a comprehensive INFF for Egypt, together with the results of the United Nations Joint Fund Support Project for Integrated Financing for Sustainable Development Goals in Egypt and the Guiding Principles for Sustainable Finance,<sup>3</sup> recently published by CBE.

## A. The integrated national financing framework in the context of national development objectives

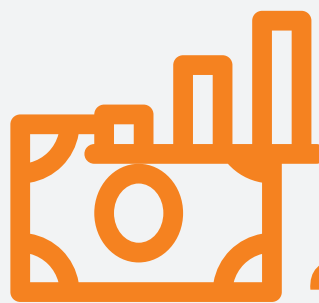
### 1. The socioeconomic-environmental context

The Egyptian economy enjoys a number of strengths that position it to make substantial progress towards the SDGs. The country has significant growth potential, given its diversified economy and industrial base, abundant labour and decent reservoir of natural resources, coupled with its enhanced infrastructure and strategic location. Furthermore, the Government has secured many bilateral and multilateral agreements on investment and trade, and recent policy reforms have attracted the attention of investors.

The economy enjoyed high growth rates from 2006 to 2020, with an average growth rate of 2.4 per cent in GDP per capita.<sup>4</sup> The period 2011–2016 witnessed a slowdown in growth; however, an expansionary fiscal policy stance helped to revive growth and generate employment for entrants to the labour force, an average of approximately 470,000 per year, according to the CAPMAS Labour Force Survey. Between 2005 and 2019, the economy witnessed increased diversification in its production base and an enhanced use of factors of production. In the previous five years, the economy also saw a significant upgrade in infrastructure, particularly in the energy sector, which currently enjoys excess capacity and an improved energy mix. The share of renewable energy production reached 8.8 per cent in 2018/19, up from 5 per cent in 2015. It is targeted to reach 20 per cent by 2022, as several large solar and wind energy projects go fully online.<sup>5</sup> The unemployment rate has fluctuated with the business cycle but has generally been on the decline since 2013. It remained in single digits during the pandemic, reaching 7.2 per cent in the fourth quarter of 2020.

Overall, growth was not inclusive, as evidenced by the increase in inequality and the persistent urban-rural development divide (Goal 10). With regard to the labour market, the female labour force participation rate remains extremely low, female youth unemployment (20–29 age group) remains exceptionally high and general policy frameworks are not gender sensitive (Goal 5). The economy's limited dynamism did not enable the creation of sustainable decent jobs in high productivity sectors, and informal employment has increased as a share of total employment over the past few years (Goal 8). In addition, decades of cheap non-renewable energy prices (Goal 7) have helped to create and sustain energy-intensive industries (e.g. steel, cement and fertilizers), in which Egypt does not necessarily have a competitive advantage. These industries also did not help to create decent jobs (Goal 8) at a rate that kept pace with growth in the population and the labour force (Goals 1 and 2). Furthermore, they did not contribute positively to the country's environmental progress (Goals 12 and 13).

**The economy enjoyed high growth rates from 2006 to 2020**



**2.4%**

average GDP per capita

In some measure, underlying structural challenges can account for the fact that some socioeconomic-environmental outcomes with direct relevance to the SDGs did not fare better with economic growth. First, the pace and direction of the structural transformation were not conducive to inclusive growth, as it was largely driven by an expansion in factors of production (labour and capital) rather than increases in productivity. Furthermore, the contribution of labour reallocation across sectors to overall productivity growth was negative over the period 2000–2010, indicating that more labour moved into low productivity sectors.<sup>6</sup> Currently, three sectors (agriculture, construction and public services) in which productivity is significantly below average employ approximately two thirds of the labour force.<sup>7</sup>

Second, there is a low rate of manufacturing value added per capita and little technological upgrading in industrial output (Goal 9). Manufacturing value added per capita currently stands at \$480, compared to an average of \$807.50 in lower-middle-income economies.<sup>8</sup> Non-oil manufacturing value added as a per cent of GDP dropped to 11.7 per cent in 2019/20 after witnessing marginal progress; it had increased from 12 per cent in 2015/16 to 12.7 per cent in 2017/18.<sup>9</sup> While it could be argued that Egypt shows symptoms of premature deindustrialization, the country's labour and natural resource endowments still offer strategic advantages that can be utilized with supporting policies. Limited efforts in technological upgrading are reflected in the meagre share that medium- and high-tech exports hold of the country's total exports.

Third, the Egyptian economy lags behind in trade openness, which stands at 43.3 per cent of GDP, compared to an average of 54.5 per cent in lower-middle-income economies.<sup>10</sup> There is broad consensus that trade openness offers a window of opportunity for making significant progress on many of the SDGs.<sup>11</sup> The low degree of economic openness in Egypt reflects protectionist

tendencies that still persist in some sectors. Chapter 9 assesses the country's trade portfolio and policies in detail and discusses trade as a potential engine for growth.

The aforementioned structural impediments are not all a product of circumstance. Policy decisions over the previous decades have been a contributing factor. These structural challenges deepened over time as a result of rigidity and informality in labour markets, occasionally inconsistent macroeconomic policies, administrative pricing, lax competition policy frameworks, overly protective trade policies and a lack of sufficient financing for the private sector. In addition, Egypt could not adequately capitalize on opportunities offered by the ICT revolution and the growing importance of global value chains. Both were drivers of growth and development in other developing countries in the last 30 years.<sup>12</sup>

With enhanced policy frameworks, some of these structural impediments are currently being addressed. The first phase of the National Program for Economic and Social Reform (2016–2019) is credited with increasing growth and employment, containing inflation after the flotation of the exchange rate and making progress in fiscal consolidation. The upcoming second phase of the programme, announced by the Ministry of Planning and Economic Development in 2021, focuses on structural reforms to improve the business environment and boost competitiveness. It also focuses on manufacturing, ICT and agriculture, given their high potential for growth and added value, their relative weight in the GDP and their forward and backward linkages. These new policy frameworks are coupled with reforms in the tax collection system, with a view to broadening the tax base without increasing the tax burden by promoting digitization, removing inefficiencies and formalizing the informal economy.

Notwithstanding this ambitious policy agenda, further work is needed to unleash the necessary dynamism for inclusive and



sustainable growth and to ensure the optimal use of available resources. Higher productivity gains are necessary for the Egyptian economy to achieve the higher growth rates needed to meet socioeconomic challenges. Technological upgrading and an effective national innovation system are central to realizing these productivity gains.

## 2. Pillars of the long-term development strategy in Egypt

Egypt Vision 2030 is the national document outlining the sustainable development strategy along economic, social and environmental dimensions. The plan provides policies and programmes, along with indicators for monitoring, which align with achieving the SDGs.

Taking into account existing challenges and potential opportunities, the development strategy is centred on creating a path for inclusive growth to meet the needs of a growing population with a youth bulge, as Egypt completes its demographic transition. This requires addressing existing challenges such as upgrading the infrastructure,

investing in affordable housing and mitigating the impact of water scarcity. In addition, to capitalize on the potential provided by a growing population, a national plan for overhauling the education system has been enacted.

Inclusive growth requires a stronger focus on the quality of growth to ensure that it is driven by productivity enhancements and positive structural transformation. As a result, education reform and targeted programmes for retraining and reskilling the labour force are a fundamental pillar in the country's long-term success in meeting the SDGs. Fostering innovation and technological upgrading both in production and exports is essential for making gains and achieving deeper global integration.

Also central to the achievement of this ambitious vision is collaboration among the Government, the private sector and civil society. Stakeholder engagement is crucial to the success of the development strategy. Accordingly, section C explores the integration of different types of financial flows from the Government, the private sector and civil society, in addition to donor support.

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## B. Development finance assessment

The DFA is an analytical mapping tool for studying financial flows in the economy with the intention of capturing trends, identifying gaps and highlighting sustainability concerns. It also identifies missed opportunities to leverage particular FFD flows and, therefore, forms an integral component of the INFF. The methodology is outlined in the UNDP Development Finance Assessment Guidebook.<sup>13</sup>

The DFA distinguishes financial flows along two dimensions: private versus public flows and domestic versus external flows, with public-private finance as a cross-cutting flow (table 5). Private flows comprise various forms of

domestic and foreign private investment, as well as non-commercial private flows through non-governmental organizations (NGOs), philanthropy and remittances. On the other hand, public flows pertain to the Government's capacity to raise funds domestically through tax revenues and borrowing, in addition to external support provided through official development assistance (ODA), South-South cooperation and climate financing. It is worth noting that some of the categories of funding straddle the classification boundaries of table 5. For instance, NGO flows can be both domestic and external, and public borrowing can be from either domestic or foreign institutions.

**Table 5.** Types of financing for development flows

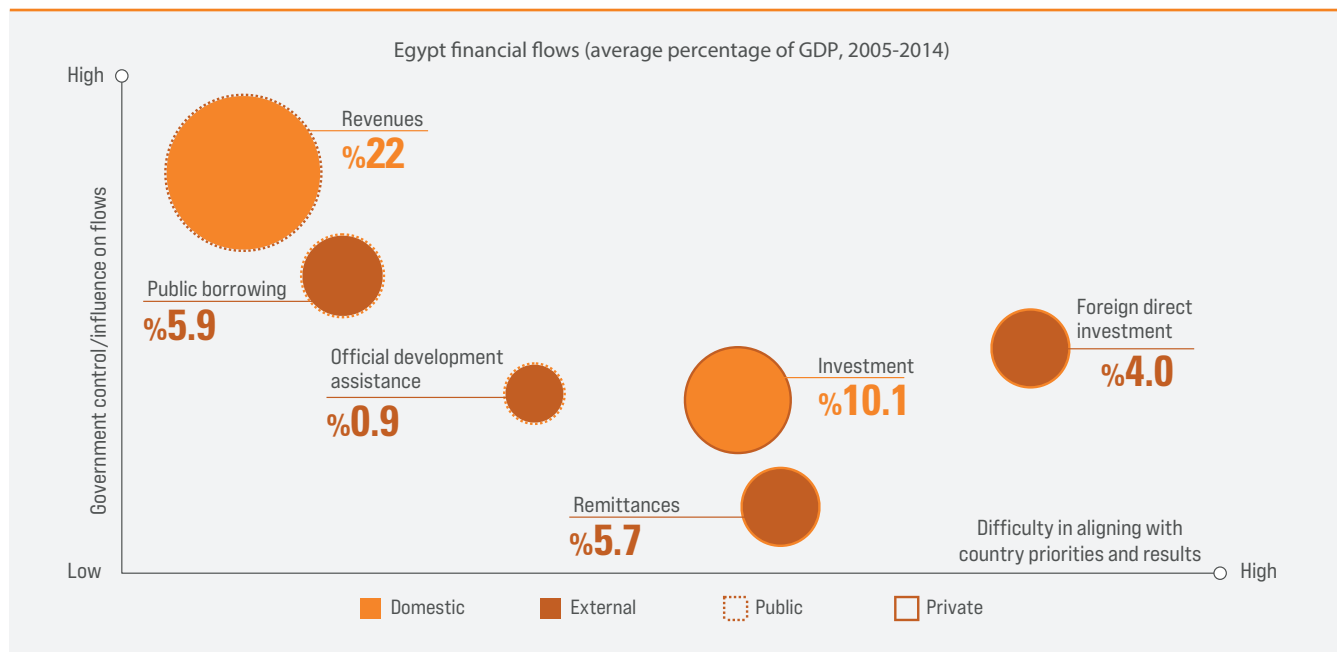
|                 | Private   |   | Public   |
|-----------------|---|---|--|
| <b>Domestic</b> | <ul style="list-style-type: none"> <li>• Commercial: private investment, corporate bonds, credit to private sector.</li> <li>• Non-commercial: foundations and non-governmental organizations.</li> </ul> | Public-private flows such as public-private partnerships and blended finance structures | <ul style="list-style-type: none"> <li>• Government revenue (tax/non-tax)</li> <li>• Public entities' revenues</li> <li>• Public borrowing</li> </ul>                |
| <b>External</b> | <ul style="list-style-type: none"> <li>• Commercial: foreign direct investment (FDI), portfolio investments.</li> <li>• Non-commercial: remittances.</li> </ul>   |   | <ul style="list-style-type: none"> <li>• Official development assistance (grants and loans)</li> <li>• South-South cooperation</li> <li>• Climate finance</li> </ul> |

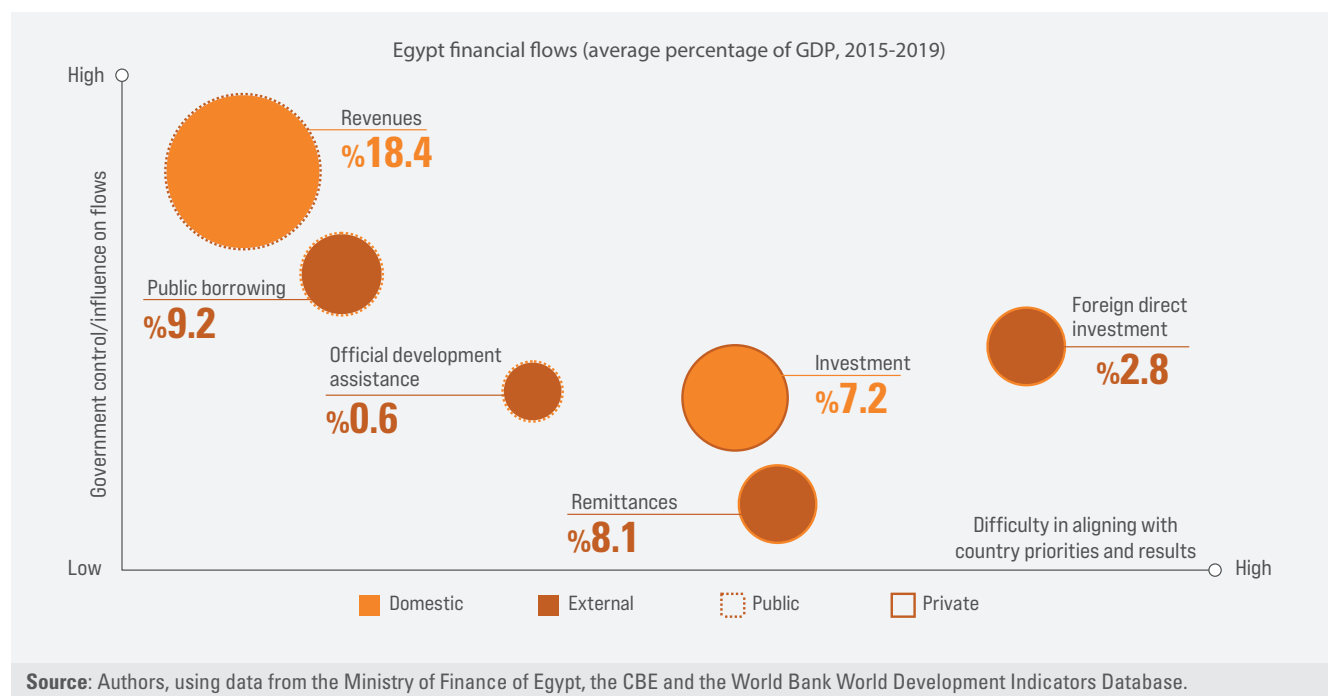
Source: Authors.

The focus of the DFA is to undertake a mapping of these flows to identify persistent gaps and missed opportunities. Figure 21 shows an initial mapping of some of these flows along three dimensions: (i) relative weight with respect to total FFD flows (bubble size in the chart), (ii) the Government's ability to control or influence these flows, and (iii) the ease with which these flows can be aligned to the country's development priorities.<sup>14</sup>

Figure 21 shows that government revenue and public borrowing are both under the control of government policy and can be deployed to spending programmes that are easily aligned

with development objectives. This is in contrast to domestic private investment, remittance and FDI. During the periods 2005–2014 and 2015–2019, government revenue represented the main source of financing, although there was a significant drop during the latter period. While domestic private investment was the second largest source of financing during the period 2005–2014, it retreated to the fourth place in recent years, during which government borrowing and remittances increased in relative importance. Both FDI and ODA saw a decline from 2015 to 2019, compared to the earlier period.

**Figure 21.** Financing for development flows – mapping for Egypt

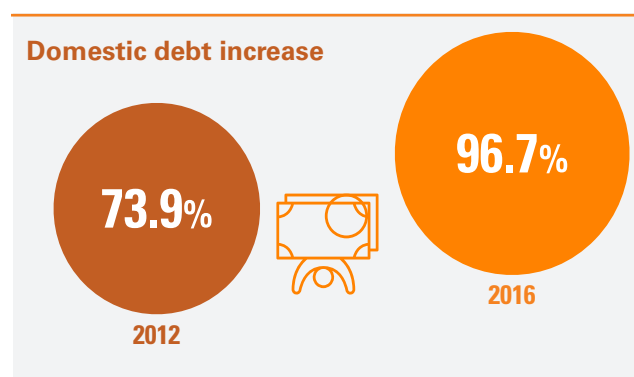


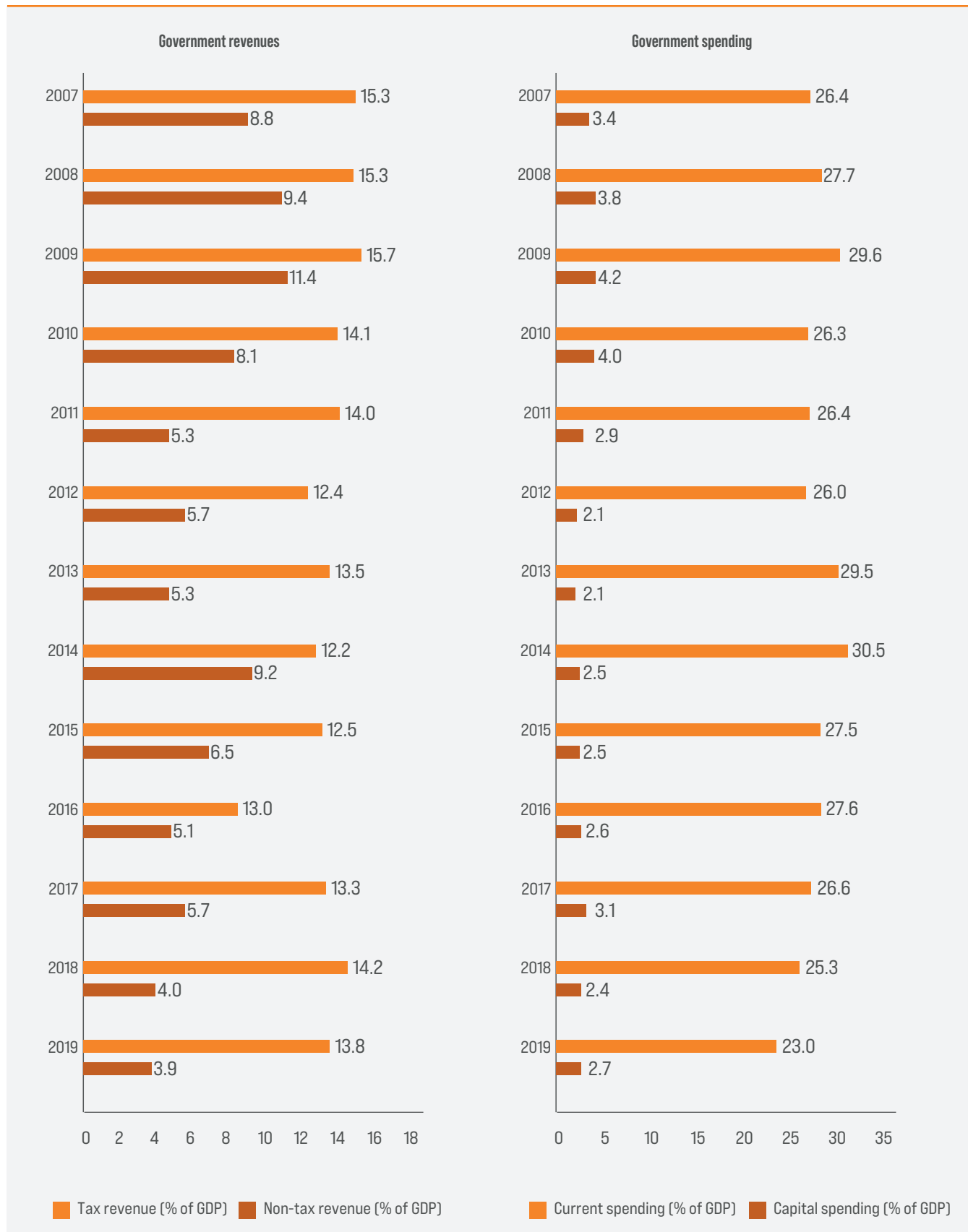
These flows are intricately linked to other economic developments, particularly in relation to the fiscal stance and the financing of trade and current account deficits. They also relate to the private sector's willingness and ability to channel investment flows into the economy, which partially depends on the existence and outlook of any internal and external macroeconomic imbalances, as well as the overall regulatory environment and institutional framework governing business investment. These interlinkages are further discussed in section D.

## 1. Mapping of financial flows for development

The development of domestic public flows related primarily to government tax and non-tax revenues is examined in relation to the overall fiscal policy stance in order to gauge the extent of reliance on public borrowing as a complementary resource to government revenues. Figure 22 shows that government revenues have stagnated in the range of 18 to 19 per cent of GDP since 2011, with tax revenue comprising over two thirds of

total revenue. This range is distinctly lower than the average revenue over the period 2007–2010, which was 24 per cent of GDP. On the expenditure side, government spending witnessed an increase from 2012 to 2014 as a countercyclical measure to revive growth rates, which had plummeted since 2011. As a result, the government budget deficit increased to reach a high of 12.8 per cent in 2013. The fiscal stimulus helped to revive the economy but required an increase in public borrowing. As a result, domestic debt increased significantly, from 73.9 per cent in 2012 to 96.7 per cent in 2016, before retreating. Nevertheless, total debt was well on the rise due to an increased reliance on external borrowing since 2017.



**Figure 22.** Domestic public flows and the fiscal policy stance



**Source:** Authors, using data from the Ministry of Finance of Egypt, the CBE and the World Bank World Development Indicators Database, accessed October 2020.

<sup>a</sup> Data for gross domestic debt was unavailable for 2018 and 2019.



In 2016, amid significant pressure on the exchange rate, the Government signed an Extended Fund Facility with the IMF. It included an ambitious programme of economic reforms centred on two main pillars for macroeconomic policy: the flotation of the exchange rate and fiscal consolidation to achieve a primary surplus in the government budget. This resulted in a gradual decline in the overall deficit.

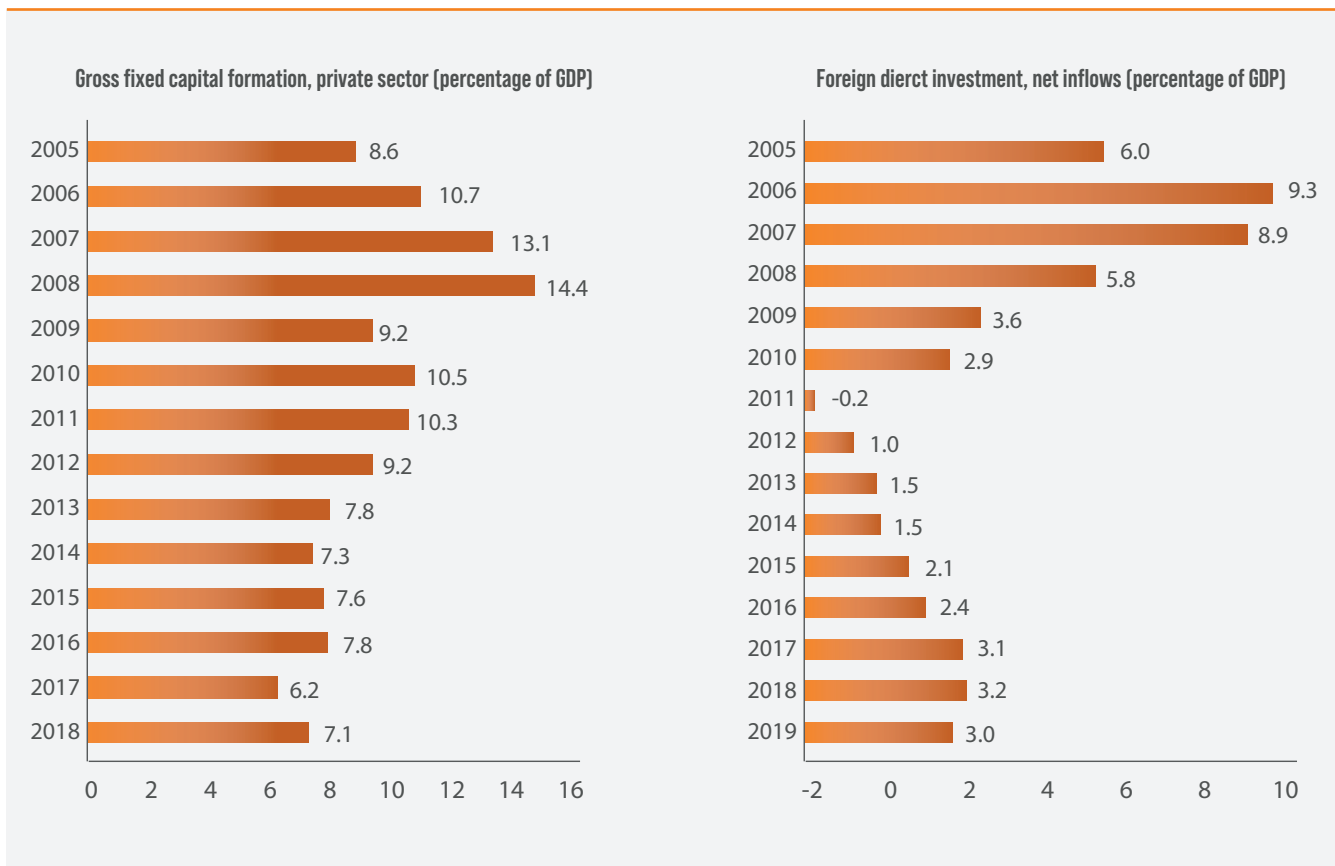
Concomitantly with the increase in the government budget deficit, domestic private flows in the form of private investments witnessed a notable retraction. As seen in figure 23, the decrease in private investment began in 2008 in the aftermath of the global financial crisis, followed by a partial rebound in 2009 and 2010. From 2011 to 2013, the decline in private investments accelerated, largely owing to the political turmoil in Egypt and the region. From 2014, domestic private investments have

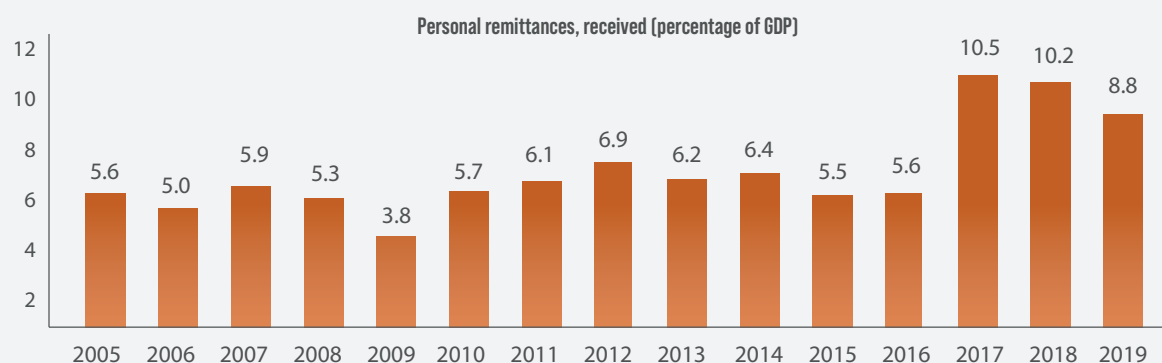


From 2014, domestic private investments have remained low, owing to a number of interconnected factors.

remained low, owing to a number of interconnected factors. It began with deteriorating domestic business activity due to a shortage of foreign exchange, coupled with increased uncertainty about the future of the exchange rate parity. After the flotation, and in response to a strong surge in inflation, CBE hiked interest rates by 7 per cent, which increased borrowing costs for businesses.

**Figure 23. Private sector flows**





Source: Authors, using data from the CBE and the World Bank World Development Indicators Database, accessed October 2020.

External private flows in the form of FDI also declined sharply in 2011 and then began to recover gradually; however, FDI levels currently stand at approximately 3 per cent of GDP. This remains below the impressive levels achieved before the 2008 financial crisis, when it reached a record high of 9.3 per cent in 2006. Over the same period, particularly since 2017, remittances have come to play an increasingly important role as a flow of private funds. They made up an average of 9.8 per cent of GDP from 2017 to 2019.

It is instructive to study the mapping of financial flows with regard to the following key macroeconomic identity:  $S - I = CAB$ , where  $S$  and  $I$  denote domestic savings and investment, respectively, and  $CAB$  denotes the current account balance. This identity highlights the dynamics of investment flows in relation to domestic savings and their impact on national external accounts, which facilitates an assessment of external sustainability. To incorporate the fiscal stance into the analysis, the savings-investment (SI) balance can be further broken down as follows:

$$(Sp - Ip) + (Sg - Ig) = CAB$$

where  $(Sp - Ip)$  and  $(Sg - Ig)$  denote private and government SI balances, respectively.

As shown in figure 24, the government SI balance was consistently negative, increasing in line with the budget deficit from 2011. This development

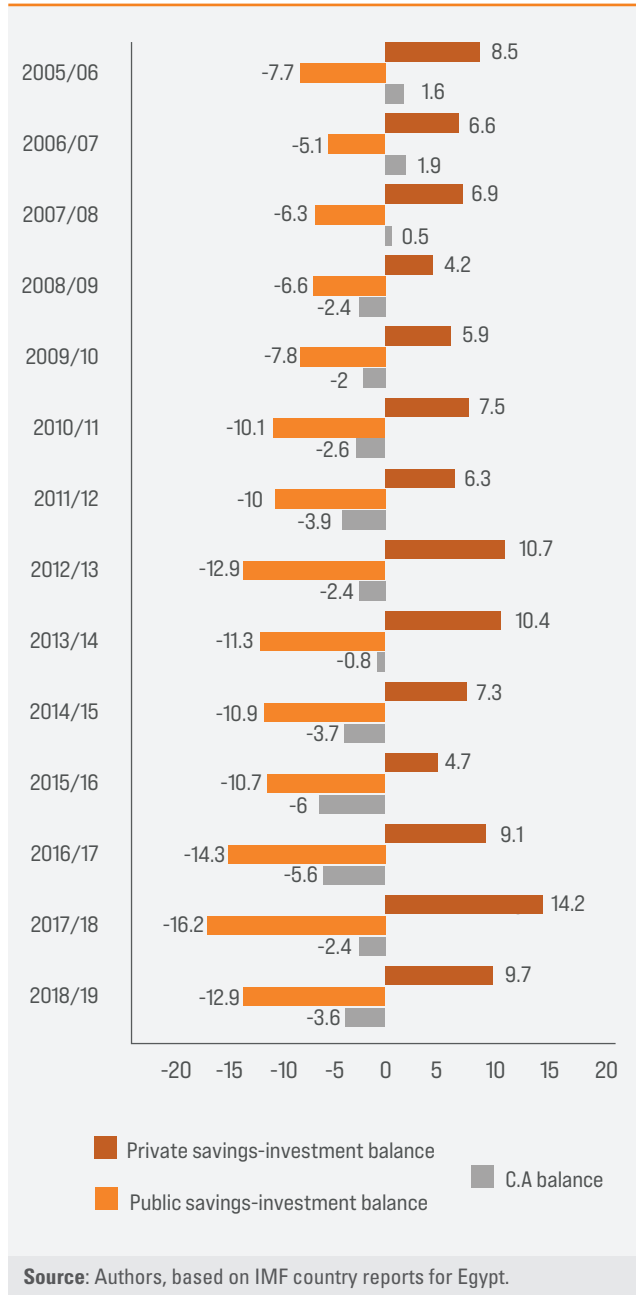
weighed heavily on the overall SI balance and the current account deficit. This was particularly the case during 2014/15 and 2015/16, which also saw a smaller surplus in the private SI balance. Egypt has been in this “twin deficits” predicament since 2007/08, with both the government budget and the current account recording large deficits. The current account deficit may also be reflective of other factors, such as demographic changes and trade developments.<sup>15</sup>

FDI levels currently stand at approximately

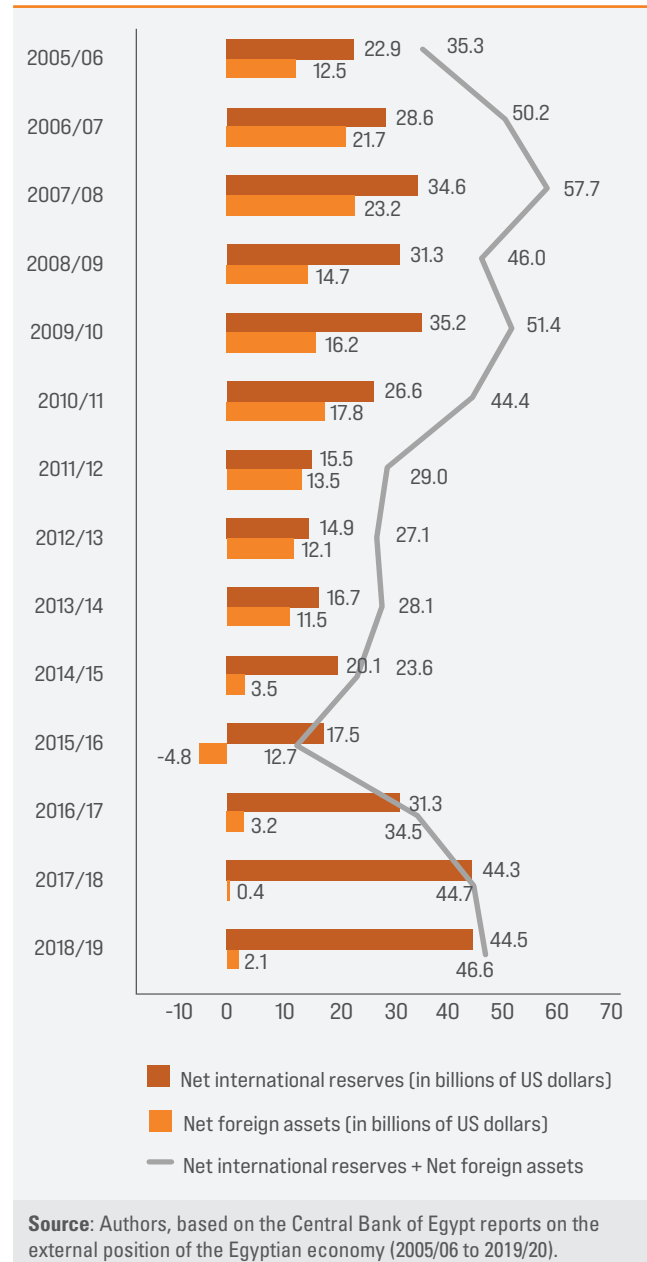
**3%**  
of GDP



This remains below the impressive levels achieved before the 2008 financial crisis, when it reached a record high of 9.3% in 2006.”

**Figure 24. Emerging twin deficit dynamics**

The emergence of a persistent current account deficit since 2007/08 requires financing on the capital and financial account side of the balance of payments. During the period 2008–2010, the economy relied on FDI to close the bulk of the funding gap (figure 23). The remainder was financed by drawing down international reserves and the net foreign assets of the banking sector (figure 25). While

**Figure 25. Net international reserves and net foreign assets of commercial banks**

the latter remain at low levels, CBE managed to shore up international reserves despite the persistent current account deficit by resorting to alternative means of financing, with increased reliance on portfolio inflows and external borrowing in recent years. The moderate increase in FDI since 2017 was not sufficient to finance the current account deficit induced by a large government SI gap.

It is worth noting that while the COVID-19 pandemic caused considerable disruptions to the external environment, the pandemic itself did not create a new situation for Egypt but rather served to aggravate the macrofiscal challenges that the country was already attempting to overcome. Projections in section 4 elaborate on this point.

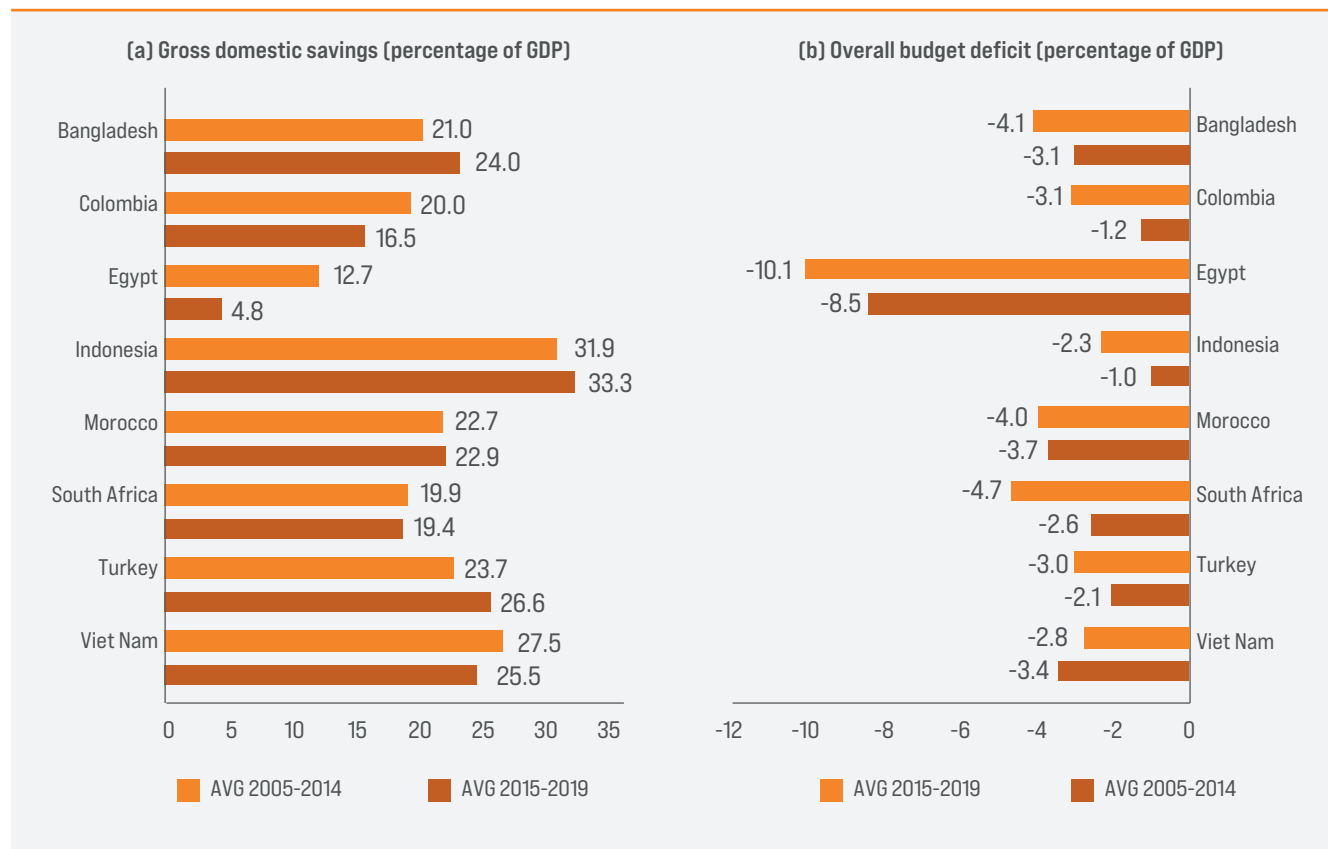
## 2. Identified shortfalls

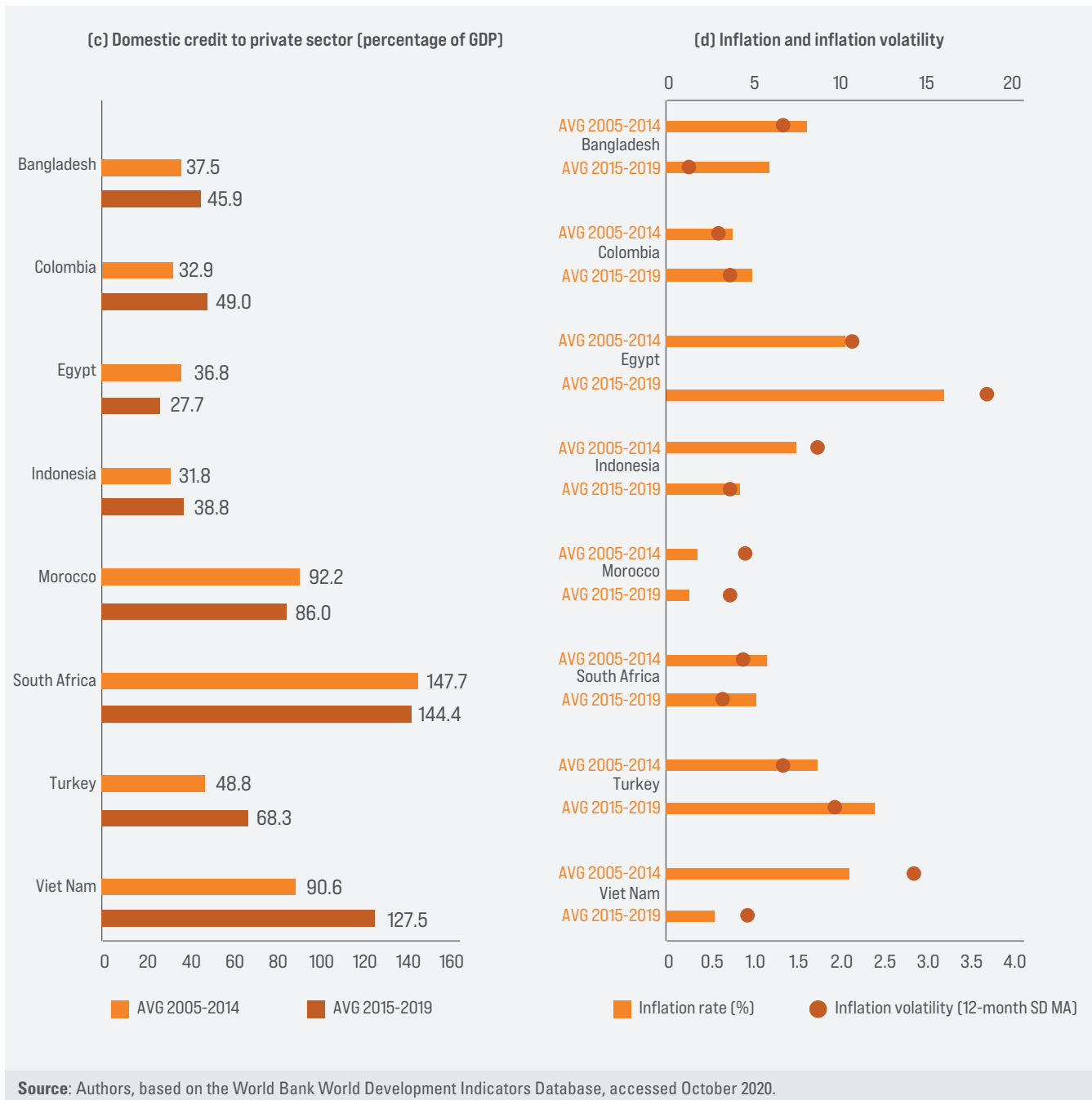
To better understand the mapping of FFD flows, it is also instructive to understand national private and public flows in a comparative context, measuring them against peer economies that share similarities. The comparator group includes Bangladesh, Colombia, Indonesia, Morocco, South Africa, Turkey and Viet Nam.<sup>16</sup>

Figure 26 shows the comparative position of Egypt on economic indicators that have direct

and indirect effects on FFD flows. The national gross domestic savings rate, at 4.8 per cent of GDP during the period 2015–2019, is quite low in comparison. It also witnessed a marked decline compared to the period 2005–2014. This largely reflects the increase in the fiscal deficit over the more recent period. Despite impressive fiscal consolidation efforts in recent years, Egypt still runs an excessive fiscal deficit, which averaged 10.1 per cent of GDP during the period 2015–2019. The deficit level is more than double that in comparators. With more historical perspective, the country's fiscal deficit was quite high during the period 2005–2014 as well. Even with zero fiscal deficit during these two periods, which would boost gross domestic savings by the magnitude of fiscal savings, the savings rate for Egypt would still appear modest in comparison, especially during the latter period. Helmy shows that household saving behaviour in Egypt depends on income distribution and the degree of access to financial services.<sup>17</sup>

**Figure 26. Country comparison: savings, fiscal deficit, private sector credit and inflation**





There was also a heavy reliance on the domestic banking sector to finance the deficit, which naturally decreased the pool of credit available to the private sector. While Egypt fared better on this indicator during 2005–2014, as is shown in figure 26 (c), access to credit deteriorated during the period 2015–2019, in line with the increase in the fiscal deficit. To a large extent, this underlies the decline in private sector investments (figure 23). High inflation has a detrimental effect on the

investment rate and on growth in general.<sup>18</sup> Egypt witnessed elevated levels of inflation relative to its peers and a notable increase in inflation volatility for the period 2015–2019, primarily owing to a surge in inflation after the flotation of the exchange rate in late 2016. Periods of high inflation in Egypt were associated with increases in relative price variability and inflation uncertainty, both of which hurt long-term growth.<sup>19</sup> The most recent data show that CBE was



successful in curbing inflation, with headline rates holding steady at an average of only 5 per cent throughout 2020 and in the first nine months of 2021, which is particularly commendable given the pandemic challenges.

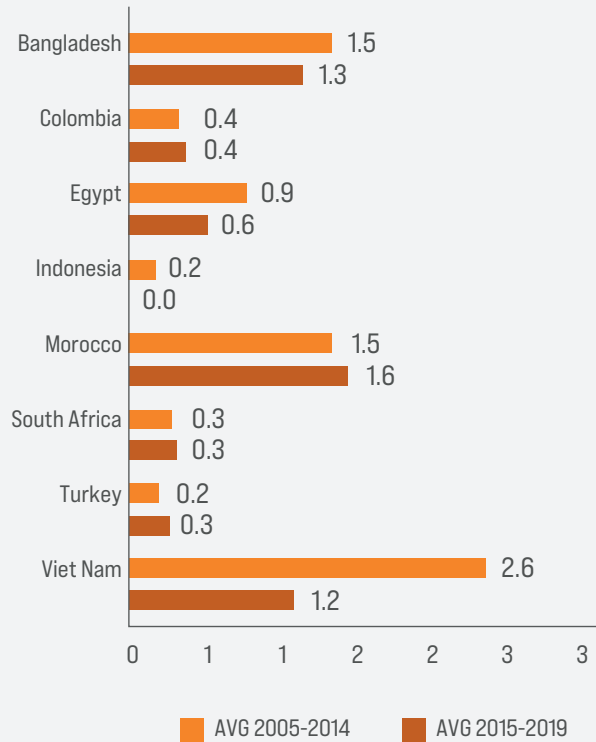
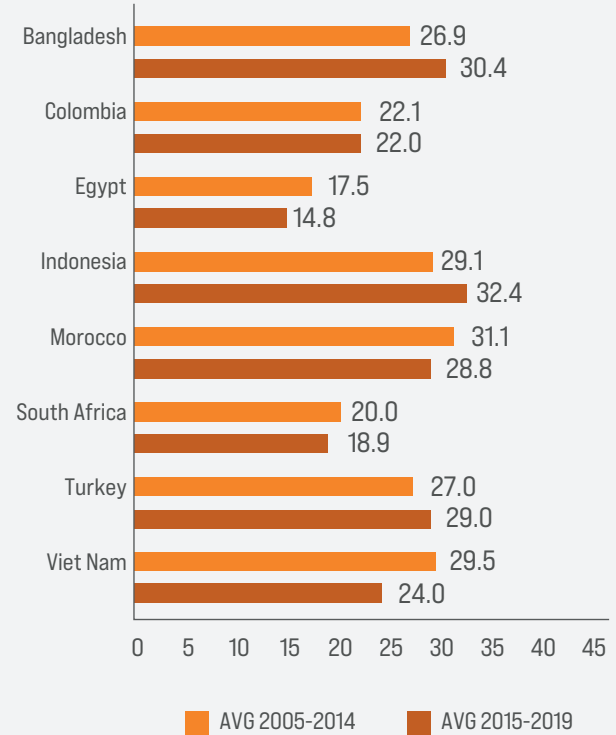
Figure 27 plots the comparative levels of the most significant FFD flows. Government revenue compares favourably to Bangladesh and Indonesia and is slightly higher than that of Viet Nam; however, it is lower than the other comparators by some margin. At the same time, the intensity of government spending exceeds

that of comparators, resulting in higher fiscal deficits and elevated levels of public borrowing. As indicated earlier, private investments in Egypt are significantly lower than in comparator countries, partially as a result of the business environment, as discussed in section C.1. On the other hand, Egypt fares well in attracting FDI when compared to most comparators, except for Colombia and Viet Nam. Nevertheless, FDI inflows tend to be concentrated in the mining and real estate sectors, including oil and gas, which limits the potential for creating decent high productivity jobs.

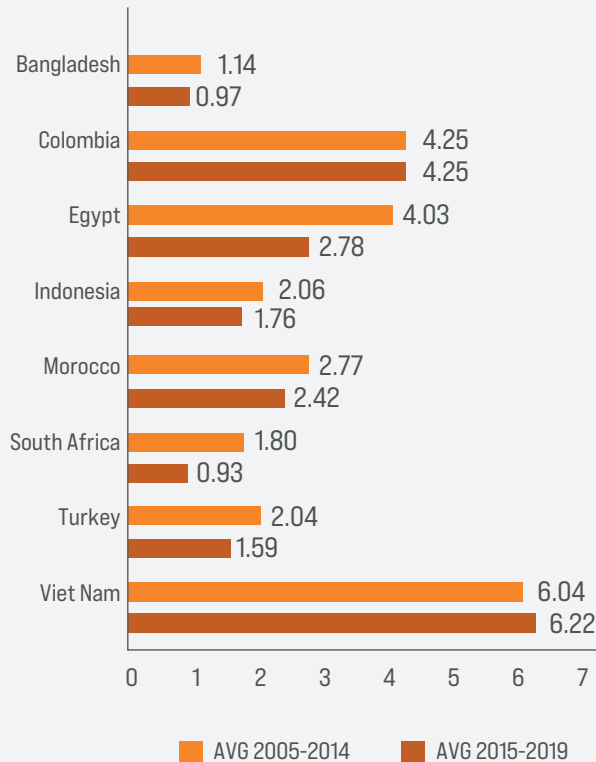
**Figure 27. Country comparison: financial flows for development**



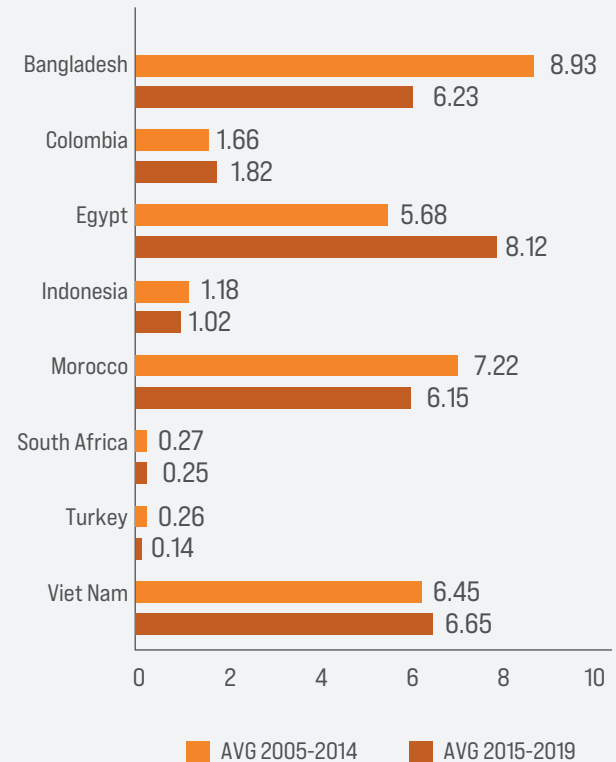
Net official development assistance received (percentage of GDP)

Gross fixed capital formation (percentage of GDP)  
[Dom private investment]

Foreign direct investment net inflows (percentage of GDP)



Remittances received (percentage of GDP)



Source: Authors, based on the World Bank World Development Indicators Database, accessed October 2020.

Remittances have historically played an important role as a private external flow in Egypt and constitute a significant source of foreign exchange receipts in the current account. In this respect, Egypt resembles Bangladesh, Morocco and Viet Nam. The importance of remittances increased during the period 2015–2019. It is conjectured that this increase was largely driven by the significant inflationary wave in 2017 (after the flotation of the exchange rate), which prompted Egyptian workers abroad to provide increased support to families and dependents as a cushion against inflation. ODA represented 0.6 per cent of GDP on average during the period 2015–2019, slightly lower than the 0.9 per cent recorded during the period 2005–2014. This places Egypt behind Bangladesh, Morocco and Viet Nam, but not significantly.

### (a) The impact of identified gaps on the Sustainable Development Goals

Considering both the historical developments and the position of Egypt relative to its peers, a number of shortfalls can be identified. First, the twin deficit dynamic in recent years has increased reliance on foreign borrowing, since FDI and portfolio inflows were insufficient to finance the current account deficit. In particular, dependence on portfolio inflows as a source of foreign financing is problematic, given the tendency for sudden stops and reversals due to uncontrollable global factors. Not only does this create an external vulnerability, it also constitutes a weakness in the country's current FFD framework that needs to be addressed.

Second, on the fiscal side, government borrowing has increased as a result of low levels of government revenues. In addition, the current composition of government spending shows the majority of expenditures going to debt service (i.e. interest expense and repayment of principal). This leaves little room for spending on programmes with a direct impact on the SDGs, such as education, health, climate action and scientific

research. The current achievement of a primary surplus in the fiscal accounts is praiseworthy, but it is not enough. Improvements on the revenue side are needed over the medium and long term. Chapter 4 discusses the country's government budget design and priorities at length.

Third, insufficient private investment by domestic and foreign investors stalls positive structural transformation in the economy and negatively affects the diffusion of modern technologies and the ability to integrate into global value chains. It also impacts the economy's dynamism and capacity to create decent high productivity jobs.

Fourth, the economy's increased reliance on remittances in recent years must also be revisited. While many developing countries rely on remittances as an important source of foreign financing, Egypt seems to have developed an excessive reliance during the period 2015–2019. It is also important to study the determinants of workers' remittance flows to Egypt and their sensitivity to factors beyond the country's control. For instance, it is important to project how remittance flows will be impacted by the secular decline in oil prices or recent changes in tax policy in some of the Gulf economies. The same applies to the potential impact of the COVID-19 shock on future remittances.

#### Remittances remained comparatively robust

**8.1%**

of GDP from  
2015 to 2019

**5.7%**

of GDP from  
2005 to 2014



Fifth, while there are no data on other sources of funding such as climate financing, philanthropy and South-South cooperation, their level is likely low in comparison to other FFD flows. Moving forward, it is important to leverage these sources to address some of the country's present challenges, such as water scarcity and the impact of climate change, and to enable the economy to bridge the gap in the respective SDGs.

### 3. Priority flows

In light of the previous discussion, the fiscal side is a good starting point for streamlining the composition of FFD flows and harnessing their potential to improve SDG outcomes. Enhancing the Government's capacity to raise tax revenue is key in this respect. This should be implemented with a view to enhancing revenue collection without increasing the tax burden, as well as possibly redistributing the tax burden across income strata by introducing more progressivity in the tax structure. Positive steps have already been taken in this direction with a new income tax law in 2020, which increases the tax exemption limit, reduces the tax burden for the majority of lower-income brackets and increases the tax rate on the highest bracket. In light of ongoing efforts to formalize the informal sector, this policy must balance advantages and disadvantages in order to incentivize informal establishments to join the formal sector. Another important element is to balance tax and non-tax sources of revenue and assess policy measures that help to increase private savings in the long term.

On the expenditure side, a two-pronged approach is needed. On the one hand, there is a need to rationalize some forms of spending. By increasing revenues and reducing expenditures, fiscal consolidation will reduce the budget deficit, which increases the overall level of national savings and avoids the current crowding out of the private sector. On the other hand, reduced government expenditures call for a reprioritization of spending, with the aim of expanding and

strengthening social safety nets and enhancing the potential for future growth. The latter requires targeted spending programmes in health, education, infrastructure and innovation.

Increased fiscal consolidation provides the Government with sufficient fiscal space to address potential crisis situations that may have an abrupt negative impact on the SDGs. The COVID-19 crisis is one such example. The expected costs of climate change for Egypt are another important consideration. Furthermore, enhanced fiscal space reduces the cost of government borrowing (via a premium effect) by improving the path to public debt sustainability. Chapter 8 focuses on the country's debt sustainability and develops SDG-focused, scenario-based projections.

Another priority flow is that of private investment from both the domestic private sector and FDI. Increased fiscal consolidation creates more room for private sector growth. Reprioritized spending may also crowd in the private sector if a comprehensive public-private partnership approach is adopted. This provides more space for the private sector to participate and increases the availability of funds, since the lower budget deficit reduces the need for borrowing. In parallel, immediate and significant reforms in the business environment are needed to ensure that the private sector adequately participates in economic activity. A discussion of these reforms is presented in section 4.

One FFD flow holds particular promise in the case of Egypt: public-private partnerships in areas such as education, health and infrastructure. While there are currently no comprehensive data on existing partnership arrangements or projects in the pipeline, it remains relatively scant.

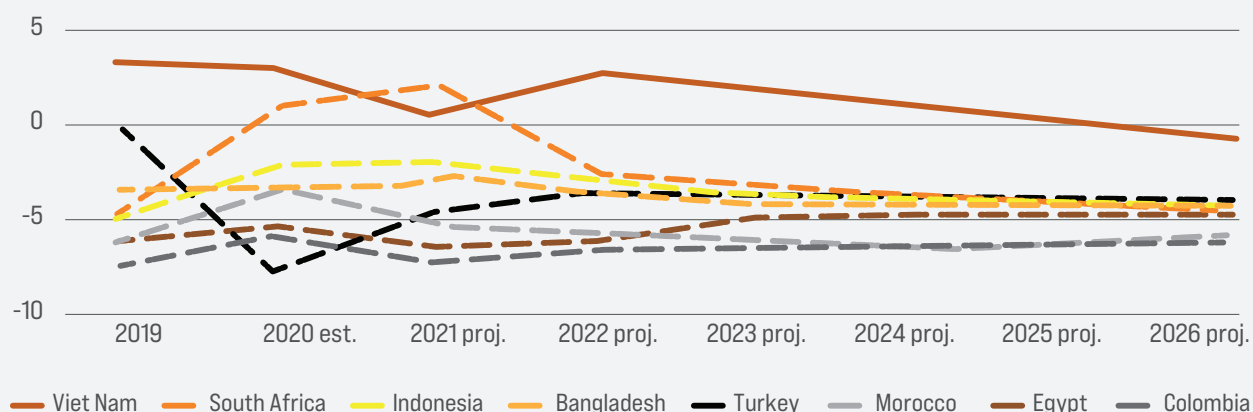
Lastly, climate finance is another nascent flow that Egypt can capitalize on to achieve the respective SDGs. It is expected to become a sizable flow internationally, with a number of donors and international financial institutions targeting green financing. At the same time, there is a strong

“

#### 4. Projections for priority flows under a no-change scenario

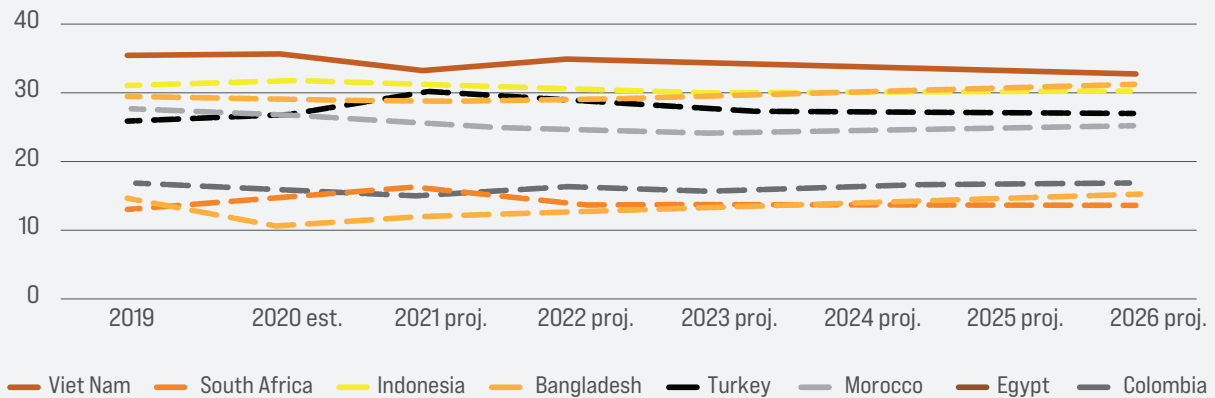
of fiscal consolidation, gross national savings are projected to rise slightly to reach 14.7 per cent of GDP in 2025. Nevertheless, it is worth noting that this is a downward revision from the IMF projections of October 2020, which had projected a savings rate of 19.1 per cent in 2025. Table 6 shows the revision of the projections for Egypt as the economic repercussions of the pandemic became clearer. Total investments are also projected to increase at a comparable pace, which stabilizes the current account deficit at 2.5 per cent of GDP by 2023 and beyond. Debt levels as a percentage of GDP are also expected to decline as a result of the primary surplus and favourable projections for the real interest rate in relation to GDP growth.

Current account balance (percentage of GDP)

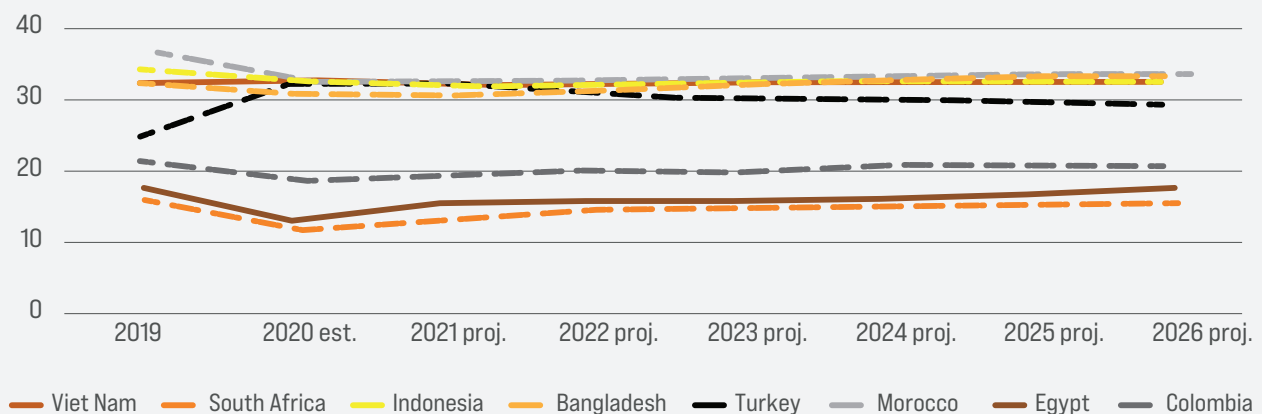




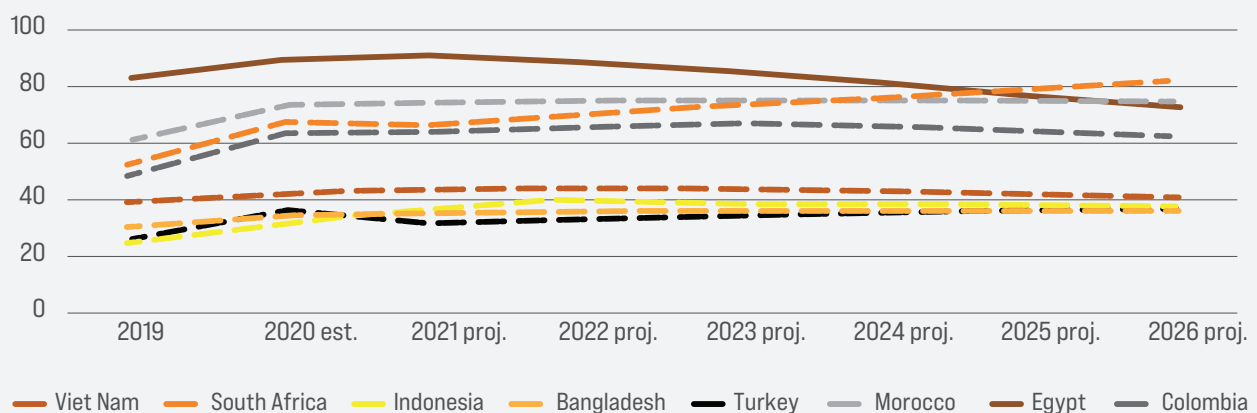
Gross national savings (percentage of GDP)



Total investments (percentage of GDP)



General government gross debt (percentage of GDP)



Source: IMF, 2021. World Economic Outlook: Recovery During a Pandemic – Health Concerns, Supply Disruptions, and Price Pressures, October.

On the whole, the outlook points to improvement over the medium term; however, there are groundbreaking changes in the trends and overall compositions of FFD flows. As can also be seen in figure 28, the comparative position of Egypt improves only marginally. The country continues to lag behind in terms of both savings and investments, and its current account deficit and debt levels remain high in comparison to its peers. As a result, the no-policy-change scenario is likely to be unfavourable with respect to SDG outcomes.

**Table 6.** Egypt's revised projections

| Percentage of GDP             | October 2020<br>for 2025 | October 2021<br>for 2025 |
|-------------------------------|--------------------------|--------------------------|
| Total investments             | 21.780                   | 17.28                    |
| Gross national savings        | 19.128                   | 14.70                    |
| Current account deficit       | 2.651                    | 2.58                     |
| General government gross debt | 77.018                   | 78.20                    |

**Source:** IMF, 2021. World Economic Outlook: Recovery During a Pandemic – Health Concerns, Supply Disruptions, and Price Pressures, October. IMF, 2020. World Economic Outlook: A Long and Difficult Ascent, October.

## C. Gap analysis and options for policy and institutional reforms

### 1. Gap analysis based on policy benchmark indicators

Significant FFD flows such as private domestic and foreign investment are sensitive to the policy environment and the institutional set-up in the host economy. The indicators in figure 29 show that Egypt has made considerable progress to close the gap with its peer group, although some areas

still lag behind. With regard to the Ease of Doing Business scores in panel (a), there is room for improvement in three areas: enforcing contracts, trading across borders and paying taxes.<sup>21</sup> In terms of governance, as per the Worldwide Governance Indicators shown in panel (b), Egypt would benefit from further improvement in regulatory quality and voice and accountability. It is worth noting that Egypt and its peers have significant room for improvement relative to the frontier.



Figure 29. Gap analysis



With regard to competitiveness indicators, such as the World Economic Forum Competitiveness Index in panel (c), Egypt made significant strides to close the gap with peer economies in areas such as infrastructure, institutions, financial market development and goods market efficiency. It still lags behind in higher education

and training, labour market efficiency and technological readiness. One area deserving further attention is the macroeconomic environment. Nevertheless, it should be noted that the data in the chart are rather dated and there has been evidence of improvement on that front in subsequent years.

Chapter 6 elaborates further on the role of the business sector in FFD and the various challenges faced by businesses in Egypt, but the productive capacities indicators highlight the structural issues mentioned earlier in section B.2. The UNCTAD Productive Capacities Index, shown in panel (d), demonstrates that Egypt is comparatively close to its peer group averages but continues to lag behind the frontier considerably in a number of areas, including the accessibility and integration of ICTs, institutional and regulatory quality, and structural change (which refers to the movement of productive resources such as labour from low productivity to high productivity economic activities). Although Egypt also lags behind in transport, there will likely be some improvement moving forward; other transport infrastructure-related indicators have shown notable improvement since 2018, especially on road quality and connectivity.<sup>22</sup>

## 2. Gap analysis vis-à-vis national development objectives and spending priorities

In April 2018, the Government of Egypt asked the Parliament to ratify the official year-one plan of the four-year Medium-Term Sustainable Development Plan (2018/19 to 2021/22). Since then, the annual plans outline spending priorities for each fiscal year, broken down by sector and location, to meet the Government's medium-term development objectives. They include a brief on the expected macrofiscal balance for each year. The larger four-year plan included the broader development and financial targets for the year 2021/22. In inspecting both the four-year plan and the detailed annual plans, two key gap areas are continually problematic.

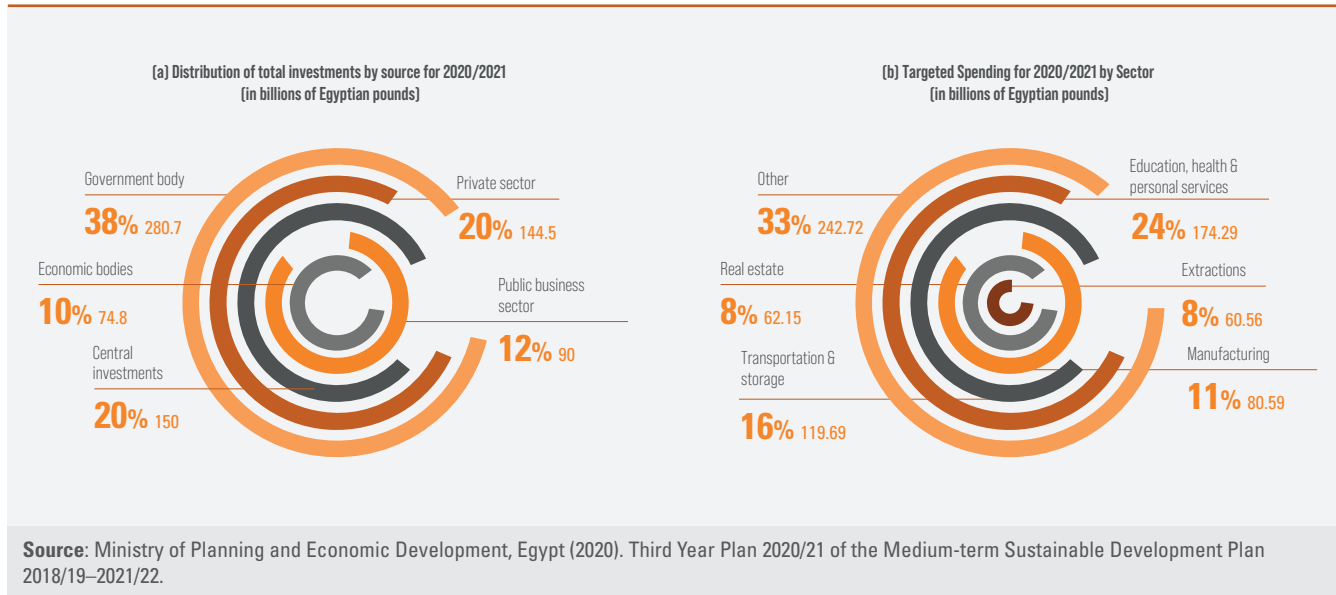
First, the four-year plan establishes ambitious fiscal and financial targets, even after considering setbacks as a result of the COVID-19 pandemic. These include a gross domestic savings rate of 22 per cent of GDP (the estimate for 2019/20 is 6.7 per cent), a domestic investment rate of almost 25 per cent (the estimate for 2019/20 is



## Reprioritized spending may crowd in the private sector if a comprehensive public-private partnership approach is adopted

14.1 per cent), a net FDI inflow of \$14 billion (the actual amount for 2018/19 was \$9 billion) and an overall budget deficit of less than 5 per cent. The plan does not explain the process by which these targets will be achieved.<sup>23</sup>

Conversely, the plan sets a meagre target for the private sector's contribution to total investment spending,<sup>24</sup> reaching 57.3 per cent by the last year of the four-year period. This contribution appears to decrease yearly. The target for private sector investment spending was set at 56 per cent and 54.6 per cent in 2018/19 and 2019/20, respectively, and reached a low of 19.5 per cent in 2020/21.<sup>25</sup> Figure 30 (a) shows the disproportionately high reliance on public investments, which is understandable to some extent, given the unusual burden that COVID-19 exerted on the private sector for the fiscal year 2020/21. Nevertheless, the relatively low contribution of the private sector seems to place a large burden on public flows, especially when considering that total revenues, which are the biggest source of public flows, have witnessed a decline over the past five years. Furthermore, priority spending sectors can easily allow for private sector contributions. For example, figure 30 (b) shows that after education, health care and personal services, priority spending for 2020/21 is in the transport and storage infrastructure sector. Even after factoring out the Suez Canal and other primarily public investments, private investments can still contribute more than the allocated 7.8 per cent,<sup>26</sup> whether in the form of public-private partnerships or other contracts.

**Figure 30. Public spending and investment plan, 2020/21**

Nevertheless, the plans could be transformed into comprehensive medium-term expenditure frameworks that utilize forecasting models to assess the availability of total resources and

financial flows. The findings could then be translated into allocations for spending, allowing for improved linkages between national development commitments and funding and spending priorities.

## D. Conclusion and policy recommendations

According to the UNDP Development Finance Assessment Guidebook 3.0, the process of operationalizing an INFF comprises three phases: inception, development and ongoing operations. With the DFA as the prime diagnostic tool, this chapter analyses various financial flows and presents broad recommendations based on identified gaps, with a view to supporting Egypt in the INFF inception phase. To that end, this chapter should not be read in isolation, as subsequent chapters in the report provide more detailed diagnostics on the key financial flows mentioned in table 5, focusing on their sustainability and connection to the SDGs. Government revenues are addressed in chapter 4, domestic and foreign commercial private investments in chapters 6 and 7, public borrowing in chapter 8 and external public flows in chapter 12.

Consequently, a road map for a comprehensive INFF for Egypt (i.e. the development phase) should be laid out utilizing the report in its entirety, along with further diagnostics as required. Creating this road map is first and foremost a government-led task that entails a dialogue with financing and governance partners and stakeholders. It also entails instituting monitoring and evaluation mechanisms that feed back into revisions of the road map to facilitate its operationalization.

Although challenging, it could be exceptionally useful to repeat the diagnostic exercise in this chapter on a governorate level. The trend to localize development is on the rise internationally. Several countries, including India, Thailand and the United Republic of Tanzania, have conducted the DFA on a subnational level. This practice is also on the rise in Egypt; recent published reports assess the state of





The road map for the INFF is first and foremost a government-led task that entails a dialogue with financing and governance partners and stakeholders.”

the SDGs in each governorate in an attempt to map localized development needs. An in-depth analysis can be found in chapter 11. This will then result in a stronger tool during the ongoing implementation of the INFF, which, alongside the monitoring and evaluation mechanisms, could help to ensure the efficacy of the INFF and a more equitable distribution of development.

Given the discussion presented in this chapter, the following policy recommendations can be proposed:

1

Reprioritize spending to adopt a comprehensive public-private partnership approach, especially in development priorities, such as education, health care and infrastructure, which could contribute to crowding in the private sector, provide more space for participation and increase the availability of funds.

2

Reduce the reliance on foreign borrowing and volatile external inflows such as portfolio investments to address the twin deficit dynamic. They constitute an external vulnerability and are subject to shocks, as observed globally during the pandemic.

3

Complete the INFF by activating its third and fourth building blocks (monitoring and review, and governance and coordination, respectively). They should be geared towards (i) reassessing national developmental objectives, (ii) increasing coherence across public and private financing policies, and (iii) improving collaboration among actors in each area of financing.

4

Continue the recent path of fiscal consolidation by (i) enhancing the capacity to raise tax revenue without increasing the tax burden, (ii) redirecting public spending to match developmental objectives without crowding out the private sector, and (iii) assessing policy measures that help increase private savings in the long run.

5

Leverage and provide data on other sources of funding, including climate financing, South-South cooperation and philanthropy, to assist in bridging the financing gap for specific SDG-related challenges such as the impact of climate change and water scarcity. A noteworthy first step in this direction for Egypt was the first issuance of sovereign green bonds in September 2020.



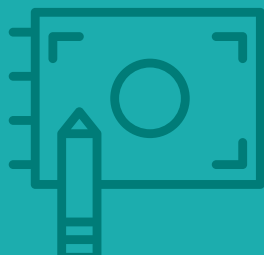
## Endnotes

1. The views expressed herein are those of the author and should not be attributed to the International Monetary Fund, its Executive Board or management.
2. The United Nations Joint Fund Support Project for Integrated Financing for Sustainable Development Goals in Egypt will be developed in cooperation with United Nations agencies in Egypt, including UNDP, UNICEF, UN-Women, ILO and UNCTAD. It will focus on key sectors, namely social protection, health, education, water, sanitation and transport.
3. Published on 18 July 2021 and intended to be the foundational framework for sustainable finance in Egypt.
4. World Bank, 2021b.
5. According to the Egyptian New and Renewable Energy Authority.
6. Morsy and others, 2015.
7. These sectors naturally have low potential for technology absorption and diffusion and rarely attract high-skilled labour, contributing to their low productivity and expected growth.
8. Calculated from the World Bank 2019 World Development Indicators Database, accessed February 2021.
9. Ministry of Planning and Economic Development, Egypt, 2021.
10. Trade openness is gauged by the sum of exports and imports as a percentage of GDP. Calculated using trade data from the United Nations Comtrade Database.
11. While inconclusive, empirical evidence tends to suggest that economic openness has a positive impact on growth performance. The impact appears to differ with the degree of economic development (Kim and Lin, 2009) and may be non-linear and subject to threshold effects (Zahonogo, 2016).
12. Dahlman, 2007.
13. UNDP, 2020b.
14. While the size of each bubble accurately reflects the average annual flow for each category over the indicated period, its position is arbitrary and reflects a judgment concerning the extent of government control over the respective flows and the ease with which it can be aligned with development objectives. This has been guided by UNDP (UNDP, 2016).
15. Chinn and Prasad 2003; Devadas and Loayza 2018.
16. Peer economies have been chosen based on comparability in the following parameters: population, size and structure of the economy and per capita income levels. In addition, these economies do not have rich endowments of energy resources. It is worth noting that the majority of the countries are upper-middle-income economies, whereas Egypt is a lower-middle-income country. The rationale for comparison here is partly aspirational and aims to benchmark against high performing economies sharing the country's development trajectory.
17. Helmy, 2015.
18. Barro, 2013.
19. Noureldin, 2009.
20. Ministry of Planning and Economic Development, Egypt, 2021.
21. The authors are aware of the reservations surrounding potential data irregularities in the Doing Business report. It is therefore presented here as one of several international indicators for the purpose of benchmarking and should be interpreted with caution.
22. For example, see the subindices under the infrastructure pillar of the Global Competitiveness Index, such as road connection, quality of road and transport infrastructure.
23. Ministry of Planning and Economic Development, Egypt, 2018b, p. 72.
24. It is worth mentioning that the plans seem to indicate that all investment (i.e. capital) spending is considered development spending.
25. See the Ministry of Planning and Economic Development annual sustainable development plans, chapter 3.
26. Ministry of Planning and Economic Development, Egypt, 2020, p. 299.

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# Budget design and priorities

*by Khaled Zakaria Amin and Israa A. El Hussein*



# 04









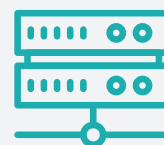
Fiscal policy plays a key role in stimulating economic growth and productive employment, as well as supporting macroeconomic stabilization (SDG 8).



## Background

Fiscal policy plays a vital role in achieving the SDGs. Public domestic resources from tax and non-tax revenues represent the main source of development financing, especially given declining flows from both ODA and the private and non-profit sectors. Through fiscal policy, Governments can reduce income and gender inequalities. Social spending and progressive taxation contribute significantly to the social dimension of sustainable development. In addition, various corrective fiscal measures can be used to overcome environmental challenges, such as climate change and the unsustainable use of natural resources.

Losses from poor infrastructure governance



**53%** **34%** **15%**

Low-income developing countries

Emerging market economies

Advanced economies







In this context, this chapter investigates the extent to which the current structure of the national budget of Egypt and the existing budgeting process support the achievement of the SDGs. To that end, this chapter analyses the national budget's structure in terms of both expenditure and revenue according to the economic, functional and administrative classification systems during the period between fiscal years 2014/15 and 2020/21. In addition, it examines various issues related to public financial management in Egypt and investigates the way in which the existing budget process could be strengthened to improve targeted spending.

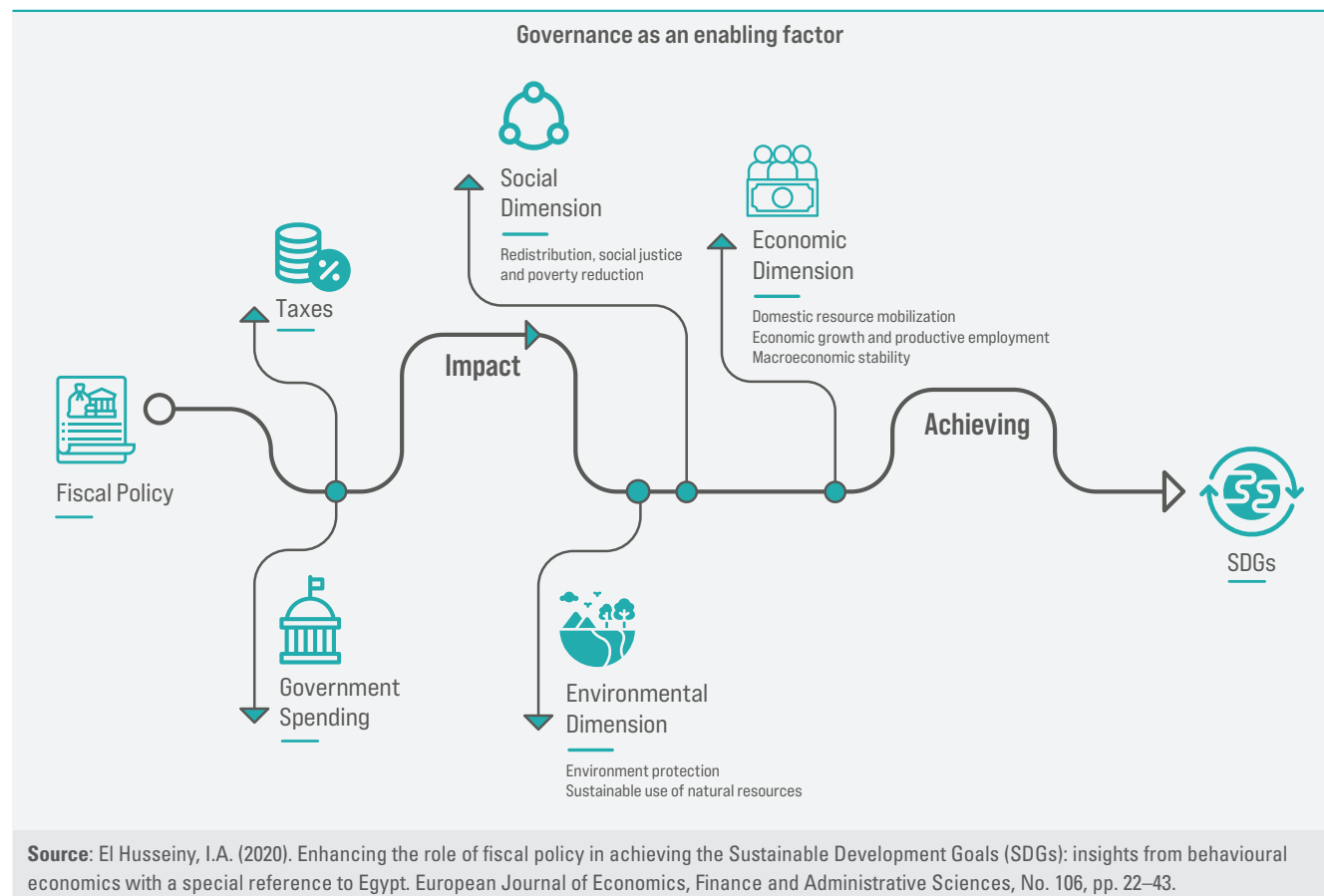
## A. The role of public finance in achieving the Sustainable Development Goals

Fiscal policy plays a significant role in supporting the achievement of various SDGs and their targets, particularly in terms of domestic resource mobilization; distribution policy, income redistribution and poverty alleviation; and environmental protection. Fiscal interventions in these areas directly impact economic, social and environmental SDGs.

As depicted in figure 31, the mobilization of domestic public resources by efficiently raising taxes and other non-tax revenue is necessary to secure the funds needed to finance public goods and achieve the various SDGs. Furthermore, fiscal policy plays a key role in stimulating economic growth and productive employment, as well as supporting macroeconomic stabilization (Goal 8). It also plays a redistributive role through taxation and social spending, with a view to reducing inequalities in income (Goal 10) and gender (Goal 5). Incentives established by fiscal policy can be used to effectively target progress on climate action (Goal 13) as well. Environmental taxation and

reforms to the energy sector and other distortive subsidies are among the primary fiscal measures that can help to promote environmental protection and the sustainable use of natural resources, which are cornerstones of sustainable development.

Undoubtedly, sound governance systems and quality budgetary institutions are necessary for fiscal policy to be effective in achieving the SDGs. They enhance accountability and transparency, control corruption, uphold the rule of law and improve government effectiveness. Poor governance, which manifests in the form of weak institutions and a lack of fiscal rules, has an adverse impact on the equity and efficiency of allocating government expenditures and mobilizing government revenues. For instance, Schwartz and others show that losses from poor infrastructure governance (measured as a percentage deviation from full efficiency) reach approximately 53 per cent in low-income developing countries and 34 per cent in emerging market economies, compared to 15 per cent in advanced economies.

**Figure 31.** A conceptual framework of the role of fiscal policy in achieving the Sustainable Development Goals

## 1. Public domestic resource mobilization

Financing is essential to implementing the 2030 Agenda for Sustainable Development, with its 17 Goals and 169 targets. Among the various development finance options available to Governments (i.e. domestic, external, public and private), domestic resource mobilization is of particular importance, especially for developing countries. Indeed, it is widely perceived as a way to fill the gap between available development financing and the ambitious goals and needs of national development plans. Furthermore, the link between revenue collection and effective expenditures on public goods and services forms the basis of the social contract between citizens and the State and gives rise to the prominent role of domestic public resources in financing for development (FFD).

Accordingly, target 17.1 on partnerships for the Goals stresses the importance of strengthening domestic resource mobilization in developing countries to improve domestic capacities for collecting taxes and other revenue. In addition, the mobilization of domestic public resources by enhancing revenue administration, improving the efficiency and effectiveness of tax systems and reducing tax avoidance topped the list of action areas that emerged from the Third International Conference on Financing for Development, held in Addis Ababa in July 2015.<sup>1</sup>

Nevertheless, mobilizing domestic public resources by raising tax and non-tax revenues should be carried out as efficiently as possible, with the fewest distortions to incentives for economic agents regarding saving, consumption, investment and labour.<sup>2</sup> This would help to reduce the adverse impact of taxes on employment and productivity, private investment and economic growth (Goal 8).



## Public domestic resources from tax and non-tax revenues represent one of the major sources of financing for the SDGs.

In addition, productive employment (Goal 8) can create a cycle in which more and better jobs expand the primary source of finance for households: their labour income. This in turn expands the tax base and leads to an expansion in the primary source of finance for companies: their sales revenue. This eventually stimulates investment and raises productivity, which in turn feeds back into the creation of additional productive employment opportunities.

## 2. Distribution, redistribution and poverty alleviation policies

These policies are among the key areas in which fiscal policy can play a powerful role, relying on fiscal measures that include taxes, social transfers and subsidies, as well as public spending on pro-poor social services.

Three of the 17 SDGs are directly linked to the distribution function of fiscal policy: Goal 1 on poverty, Goal 2 on hunger and Goal 10 on inequality. Indeed, Goal 10 aims to increase the income of poor and low-income groups; promote the social, economic and political inclusion of all; and adopt proper fiscal, wage and social protection policies that achieve greater equality. In addition, fiscal policy has the potential to narrow gender gaps and achieve gender equality (Goal 5), primarily by financing distribution policies (i.e. education and health) and schemes targeting

gender bias. For example, gender-responsive budgeting enables Governments to plan and budget for efforts that support gender equality objectives and to effectively track financial commitments and actual expenditures concerning these objectives. Furthermore, fiscal policy can target employment objectives (Goal 8) through employment-responsive budgeting, which considers budgetary implications for employment in the budget process.

It is worth mentioning that using fiscal policy to achieve other economic and environmental goals under the 2030 Agenda will positively impact the well-being of the poor and most vulnerable segments of the population. For instance, the role of fiscal policy in mobilizing domestic resources; promoting economic growth, job creation and employment; and enhancing macroeconomic stability should contribute to better social outcomes for prosperity and well-being.

## 3. Environmental protection and the sustainable use of natural resources

In addition to its role in achieving the economic and social SDGs, fiscal policy plays a significant role in the environmental dimension of sustainable development. This is primarily through corrective fiscal measures (i.e. corrective taxes and subsidies) that aim to internalize the externalities associated with various production and consumption activities in a way that

### The 2030 Agenda for Sustainable Development



17 Goals



169 Targets

promotes the sustainable use of natural resources and environmental protection.

Governments can impose corrective taxes on harmful and polluting activities and the irrational use of natural resources. Such taxes include a carbon tax and pollution or waste charges, as

well as taxes on plastic bags, fossil fuels and petroleum products, among others. They can also provide corrective subsidies, tax benefits and incentives to promote environmentally friendly patterns of production and consumption, such as subsidizing firms that use or produce renewable and sustainable energy.

## B. Budget planning and prioritization

Since the relative share of grants in total government revenues for Egypt did not exceed 1 per cent over the previous six years, tax and non-tax resources are crucial to financing development. This situation requires proper budget planning and prioritization. The Government should target development goals when preparing the State budget. Measures should also be in place to ensure that government spending is effective and efficient. This section reviews government practices regarding budget planning and prioritization, as well as efficient budget implementation.

### 1. Macroeconomic analysis and budget prioritization based on the Sustainable Development Goals

Robust macroeconomic analysis and forecasts are essential elements of strategic planning. They allow the Government to develop alternative fiscal scenarios based on plausible unexpected changes in macroeconomic conditions or other external risk factors affecting revenue, expenditure and debt. The Ministry of Finance has a macroeconomic unit that is responsible for generating these scenarios; however, this unit focuses more on fiscal risk analysis and deficit management than on the targeting of development goals. Budget prioritization is left to the Cabinet and the budgeting process, which is led by the Ministries of Finance and Planning and Economic Development.

In this context, it is worth highlighting that the Ministry of Finance presents annually to the Cabinet the main objectives of the budget proposal and their links to the Egypt Vision 2030. In addition, the Ministry announces these objectives annually through budget documents, including the budget circular and the financial statement.

Prioritizing the budget according to development goals does not receive considerable attention from the Parliament during the budget approval process. The focus of the discussion is primarily on the budget allocations assigned to budgetary authorities; the share of expenditures for each functional sector; and the extent to which the Government respects the constitutional mandates governing allocations for pre-university education, higher education, scientific research and health. Legislators also pay particular attention to the allocations assigned to the governorates they represent, particularly given the lack of local councils, which were dissolved following the revolution in 2011.



**The relative share of grants in total government revenues did not exceed 1% over the previous 6 years.**

## 2. Budget consolidation and efficiency

Budget consolidation is a crucial element of rational budgeting processes. It allows the Government to allocate resources to support established priorities. The public finance structure in Egypt consists of 654 budgetary authorities: 161 units at the central level, 349 at the local level and 144 public service authorities. Each budgetary authority prepares its budget in accordance with annual budget circulars and negotiates them with the Ministry of Finance, for recurrent expenditures, and with the Ministry of Planning and Economic Development, for investment expenditures. The number of budgetary authorities is excessive according to international standards and contributes to budget fragmentation. It also does not allow for development-based policy change or cross-agency interventions. There are many options to reduce the number of budgetary authorities, as they are established by laws and regulations. For example, these authorities could be reclassified into primary authorities, which have the right to negotiate their budgets with the Ministry of Finance, and secondary authorities, which have the right to negotiate their budgets with the primary authorities.

Many autonomous and economic units have the authority to intervene in the mandates of various sectors through recurrent and investment expenditures, with little interministerial coordination. This practice is particularly acute at the local level, where the capacity to manage the complexities of a fragmented system is greatly diminished.

The fragmented budget structure in Egypt limits allocative efficiency. This, in turn, limits effective prioritization, as resources cannot be easily allocated to the areas of greatest need. It is also extremely time-consuming. The budget process must be consolidated to ensure that budgets are efficient and consistent with core macroeconomic and development objectives.

## 3. Programme-based budgeting and budget comprehensiveness

Over the previous three years, the Ministry of Finance introduced programme-based budgeting at the ministerial level. It provided significant technical assistance to budgetary units nationwide in order to implement the new budgeting system. Nevertheless, it is extremely important to ensure that the outputs of the programme-based budgeting exercise are reflected in the annual line item budget. Budget comprehensiveness is weakened by extrabudgetary funds, which have their own financial resources and specific expenditures. This undermines budget effectiveness in allocating resources to high priority areas. Moreover, data on such funds are not publicly available and, therefore, cannot be considered during the budgeting process. In response to a request from the Parliament, the Ministry introduced a number of reforms governing extrabudgetary funds, which included dissolving some of them, reviewing their fiscal rules and ensuring that their current expenditures and revenues are included in the budget.

## 4. Multi-year budgeting

In general, the budget in Egypt is prepared on an annual basis, even though the chapter on investments is prepared on a medium-term plan (a three-year national plan). Recurrent expenditures are estimated on an annual basis, and government institutions cannot carry over their budget allocations, owing to the adoption of cash-based budgeting system. Budgetary authorities, however, can transfer allocations among budget chapters within the fiscal year. Strategic budgeting requires a planning process that can extend beyond a single year. Annual budgets address only short-term government spending needs, while medium-term budgets accommodate multi-year programmes, projects and policies. Strategic budgeting should be based on three pillars: medium-term fiscal, budgetary and expenditure frameworks. The fiscal framework is the first necessary step in developing



an expenditure framework. It should contain a statement of fiscal policy objectives and a set of integrated medium-term macroeconomic and fiscal targets and projections. While the Ministry of Finance does develop a medium-term fiscal

framework that is reflected in its annual financial statement, this important step must be expanded through the development of an expenditure framework, at the very least for certain sectors that serve development goals.

## C. Government expenditure from the perspective of the Sustainable Development Goals

The functional classification of the State budget in Egypt reflects the Government's decision to allocate overall spending among social services such as health, education and youth; infrastructure, public utilities and economic affairs, including transport, water and sanitation, housing, energy, industry and agriculture; purely public goods and services, such as justice, police and national defence; and social protection. Indeed, some of the SDGs are directly linked to specific sectors and activities, such as health (Goal 3), education (Goal 4), agriculture (Goal 2), water and sanitation (Goal 6), energy (Goal 7) and infrastructure and industrialization (Goals 9 and 11).

The Government's decisions in terms of allocating expenditures among recurrent items (i.e. wages and salaries, goods and services, interests and transfer payments) and capital items (i.e. investments) has its own synergies with the SDGs. For example, some of the SDGs, such as those related to agriculture, water and sanitation, energy and infrastructure, involve more capital-intensive activities. Others may require relatively higher recurrent spending, such as those related to reduced poverty and inequalities, education

and health. As a result, the extent to which the Government's budget structure is biased towards recurrent versus capital expenditure would reflect in the progress made under various SDGs.

Furthermore, the Government's decisions in terms of allocating budgetary funds among its administrative levels (local vs. central) has its own implications for the efficiency and effectiveness of public service delivery. This, in turn, would have an impact on the pace at which the country can achieve the SDGs.

Total government expenditure in Egypt is estimated at approximately LE 1.7 trillion, according to the modified State budget of 2020/21. The ratio of government expenditure to GDP has gradually decreased from 30.2 per cent in 2014/15 to 25 per cent in 2020/21. Several fiscal reform measures implemented by the Government since 2016, which include phasing out energy subsidies and reforming the civil servant system, have contributed to this decreasing trend. In particular, government expenditure as a percentage of GDP in the chapters on "Subsidies, grants and social benefits" and "Wages and salaries" has decreased from 8.2 per cent to 4.9 per cent and from 8.2 per cent to 4.8 per cent, respectively, between 2014/15 and 2020/21.

The following subsections introduce further analysis on the expenditure side of the State budget according to the functional, economic and administrative classifications and their potential links to the SDGs.



**Revenue mobilization capacity in Egypt is modest when compared to other peer countries.**

## 1. Functional classification of government expenditure and the Sustainable Development Goals

According to the functional classification system of the State budget, total government expenditure is divided into 10 functional sectors. As depicted in figure 32, general and public services and social protection receive the greatest shares of total expenditure, at an average of 40.3 per cent and 21.2 per cent, respectively, during the period 2014/15 to 2020/21. Education is next, with an average share of 10.2 per cent. Figure 33 displays the relative shares of functional sectors measured as a percentage of GDP.

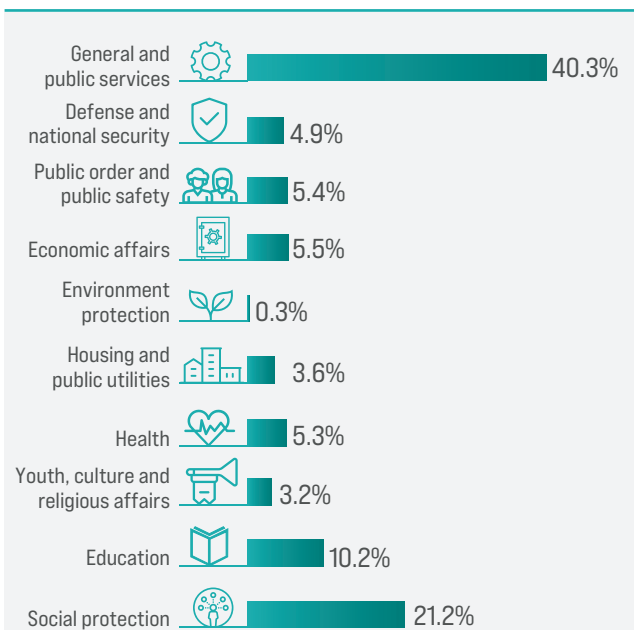
The relative share of public and general services increased sharply, by approximately 13 percentage points. This sector comprises

several legislative and executive entities.<sup>3</sup> It also includes budget allocations for public debt transactions, which increased significantly from 25.1 per cent to 33 per cent.

Furthermore, social protection and education topped the functional sectors expenditure list, as a percentage of both total government expenditure and GDP, although they showed a decreasing trend during the analysis time frame. Between the fiscal years 2014/15 and 2020/21, the relative share of social protection in total government expenditure decreased from 25.6 per cent to 16.7 per cent, while that of education decreased from 12.6 per cent to 9.2 per cent. In contrast, the relative share of housing and public utilities increased slightly, from 2.8 per cent to 4.6 per cent, reflecting the expansion in the Government's megaprojects and investments in the social housing programme and relevant public utilities, including water and sanitation.

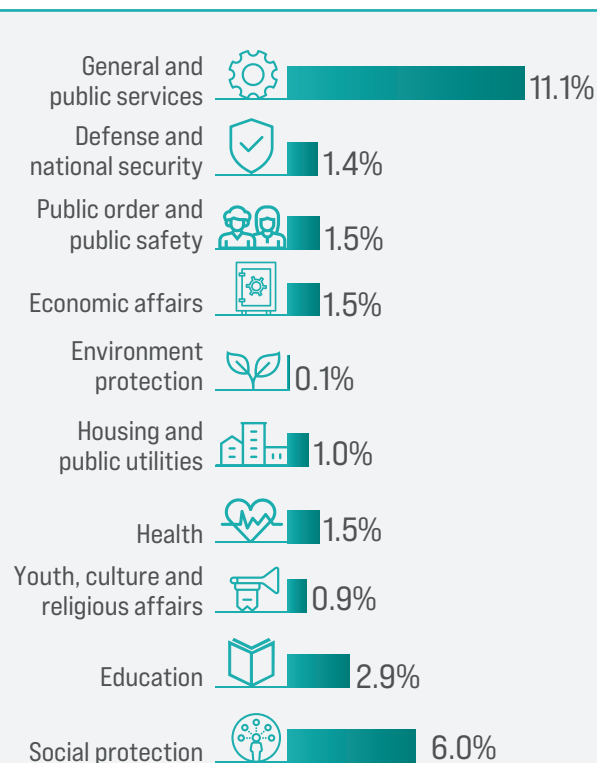


**Figure 32.** Structure of government expenditure by functional classification, as a percentage of total government expenditure (2014/15 to 2020/21)



**Source:** Authors, based on the final accounts of the Egyptian State budget for the fiscal years 2014/15 to 2019/20 and the modified budget figures from 2020/21, prepared by the Ministry of Finance.

**Figure 33.** Structure of government expenditure by functional classification, as a percentage of gross domestic product (2014/15 to 2020/21)



**Source:** Authors, based on the final accounts of the Egyptian State budget for the fiscal years 2014/15 to 2019/20 and the modified budget figures from 2020/21, prepared by the Ministry of Finance. Data on GDP for the respective years are extracted from the financial and analytical statements of the Egyptian State budget as published by the Ministry of Finance.



The fact that the majority of government expenditure is dominated by public debt transactions under the public and general services sector has unfavourable implications for the SDGs. Large, increasing interest payments on public debt are expected to crowd out public investment, assuming that the Government does not utilize off-budget resources to finance its investments. Private investment will be crowded out as well, owing to the Government's increased pressure on loanable funds. Consequently, this would have an adverse impact on productive employment and economic growth (Goal 8). Furthermore, interest payments are made with budgetary funds that could otherwise be allocated to health and education, which could constrain the full achievement of Goals 3 and 4.



It is worth mentioning that the increase in government expenditure on interest payments during the period of analysis was the result of increased public borrowing to finance national megaprojects that aim to improve the infrastructure and public services provided to citizens. Nevertheless, the Ministry of Finance has recently made significant efforts to decrease public debt and improve fiscal discipline by achieving primary budget surpluses, increasing the tax-to-GDP ratio and rationalizing government expenditure by shifting from in-kind to cash subsidies and focusing on human development-related programmes and activities. As a result, debt service payments (i.e. interests) have declined to 8.3 per cent of GDP and 33 per cent of the total government expenditure in the modified budget for 2020/21, compared to 10.2 per cent and 39 per cent, respectively, in the final accounts of fiscal year 2018/19.<sup>4</sup>

While government spending on health is comparable to the average of lower-middle-income countries (1.4 per cent of GDP in 2018), spending on education is lagging behind (approximately 4 per cent of GDP in 2018). Furthermore, government expenditure on education and health is relatively low in Egypt compared to some of its middle-income peer countries, such as Jordan, Lebanon, Malaysia, Morocco, South Africa, Tunisia and Viet Nam.<sup>5</sup> Indeed, government spending on the education and health functional sectors in Egypt falls below the stated constitutional entitlements of 6 per cent and 3 per cent of gross national product (GNP), respectively. On the other hand, these constitutional entitlements would indeed be met when applying a broader concept of general government, in which the relevant expenditure by public business sector and economic authorities is considered along with the functional sectors' share in total interest payments.

In addition, the current structure of the State budget, as reflected in figures 32 and 33, indicates that environmental protection

receives the fewest resources, constituting an average of 0.3 per cent of the total government expenditure and 0.1 per cent of GDP. This is expected to limit the Government's ability to achieve SDGs related to the environment, such as Goal 6 on clean water and sanitation, Goal 7 on affordable and clean energy and Goal 13 on climate action.

On a positive note, the significant decline in the relative share of social protection for both total government expenditure and GDP is expected to reflect positively on the environmental and social dimensions of sustainable development. In terms of the environment, the decrease in the relative share of the social protection sector came as a result of reforming subsidies, primarily by phasing out distortive petroleum subsidies. From a social perspective, the decrease in the relative share of social protection has been accompanied by a reallocation of budgetary funds from subsidies to social benefits. This reprioritization is expected to benefit SDGs linked to reducing poverty (Goal 1) and inequality (Goal 10). Nevertheless, synergies between various targets of a particular SDG should also be considered to determine the net impact of a policy change on the SDGs. For instance, target 1.3 on implementing nationally appropriate social protection systems and measures for all could be harmed by the decline in total government expenditure on social protection.



There is still considerable room to improve the efficiency of the VAT system in Egypt.

## 2. Economic classification of government expenditure and the Sustainable Development Goals

The structure of government expenditure by economic classification, over the time frame between the fiscal years 2014/15 and 2020/21, is presented in figure 34. Of the six expenditure chapters in the State budget, interest payments; subsidies, grants and social benefits; and wages

and salaries constitute an average of 78.3 per cent of total government expenditure. While the relative share of interest payments has been increasing over the analysis time frame, the spending on the other two chapters has been declining.

As mentioned, a budget structure in which interest payments acquire the largest share adversely impacts the Government's potential to achieve the SDGs.

**Figure 34.** Structure of government expenditure by economic classification

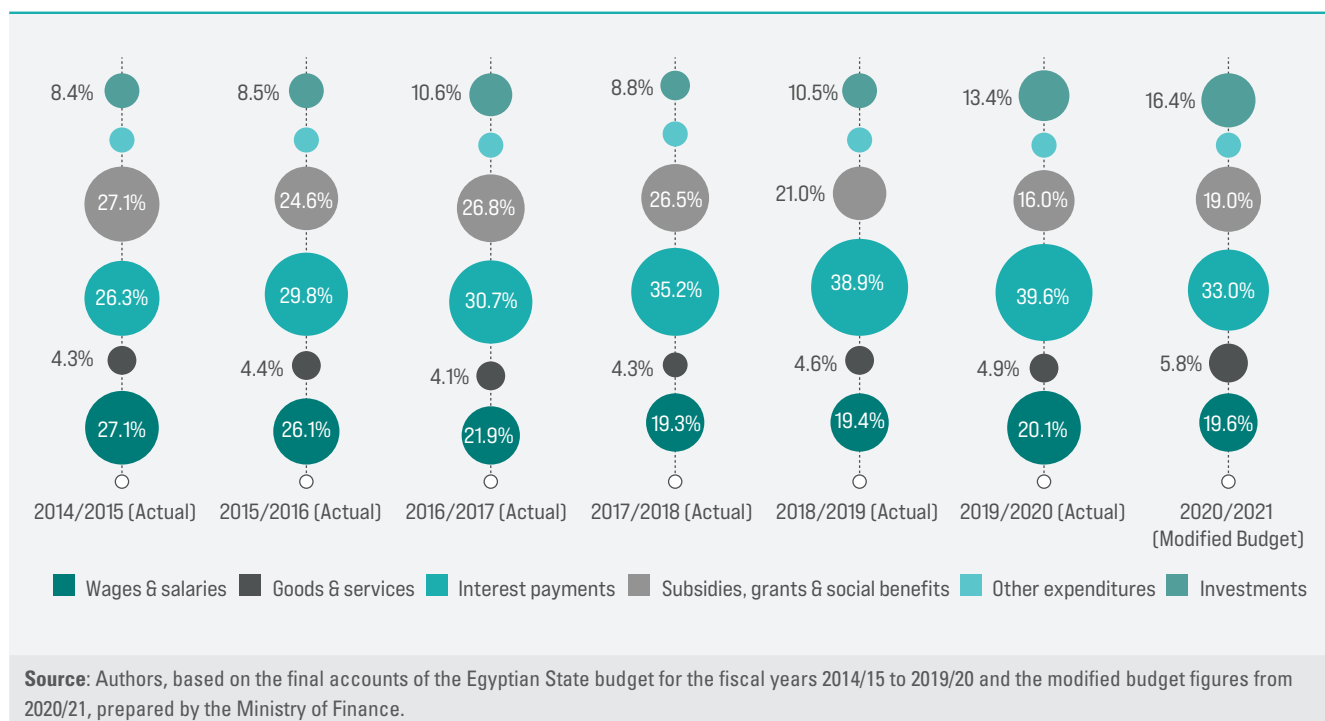


Figure 35 provides a closer look at the structure of the fourth expenditure chapter entitled “Subsidies, grants and social benefits” during the time frame 2014/15 to 2020/21. Budget resources have been reallocated from subsidies to social benefits, owing to significant reform measures launched by the Government of Egypt in 2016 with the aim of improving both efficiency and targeted spending on social protection. The reforms centred around the adoption of a new approach to social protection spending under which financial resources have been shifted from direct price subsidies (i.e. energy subsidies) to direct cash transfer programmes (i.e. Takaful and Karama),<sup>6</sup> which better target eligible citizens. This approach

also seeks to reform the existing food subsidy system and increase social security pensions.<sup>7</sup>



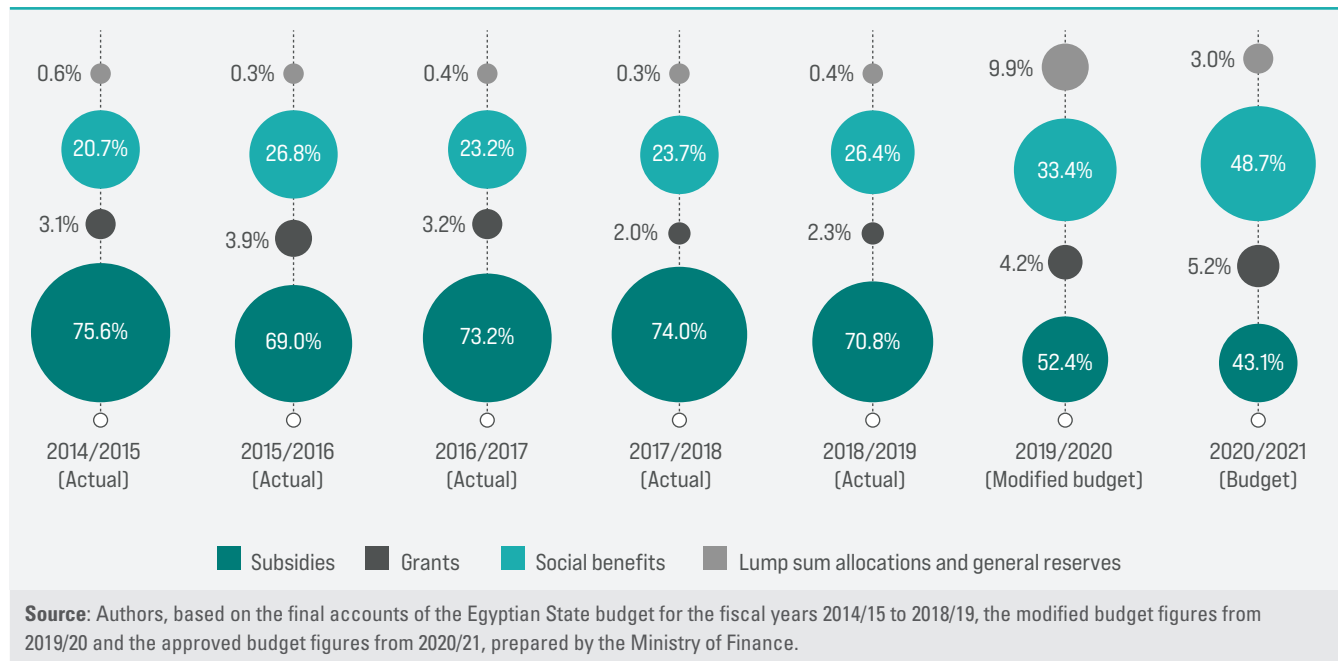
**A budget structure in which interest payments acquire the largest share adversely impacts the Government's potential to achieve the SDGs.**



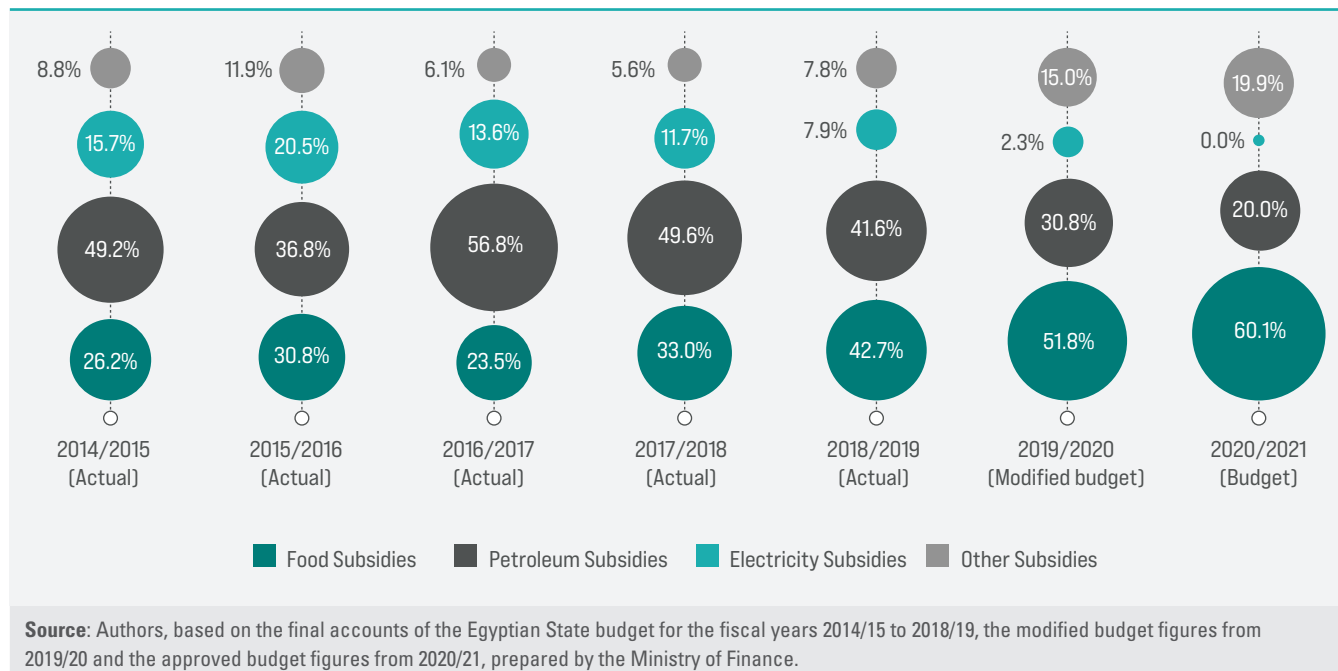
Furthermore, these reform measures have decreased the relative share of expenditures on energy subsidies (for both petroleum and electricity) in favour of food subsidies, as depicted by figure 36. In the approved budget for the fiscal year 2020/21, energy subsidies have been allocated 1.7 per cent

of total government expenditure, compared to 9.2 per cent for education, 5.5 per cent for health and 4.9 per cent for food subsidies. This shift in the budget structure is expected to aid Government efforts to eradicate poverty and mitigate social inequalities, with positive results for Goals 1 and 10.

**Figure 35.** Structure of the fourth expenditure chapter entitled “Subsidies, grants and social benefits”



**Figure 36.** Relative share of main subsidy items as a percentage of total spending on subsidies



It is noteworthy that the Treasury of Egypt provides financial support to economic authorities and State-owned enterprises (SOEs) that encounter financial difficulties or experience financial losses. This support has been estimated at an average of approximately LE 6.7 billion during the fiscal years under analysis, representing almost 9 per cent of the expenditure on the fifth chapter entitled “Other expenditures” and 0.5 per cent of the total government expenditure. Ideally, these entities should have the potential to generate large, sustainable profits on which the Government could rely to achieve the SDGs.

### 3. Administrative classification of government expenditure and the Sustainable Development Goals

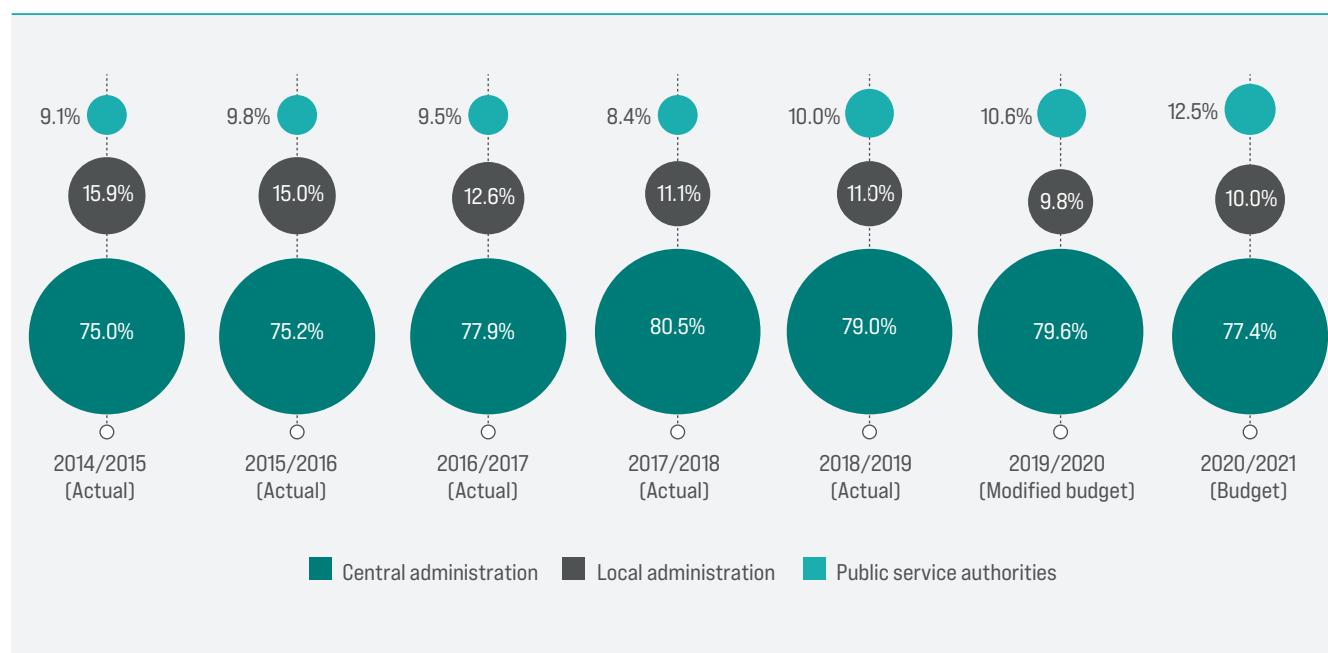
The administrative classification of government expenditure, as presented in figure 37, indicates a high degree of fiscal centralization. During the time frame 2014/15 to 2020/21, central administration has been allocated an average of 77.4 per cent of total government expenditure,



During the time frame 2014/15 to 2020/21, central administration has been allocated an average of 77.4 per cent of total government expenditure, compared to approximately 10 per cent for local administration.

compared to approximately 10 per cent for local administration. Furthermore, the relative share of central administration in total expenditure has been rising over the period of analysis, while that of local administration has been deteriorating.

**Figure 37.** Structure of government expenditure by administrative classification



**Source:** Authors, based on the final accounts of the Egyptian State budget for the fiscal years 2014/15 to 2018/19, the modified budget figures from 2019/20 and the approved budget figures from 2020/21, prepared by the Ministry of Finance.

This structure of government expenditure does not support the implementation of article 176 of the Constitution of Egypt regarding the shift towards a more fiscally decentralized system, according to which the budgetary and executive power should transfer to local administrative units. Moreover, this existing structure of government expenditure is expected to have an adverse impact on the efficiency and effectiveness of service delivery, which in turn would negatively affect the Government's potential to successfully achieve the SDGs.

It is worth mentioning, however, that a considerable share of the investment chapter for central administration and public service authorities in Egypt is allocated to capital projects that favour local administration. For instance, many projects carried out by the General Authority for Roads and Bridges at the governorate level are financed from the Authority's budget. In addition, the establishment of schools and hospitals at the governorate level is financed through the budgets of the relevant public service authorities rather than that of the local administration, despite the fact that the governorates are the main beneficiaries of these projects.

In this regard, studies show that government expenditure decisions could be more efficient and effective when undertaken by the administrative level closest to the citizens. This ensures that expenditure decisions will be based on more precise information regarding needs and priorities and subject to tighter accountability mechanisms.

Fiscal decentralization has a high impact on ending poverty (Goal 1), since the local government is closer to citizens and has the ability to target the poor and identify their needs. In addition, the local government is able to target disadvantaged groups and track the status of local citizens against poverty indicators over

time. Goal 2 on ending hunger is also highly impacted by fiscal decentralization. The local government can tailor programmes to improve malnutrition conditions and infant health and decrease maternal mortality. Compared to central Governments, local governments are in a better position to design effective programmes and projects to combat hunger.

Fiscal decentralization has a significant impact on good health and well-being (Goal 3) as well. Since demographics, health needs and priorities differ across jurisdictions, local governments are better positioned to identify health needs and develop customized programmes. Education (Goal 4) is also affected by fiscal decentralization, as there are cultural and educational differences among jurisdictions. Local governments must be empowered to make decisions pertaining to the education process, such as the number of education hours and the appointment of teachers.

The management of water and sanitation (Goal 6) is purely the responsibility of the local government and is therefore strongly impacted by assigning expenditure responsibilities to local administrations. They can conduct needs assessments and ensure citizen participation so that their needs are reflected in expenditures related to water and sanitation. Local governments can also implement advanced methods of waste management and expand revenue from these activities.

As for sustainable cities and communities (Goal 11), fiscal decentralization has a strong impact. Capitals and large cities are often regulated by specific rules and regulations that provide the local government more power in terms of expenditure and revenue assignments. Decentralization would therefore allow local governments to allocate resources to the safety, resilience and sustainability of cities. They would also be able to impose and collect taxes and user charges, which would positively impact sustainability.

## D. Government revenue from the perspective of the Sustainable Development Goals

Public domestic resources from tax and non-tax revenues represent one of the major sources of financing for the SDGs. Indeed, Goal 17 on partnerships for Goals is directly linked to the revenue side of the State budget. In particular, target 17.1 relates to strengthening domestic resource mobilization through improving domestic capacity for collection of taxes and other revenues.

Domestic resource mobilization is one of the factors that poses a major challenge to accelerating the achievement of the SDGs in Egypt. While mobilizing resources from all possible public, private, domestic and international sources is necessary to finance development, a considerable share of SDG-related investment in Egypt must be financed from domestic public resources.<sup>8</sup> ODA inflows to Egypt have declined to approximately \$3.4 billion in 2017, down from approximately \$4.7 billion in 2015 and \$7 billion in 2016.<sup>9</sup> In addition, Egypt is underperforming relative to its peer countries in most indicators related to private sources of financing, both domestic and external, including exports-to-GDP ratio, foreign direct investment inflows and savings-to-GDP ratio.<sup>10</sup>

As a result, as mentioned in chapter 3 of this report, government revenues represented the main source of FFD in Egypt during both the periods 2005–2014 and 2015–2019. This situation places pressure on the Egyptian Government to strengthen its capacity to mobilize public domestic resources from taxes and non-tax revenues. In this context, this section analyses the structure of government revenue and its development over the period 2014/15 to 2020/21.

Total government revenue from taxes, grants and other non-tax revenues accounted for approximately LE 1.3 trillion (18.8 per cent of GDP) in the modified State budget for the fiscal year 2020/21, compared to approximately LE 465 billion (19.1 per cent of GDP) in the final account of the fiscal year 2014/15. As presented in table 7, the majority of total government revenue in Egypt is collected from taxes, constituting 14.1 per cent of GDP in 2020/21. Public domestic revenue from non-tax sources represented almost 4.7 per cent of GDP in 2020/21. In contrast, the relative share of grants in total government revenue is modest and has been decreasing over the analysis period, reaching 0.03 per cent of GDP in 2020/21.

**Table 7.** Evolution of the ratio of government revenue to gross domestic product (2014/15 to 2020/21)

| Fiscal year/indicator   | 2014/15<br>(Actual) | 2015/16<br>(Actual) | 2016/17<br>(Actual) | 2017/18<br>(Actual) | 2018/19<br>(Actual) | 2019/20<br>(Actual) | 2020/21<br>(Modified budget) |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|------------------------------|
| Taxes, as percentage of GDP   | 12.6%               | 13.0%               | 13.3%               | 14.2%               | 14.0%               | 12.7%               | 14.1%                        |
| Government revenue (excluding grants), as percentage of GDP                       | 18.1%               | 18.0%               | 18.5%               | 18.4%               | 17.9%               | 16.7%               | 18.8%                        |
| Total government revenue (taxes + non-tax revenue + grants), as percentage of GDP | 19.1%               | 18.1%               | 19.0%               | 18.5%               | 17.9%               | 16.8%               | 18.8%                        |

**Source:** Authors, based on the final accounts of the Egyptian State budget for the fiscal years 2014/15 to 2019/20 and the modified budget figures from 2020/21, prepared by the Ministry of Finance. Data on GDP for the respective years are extracted from the financial and analytical statements of the Egyptian State budget as published by the Ministry of Finance.

**Table 8.** Tax revenues and government revenue excluding grants, as a percentage of gross domestic product in selected middle-income countries (average from 2014 to 2019)

| Country                       | Government revenues excluding grants, as a percentage of GDP | Tax revenues, as a percentage of GDP |
|-------------------------------|--|--------------------------------------|
| Egypt <sup>a</sup>            | 17.9   | 13.3                                 |
| Morocco                       | 25.7   | 21.6                                 |
| Philippines                   | 15.0   | 13.5                                 |
| Lebanon                       | 18.8   | 14.5                                 |
| Jordan                        | 22.5   | 15.0                                 |
| South Africa                  | 31.5   | 26.7                                 |
| Turkey                        | 30.4   | 17.7                                 |
| Malaysia                      | 17.5   | 13.2                                 |
| Lower-middle-income countries | 15.1   | 12.0                                 |
| Middle-income countries       | 20.1   | 12.0                                 |

**Source:** Authors, based on the World Bank Database. Available at <https://data.worldbank.org/indicator>. Accessed on 12 October 2021.

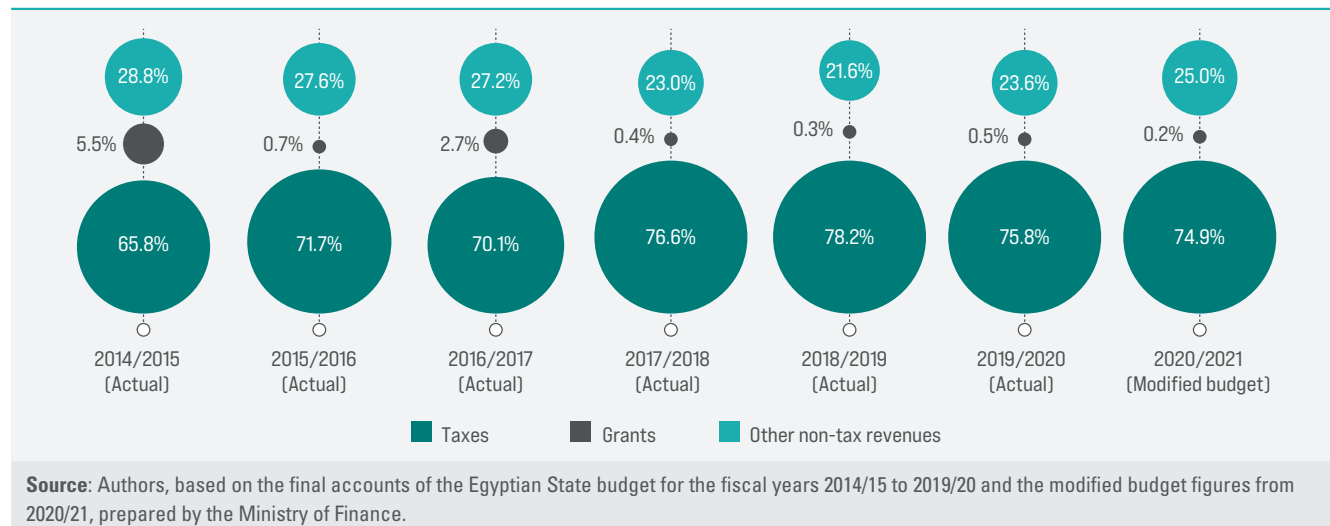
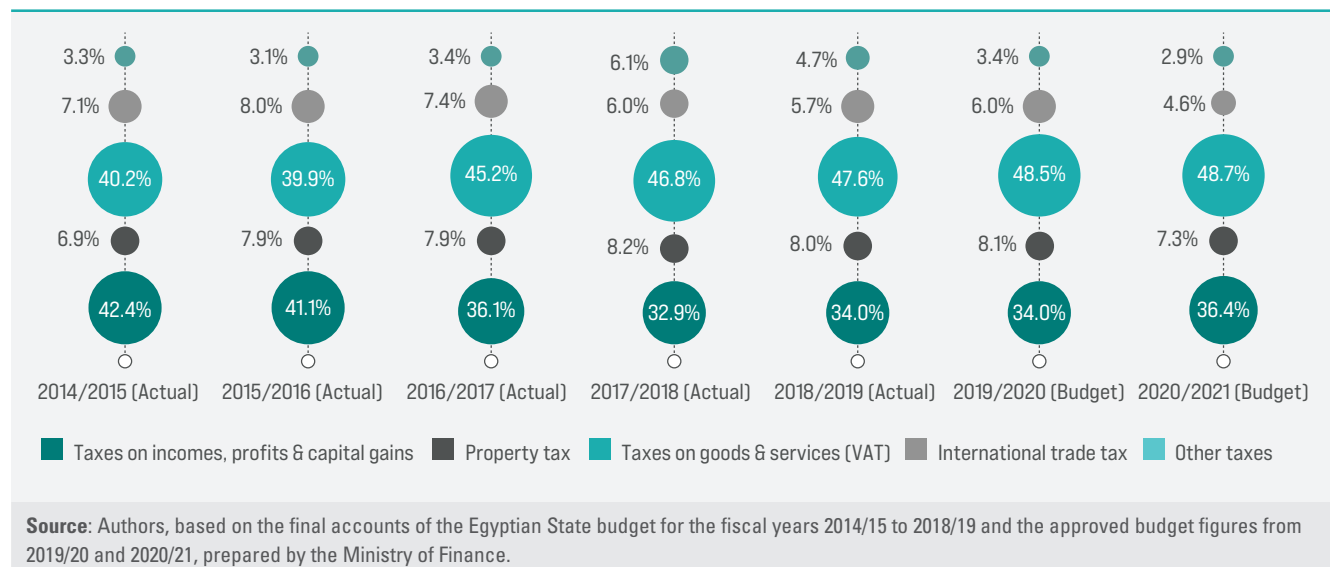
a: Data for Egypt are based on the final accounts of the State budget for the fiscal years 2014/15 to 2019/20, published by the Ministry of Finance.

Table 8 demonstrates that the country's revenue mobilization capacity (measured by tax-to-GDP ratio and government revenues-to-GDP ratio, excluding grants) outperforms the average of lower-middle-income countries and is comparable to some upper-middle-income countries, such as Lebanon and Malaysia. Nevertheless, revenue mobilization capacity in Egypt is modest when compared to other peer countries, such as Jordan, Morocco, South Africa and Turkey. In order to secure the financial resources needed to achieve the SDGs in Egypt, greater efforts must be directed to strengthening the country's public domestic resource mobilization. It is worth mentioning that the Ministry of Finance is attempting to address this weakness while guaranteeing that citizens do not bear additional burdens. These measures include expanding the tax base, improving the tax administration system and encouraging the informal sector to join the formal economy.

## 1. Economic classification of government revenue

Figure 38 presents the structure of government revenue over the time frame 2014/15 to 2020/21. The relative share of taxes in total government revenue has significantly increased, by almost nine percentage points, from 65.8 per cent to 74.9 per cent, at the expense of grants and other non-tax revenues. This can be explained by Government measures to expand the tax base, such as introducing the value added tax (VAT) system in 2016, enforcing the property tax and modernizing the customs tax administration. These measures are reflected in the increase in the relative share of taxes in both total government revenue and GDP, as depicted by figure 39 and table 7, respectively.



**Figure 38.** Structure of government revenue by economic classification**Figure 39.** Structure of tax revenues in Egypt

As shown in figure 39, the structure of tax revenues has witnessed a considerable shift during the analysis period, from direct taxes (i.e. property tax and taxes on income, profits and capital gains) to indirect taxes (i.e. international trade tax and taxes on goods and services). The adoption of Law No. 67 of 2016 on VAT to replace Law No. 11 of 1991 on general sales tax has contributed significantly to this shift. According to the new law, the general tax rate increased from 10 per cent to 13 per cent in 2016/17 and then to 14 per cent in 2017/18. While the majority of services were exempt under the general sales tax system, the VAT system has

expanded the tax base by ensuring that all goods and services, both local and imported, are subject to this tax. Nevertheless, the new system has maintained the exemption for basic goods and services that primarily impacts the lives of the poor and low-income groups.

It is worth mentioning, however, that there is still considerable room to improve the efficiency of the VAT system in Egypt. In fact, VAT efficiency exhibited a declining trend over the last decade in most countries, even those that have increased VAT rates. This indicates that

VAT efficiency does not necessarily improve in countries with higher VAT rates.

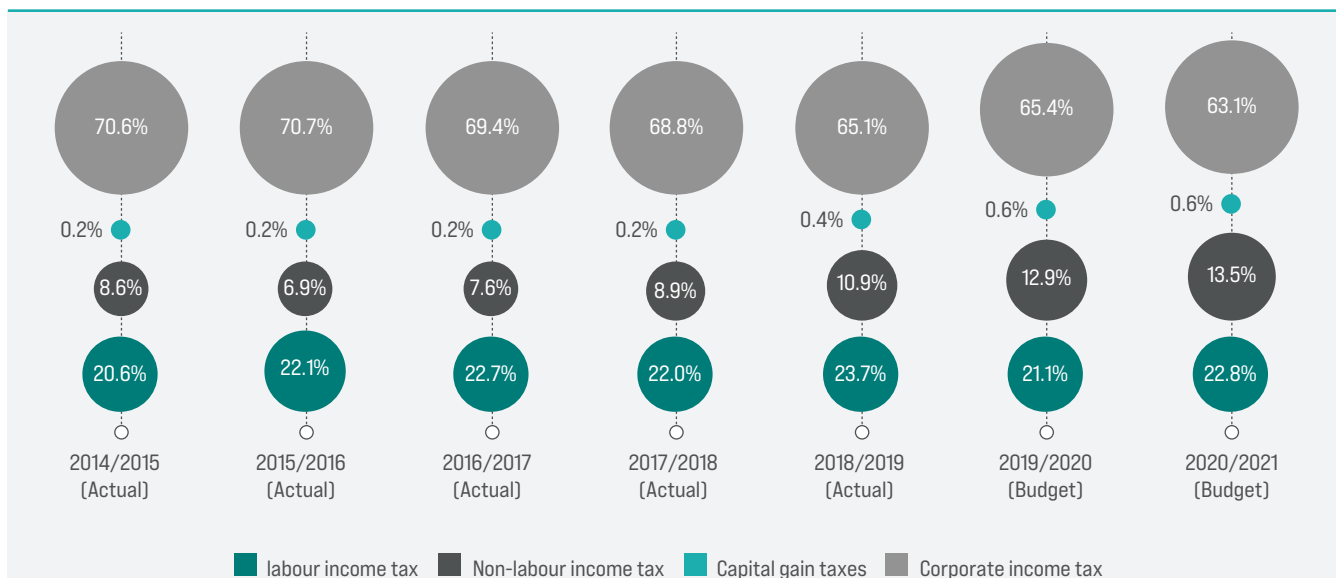
This tax structure seems to serve economic efficiency objectives, given that indirect taxes are generally less distortive than direct taxes in terms of their excess burden or harmful impact on work, savings and investment incentives. Nevertheless, the current tax structure may give cause for concern from a social equity point of view. While indirect taxes have a flat tax rate structure, they tend to be regressive in practice. Individuals with a lower income have a higher marginal propensity to consume; consequently, a greater percentage of their income is paid in tax.<sup>11</sup> Nonetheless, indirect taxes on consumption can contribute to income redistribution if they are used to finance progressive spending. Higher excise taxes on luxury goods can also make consumption taxes much more progressive.<sup>12</sup>

In general, these issues have been considered by the current VAT system in Egypt. On the one hand, the system fully exempts approximately 57 commodity groups that mostly impact the lives of the poor, including basic goods and services like tea, sugar, milk, eggs, bread, fish, fruits and vegetables, banking and financial services, basic educational

and medical services, and drugs and their active ingredients. On the other hand, the VAT law has recognized a group of goods and services subject to special tax rates (i.e. the table tax) that cannot be adjusted without a legislative amendment. Within this group, two subgroups can be identified. The first is goods and services that are subject to the table tax only, such as cigarettes, petroleum products, fertilizers and agricultural pesticides. The second is goods and services that are subject to both the table tax and the general VAT rate, since they are considered luxuries goods, such as soft drinks, beer, air conditioners, perfumes and cosmetics, cars, mobile phones and credit cards. These arrangements make the consumption tax in Egypt less regressive and more conducive to the achievement of SDGs linked to health and environmental protection.

As presented in figure 40, corporate income tax constitutes the majority of tax revenues on income, profits and capital gains and averages 67.6 per cent from 2014/15 to 2020/21. The Egyptian General Petroleum Corporation and the Suez Canal Authority are the main contributors to revenues collected from this tax. In contrast, the relative share of personal income tax, both on labour and non-labour income, has averaged 32.1 per cent.

**Figure 40. Structure of taxes on income, profits and capital gains**



**Source:** Authors, based on the final accounts of the Egyptian State budget for the fiscal years 2014/15 to 2018/19 and the approved budget figures from 2019/20 and 2020/21, prepared by the Ministry of Finance.

Furthermore, the majority of personal income tax revenues, an average of approximately 70 per cent during the analysis period, is contributed by the payroll tax under labour income tax, while the remaining share is collected from the incomes of freelance professionals and commercial and industrial activities. This suggests that the largest share of personal income tax is essentially collected from government employees. The heavy tax burden on this segment can be explained by the weak tax administration system, which gives rise to tax evasion and tax avoidance, including through profit shifting. Additionally, a significant share of economic activities in Egypt is carried out in the informal sector. The effect of global and regional tax competition should be considered as well.

Almost one quarter of total government revenue is collected from non-tax revenue sources. Hence, strengthening public domestic resource

mobilization in Egypt requires significant efforts to improve the financial performance of Egyptian economic authorities and SOEs. As table 9 shows, dividends received from economic authorities and SOEs constituted almost 35.3 per cent of total non-tax revenues and 9.2 per cent of total government revenue, on average, during the analysis period. As the data indicate, the Suez Canal Authority, the Egyptian General Petroleum Corporation and the Central Bank of Egypt (CBE) are the major contributors to total dividends earned by the Treasury, accounting for an average of almost 71 per cent. In contrast, the overall contribution of other economic authorities and companies from both the public sector and the public business sector averaged approximately 29 per cent of the Treasury's total earned dividends. As such, improving the fiscal performance of these entities could enhance the Government's potential to secure the funds needed to finance the SDGs.

**Table 9.** Structure of dividends received by the Treasury from economic authorities and State-owned enterprises

| Item/fiscal year  | 2014/15<br>(Actual) | 2015/16<br>(Actual) | 2016/17<br>(Actual) | 2017/18<br>(Actual) | 2018/19<br>(Actual) | 2019/20<br>(Budget) | 2020/21<br>(Budget) | Period<br>average |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-------------------|
| Economic authorities  | 14.1%               | 12.4%               | 15.5%               | 15.9%               | 22.6%               | 24.3%               | 27.1%               | 18.8%             |
| Public sector companies   | 1.5%                | 1.8%                | 3.5%                | 4.6%                | 4.9%                | 5.2%                | 12.4%               | 4.8%              |
| Public business sector companies  | 3.1%                | 3.6%                | 3.8%                | 8.5%                | 6.3%                | 5.7%                | 8.5%                | 5.6%              |
| Central Bank of Egypt   | 18.8%               | 46.6%               | 27.4%               | 10.0%               | 0.0%                | 0.0%                | 0.0%                | 14.7%             |
| Egyptian General Petroleum Corporation  | 35.6%               | 12.4%               | 8.4%                | 15.6%               | 2.7%                | 22.6%               | 10.6%               | 15.4%             |
| Suez Canal Authority  | 26.9%               | 23.3%               | 41.4%               | 45.4%               | 63.5%               | 42.3%               | 41.4%               | 40.6%             |
| <b>Total dividends from economic authorities and State-owned enterprises (in millions of Egyptian pounds)</b> | <b>71,399</b>       | <b>63,274</b>       | <b>70,969</b>       | <b>52,246</b>       | <b>47,766</b>       | <b>85,413</b>       | <b>80,878</b>       | <b>67,421</b>     |
| <b>Percentage of other non-tax revenues</b>   | <b>53.3%</b>        | <b>46.7%</b>        | <b>39.5%</b>        | <b>27.7%</b>        | <b>23.5%</b>        | <b>31.2%</b>        | <b>25.1%</b>        | <b>35.3%</b>      |
| <b>Percentage of total government revenue</b>   | <b>15.3%</b>        | <b>12.9%</b>        | <b>10.8%</b>        | <b>6.4%</b>         | <b>5.1%</b>         | <b>7.5%</b>         | <b>6.3%</b>         | <b>9.2%</b>       |

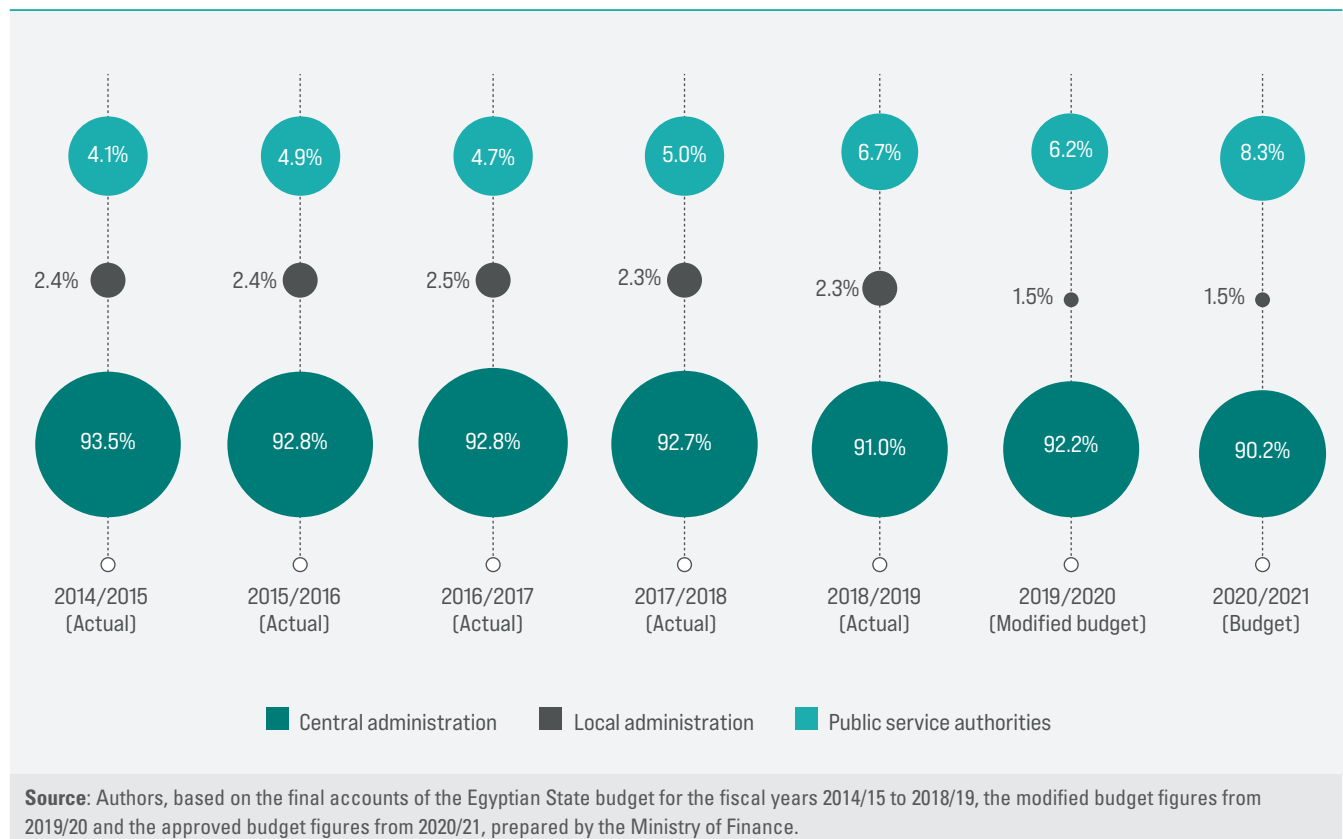
**Source:** Authors, based on the final accounts of the Egyptian State budget for the fiscal years 2014/15 to 2018/19 and the approved budget figures from 2019/20 and 2020/21, prepared by the Ministry of Finance.

## 2. Administrative classification of government revenue

Figure 41 shows that the majority of government revenue is collected at the central level. Indeed, the relative share of local administration in total government revenue has decreased from 2.4 per cent in 2014/15 to 1.5 per cent in 2020/21.<sup>13</sup> This confirms that Egypt is a highly centralized system, not only in terms of expenditure decisions but also in terms of taxation power. This structure has an adverse impact on the country's potential to achieve the SDGs. Citizens have relatively weak incentives to pay taxes collected at the central level compared to local taxes, as the latter allow them to link their tax payment to the benefits they receive at the local level. As such, tax evasion and tax avoidance are expected to be more prominent under more fiscally centralized systems. The achievement of many of the SDGs, however, requires sufficient funds to be available at the local level.



**Figure 41.** Structure of government revenue by administrative classification



## E. Conclusion and policy recommendations

From 2016 to 2019, Egypt has carried out a successful reform programme to correct large external and domestic imbalances, supported by its arrangement under the IMF Extended Fund Facility. The economic and fiscal measures implemented include the liberalization of the exchange rate, the phasing out of fuel subsidies, the implementation of the VAT system and substantial fiscal consolidation to ensure public debt sustainability. The fiscal savings resulting from these reforms have been utilized in part to strengthen the social protection system, with a view to reducing the adverse impact of structural adjustment on the poor. Reforms were also initiated in multiple structural areas, including public procurement and SOE governance. Despite the strong ownership and commitment of the Egyptian Government, which were critical in achieving macroeconomic stabilization, challenges remain, particularly in addressing poverty and inequality.

The analysis presented in this chapter provides the foundation for a number of policy recommendations regarding public finance and sustainable development in Egypt.

First, although social protection is the second largest sector in the State budget, public spending on this sector has been characterized by inefficiencies and poor targeting. As a result, spending has not translated into positive results in terms of reducing poverty and inequality. Indeed, between 2012 and 2017, the poverty headcount ratio in Egypt (based on the international poverty line of \$1.90 a day, adjusted for purchasing power parity) has increased from 1.5 per cent to almost 3.8 per cent.<sup>14</sup> In addition, the national poverty rate increased from 26.3 per cent to 32.5 per cent between 2012/13 and 2017/18 before it decreased to 29.7 per cent in 2019/20.<sup>15</sup> Furthermore, while the Gini coefficient decreased between 2010 and 2012 from 30.2 to 28.3, it rose to 31.5 in 2017.<sup>16</sup>

The allocation of additional funds to the social protection sector in Egypt should therefore be accompanied by greater attention to policy design and implementation to improve the targeting and efficiency of government expenditures.

Second, energy subsidies on fuel and electricity have long been the prominent example of distortive subsidies that contribute to the wasteful use of natural resources in Egypt. In addition, given their poor targeting mechanisms, energy subsidies were regressive in nature, as their benefits have primarily been allocated to rich companies and consumers. These subsidies have deteriorated the environment by increasing air pollution, noise and congestion, which are associated with the growing use of motor vehicles. This situation, however, has been reversed as a result of Government reforms introduced since 2016 that phased out energy subsidies and restructured public spending on social protection. These reforms serve not only environmental SDGs, but various social and economic SDGs as well. Moreover, the resources saved by these measures would allow the Government to eliminate distortive taxes on labour and capital, which would positively affect employment, private investment and economic growth. These measures would also free up budget resources to be allocated for social spending, which would benefit the most vulnerable segments of the population and hence contribute to reducing income inequality.

Third, the analysis provided in this chapter shows that the tax-to-GDP ratio and the government revenue-to-GDP ratio, excluding grants, are relatively low. This can be explained by narrow tax bases, a relatively weak tax administration system and widespread tax evasion and avoidance. Investing in the tax administration system in terms of transparency, efficiency, collection efforts, enforcement and compliance is crucial



to increasing these ratios. In addition, strategic decisions should be made regarding the optimal tax mix for Egypt, based on national economic and social structures and political priorities. The political environment for changes in the tax mix should also be considered, since widening the tax base means that some constituencies who were not paying taxes previously, or were paying very little, will be asked to make greater contributions to domestic public resources.

Fourth, fiscal policy has a crucial role to play regarding the environmental dimension of sustainable development by guaranteeing the sustainable use of natural resources and promoting environmental protection. While taxes are commonly used as distributive measures of fiscal policy, they should also be used as corrective measures with the aim of internalizing externalities associated with various production and consumption activities. The Government can impose corrective taxes on harmful and polluting activities and the irrational use of natural resources by both companies and individuals. Common examples of corrective taxes that serve environmental objectives include a carbon tax, pollution or waste charges and taxes on plastic bags.

In addition to environmental concerns, various social and economic issues would be served by introducing corrective taxes and subsidies and eliminating or rationalizing existing distortive and inefficient subsidies. These measures have the benefit of increasing government revenue and financial savings, which could be used to support the delivery of various SDGs. Revenue mobilized from environmental taxes and the elimination of inefficient subsidies can be used to reduce harmful taxes on labour or capital accumulation. This should have a positive impact on employment and economic growth (Goal 8). Alternatively, these revenues can be used for increasing pro-poor government spending on health care and education (Goals 3 and 4). The resources mobilized can also be used for social support schemes that better target low-income groups and the most vulnerable, helping to

reduce inequality (Goal 10). In addition, financial savings from reforming pricing policies in the water and energy sectors can be used to improve the availability and quality of services provided by these sectors and enhance the efficient use of natural resources (Goals 6 and 7).

Fifth, the shift towards a more fiscally decentralized system is important in localizing the SDGs. This should take advantage of the planning process in Egypt to begin working on localization tools to create an enabling environment, as well as the implementation of constitutional obligations regarding decentralization.

Sixth, the analysis of the budgeting process in Egypt reveals a need to introduce additional reforms to public financial management. On the expenditure side, moving towards programme- and performance-based budgeting and introducing a medium-term expenditure framework is the only way to link expenditure to development goals and policies. Adopting a gender-responsive budgeting approach is also recommended in order to plan for efforts that support gender equality objectives and effectively track related budget allocations. Another essential reform is to update budget accountability to include the impact of government expenditure on achieving the SDGs and national sustainable development goals under the Egypt Vision 2030 (box 1). On the revenue side, tax bases and prices should be revisited, with consideration for the expected social, economic and environmental impact.



## Box 1: Approaches to integrating the Sustainable Development Goals in budgetary processes – country examples

### 1. Using the SDGs to improve the budget proposal narrative

Governments can integrate the SDGs by including qualitative—and more rarely quantitative—elements on SDG achievement in the budget documents they propose to parliament. For instance, during the preparation of the 2018 budget in Finland, the Ministry of Finance asked each ministry to add a short paragraph under each of the main titles in the budget proposal providing information on how sustainable development would be reflected in their sectoral policies during the 2018 financial year. In Norway, since 2016 each ministry has written a paragraph about its activities in relation to the SDGs under its responsibility, demonstrating the contribution of its proposal to achieving the Goals. Following a review by other ministries, the Ministry of Finance compiles the paragraphs and includes them in a chapter on SDG achievement, which is added to the main document of the budget proposal. In Sweden, ministries are encouraged to demonstrate the link between their area and the SDGs in the budget documents.

### 2. Mapping and tracking the budgetary contribution to the SDGs

In Mexico, the Government links its budgetary programmes to the SDGs to determine what percentage of a Goal is linked to any budgetary programme, as well as the number of budgetary programmes linked to each Goal. The Colombian Government has developed an automatic analysis text tool to identify links between budgetary programmes and each Goal. Nepal and the Indian State of Assam have gone a step further, coding their budget according to the SDGs in order to track the allocation of resources to each Goal. To move beyond mapping budgetary programmes or allocations in relation to the SDGs, countries could evaluate how different allocations actually impact SDG achievement by adding performance indicators, as is the case in Mexico.

### 3. Using the SDGs as a management tool for negotiations

Ministries in some countries use the SDGs and their targets as a management and negotiation tool to justify their budget proposals and negotiate for more funds. In Assam, the SDGs are a tool for line departments to obtain priority funding. In Finland, the administration expects the SDGs to be a beneficial tool that might better direct resource allocation decisions towards sustainable development. In Afghanistan, the SDGs will be used as a selection criterion to identify which grant applications from the provinces will obtain funding from the central Government.

### 4. Improving the budget performance evaluation

The SDGs and their targets and indicators can be used to improve a budget performance evaluation system. Mexico, for example, is revising its budget performance indicators in light of the SDGs. France announced in February 2018 that it would align its budget performance indicators with the SDGs “where relevant and possible”. Slovenia has clearly linked the SDGs to national objectives and adapted them to their national context and challenges, prior to adopting 30 key performance indicators to evaluate national development, including budget performance. These indicators indirectly reflect the SDGs after being nationally translated.

**Source:** Adapted from Hege, E. and L. Brimont (2018). Integrating SDGs into National Budgetary Processes. Paris: Institut du développement durable et des relations internationales.

While the COVID-19 pandemic and its associated economic, fiscal and social impacts could exacerbate existing sustainable development challenges in Egypt, they could also provide an opportunity to introduce further structural reforms and continue those that have already begun in an effort to speed up the recovery and enhance the delivery of the SDGs.

In particular, Egypt shows a strong commitment to improving the social safety net as a major priority of current and future structural fiscal reforms. Authorities are looking into expanding social support to include more vulnerable groups, such as at-risk women, the elderly and school children. In addition, Egypt is committed to a public expenditure review, supported by the World

Bank that covers social protection, health and education programmes, with a particular focus on evaluating the effectiveness of government spending in these key areas.

Moreover, the Government of Egypt perceives public revenue mobilization as essential to supporting the higher primary surpluses needed to create fiscal space for priority spending on health, education and social protection. Prior to the COVID-19 crisis, the draft medium-term revenue strategy, developed with support from IMF, had identified a range of institutional and compliance reforms for both the tax and customs agencies, as well as tax policies to increase revenue by 2 per cent of GDP over four years. Indeed, certain revenue measures from the draft

strategy were accelerated and embedded in the budget for the fiscal year 2020/21.<sup>17</sup>

Furthermore, it is worth mentioning that the Ministry of Finance prepares and publishes the medium-term public debt management strategy annually. The strategy outlines the methodology and planned actions to improve public debt management and reduce the debt-to-GDP ratio, primarily by reducing public debt burdens, prolonging debt average life and developing the government securities market to ensure that the necessary funding for the budget is provided in a timely manner.

The Government's commitment to reform the existing budgetary system and processes has been reflected in the newly proposed unified public finance law, which was drafted by the Ministry and submitted to the legislature in December 2020 for discussion and approval. The proposed law replaces both Law No. 53 of 1973 on the State budget and Law No. 127 of 1981 on government accounting. It incorporates modern practices of public financial management, such as medium-term budgetary frameworks, programme- and performance-based budgeting, budget ceilings, fiscal planning and automation.

As such, the new law aims to improve the efficiency, effectiveness and prioritization of government spending, as well as achieve greater fiscal discipline. The proposed law seeks to achieve these objectives primarily by introducing effective mechanisms of financial accountability and transparency throughout the entire budget cycle; unifying the accounting rules to which all public entities, including economic authorities, are subject; and improving the governance of procedures to reallocate general reserves and additional appropriations. The proposed law also aims to strengthen the coordination mechanisms between the Ministries of Finance and Planning and Economic Development during budgetary processes in a way that should eventually translate into better fiscal performance for the Government.

Finally, it is noteworthy that the analysis provided by this chapter is limited to the State budget of Egypt and therefore it does not consider the role of economic authorities, SOEs and extrabudgetary funds and accounts in financing sustainable development. A more comprehensive view of the relationship between public finance and sustainable development in Egypt could be achieved by considering the role of off-budget public domestic sources of finance.



### Losses from poor infrastructure governance reach

**53%**

in low-income  
developing  
countries



**34%**

in emerging market  
economies

### The public finance structure in Egypt consists of



**654**

budgetary  
authorities



**161**

units at the  
central level



**349**

at the local  
level



**144**

public service  
authorities.

### Total government expenditure in Egypt is estimated

**LE 1.7  
trillion**



## Endnotes

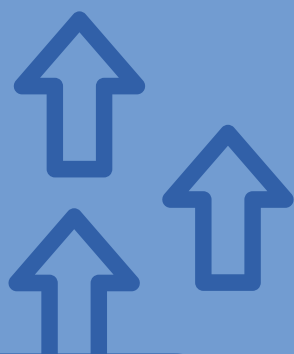
1. Long and Miller, 2017; United Nations Environment Programme, 2016.
2. Acheson and Lynch, 2017; Gupta and others, 2002.
3. Examples of these entities include Parliament, the Supreme Committee for Elections, the Cabinet, the Presidency, the governorates' general Diwans, the Ministry of Local Development, the Ministry of Finance, tax authorities, the Central Auditing Organization, the Ministry of Foreign Affairs, the Ministry of International Cooperation, the Ministry of Planning and Economic Development, the Central Agency for Organization and Administration and its Directorates, CAPMAS and the Information and Decision Support Center.
4. These ratios are calculated by the authors based on publications from the Ministry of Finance. These include the final accounts of the Egyptian State budget for the fiscal year 2018/19, the modified figures of the Egyptian State budget for the fiscal year 2020/21, GDP data for 2018/19 in the analytical statement of the State budget for the fiscal year 2020/21 and GDP data for 2020/21 in the financial statement of the State budget for the fiscal year 2021/22.
5. These comparisons are based on the World Bank Database, available at <https://data.worldbank.org/indicator>, accessed December 2020.
6. Takaful (meaning "solidarity") is a monthly cash transfer programme that targets poor households with children and is conditional on the child's school attendance, medical check-ups for mothers and children under 6 years of age and attendance in nutrition classes. Karama (meaning "dignity"), on the other hand, is a monthly unconditional cash transfer to the most vulnerable segments of population, namely the elderly (over 65 years of age), persons with disabilities and orphaned children.
7. Ministry of International Cooperation, Egypt, 2016; Ministry of Planning and Economic Development, Egypt, 2018a.
8. Ministry of International Cooperation, Egypt, 2016.
9. Ministry of Planning and Economic Development, Egypt, 2018a.
10. Amin-Salem and others, 2018.
11. El Hussein, 2020.
12. United Nations, Inter-agency Task Force on Financing for Development, 2019.
13. It is noteworthy that, according to the property tax law, 50 per cent of the revenue collected from property taxes should be transferred to the governorates and the Slums Development Fund.
14. These figures are based on the World Bank Database, available at <https://data.worldbank.org/indicator>, accessed December 2020.
15. These ratios are based on data from CAPMAS.
16. These figures are based on the World Bank Database, available at <https://data.worldbank.org/indicator>, accessed December 2020.
17. IMF, 2020b.



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# Social protection as a budget priority

*by Walaa Talaat*



# 05









Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international co-operation, of the economic, social and cultural rights.



## Background

The 2030 Agenda aims to achieve prosperity and sustainable development for all. The main goals are to ensure that everyone has access to a basic income, food security, primary and secondary education, essential health services, affordable drinking water and adequate sanitation. Governments should ensure that no one is left behind by servicing all needs, including those of the “missing middle”.

Unfortunately, establishing a minimum floor is out of reach for most developing countries, including Egypt. Over the past decades, social protection has become a response to poverty and vulnerability. It consists of two main components: non-contributory schemes, such as social safety net programmes, and contributory schemes, such as social insurance pensions. Strong social protection policies help to address fragility and shocks, stimulate human capital, foster social cohesion and social justice, and build trust in social contracts with the State.

For the purposes of this chapter, social protection in Egypt refers to a nationally





defined set of basic social safety net programmes, namely, access to basic income security and essential health-care services. This is in line with article 22 of the Universal Declaration of Human Rights, which states: “Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international cooperation and in accordance with the organization and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality.”<sup>1</sup> It also aligns with SDG target 1.3, to implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the

poor and the vulnerable; SDG target 3.8, to achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all; and the ILO Social Protection Floors Recommendation, 2012 (No. 202).

This chapter is divided into four additional sections. Section A introduces mainstream debates and various modalities of social protection, providing a global outlook. Section B presents social protection programmes in Egypt in terms of their expenditure, coverage and targeting approach. These programmes are divided into three major groups: social safety net programmes (non-contributory schemes), social insurance (contributory schemes) and access to basic health care (which can be contributory, non-contributory or a mix). Section C discusses the impact of effective and efficient institutional arrangements and capacity-building for social workers regarding service delivery and outcomes for social protection programmes. Section D explains how to strengthen the resilience of social protection floors in Egypt by building a universal floor in the context of the SDGs that must respond to crises and fragility. To ensure that every household has access to basic income security and essential social services, the Government must integrate various complementary social protection programmes to provide universal coverage. Social protection is a fundamental human right and must be normalized as a basic right.

## A. Mainstream debates and modalities of social protection: global outlook

Many countries offer social protection to meet the diverse needs of their populations. Social protection systems have two main components: non-contributory and contributory schemes. As a policy framework, social protection has been used as a tool to address poverty and vulnerability,

particularly in developing countries. A growing number of Governments have therefore been adopting programmes for national social protection to reduce poverty. There is a debate as to whether the core principle behind the distribution of social protection benefits should

be universalism or selectivity through targeting. Under universal schemes, social safety net programmes are open to the entire population as a basic right, while under targeting schemes, eligibility requirements must be met before accessing benefits. International organizations such as the World Bank and IMF advocate for the latter. Indeed, how far a policy regime leans towards either of these options will shape its welfare social contract. Liberal regimes are characterized by policies that target low-income households; conservative regimes are shaped by traditional family and social values; and social democratic regimes provide universalist systems that promote equality based on high standards rather than basic needs. This is a topical debate in low- and middle-income countries with limited and fragmented institutional social protection systems, as well as in wealthy countries with well-developed social security and comprehensive welfare systems. Markets alone cannot satisfy the social contract; therefore, the State must be involved to guarantee that basic livelihood needs will be met. This section examines and clarifies core layers of the debate surrounding targeted and universal social protection schemes, their techniques and forms, including cash, voucher and in-kind assistance.

There is extensive literature on different targeting mechanisms; administrative, social and political targeting costs; and targeting errors. A few studies address the question of whether targeted schemes should be done at all or whether universalist schemes should be implemented instead. Little is known about targeting costs. In the debate over modalities of assistance, proponents of targeting have a more optimistic assessment of targeting experience and are confident that the use of modern ICTs helps to minimize targeting errors. In contrast, proponents of universal schemes are optimistic that the uniform provision of benefits will garner a sufficient budget to provide meaningful social protection. They are opposed to targeting from a human rights perspective or on moral principles of equity and question the practicalities of targeting and its costs, including political costs and costs to beneficiaries.

International organizations play a vital role in supporting reforms and reshaping social safety net programmes, attempting to shift from universal to targeted social schemes and adapt the techniques employed. Organizations such as IMF and the World Bank have been introducing and supporting social policy reform initiatives in developing countries since the 1980s. They also shape programme structure. For example, an ILO study reviewed IMF structural adjustment policies in 187 countries from 2010 to 2020. It shows that IMF advice focuses on a series of reforms, two of which are related to the current debate: (i) eliminating universal subsidies (including on food, energy and agriculture in 132 countries) and (ii) rationalizing spending and further targeting safety nets (in 107 countries).<sup>2</sup> International organizations play a significant role in shaping the modality, technique and form of targeted social safety net programmes, which they claim are more effective and efficient in distributing government resources among the poor.<sup>3</sup> Their arguments and structural adjustment policies focus on the cost-effectiveness of alternative transfer modalities. As a result, the debate shifted towards targeted programmes in the form of cash. Proponents of cash transfers claim that they generate the largest welfare gains because the beneficiaries are free to purchase what suits them. Moreover, it is argued that cash transfers are associated with less stigma and are less costly to administer. This debate, however, has been hindered by a lack of rigorous evidence that explores the implementation of the programme's targeting mechanism at the grass-roots level.

**ILO study reviewed  
IMF structural adjustment  
policies in**

**187  
countries**

**2010–2020**





In addition to historical and political reasons, this lack of evidence may partially explain the continued existence of food vouchers and in-kind transfer programmes in low- and middle-income countries.

The COVID-19 pandemic shook economies across the globe. The twin health and economic shocks revealed gaps and fragmentations in national social protection systems, primarily for those in the middle and at the bottom of the socioeconomic ladder. The pandemic has exacerbated the gap in social protection coverage for the missing middle, which is excluded from receiving any kind of provisions under targeted schemes. Social protection in Egypt is a

complicated process, both in terms of targeting vulnerable groups and delivering services. Despite the Government's extensive efforts to reform social protection, it has not managed to provide basic universal social protection as a human right. The move towards universalism is reinforced by concerns over social protection and "leaving no one behind", as mentioned in the 2030 Agenda, as well as by the global pandemic. It is clear that the pandemic renewed the debate among citizens, academics, policymakers and practitioners on the reliability of current modalities and forms of social protection systems and whether they provide minimum floors on which to fall back.

## B. Social protection programmes in Egypt: expenditure, coverage and targeting

Egypt is a lower-middle-income country with various social protection programmes. Along with other countries in the MENA Region, it relies heavily on social safety net programmes, such as food and fuel subsidies. Despite its objective to allocate subsidies primarily to the poor, the revolutionary wave known as the Arab Spring that swept across the region was propelled by demands for equal access to resources and resource redistribution. In January 2011, protesters called for an end to poor economic conditions, injustice and corruption in Egypt. The Arab Spring has highlighted some key challenges in the region, including high levels of poverty, the need to reform social protection systems, growing inequalities and social injustice. The revolution was proof that citizens no longer accepted the old social contract with the State.

Since 2005, the Government of Egypt has faced numerous challenges that have resulted in high inflation and low salaries. During the bread crisis in 2008, there were widespread flour shortages and long lines to purchase

staples. Since the 2011 revolution, the economy has faced macroeconomic imbalances, particularly in terms of currency realignment and fiscal consolidation. According to CBE, monthly indicators for December 2016 reported that the official exchange rate for the Egyptian pound against the United States dollar had slipped from LE 8.88 to almost LE 20 per dollar.<sup>4</sup> This devaluation of the currency amounted to a loss of approximately 55 per cent of its value. Given that Egypt is a major importer of commodities and the world's largest importer of wheat, the currency depreciation was highly detrimental, especially to the poor. Nevertheless, from a macroeconomic perspective, the liberalization of the exchange rate was a crucial step in the Government's wider economic reform programme to return foreign currency trading to the formal banking sector. In addition, according to CAPMAS, the period between 2000 and 2017 witnessed a continuous increase in poverty rates, from approximately 17 per cent to 32.5 per cent, as shown in figure 42. Following the implementation of recent economic reforms, the poverty rate declined for the first time since 2000 to reach 29.7 per cent

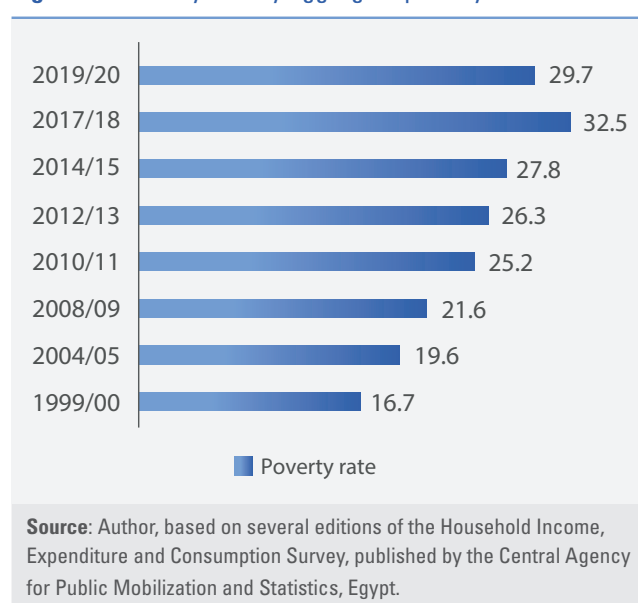


The Government of Egypt has faced numerous challenges that have resulted in high inflation.

in 2019/20. This was coupled with a decline in the annual headline inflation rate, from 28 per cent in January 2017 to 12.7 per cent in January 2019.

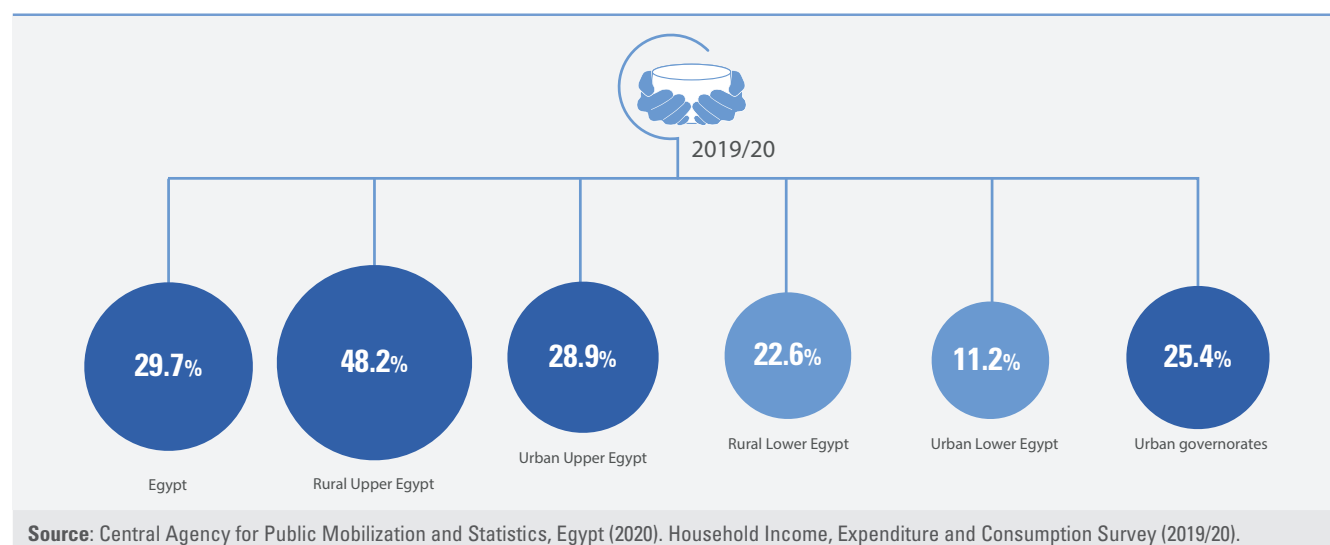
Egypt is characterized by high levels of both money-metric and multidimensional poverty (see chapter 1 for details). The Government must address this challenge. One solution that protects everyone, particularly poor and vulnerable households, is to establish and maintain an effective and efficient social protection system. It is worth noting, however, that regional disparities in poverty levels are marked, with signs of divergence. Figure 43 shows that in 2019/20, the highest poverty rates were in rural and urban Upper Egypt, at 48.2 per cent and 28.9 per cent, respectively. In rural and urban Lower Egypt, the poverty rate was 22.6 per cent and 11.2 per cent, respectively.

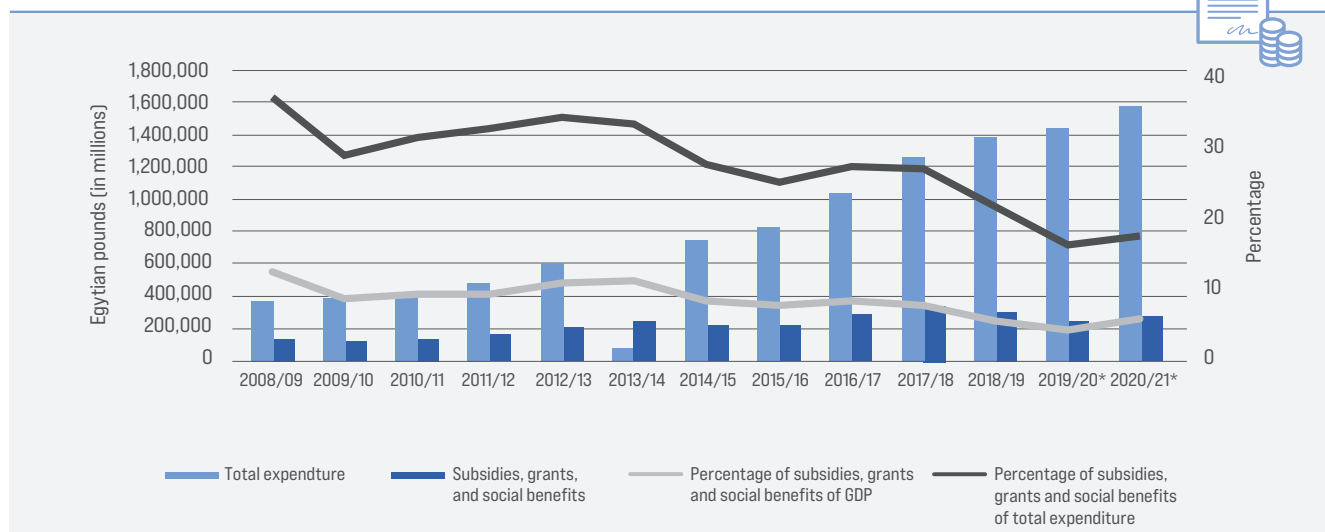
**Figure 42.** Poverty rate by aggregate poverty measurement



This poses a range of questions regarding the Government's initiatives in less advantaged regions. The increase in poverty indicates that Egypt is in urgent need of a more efficient and effective social protection system at both national and subnational levels, despite continuous generous budget allocations for subsidies, grants and social benefits. While these allocations accounted for 5.5 per cent of GDP in 2020/21, they decreased from 8 per cent in 2016/17 to 4.5 per cent in 2019/20, as shown in figure 44.

**Figure 43.** Poverty rate across geographical regions in Egypt



**Figure 44. Subsidies, grants and social benefits**

**Source:** Author, based on various editions of the State budget, published by the Egyptian Ministry of Finance.

\* Budget records.

In 2020/21, Egypt's budget expenditures on subsidies, grants and social benefits totalled LE 265.6 billion, or 17 per cent of total expenditure, as shown in figure 44. The social protection system over that period was skewed towards social benefits, which cost LE 158.8 billion in the same year. Social protection as a percentage of total government expenditure has declined between 2016/17 and 2019/20. Moreover, its impact on poverty and human capital development has been limited, owing to the complexities of targeting.<sup>5</sup> This could be attributed to a number of structural challenges, institutional arrangements and broader socioeconomic developments (see section D). Additionally, there is low social insurance coverage, a lack of awareness among workers about labour rights, administrative inadequacies and an erosion of benefits by high inflation. In addition, the Egyptian health-care system is complex. Although the Government has taken steps to reform it, there is still a need to increase coverage and improve the quality of services, particularly in Upper Egypt. These challenges must be addressed to ensure that social protection investments have a greater impact on poverty reduction.

In the past decade, the Government introduced comprehensive reforms to build a new social contract and address the aforementioned challenges. Since 2014, the Government has rolled out the smart ration card system to replace food subsidies and filter beneficiaries, in an effort to reduce the fiscal deficit. It also raised fuel prices, gradually phasing out fuel subsidies, with the exception of liquefied petroleum gas and fuel oil needed for electricity and cooking. In 2015, the Government launched the Takaful and Karama programmes to offset the negative effects of reforms, particularly on the poor. Additionally, a comprehensive reform of the health-care system was introduced in mid-2018, beginning in the Governorate of Port Said, and a law was passed to reform social insurance in mid-2019. To accelerate the achievement of the SDGs and reinforce the concept of leaving no one behind, the Government launched a number of initiatives. For example, the three-year Haya Karima initiative (meaning "decent life") was launched in 2019 and seeks to improve the quality of life in the poorest villages, especially in Upper Egypt, and most vulnerable rural areas, which contain approximately 50 per cent of the population. It includes efforts to revamp infrastructure, improve access to basic

services, promote education and health care, offer decent employment and empower women.

This section analyses the range of social protection programmes in Egypt, namely, social safety net programmes, social insurance and health care. It examines expenditure, coverage and targeting, focusing on the impact on poverty and vulnerability.

## 1. Social safety net programmes

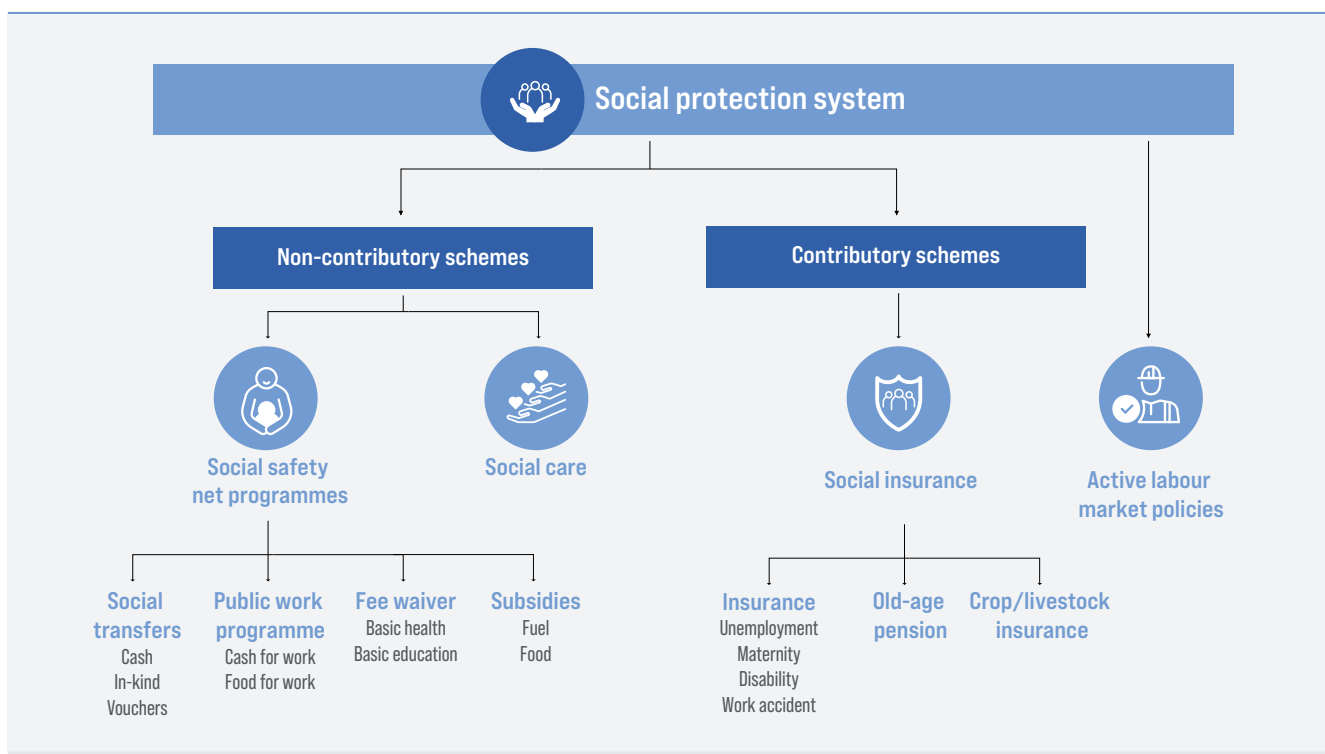
Social safety net programmes encompass numerous non-contributory programmes, as shown in figure 45, which are provided to guarantee income security for the poor. In Egypt, these programmes have long been dominated by food and fuel subsidies. Indeed, most have become embedded as an acquired right for citizens, and

the legitimacy of the ruling Government has been predicated on the ability to provide food, fuel and basic services at affordable, subsidized prices.

### (a) Food subsidies programme

Given the politically sensitive challenge of reforming the existing food subsidies programme, the Government chose to gradually move away from the old paper-based ration card system and introduce a new smart ration card system, for which participants register using their national identification number. The current system is composed of subsidized baladi bread (or Egyptian flatbread), the most important subsidized food product, as well as licensed ration shops (i.e. small retail stores known as tamween) that sell subsidized commodities to beneficiaries. In 2013/14, the Egyptian Government introduced

**Figure 45.** Taxonomy of social protection schemes



**Source:** Adapted from O'Brien, C. and others (2018). Shock-Responsive Social Protection Systems Research: Synthesis Report. Oxford: Oxford Policy Management, pp. 1-77.

**Note:** Non-contributory schemes are defined by the International Labour Organization as normally requiring no direct financial contribution from beneficiaries or their employers as a condition of entitlement to receive benefits. Public works programmes are usually counted as non-contributory even though the recipient contributes labour. Social transfers may be conditional or unconditional. A conditional transfer requires the recipient to meet certain behaviours (e.g. school attendance) to receive the benefit.

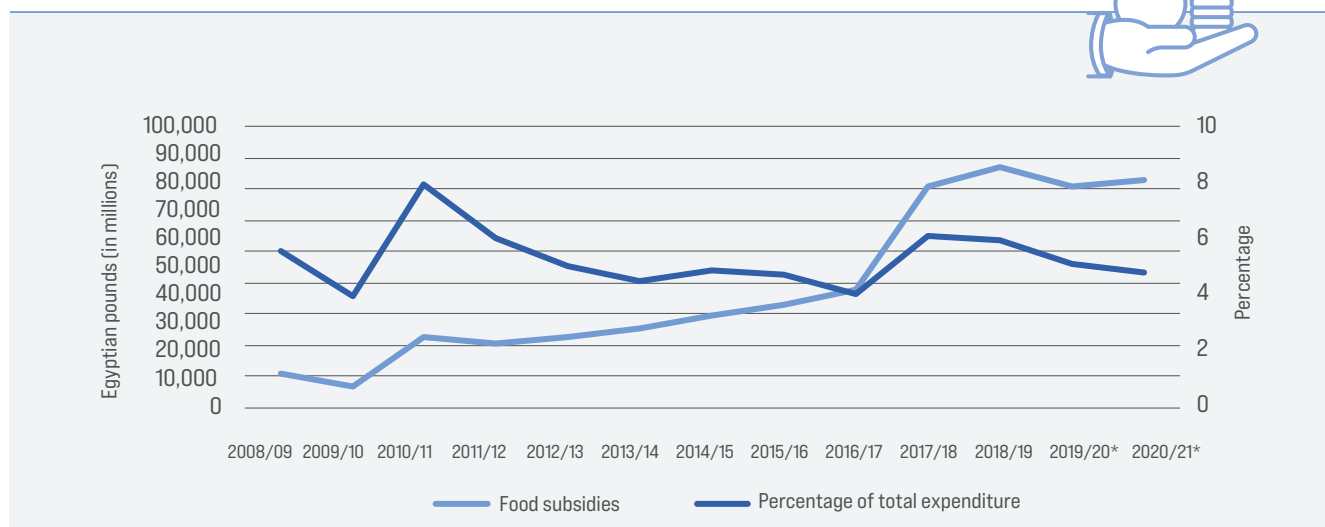
changes to the baladi bread system, switching to an output-based financing approach to improve the supply chain. This approach subsidizes the actual number of loaves distributed by bakeries to beneficiaries in an attempt to offset the black market and smuggling that characterized the previous system, under which the flour sacks used to produce the bread were subsidized. Under the new system, every beneficiary has a daily quota of a maximum of five loaves of bread. If a household does not use the entire monthly bread quota, the remainder is converted into points. For example, a household with four individuals registered on the smart ration card system has a monthly bread quota of 600 loaves. If they take only 100 loaves, the unused baladi bread quota of 500 loaves is converted into points (500 loaves is LE 50, or approximately \$5.60). These converted points can be used to buy other commodities from the ration shops. This approach might encourage beneficiaries to consume less baladi bread.<sup>6</sup>

Changes were also made to the operations of ration shops by introducing an allowance-based system. Under the previous system, each beneficiary was given a specific quota of subsidized, low-quality commodities (i.e. cooking oil, rice, sugar

and macaroni) to buy from a specific shop. The system subsidized the products in the ration shops according to the number of beneficiaries that were recorded in the Ration Office ledger. Thus, if beneficiaries did not take their entire quota, the shop might have sold the remainder on the black market. The new smart ration card system permits beneficiaries to buy from any ration shop, and the subsidized commodities are distributed to each shop according to its sales ledger. Beneficiaries are provided with a monthly allowance that they can use to buy any product from a bundle of over 50 commodities.<sup>7</sup>

Government budget expenditure on food subsidies increased from LE 21 billion in 2008 to approximately LE 83 billion in 2020/21, accounting for 5.7 per cent of the average total annual government expenditure from 2008/09 to 2020/21, as shown in figure 46. In nominal terms, food subsidies have more than doubled from 2013/14 to 2020/21 as the Government sought to mitigate the impact of higher inflation and protect the poor. Nevertheless, as a percentage of total annual government expenditure, food subsidies have declined from 6.5 per cent in 2017/18 to 5.3 per cent in 2020/21.

**Figure 46** Government expenditure on food subsidies



**Source:** Author, based on various editions of the State budget, published by the Egyptian Ministry of Finance.

\* Budget records.



The poverty rate  
for 2019/20 would  
have increased to

**32.7%**  
without the programme

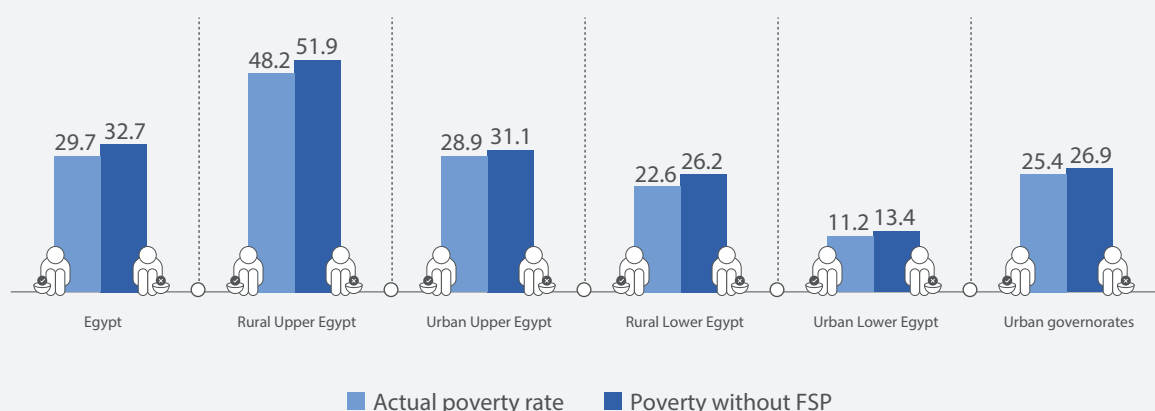


The Government decided to increase the monthly allowance under the food subsidies programme using the smart ration card from LE 15 in 2013 to LE 18 in June 2016, then to LE 29 in March 2017 and to LE 50 in July 2017. Without the food subsidies programme, an estimated 3 per cent of Egyptians would have fallen into poverty in 2019/20.<sup>8</sup> According to CAPMAS, food subsidies accounted for 7.4 per cent of total household expenditure on food consumption in 2020. It was 8.3 per cent in rural areas and 6.3 per cent in urban areas. The food subsidies programme has shielded the poor from the impact of high food prices.<sup>9</sup> Figure 47 highlights the role of subsidies in alleviating poverty. Using the basic needs approach, the

figure shows that the poverty rate for 2019/20 would have increased from 29.7 per cent to 32.7 per cent without the programme.

The Ministry of Supply and Internal Trade has sought to improve targeting to ensure that food subsidies are effectively allocated to the poor. Figure 48 shows that in 2020 approximately 65 per cent of the population received benefits across 27 governorates; however, not all are poor households. The eligibility criteria for enrolment in the food subsidies programme and the smart ration card system are very loose and difficult to assess. One criterion covers those with chronic illnesses or special needs, but there is no list of eligible conditions. Temporary seasonal employment or work as a street vendor in another criterion, but there are no specific records for such forms of work within the Ministry's system. In 2010, a World Bank study showed that the programme shields the poor from the impact of food price inflation but poorly targets beneficiaries. These figures explain the pressure on the Government to improve resource allocation and ensure that benefits are focused on and provided to only the targeted groups.<sup>10</sup> The cost of basic needs approach was used to assess the targeting performance of the food subsidies programme

**Figure 47.** Impact of the food subsidies programme on poverty in Egypt

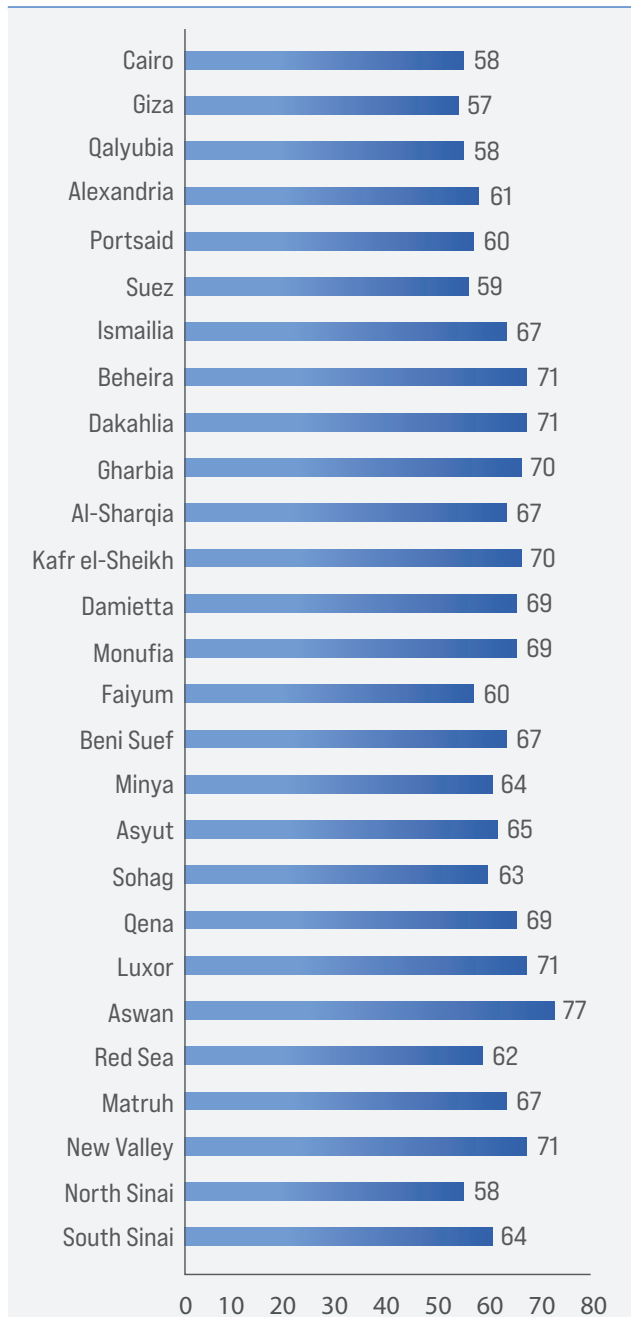


**Source:** El-Laithy, H. (2020a). *Main Results of the Household Income, Expenditure and Consumption Survey, 2019/2020*. Central Agency for Public Mobilization and Statistics, Egypt.

**Abbreviation:** FSP, food subsidies programme.

by comparing inclusion and exclusion errors. Results showed that the programme suffers from high leakage rates of approximately 80 per cent based on data from the 2013 Household Income, Expenditure and Consumption Survey and 90 per cent based on data from the 2017 Survey.<sup>11</sup>

**Figure 48.** Percentage of the population that receives food subsidies in 2020, per governorate



**Source:** Author, based on data from the Egyptian Ministry of Supply and Internal Trade from 2020.

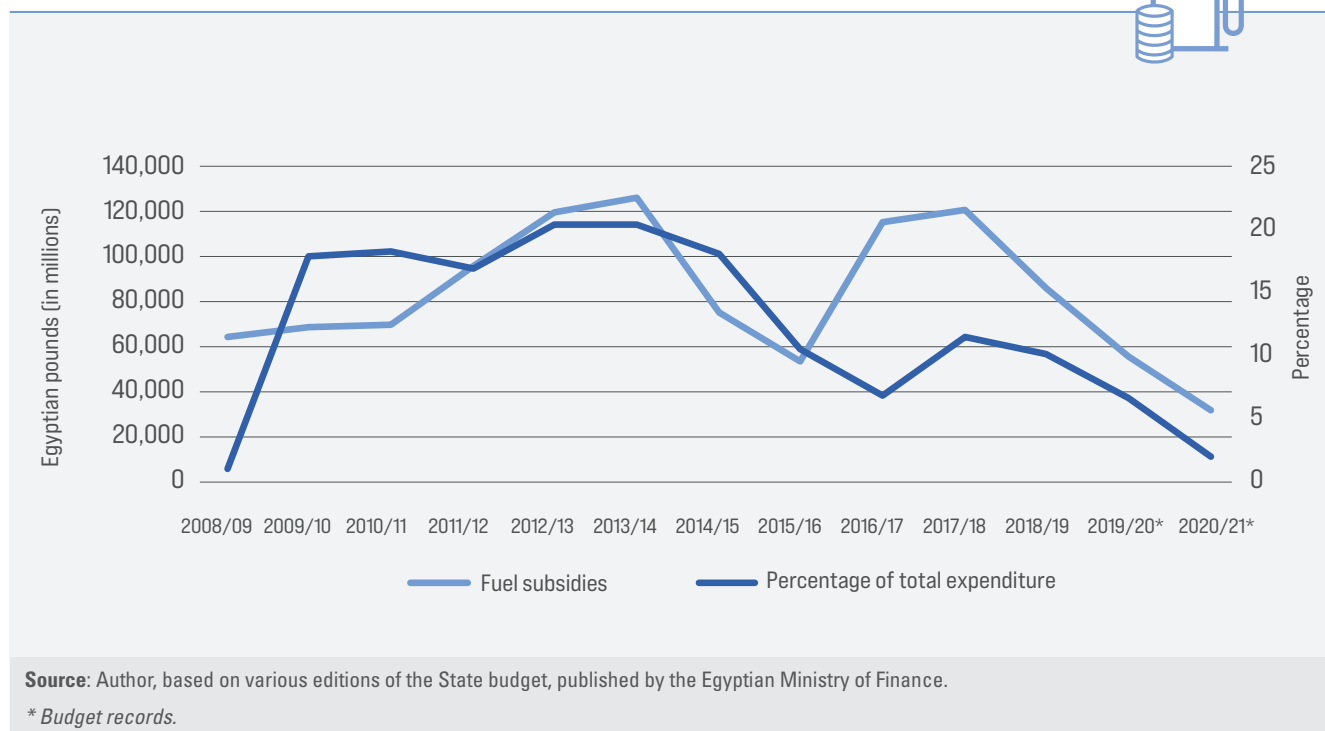
Mostly non-poor households are receiving the intended benefits of the programme. Weak targeting strengthens arguments in favour of reforming the system and moving towards more pro-poor policies. The digital approach of using smart ration cards with a limited monitoring system might lead to duplicated benefits, the appearance of ghost cards and an increased risk of fraud. As such, the Ministry requested an audit of the smart ration card data, which was conducted in cooperation with the Administrative Control Authority and the Ministry of Defense and Military Production. Challenges facing the food subsidies programme can be addressed by establishing more comprehensive guidelines, tightening targeting criteria, verifying and reassessing eligibility, improving resource planning and allocation, building capacity and tailoring communication. Targeting errors should be minimized by developing partnerships with local stakeholders to facilitate enrolment and by creating a unified national registry, which the Ministry of Planning and Economic Development is currently developing.

### (b) Fuel subsidies

Fuel subsidies encompass government spending on diesel, gasoline, liquefied petroleum gas and other fuel products. According to a 2017 IMF study, estimates suggest that the poorest quintile in Egypt, Jordan, Mauritania, Morocco and Yemen



Local stakeholders play a vital role in reaching the most distant areas and vulnerable groups and increasing their awareness of the importance of regular health checks and preventative services.

**Figure 49.** Government budget expenditure for fuel subsidies

receive between only 1 per cent and 7 per cent of total fuel subsidies, which is considerably lower than the 42 per cent to 77 per cent received by the richest quintile. In 2015, the poorest quintile in Egypt benefited on average from only LE 140 per capital per year in fuel subsidies, while the richest quintile gained LE 451. Moreover, urban households received more benefits from fuel subsidies than those in rural areas.<sup>12</sup>

A comprehensive reform was introduced in 2014, following several studies which showed that universal fuel subsidies are regressive and non-poor households receive more benefit as a result of higher fuel consumption. Fuel subsidies in Egypt have been reduced from LE 126 billion, which accounted for 17.9 per cent of total expenditure in 2013/14, to LE 28 billion, which represented 1.37 per cent of total expenditure in 2020/21, as shown in figure 49. In 2020/21, government budget expenditures for fuel subsidies totalled 0.45 per cent of GDP.

Reforms to fuel subsidies have a significant impact on the poorest individuals, particularly

in rural areas, when phasing out all types of fuel. Liquefied petroleum gas, in particular, is a vital source of energy for poor households, and diesel is used in the transport and agriculture sectors. In the short term, the reduction in subsidies increased fuel prices overall, which had an immediate impact on related prices throughout the economy. In addition, phasing out fuel subsidies had a direct impact on the poor as a result of increased transport costs. Using Hicksian equivalent variation to measure household welfare, a 2019 study shows that without adequate compensation for phasing out fuel subsidies, welfare losses would be between 4.1 per cent and 5.3 per cent for urban poor households and between 2.3 per cent and 2.7 per cent for the rural poor.<sup>13</sup> The food subsidies programme and the Takaful and Karama cash transfers have helped to mitigate some of the negative impact on poor households but remain inadequate, particularly given the high poverty rate. Any reform must therefore encompass concrete compensation measures that rely on the unified national registry. Examples include direct cash or near cash transfers to poor beneficiaries.

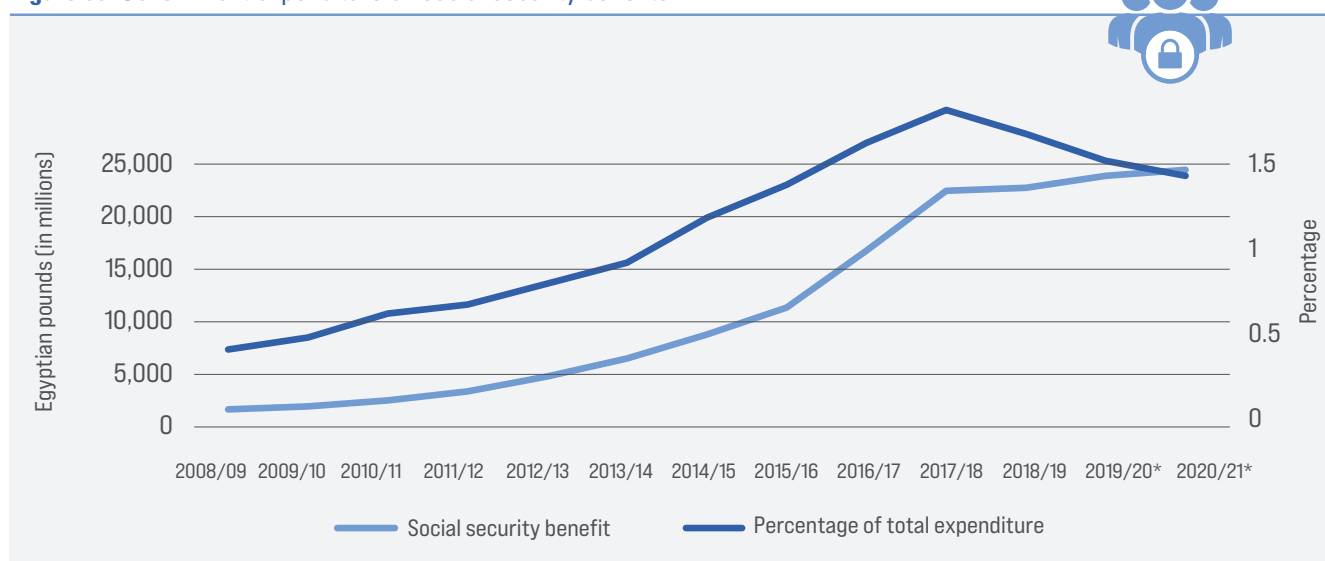
### (c) Takaful and Karama

In a shift towards more targeted programmes, Egypt has been providing two separate schemes called Takaful and Karama since 2015/16 through the Ministry of Social Solidarity. The World Bank provided initial support with a financing loan of LE 6.32 billion. Beneficiaries who meet the eligibility criteria were moved from the social solidarity pension to the Takaful and Karama programmes. The three programmes are recorded under social security benefits in the Government's expenditures. Social security benefits have increased from LE 8.9 billion in 2015/16 to LE 19.2 billion in 2020/21. Nevertheless, they have been declining as a percentage of total government expenditure, from 1.4 per cent in 2017/18 to 1.1 per cent in 2020/21 (figure 50).

These cash transfer programmes are conditional (Takaful) and unconditional (Karama). Eligibility for Takaful is limited to poor households with children under 18 years of age, while Karama targets the elderly, orphans and persons with disabilities. Takaful provides a basic monthly salary of LE 350, with additional funds according to the number of children in each household (capped at two) and their school grade level.

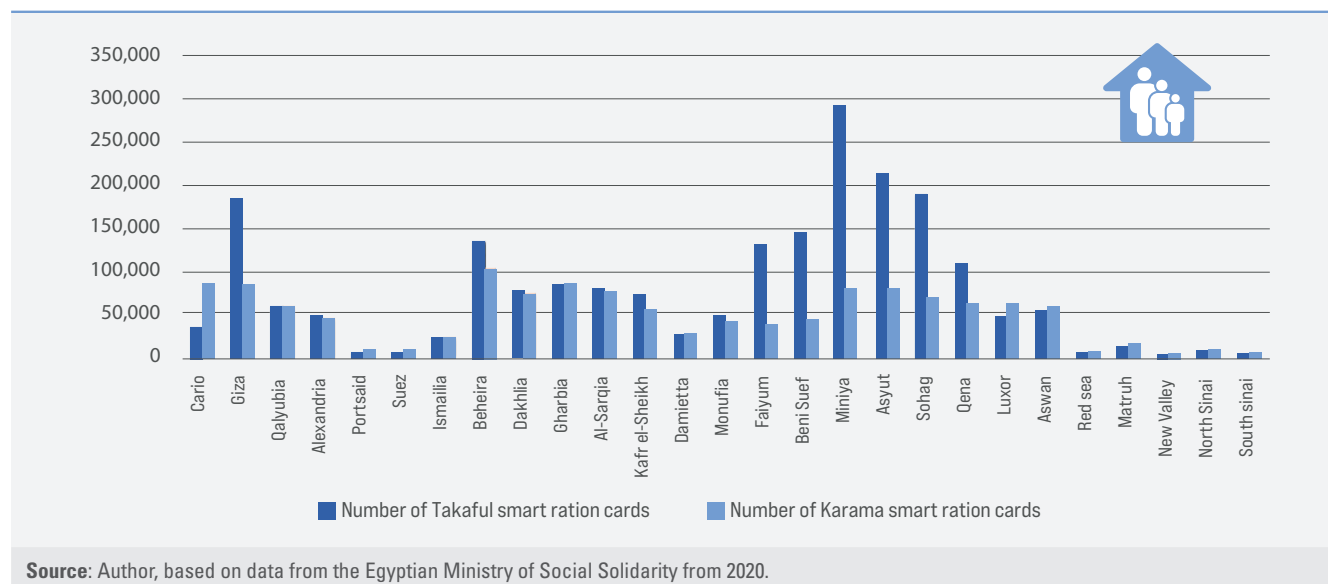
While enrolment in the programme is conditional upon school enrolment and attendance and regular health checks, these conditions are not yet fully enforced. The basic monthly salary has not changed since 2015, which means the benefit has a smaller net worth owing to fluctuations in the inflation rate. Nevertheless, the additional funds for each child have increased by an average of 30 per cent in 2017. The maximum Takaful benefit for each household is LE 605, which is approximately 25 per cent of minimum wage in the public sector. The Karama benefit included a basic salary of LE 350 in 2015, which is capped at a maximum of three beneficiaries per household. This amount increased in 2017 by 28.6 per cent to LE 450, while the inflation rate for the same year increased to 29.4 per cent. Beneficiaries therefore also received a smaller net benefit. The Karama benefit for each household is LE 1,350, which is approximately 56 per cent of minimum wage in the public sector.<sup>14</sup> Targeting is conducted using various methods based on geographical and proxy means tests. These schemes operate in 345 districts that encompass 5,630 villages across 27 governorates. According to data from the Ministry of Social Solidarity, 78 per cent of the beneficiaries in 2020 were women, of which 18 per cent were divorcees and widows.

**Figure 50.** Government expenditure on social security benefits



**Source:** Author, based on various editions of the State budget, published by the Egyptian Ministry of Finance.

\* Budget records.

**Figure 51.** Number of households enrolled in Takaful and Karama

Approximately 3.3 million households were enrolled in the Takaful and Karama programmes in 2020, as shown in figure 51. Approximately 44 per cent are located in Upper Egypt. This supports the decision to prioritize the programme's launch in the poorest 19 districts across 6 governorates in Upper Egypt, where the poverty rate is approximately 50 per cent. In 2021, approximately 3.7 million households received benefits.

An IFPRI impact evaluation study showed that, in terms of targeting accuracy, 67 per cent of Takaful beneficiaries belong to the poorest 40 per cent of the population. Nevertheless, the study revealed a record number of exclusion errors, in which large numbers of eligible poor households were not receiving the cash transfer. The two programmes have an overall positive impact on poverty reduction, food consumption, quality of diet and child nutrition. The IFPRI study shows that the Takaful and Karama programmes have had an impressive impact on economic inclusion, with an increase from 7.3 per cent to 8.4 per cent in household consumption expenditure for beneficiaries. Participation in the programmes also reduced the likelihood that beneficiaries would fall below the poverty

line by 12 percentage points. Additionally, the programmes have positive outcomes regarding women's empowerment and sense of dignity with an increase in their decision-making ability, particularly with regard to spending, that is associated with intra-household bargaining power and the household's financial status. Challenges related to the two schemes include the limited availability of quality education and health services and a lack of affordable transport, particularly in rural areas. Additionally, front-line social workers must be better trained to handle non-compliance with the scheme's conditions. A number of applicants felt that the selection criteria were opaque, and some complained about favoritism. New applicants criticized the lengthy waiting period, which could last up to a year in some cases.<sup>15</sup>

## 2. Social insurance

The range of contributory social protection system schemes includes social insurance, which encompasses pension schemes, as shown in figure 45. Social insurance is provided to address contingencies such as illness, old age, pregnancy, widowhood and disabilities through risk pooling. The social insurance system in Egypt has been



**Table 10.** Coverage of the social insurance system in Egypt

| Type of worker   | Law number and year |          |         |          |         |
|--|---------------------|----------|---------|----------|---------|
|  | 79/1975             | 108/1976 | 50/1978 | 112/1980 | 64/1980 |
| Employees working in Government                        | ✓                   | ✓        | ✓       | ✓        | ✓       |
| Employees working in the public sector                 | ✓                   | ✓        | ✓       | ✓        | ✓       |
| Employees working in the private sector                | ✓                   | ✓        | ✓       | ✓        | ✓       |
| Farmers with at least 10 feddans                       | ×                   | ✓        | ✓       | ✓        | ✓       |
| Landowners   | ×                   | ✓        | ✓       | ✓        | ✓       |
| Employers and the self-employed working in commerce    | ×                   | ✓        | ✓       | ✓        | ✓       |
| Employers and the self-employed working in agriculture | ×                   | ✓        | ✓       | ✓        | ✓       |
| Employers and the self-employed working in real estate | ×                   | ✓        | ✓       | ✓        | ✓       |
| Employers and the self-employed working in industry    | ×                   | ✓        | ✓       | ✓        | ✓       |
| Employers and the self-employed working in transport   | ×                   | ✓        | ✓       | ✓        | ✓       |
| Members of producer cooperatives                       | ×                   | ✓        | ✓       | ✓        | ✓       |
| Egyptians working abroad                               | ×                   | ×        | ✓       | ✓        | ✓       |
| Casual or irregular workers                            | ×                   | ×        | ×       | ✓        | ✓       |
| Staff of foreign and large Egyptian companies          | ×                   | ×        | ×       | ×        | ✓       |
| Members of some professional associations              | ×                   | ×        | ×       | ×        | ✓       |
| Senior-level employees                                 | ×                   | ×        | ×       | ×        | ✓       |
| Military personnel and top bureaucrats                 | ×                   | ×        | ×       | ×        | ✓       |

**Source:** Author, based on data from the International Social Security Association.

fragmented into several schemes that cover different types of workers. The overall system was regulated by four major laws, as shown in table 10. Formally employed workers were covered by schemes governed by Laws No. 79 of 1975 and No. 108 of 1976, the scheme under Law No. 50 of 1978 covered Egyptians working abroad and Law No. 112 of 1980 was relevant to informally employed workers. Self-employed and irregular workers are widespread in Egypt, particularly in rural areas. The nature of their employment results in greater job instability and

higher wage fluctuations. Under Laws No. 112 and No. 64 of 1980, these workers have been entitled only to pension insurance and survivor and disability benefits, with lower contribution rates than other categories. This leaves them more vulnerable when maintaining their living expenses and facing various risks.

Social insurance is primarily a state-run system that is controlled and administered by the National Organization for Social Insurance and the Ministry of Social Solidarity. The National

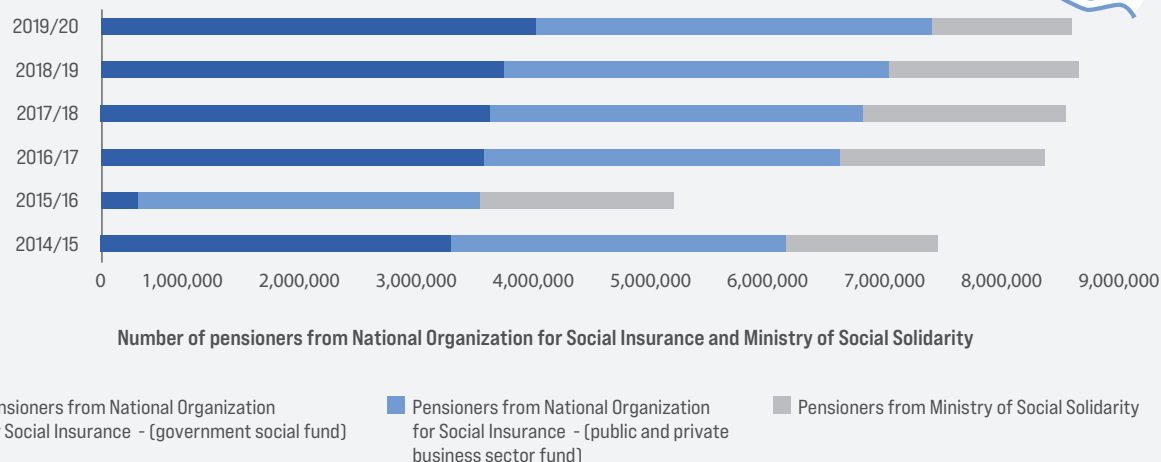
Organization for Social Insurance is responsible for providing two social insurance funds under the supervision of the Ministry: the government social fund and the public and private business sector fund. The former provides coverage to civil servants, while the latter covers all other categories of employees in both the public and private sectors, employers, the self-employed, Egyptians working abroad and others. These social insurance funds usually operate as an employment-based benefit, financed by contributions from both workers and employers. As such, pensions in Egypt are equal to a set percentage of the average monthly wage earned. Egyptians who are not registered with either fund fall under the umbrella of the Ministry of Social Solidarity and are enrolled in the comprehensive social insurance system, either through non-contributory pensions or assistance.

Pensions distributed by the Ministry under various categories, including illness, old age, maternity status, widowhood and disabilities, accounted for 2 per cent of GDP in 2019. Between 2014 and 2019, the number of pensioners registered with the government social fund increased from 2.9 million to 3.7 million, while pensioners in the public and private business sector fund increased

from 2.8 million to 3.4 million, as shown in figure 52. During that same time, social insurance beneficiaries under the umbrella of the Ministry decreased, as beneficiaries of the social solidarity pension were moved to the Takaful and Karama programmes, as mentioned in section C.1.(c). The number of persons aged 60 years and older was estimated to be approximately 9 million in 2019; however, there are approximately 1 million pensioners in that age group under both funds. This raises important questions about the social insurance coverage gap in Egypt.

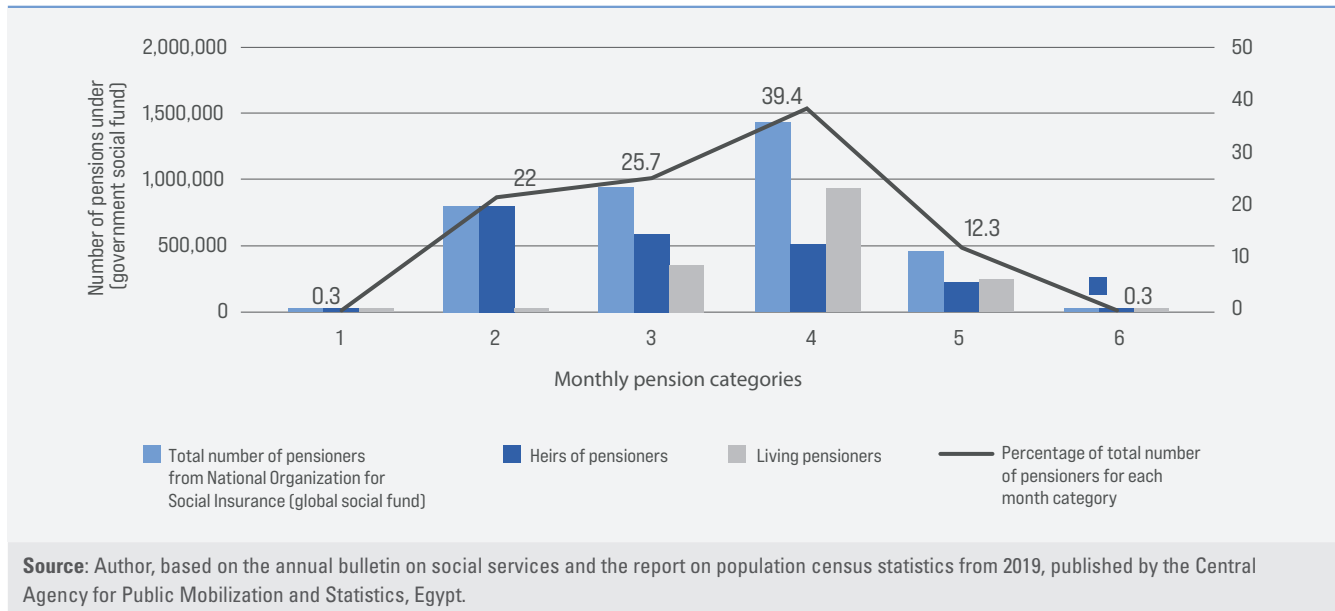
In 2019, social insurance registration reached only 11.9 million insured persons, which accounts for 40 per cent of the labour force. A significant portion of Egyptians have no social security, reflecting the widespread problem with the informal sector in Egypt. Additionally, the level of benefits is relatively low and inadequate to meet high prices. For example, 1.8 million government social fund pensioners, or 40 per cent of total pensioners, receive a monthly pension of less than LE 1,500, which is 62 per cent of minimum wage in the public sector (figure 53). Nevertheless, those pensioners are eligible for other social protection schemes, like the food subsidies programme.

**Figure 52.** Number of pensioners receiving a social insurance pension from the National Organization for Social Insurance or the Ministry of Social Solidarity



**Source:** Author, based on various editions of the annual bulletin on social services and the report on population census statistics, published by the Central Agency for Public Mobilization and Statistics, Egypt.

**Figure 53.** Number of pensioners under the National Organization for Social Insurance government social fund, per monthly pension category



Consequently, for decades, the social insurance system in Egypt has suffered from a number of systemic inefficiencies, including low participation costs, administrative inefficiencies, payment evasion and weak enforcement, a lack of long-term fiscal sustainability due to wage underreporting, a lack of awareness among workers about their labour rights, a poor investment strategy, policy deficiencies, the absence of automatic pension indexation and limited labour market mobility. Additionally, high earners in urban areas have better access to pensions, while the scheme fails to reach the most vulnerable rural workers with unstable wages and those in the informal sector.

To address these challenges, the Government has introduced a new social insurance system. In August 2019, a comprehensive new law on social insurance (Law No. 148 of 2019) was ratified to replace the five previous laws mentioned in table 10. It includes insurance for old age, disability, death, disease, work injuries and unemployment and covers all previous categories. The law established a unified pension fund with separate accounts for each type of insurance. “Comprehensive insurance wage” supersedes the definition of “wages” on which social insurance

contributions were previously calculated, as the latter distinguished between basic and variable wages. Comprehensive insurance wage is calculated based on the entire amount received by the employee, which is subject to certain minimum and maximum insurance thresholds (LE 1,000 and LE 7,000, respectively). Some allowances, such as for travel and transport, are deducted; however, these deductions cannot exceed 25 per cent of the employee’s comprehensive insurance wage. The new law has divided monthly contributions between the employer and employee in the private sector, as shown in table 11. Nevertheless, not all workers are covered for work injuries, unemployment or maternity benefits. The law mandates a contribution rate for old age, disability



For decades, the social insurance system in Egypt has suffered from a number of systemic inefficiencies.

**Table 11.** Monthly contribution for various pension schemes

| Scheme                        | Employer's contribution (percentage) | Employee's contribution (percentage) |
|-------------------------------|--------------------------------------|--------------------------------------|
| Old age, disability and death | 12                                   | 9                                    |
| Illness/sickness              | 3.25                                 | 1                                    |
| Work injuries                 | 1.5                                  | --                                   |
| Unemployment                  | 1                                    | --                                   |

**Source:** Author.

and death insurance of 21 per cent of the monthly wage for public and private sector employees; 12 per cent will be paid by employers and 9 per cent by employees. Other categories of workers listed in table 10 will pay 21 per cent of the monthly subscription amount they choose, in accordance with the regulations under the law. In addition, irregular workers will pay 9 per cent of the minimum monthly subscription amount, and the Treasury will contribute another 12 per cent. Contributions will be raised by 1 per cent every seven years until they reach 26 per cent. Employees who work in difficult conditions will enjoy higher pensions, and their employers will pay higher contributions.<sup>16</sup>

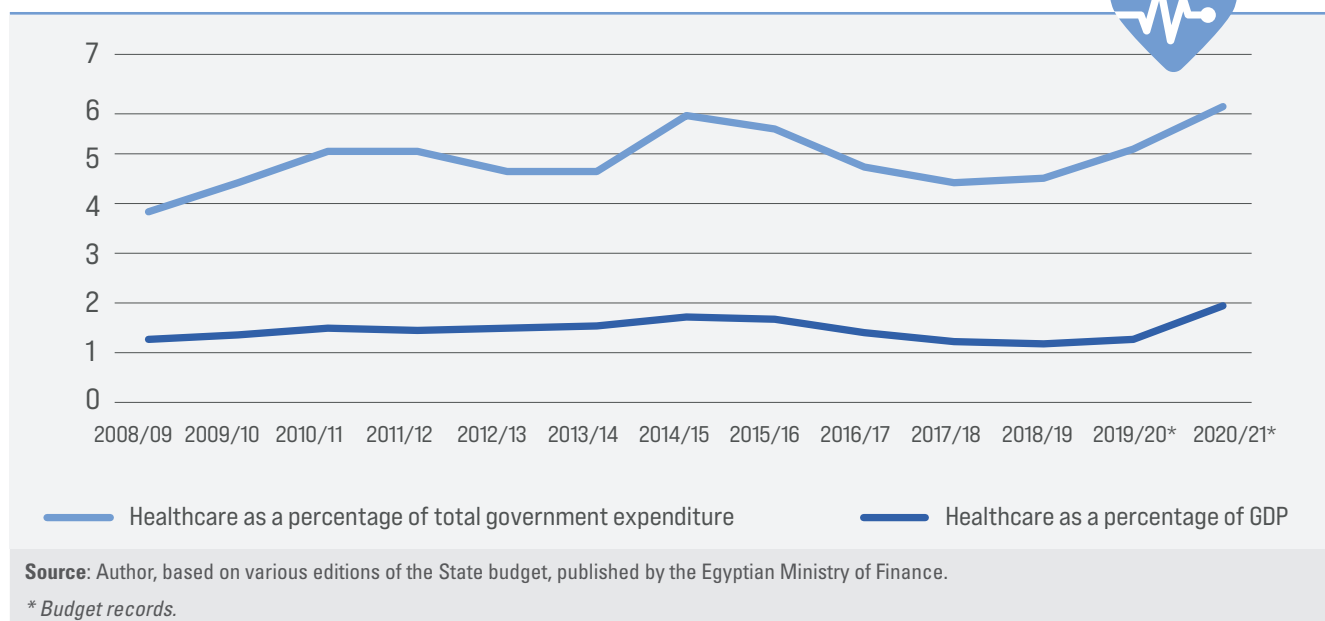
Moreover, an additional pension scheme is offered to employees whose insurance wage exceeds the maximum limit. They may choose to make additional contributions in order to receive higher pensions at the time of retirement. To address financial sustainability issues, the current retirement age of 60 years will remain in effect until 2032, at which time it will gradually increase until reaching 65 years in 2040. Under the new law, pensions are automatically indexed for inflation and coverage has been extended to uncovered workers, including farmers or breeders, fishers, owners and tenants of small agricultural plots, temporary workers in agriculture and owners of rural or family enterprises.

The new law also regulates unemployment insurance, which provides benefits for up to three months if the contribution period is less than 36 months and up to seven months if the

contribution period exceeds 36 months. The value of the benefits received diminishes gradually to encourage workers to rejoin the labour force. Nevertheless, unemployment benefits are not available to all workers, such as informal workers. Several challenges might impact the implementation of the new law, particularly widespread informality and underreporting of wages on the part of both employers and employees. As a result, the law increased penalties for those who provide incorrect data, including imprisonment for a period of no less than six months and a fine of LE 20,000 to LE 100,000. In addition, bundling social insurance with other social safety net programmes may increase enrolment in social insurance.

### 3. Health insurance

The Government provides health care to the poor; however the system is complex and pluralistic, combining public and private providers and financiers. Providers compete, and citizens are free to choose services based on their needs and ability to pay. Consequently, the system relies on four primary financing agents delivering health services under contributory and non-contributory schemes: the government sector, the public sector, the private sector and household out-of-pocket payments. For decades, the health-care system suffered from a number of challenges, primarily limited coverage, poor service delivery and high out-of-pocket payments. According to CAPMAS, households paid an average of LE 6,408 in out-of-pocket costs for health-care services, which represents 10.4 per cent of total annual household expenditures.

**Figure 54.** Health expenditure in Egypt

In 2020/21, health-care expenditures in Egypt were approximately LE 93 billion, or 6 per cent of total government expenditure and only 1.93 per cent of GDP, as shown in figure 54. The 2014 Constitution affirmed the universal right to health care, safeguarded by building and maintaining an inclusive and effective health-care system. To achieve target 3.8 on universal health coverage, the Government must allocate not less than 3 per cent of GDP to health. The increasing cost of health care in Egypt is a challenge. Average household out-of-pocket costs increased from 9.9 per cent in 2018 to 10.4 per cent in 2020. In 2018, 62.8 per cent of health expenditures were paid out of pocket. Fragmentation is another challenge. A member of the same household could benefit from various schemes under different programmes, each with their own regulations, which makes it difficult to unify health services. Moreover, due to widespread informality, some workers are not covered by any health insurance. This problem is further exacerbated in rural Upper Egypt, where workers are the least educated and most disadvantaged.<sup>17</sup>

To address health-care challenges in Egypt, Law No. 2 of 2018 on universal health insurance was adopted. Phase one began in five pilot

governorates: Port Said, Suez, Ismailia, North Sinai and South Sinai. It will be expanded to the entire country over 10 years. The new law mandates health insurance for all the citizens except those living abroad. Employers must contribute 4 per cent of the employee's salary, or a minimum of LE 50, and employees contribute 1 per cent of their wage, adding an additional 1 per cent per child or dependent and 3 per cent for a non-working spouse. Those who receive pensions contribute 2 per cent of their monthly pension. In addition to contributions, universal health insurance will be financed by taxes on cigarettes, highway tolls, corporate revenue, application and renewal fees for various licenses, payments made to join the health insurance system, and external and internal grants and loans. The new law provides a health subsidy for those who are unable to make contributions, under which the Government pays a contribution of 5 per cent of the minimum wage per family member. Eligibility for the health subsidy will be determined according to targeting criteria, and the Government plans to cover approximately one quarter to one third of the population. Nevertheless, the Government is expected to face several challenges, which include enrolling informal workers and verifying their income. To this end, digitization





## The Government undertook a number of initiatives to improve health-care services.

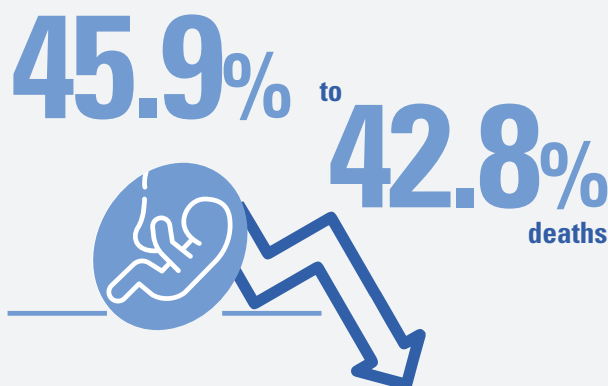
is one solution. The unified national registry connected to the civil registry can be used for income verification as well as monitoring.

The Government may face challenges in achieving equitable access to the basic health-care system. It should exercise caution in using proxy means tests to distribute the health subsidy in the absence of accurate information, given the significant inclusion and exclusion errors that might occur. The Government is also working to strengthen health-care institutions. These efforts must be guided by a detailed implementation plan that involves all relevant bodies to address the numerous technical issues related to the purchase of services, provider payment methods, institutional set-up and the management information system and its operation. Moreover, there is evidence of both supply- and demand-side barriers to accessing health care, particularly in rural areas. Barriers to accessibility in the poorest areas must be carefully addressed. These include distance to the preferred health-care unit and a lack of transport in certain areas, as well as a lack of qualified personnel, equipment and medications. Rural citizens have access to only one fifth of the number of health-care units available in urban areas. In addition, urban areas have well-equipped specialist hospitals with considerable funding, while rural health stations and village clinics are underfunded.<sup>18</sup> Demand-side barriers include limited awareness of health risks and treatment options, which is particularly widespread among rural citizens and might prevent them from seeking care. To improve the health-care system and overcome some of

these challenges, the Government launched the Haya Karima initiative, which aims to increase investments in health infrastructure, capacity-building and staff retention, particularly in the poorest areas. This includes building hospitals and health units and equipping them with medical staff. Services include launching medical convoys and providing health services and devices such as hearing aids, glasses, wheelchairs and crutches.

Additionally, the Government undertook a number of initiatives to improve health-care services. In 2018, the “100 million health initiative” was launched to eliminate hepatitis C. It offered free treatment and resulted in a decrease of over 50 per cent in newly reported cases in 2019, after screening almost 60 per cent of the population. Following the success of this initiative, many health issues are being addressed through similar initiatives to combat disease and improve women’s health, such as the “Supporting Egyptian women’s health” and “Newborns health” initiatives. As a result, several key national health indicators have improved from 2016 to 2020. For example, the maternal mortality rate declined from 45.9 to 42.8 deaths per 100,000 live births. The number of insured beneficiaries has increased from 51.1 million in 2015 to 56.9 million in 2019. The Government also began to increase health-care accessibility and strengthen its institutions. Local stakeholders play a vital role in reaching the most distant areas and vulnerable groups and

The maternal mortality rate declined from



increasing their awareness of the importance of regular health checks and preventative services. They also help to inform citizens about the

provisions of the new health insurance law. It is also important to develop a feedback mechanism to improve performance.

## C. Implementing an effective social protection system through a comprehensive and coherent policy approach

It has been argued that, until recently, the design, assessment and reform of the social protection system in Egypt has not been properly connected to the realities of its implementation. This influences the outcomes of social protection programmes and results in inclusion and exclusion errors. As a result of this disconnect, far-reaching reforms to governance, institutional capacity and public management continue to be ineffective. Two main aspects are pivotal for effective social protection. The first is governance and institutional capacity, as well as the ability to design a programme that can feed into its implementation. The second is street-level bureaucracy and the way in which it influences the outcomes of social protection programmes.

From a top-down approach, the social protection system is a large, unwieldy structure with many overlapping layers. This raises two major questions: (i) how is targeting performance influenced by the institutional and governance challenges posed by the bureaucratic structure and (ii) how do the policies and reforms that change the programmes' structure influence targeting performance. The structure and policies of the social protection system are underpinned—whether explicitly or implicitly—by the performance of the national, subnational and local governments, as well as the agencies (i.e. all bodies involved in service delivery). For example, the structure of the food subsidies programme's administrative bureaucracy looks very Weberian, in the traditional sense, and has a significant bearing on the targeting mechanism. These complex arrangements are not without cost and may potentially introduce errors into the targeting process

that cannot be captured by a solely quantitative approach. A qualitative approach is also needed to incorporate the realities of implementation.

The overall government system in Egypt and in most of the Arab region is characterized as a form of deconcentration rather than local self-government. The bureaucratic administration of various social protection bodies consists of an elaborate system of deconcentration, both regional and local, and is highly centralized. Policies, decisions and decrees are formulated by the central Government with little involvement of regional and local actors in the decision-making process. Hence, the role of local and regional offices is mostly confined to carrying out decisions, despite the fact that they play a major role in delivering services directly to the public. Their roles are entirely restricted by the central Government's decisions.



It is wrong to believe that measuring errors is the most satisfactory and accurate evaluation of targeting performance because this will overlook much of the situation on the ground.

The new public management approach, which emerged in the 1980s, attracted strong interest from many developing countries, including Egypt. This approach aims to reform the public sector; however, applying these public administration reform concepts to the Weberian structure of social protection programmes has resulted in the perception that the new public management approach is a menu from which certain policies can be selected and implemented. Applying the programmes' policies based on these concepts has added additional layers of complexity, particularly given the disconnect with the local context. Clearly, employing select reforms using targeting mechanisms has not been a panacea to resolve the challenges faced by various social protection programmes in Egypt.

Using the targeting method for social protection leaves room for abuse when there is a lack of governance and control. Moreover, the disconnect between the policy objectives of social protection programmes and the implementation phase, which does not consider changes in the financial situation of beneficiaries, has caused beneficiaries to perceive benefits as an inherited or acquired right for non-poor households. Additionally, extensive bureaucratic procedures and a lack of coordination among all bodies involved could lead to a high risk of corruption and manipulation, to the benefit of intermediaries. Lastly, the lack of grievance mechanisms in most social protection programmes raises questions as to the efforts being made to improve service delivery.

It is also important to focus on the role of street-level bureaucrats in social protection systems and the implications for targeting performance. A better understanding of policy objectives is vital, and objectives must be linked to implementation for better service delivery. Street-level bureaucrats shed light on the fundamental tension between the need for relatively simple rules to facilitate the work of bureaucrats and the myriad situations and messiness of the actual implementation process, which influences targeting outcomes.



## A better understanding of policy objectives is vital, and objectives must be linked to implementation for better service delivery.

The government units that deliver social protection services to the public are always working in dynamic situations. A number of factors have a significant impact on the social protection system's targeting mechanism. The massive volume of application requests reflect the disconnect between the programme's design and the workload. The physical location in which information is elicited might increase exposure to stigmatization for potential beneficiaries and impact their willingness to discuss changes in their circumstances. There are no procedures for filing grievances, and bureaucrats are under phenomenal pressure, which is exacerbated by a lack of supervision and feedback loops. They do not receive training, which is important to enhance service delivery and offer strategies for effective communication. Feelings of being voiceless and disempowered negatively impact their performance and engagement. A 2004 study on the targeting performance of health care in South Africa, where nurses are the street-level bureaucrats, revealed that overcrowding, resource shortages, a lack of communication, poor working conditions, low wages, staff shortages, a lack of recognition and safety concerns were all factors that impede the health-care system in South Africa.<sup>19</sup> These factors can also be found in many social protection programmes in Egypt. Given these conditions, those who implement the programmes not only shape the policy but generate unexpected outcomes.

Achieving a balance between cost-efficiency and cost-effectiveness is difficult in any bureaucracy,

including in the case of targeting social protection programmes. Neoliberal policies embrace cost containment and often focus on minimizing administrative overheads in order to enable the Government to save money. These policies focus on the programme's efficiency in terms of the size of the administrative cost relative to a certain budget; however, the situation of street-level bureaucrats stresses the importance of investing in resources to achieve better targeting outcomes. Without such an environment, minimizing costs can lead to poor outcomes and seriously jeopardize the programme's effectiveness. It is irrational to expect street-level bureaucrats to work effectively when they have not acquired basic skills, work in an unsuitable environment and apply loose targeting criteria to achieve cost-efficiency. While it is likely that the cost of leakage and undercoverage would be much lower than the cost of investing in the resources

required for effective service delivery, this alleged "rational" approach is unethical, because poor households may be prevented from enrolling in the programme for the sake of containing costs.

In general, it is wrong to believe that measuring errors is the most satisfactory and accurate evaluation of targeting performance because this will overlook much of the situation on the ground. There is much more that should be accounted for and must be taken into consideration when reforming and designing social protection policies. Bridging theory and practice is crucial to help developing countries, including Egypt, better understand the targeting performance of their social safety net programme. Social policies have a better chance to be effective when they are based on evidence and robust quantitative and qualitative analysis.

## D. Strengthening resilience by building a universal social protection floor in the context of the Sustainable Development Goals: responding to crises and fragility

To ensure income security for all and build resilience, it is necessary to roll out a social protection system that accounts for the realities of implementation and is complemented by other relevant social and public policies. Social protection should therefore be integrated into a broader policy context to respond to crises and risks. As such, nationally defined social protection floors are fundamental to a universal social protection system and represent an important instrument in achieving target 1.3 of the SDGs to cover the poor and vulnerable.

To do so, the Government should enhance the existing social protection system, taking into account the local context, for older persons and those who are unable to earn sufficient income as a result of unemployment, illness, disability, maternity status

or injury, with a view to ensuring at least a basic level of income security throughout the course of their life. This should also apply to children in terms of access to nutrition, education, care and other necessary goods and services. The Government should formulate and implement national strategies to extend social protections based on an effective social dialogue and stakeholder participation at both the local and subnational levels. This would be based on an appropriate mix of cash transfers and services financed by taxes and contributions, and it would provide sustainable, universal social protection for the entire population, including the middle class. In order to reach the most vulnerable and those at risk of being left behind, the social protection floor should extend to those who work in informal sectors, as discussed in section B.2. Such inclusiveness

would help workers transition from the informal to the formal economy.

In order to achieve universal health coverage (SDG target 3.8), the Government should follow a rights-based, universal and equitable approach based on financial solidarity. Additionally, family benefit packages must be sufficiently broad to minimize out-of-pocket payments. Sufficiently large risk pools are another important component for achieving equitable health coverage without discriminating among beneficiaries. While Egypt has moved towards universal health insurance,



**Social protection should be integrated into a broader policy context to respond to crises and risks.**

many aspects remain to be addressed, as discussed in section B.3.

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## E. Conclusion and policy recommendations

As the world is shaped by global trends like the pandemic, digitization, globalization and automation, social protection systems must adapt to changing contexts and demands. This chapter has underscored the importance of continuing to revisit the modalities of social protection programmes and policies and the tools for measuring their effectiveness. It has also discussed the factors behind significant inclusion and exclusion errors and the need to consider the realities of the current situation throughout the implementation phase. In addition, this chapter explores targeting as a means of increasing the effectiveness of social protection programmes. This method has a positive impact on some beneficiaries; however, for those who are excluded, it remains unsatisfactory, divisive, costly and detrimental to efforts to increase the social protection budget, leading to the rise of the missing middle. Targeting suffers from coverage issues and leakages that in some cases have become too expensive to correct without a drastic structural transformation. Additionally, the COVID-19 shock rippled through all countries, exposing a number of vulnerabilities in economies, infrastructures, health-care systems, social security systems

and the capacity of Governments and institutions to contain crises. As a result of the pandemic, discussion has moved back towards the idea of universalism and how to achieve universal social protection. There are numerous ways to move towards inclusiveness and offer a universal social protection system that can provide everyone with a sense of security and fairness, introducing schemes to include the missing middle and the poor who are currently falling through the crack between narrow targeted social protection and contributory social insurance schemes. Meanwhile, the Government of Egypt is moving towards achieving universal social protection through universal health insurance and the Haya Karima initiative, which aims to improve the quality of life for citizens in the poorest villages. It focuses on empowering women, enhancing local infrastructure and capacity-building, improving access to basic services, promoting health-care and education services and offering decent employment.

Universal social protection requires closing coverage gaps and adapting to new contexts and specific situations and needs. There are also many innovative policy solutions that



can be implemented to reach the missing middle. One of these solutions is universal basic income. There are various proposals, which range from smaller to larger budgets, for the advancement of social justice. Universal basic income is not meant to eliminate other supporting programmes to the poor, such as public health and education services. Rather, it aims to achieve universal coverage and adequate, comprehensive protection. It is only part of the solution to address poverty and inequality and grant basic rights to everyone. It should therefore be complemented by others forms of social protection. Hence, a universal basic income together with universal health

insurance and the Haya Karima initiative can be considered a first step towards normalizing universal social protection to grant basic human rights.

This chapter does not address all the challenges facing social protection programmes and policies in Egypt. It invites policymakers and practitioners to delve more deeply into these issues with a view to improving decision-making processes in relation to social protection as a budget priority.

In this context, several policy recommendations can be suggested, as follows:

#### Short-term response:

1

Expand social safety net programmes horizontally and vertically by adding new beneficiaries, with priority to the poorest governorates, and increasing benefits using inflation indexing.

2

Revise the targeting methods of various social safety net programmes. For example, the targeting criteria for the food subsidies programme should be revised to address serious leakage and fragmented gaps. The Takaful and Karama programmes are using proxy means testing, which needs to be revised to expand eligibility.

3

Introduce a one-off cash transfer programme to informal workers for a limited period of time to sustain them for risks and contingencies.

4

Adopt a comprehensive approach to social protection backed by a clear, comprehensive communication strategy with citizens, making use of social media and television announcements.

#### Medium-term response:

1

Introduce labour-intensive public works programmes.

2

Improve technical and administrative capabilities, including through investment in ICT resources and training for street-level bureaucrats (i.e. front-line social workers).

3

Bundle social insurance with other social safety net programmes to increase enrolment and guarantee a minimum floor for everyone.

4

Introduce gender-sensitive social protection measures as a way to support women's engagement in economic activities, especially in the informal sector.

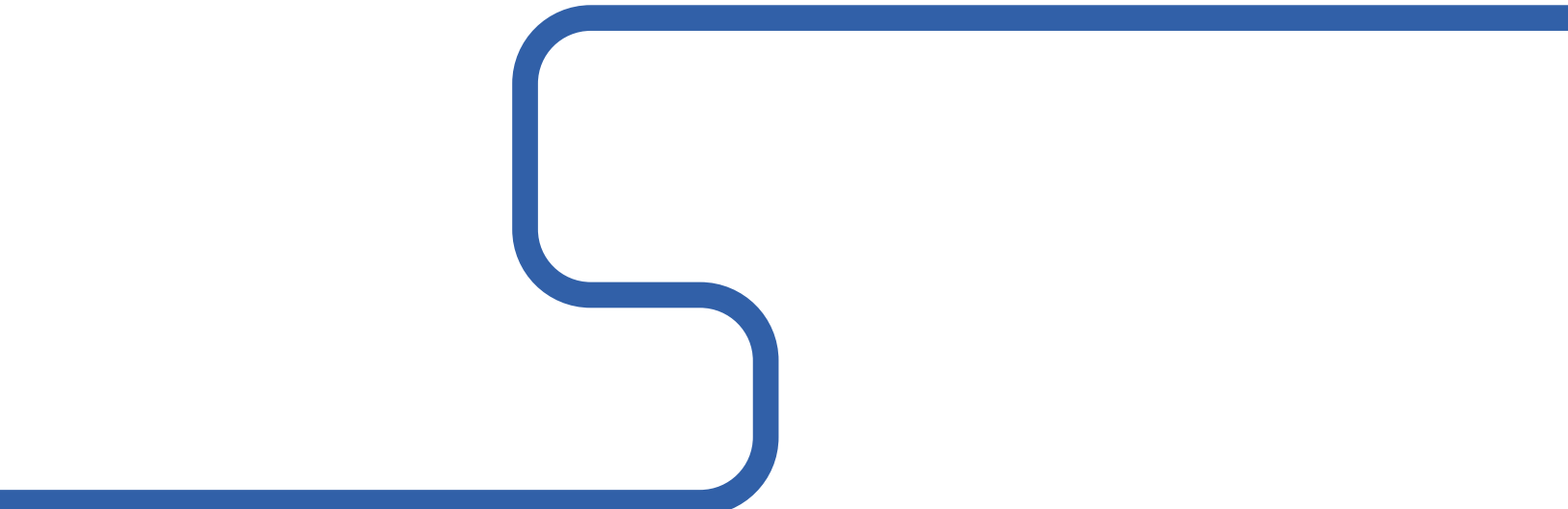
5

Connect the unified national registry to the civil registry to improve outreach and promote integration in order to build a minimum floor and improve inclusiveness.

6

Compile a comprehensive database of informal workers under the Ministry of Manpower and Immigration.

**Long-term response:**

- 1** Integrate social protection into a broader policy context to respond to crises and risks.
  - 2** Implement strategies to extend national social protection based on an appropriate mix of cash transfers and services financed by taxes and contributions in order to provide adequate benefits and sustainable universal social protection for the entire population.
  - 3** Establish a dynamic social protection system to formulate policies, design and implement programmes in place and coordinate responses among the State, local stakeholders and non-State actors.
  - 4** Invest in and improve the universal health insurance system by strengthening health infrastructure, capacity-building and staff retention, especially in the poorest areas. Universal health insurance should follow a rights-based, universal and equitable approach based on financial solidarity.
  - 5** Introduce universal basic income together with universal health insurance as a first step towards normalizing universal social protection to grant basic human rights.
  - 6** Establish an automated social protection grievance mechanism to provide effective feedback, communication and interaction between the State and citizens in order to improve performance.
  - 7** Digitize cash payments, preferably via contactless payments such as mobile wallets.
  - 8** Build a strong monitoring system that carefully tracks beneficiary enrolment and inflation and adjusts payments accordingly.
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## Endnotes

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# Role of the business sector

*by Moataz Yeken*

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# 06









Public and private investments should complement one another to maximize development results and ensure sustained and inclusive growth.



## Background

**In order to realize the Egypt Vision 2030, billions of dollars and advanced technical and managerial expertise must be mobilized and invested in national development projects, with a view to bridging the gaps in the economic and social infrastructure and achieving the SDGs.**

The role of the business sector in development has evolved over time and is gaining in significance as pressure increases on government resources and technical capacities across the globe. Egypt is therefore keen to create a conducive business environment that would help to grow a private sector-led economy and streamline the role of business in public service delivery.

By highlighting the business sector's activities and contributions to the Egyptian economy, this chapter will provide insights into the status of investment performance within the economy and possible opportunities for the business sector, especially given the increasing number of government initiatives that allow national and foreign business actors to increase participation and invest in development through various mechanisms.



## A. The role of business in achieving the Sustainable Development Goals: an international perspective

The business sector plays a multifaceted role in achieving the SDGs. Public and private investments should complement one another to maximize development results and ensure sustained and inclusive growth. This section highlights the international context for business sector contributions for achieving the SDGs.

### 1. The sustainable development investment gap

Financing the SDGs is a global challenge, especially for developing and least developed countries. When the 2030 Agenda was launched in 2015, it was an ambitious vision for a better world. Despite its noble intentions and aspirations, there is a consistent shortfall in the funding required to achieve these goals, particularly in low- and middle-income countries. An estimated \$3.9 trillion in annual investments is needed to finance the SDG targets in developing countries by 2030. Current levels of investment are hovering

around \$1.4 trillion, leaving an annual gap of approximately \$2.5 trillion.<sup>1</sup>

There is a global consensus that the world must make more robust efforts and actions to achieve the SDGs. The business sector is called on to increase investments to bridge the funding gap left by public investments, and governments are called on to facilitate and streamline private sector engagement in development projects.

In that regard, the Addis Ababa Action Agenda of the Third International Conference on Financing for Development recognizes that both public and private investments have key roles to play in infrastructure financing, including through public-private partnerships. It also calls for the promulgation of guidelines for the appropriate structure and use of such partnerships.

For low- and middle-income countries, the average annual cost to develop a new economic infrastructure to achieve the full

**Table 12.** Sustainable Development Goal infrastructure investment requirements for low- and middle-income countries (2015–2030)

| Scenario and sector                | Percentage of GDP |             | 2015 (in billions of dollars) |              |
|------------------------------------|-------------------|-------------|-------------------------------|--------------|
|                                    | New investments   | Maintenance | New investments               | Maintenance  |
| <b>Low spending</b>                |                   |             |                               |              |
| Electricity                        | 0.90              | 0.30        | 300                           | 110          |
| Transport                          | 0.53              | 1.10        | 160                           | 550          |
| Water and sanitation               | 0.32              | 0.48        | 120                           | 30           |
| Flood protection                   | 0.06              | 0.01        | 20                            | 10           |
| Irrigation (including maintenance) | 0.12              | -           | 40                            | -            |
| <b>Total</b>                       | <b>1.93</b>       | <b>1.89</b> | <b>640</b>                    | <b>700</b>   |
| <b>Optimum spending</b>            |                   |             |                               |              |
| Electricity                        | 2.20              | 0.60        | 780                           | 210          |
| Transport                          | 1.30              | 1.30        | 420                           | 460          |
| Water and sanitation               | 0.55              | 0.75        | 200                           | 70           |
| Flood protection                   | 0.32              | 0.07        | 100                           | 20           |
| Irrigation (including maintenance) | 0.13              | -           | 50                            | -            |
| <b>Total</b>                       | <b>4.50</b>       | <b>2.72</b> | <b>1,550</b>                  | <b>760</b>   |
| <b>High spending</b>               |                   |             |                               |              |
| Electricity                        | 3.00              | 0.80        | 1,020                         | 280          |
| Transport                          | 3.30              | 2.10        | 1,060                         | 700          |
| Water and sanitation               | 0.65              | 0.75        | 230                           | 70           |
| Flood protection                   | 1.00              | 0.14        | 340                           | 40           |
| Irrigation (including maintenance) | 0.20              | -           | 100                           | -            |
| <b>Total</b>                       | <b>8.15</b>       | <b>3.79</b> | <b>2,750</b>                  | <b>1,090</b> |

**Source:** Rozenberg, J. and M. Fay, eds. (2019). Beyond the Gap: How Countries Can Afford the Infrastructure They Need while Protecting the Planet – Sustainable Infrastructure Series. Washington, D.C.: International Bank for Reconstruction and Development/World Bank.

range of the SDGs by 2030 is estimated to range between \$640 billion (2 per cent of GDP) and \$2.7 trillion (8.2 per cent of GDP). The power and transport sectors require the largest investments, representing 43 per cent and 32 per cent, respectively, of the total infrastructure investments needed. It is also estimated that maintenance costs will vary between 1.9 per cent and 3.8 per cent of GDP. These costs should be carefully considered in the Government's infrastructure spending plans, as they are vital to conserving society's assets, extending their lifespan and ensuring uninterrupted service delivery. Maintenance costs also reduce pressure on the general budget by conserving the financial resources that would otherwise be required to replace those assets more frequently.<sup>2</sup>

Table 12 reflects the high cost of maintenance in the transport sector, which sometimes exceeds spending on capital investment costs. This highlights the importance of calculating the maintenance costs of new capital investments in infrastructure, especially for assets with high depreciation rates.

Using data from its Private Participation in Infrastructure database, a recent World Bank report reveals that low- and middle-income countries spend between 3.38 per cent and 5 per cent of GDP on infrastructure, with considerable variations among regions. Spending ranges from 2.5 per cent in sub-Saharan Africa to 5.7 per cent in East Asia and the Pacific. These figures reflect the substantial resources required for SDG-related infrastructure investments in sub-Saharan Africa and other developing regions in order to achieve the SDGs by 2030.

Investment gaps in the social infrastructure in developing countries are also significant. The annual investment gap in the education sector (e.g. infrastructure investments for building new schools) is estimated at \$250 billion, with private sector participation at an expected 15 per cent. In the health sector, the annual gap in related investments (infrastructure, and research and

**The annual investment gap in the education sector is estimated at**

**\$250**  
billion



development) amounts to \$140 billion, and the private sector's expected contribution is approximately 20 per cent.<sup>3</sup>

Based on estimates in the UNCTAD SDG Investment Trends Monitor, it is evident that the private sector is more inclined towards commercially profitable projects in the energy and telecommunication sectors, where its participation reaches 80 per cent, while its contributions are minimal in social services, water and sanitation, and climate-related investments.

According to the IMF, improving outcomes in five economic and social infrastructure sectors (education, health, roads, electricity, and water and sanitation) to align with the 2030 Agenda would require annual spending of approximately \$2.1 trillion in emerging market economies and \$0.5 trillion in low-income countries. The private sector is well placed to contribute to development in areas that blend with private investment, such as infrastructure and clean energy, through public-private partnerships.<sup>4</sup>

## 2. Public-private partnerships

The business sector can contribute to meeting national development objectives by investing in infrastructure projects through economic profitability models. These include specialized investment vehicles, such as sovereign wealth funds, impact



funds, infrastructure funds and green bonds. They also include special contractual arrangements for specific projects under public-private partnership models (i.e. build-operate-transfer and build-own-operate-transfer models), as well as other forms of legal and economic frameworks that support the business sector in delivering public utilities, public services and infrastructure to assist a country in realizing the SDGs.

Public-private partnership is considered an effective tool for financing development projects. Empirical evidence and literature on the determinants of public-private investment confirm that overall macroeconomic conditions supported by a sound institutional and regulatory framework are critical for public-private markets to grow.<sup>5</sup>

Data from the World Bank show that total investment commitments in public-private partnership projects between 1990 and the first half of 2020 totalled nearly \$2 trillion in 8,296 projects distributed among 121 low- and middle-income countries. These funds were critical in responding to ambitious plans to construct roads, bridges, light and heavy rail, airports, power plants, and energy and water distribution networks. The electricity sector received the greatest number of private investments, with total commitments reaching approximately \$952 billion, or 48 per cent of the total capital, invested in 3,862 projects.

From 1990 to 2020, Brazil, China, India, Mexico and Turkey alone attracted approximately \$1.2 billion, representing nearly 60 per cent of total investments in infrastructure-related public-private partnerships. These countries also accounted for approximately 56 per cent of all new projects during that period.<sup>6</sup>

Increased participation by the private sector could help to close gaps in SDG financing. Hypothetically, increasing private investments in infrastructure in low- and lower-middle-income countries to \$368 billion could bring the achievement of the SDGs within reach, when

combined with increased domestic revenue mobilization efforts and cross-border flows.<sup>7</sup>

Public-private partnerships continue to face challenges as a result of unforeseen fluctuations in economic and sectoral contexts, poor project planning and a lack of effective contract monitoring. Disputes and differing interpretations of contracts resulted in numerous renegotiations and some cancellations. During the period 1990–2013, 68 per cent of public-private partnership projects in Latin America were renegotiated, usually within the first three years of financial closure.<sup>8</sup>

The private sector in the MENA Region continues to face a number of obstacles that hinder growth, expansion and the achievement of the SDGs. According to the Enterprise Survey, political instability, high levels of corruption, low productivity, weak technological and innovation capacities, and limited access to finance are all factors that cause private sector investment to lag.<sup>9</sup>

In addition, several legal and regulatory barriers affect the region's investment climate, including cumbersome licensing processes and complex regulations. Opaque bidding and procurement procedures, particularly for public procurement, further restrict private sector contributions to public projects. These restrictions are associated with the elevated time and financial costs of regulatory and administrative barriers as well as deficiencies in the judicial system, the rule of law and the protection of property rights.<sup>10</sup>

The Economic Commission for Europe (ECE) introduced a new concept for public-private

During the period 1990–2013

**68%**

of public-private partnership projects in Latin America were renegotiated





partnerships, prioritizing the creation of value for people and the scaling up of impact to make such partnerships truly fit for purpose for the SDGs. The ECE noted that the SDGs should play a

fundamental role in a public institution's decision to enter into such an agreement. Public-private partnerships must therefore be measured against impacts that align with the SDGs.<sup>11</sup>

## B. The current state of the Egyptian business ecosystem

In recent years, the Egyptian Government has taken significant measures to enhance the investment landscape, with a view to restoring macroeconomic stability and fostering private sector-led growth. These measures included the implementation of a three-year fiscal consolidation programme that aimed to reduce the budget deficit, improve the tax system (i.e. introducing the VAT) and restrict inefficient energy subsidies in order to enhance the overall public financial management framework in a context of general macroeconomic stabilization policies. While there is a great deal of new legislation that supports the business environment, including entrepreneurship and MSMEs, this section focuses specifically on the principal legislation that facilitates the business sector's engagement in public service delivery through investments in economic and social infrastructure.

Law No. 72 on investments was issued in October 2017 and amended by Law No. 141 in 2019 as part of the reform programme to introduce a new set of incentives and guarantees to level the playing field for both domestic and foreign investment projects. It targeted the development of priority economic sectors and encouraged investments in regions lagging behind. The new investment law represents a more comprehensible and enabling legislative framework to reinforce investors' trust in the stability and certainty of the Egyptian regulatory and institutional ecosystem. The law classifies incentives based on three criteria: (i) by geographical location (Suez Canal special economic zone; Golden Triangle special economic zone; and other less developed regions, as determined by a Cabinet decision); (ii) by type of investment (labour intensive, SMEs or

export oriented); and (iii) by industry (renewable energy; tourism; automotive; wood, packaging and chemicals; pharmaceuticals; and food and agricultural products).

In addition to this major legislation, a set of amendments were made to Law No. 159 of 1981 on companies, governing joint-stock companies, partnerships limited by shares and limited liability companies. The new amendments work in tandem with the law on investments to reduce bureaucracy and simplify many processes by introducing more corporate governance rules and minority protections. This was followed by issuing Law No. 11 of 2018 on restructuring, preventive reconciliation and bankruptcy in Egypt, which first introduced a non-jurisdictional restructuring mechanism for bankrupt businesses. The law allows businesses to restructure through the court and reach possible settlement arrangements through mediation mechanisms.



**The Egyptian Government has taken significant measures to enhance the investment landscape, with a view to restoring macroeconomic stability and fostering private sector-led growth.**

These legislative reforms aimed to promote domestic and foreign direct private investments focusing on competition in the region. They also sought to stimulate inclusive growth and development, job creation, exports, entrepreneurship, the development of MSMEs and investments for development impact.

One of the most important laws that can be used to promote investments in SDG-related projects is Law No. 67 of 2010, which regulates partnerships with the private sector in infrastructure projects, services and public utilities. This law was issued in collaboration with development partners and is based on the United Kingdom public-private partnership model. It allows the Government to enter into contracts with private entities, thus enabling the private sector to finance, construct and operate large infrastructure projects and public utilities under contracts lasting up to 30 years.

The Government is working on amending the public-private partnership law to increase private sector investment in infrastructure and public utilities projects. A comprehensive reform framework will provide more clarity on the role of the private sector, including in the project's design, which is not allowed under the existing law. The private sector will therefore be able to design, finance, build, operate and maintain a facility. Amendments will also allow the private sector to rehabilitate and operate existing facilities and perform any activities separately or collectively, as long as the financing and maintenance are secured. This will streamline

the implementation of public-private partnership projects and ensure that the private sector becomes a dependable source for implementing such projects. It will also remove the ambiguity in the tendering and bidding processes.

Another important development in creating an enabling environment in which the business sector invests in public services was the establishment of the Sovereign Fund of Egypt, with a total issued capital of \$13 billion and paid-in capital of \$320 million, in accordance with Law No. 177 of 2018. The aim of the Fund is to promote investment in Egypt and co-investing in State-owned assets to maximize their value and efficiency. In order to further operationalize the Fund and streamline its contribution to achieving investment targets in coordination with the private sector, it contains four subfunds, each with an issued capital of \$2 billion and paid-in capital of \$30 million. The four funds target co-investments between institutional investors and private sector companies in their respective sectors, as per the articles of incorporation.

Finally, Law No. 203 of 1991 on public enterprises was amended by Law No. 185 of 2020 to enhance working rules and companies' regulations by improving conditions, using assets more efficiently, increasing their contributions to the national economy, improving competitiveness in domestic and foreign markets and increasing the effectiveness of investment mobilization in achieving the SDGs.

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## C. The business sector's contribution to the Egyptian economy

Investment remains a key driver for growth, job creation and the achievement of the SDGs in Egypt. Greater efforts must be made to promote domestic and foreign investments in lucrative business opportunities that would contribute to

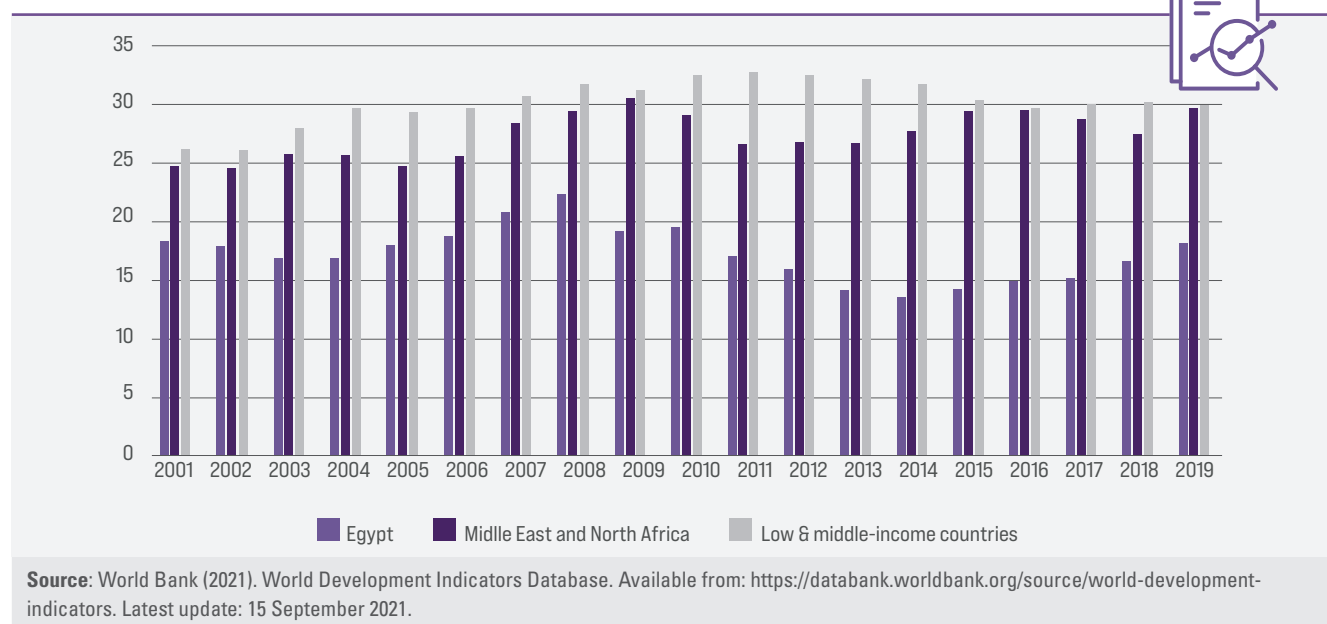
implementing SDG-related projects and creating new job opportunities.

In general, economic growth dynamics are associated with investments. Egypt will require

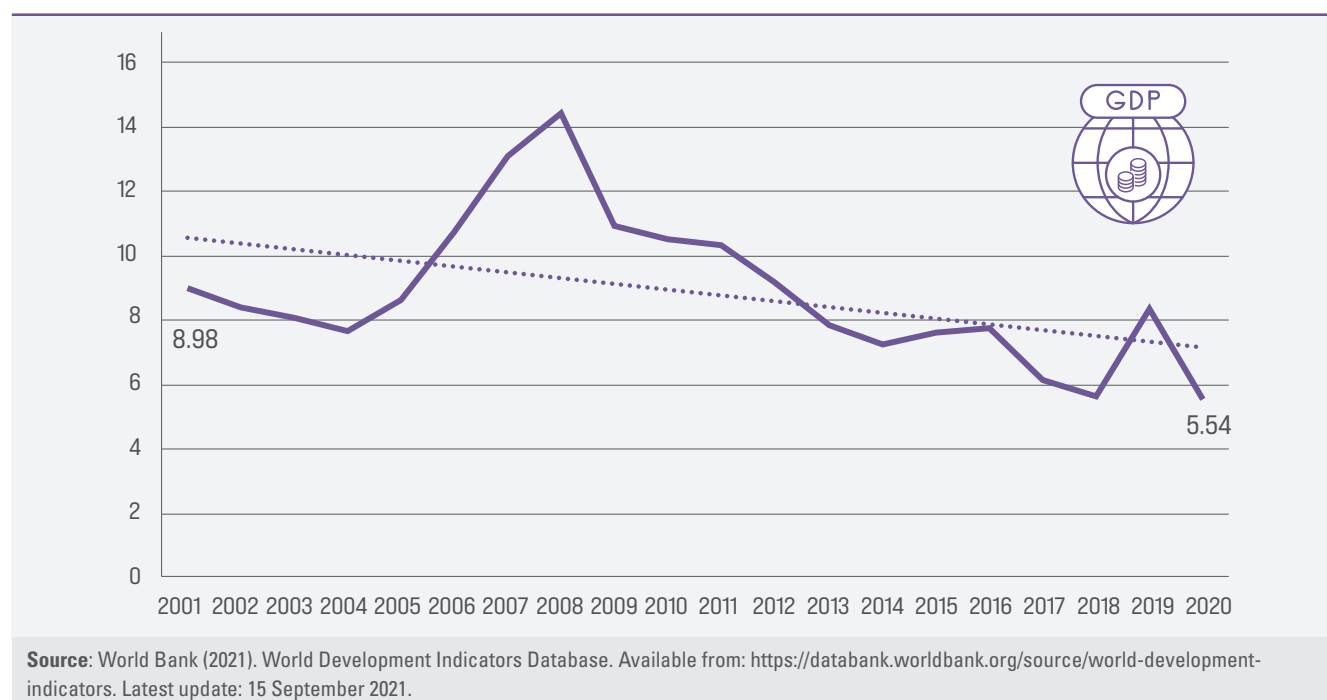
the mobilization of both public and private resources to fully realize its growth potential and achieve the relevant SDG targets. In this context, trends and structure of capital formation (public versus private) are among the key determinants of inclusive and sustainable growth. Investing in sectors deemed competitive with large domestic

value added and linked to domestic and local market demand will promote economic growth that is more productive and has higher economic returns. Moreover, investing in projects that are linked to achieving the SDG targets provides an opportunity to promote inclusive growth and job creation.

**Figure 55.** Gross capital formation, as a percentage of gross domestic product



**Figure 56.** Private sector's share of gross fixed capital formation, as a percentage of gross domestic product



## 1. Investment trends

Gross capital formation as a percentage of GDP represents a small figure in Egypt when compared to the MENA Region and lower-middle-income countries (figure 55). This indicates a low level of investments that are essential to achieving target growth rates and contributing to government efforts to realize the Egypt Vision 2030.

GDP figures from 2018/19 show that gross capital formation was equal to LE 922 billion, representing 17.7 per cent of GDP. While the private sector's share of gross fixed capital formation has been on a downward trend since 2001, it reached its peak during the period 2006–2010, averaging 9 per cent of GDP. The latest figure for the private sector's gross fixed capital formation was slightly above 5.5 per cent (figure 56).

## 2. Structure of investments

The Egyptian economy is dominated by private sector companies, which account for over 99 per cent of business enterprises. While SOEs play a crucial role in the business sector, especially in oil and gas and public utilities, the private

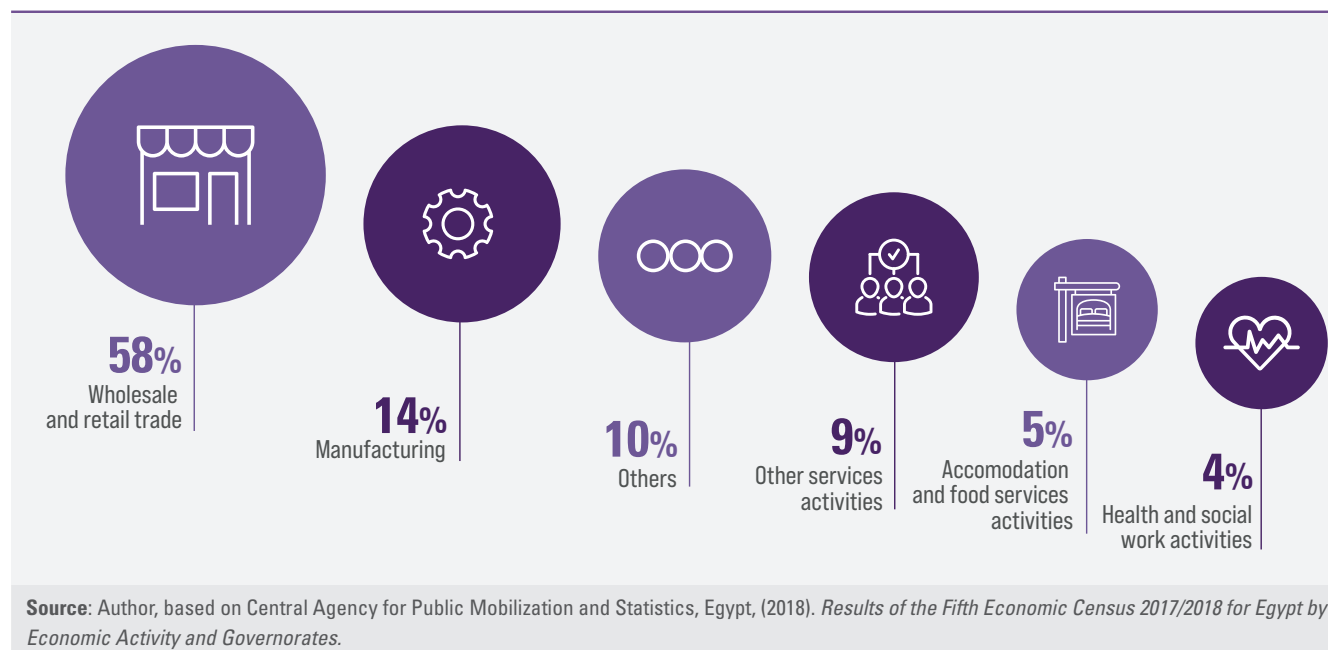
sector is dominant in other sectors, primarily in manufacturing, real estate, communication and tourism. The public sector and SOEs (e.g. the Suez Canal Authority, oil companies and electric companies) typically invest in the infrastructure and energy sectors.

### (a) Domestic private investments

Data from the latest economic census from fiscal year 2017/18 indicate that there are a total of 3,742,562 economic establishments in Egypt, with 3,741,026 private establishments. Ninety per cent of private sector companies are active in the top five industries with private sector involvement. Figure 57 demonstrates the relative weight of the number of private establishments per industry.

The most dominant activities are in the retail and wholesale industry, which encompasses approximately 2.2 million private establishments, followed by 0.55 million manufacturing establishments. Private establishments working in health and social work represented only approximately 4 per cent of total establishments, while those in education represented less than 1 per cent (table 14).

**Figure 57.** Top 5 industries with private sector involvement



**Table 13.** Micro- and small enterprises

| Invested capital (in thousands of Egyptian pounds) | Number of establishments | Percentage of total enterprises |
|--|--------------------------|---------------------------------|
| Less than 100                                      | 2,613,110                | 69.85                           |
| 499–100  | 1,040,209                | 27.80                           |
| <b>Total</b>                                       | <b>3,653,319</b>         | <b>97.65</b>                    |

**Source:** Author, based on Central Agency for Public Mobilization and Statistics, Egypt (2018). *Results of the Fifth Economic Census 2017/2018 for Egypt by Economic Activity and Governorates.*

**Table 14.** Number of private sector establishments by industry

| Industry  | Number of private establishments | Percentage of total |
|---|----------------------------------|---------------------|
| Wholesale and retail trade                        | 2,178,017                        | 58.20               |
| Manufacturing                                     | 522,761                          | 13.97               |
| Other service activities                          | 319,323                          | 8.53                |
| Accommodation and food service activities         | 182,443                          | 4.87                |
| Health and social work activities                 | 156,147                          | 4.17                |
| Agriculture                                       | 134,296                          | 3.59                |
| Professional, scientific and technical activities | 80,826                           | 2.16                |
| Administrative and support service activities     | 44,049                           | 1.18                |
| Other   | 123,165                          | 3.29                |
| <b>Total</b>                                      | <b>3,741,027</b>                 | <b>100</b>          |

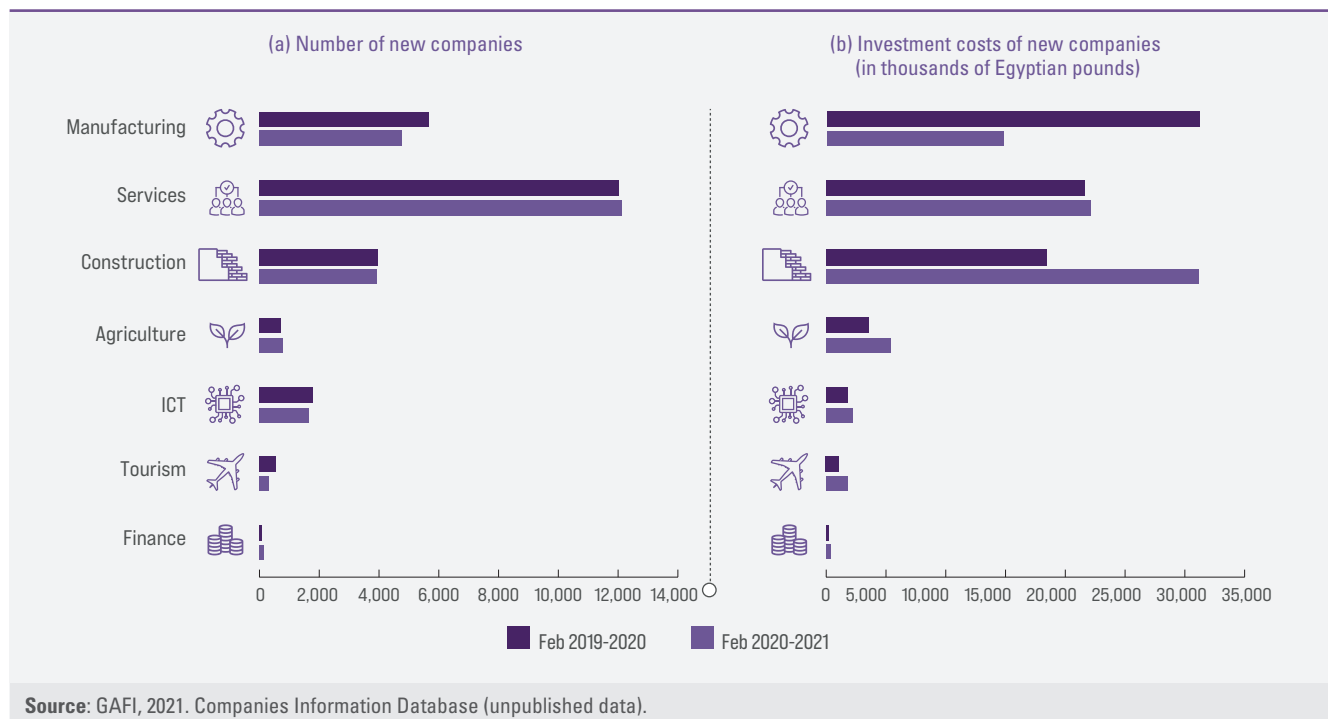
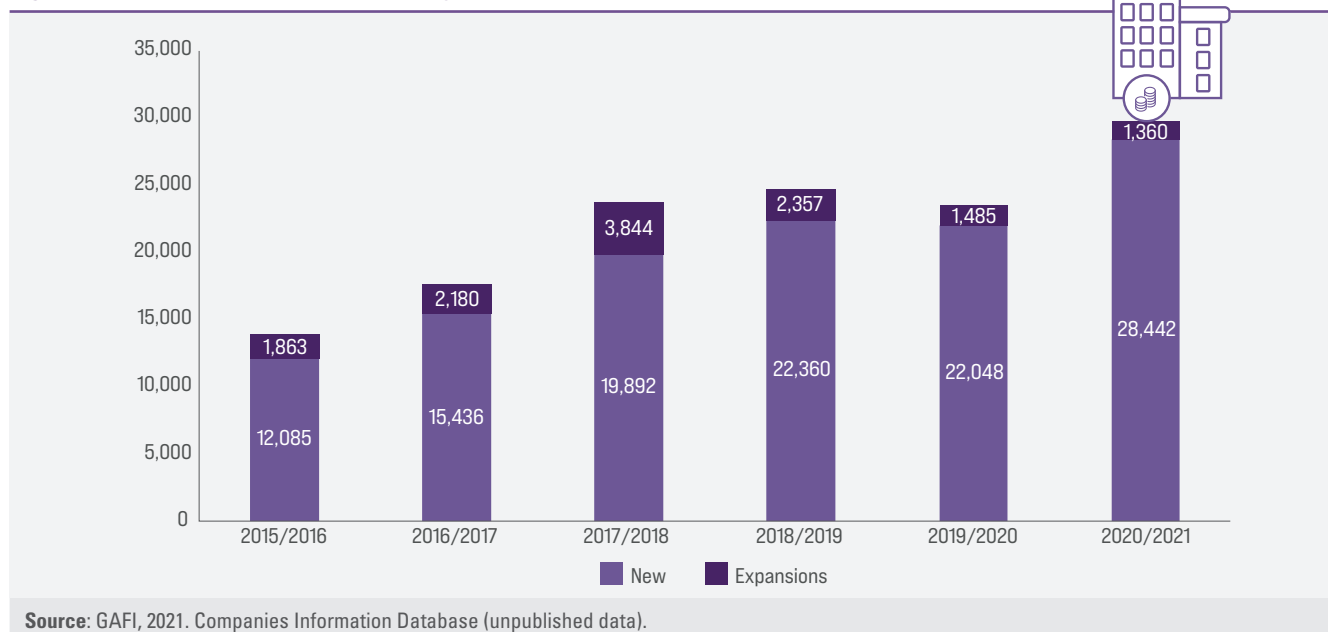
**Source:** Author, based on Central Agency for Public Mobilization and Statistics, Egypt (2018). *Results of the Fifth Economic Census 2017/2018 for Egypt by Economic Activity and Governorates.*

The economic census does not provide relevant categorization for micro- and small enterprises as defined by the new Law No. 52 of 2020 on the development of MSMEs. For the purposes of this chapter, all establishments with less than LE 100,000 of invested capital are considered micro enterprises, and those with between LE 100,000 and LE 500,000 of invested capital are considered small enterprises (table 13).

Approximately 36 per cent of private companies are located in the Greater Cairo area (Cairo, Giza and Qalyubia) and Alexandria. This reflects the considerable geographic concentration of activities.

The COVID-19 crisis has taken a toll on the establishment of new investment companies. Data from the General Authority for Investment and Free Zones show the variance in the number of new companies and their investment costs established between February 2019 and February 2020 compared to those established between February 2020 and February 2021 (figures 58 (a) and (b)). The greatest impact was on the manufacturing sector, which witnessed a 14 per cent decline in the number of new companies and a 54 per cent decline in invested capital. The financial sector followed a very different pattern; it witnessed a notable increase of over 119 per cent in invested



**Figure 58.** Number and investment costs of new companies**Figure 59.** Trends in new investment companies

capital during the same period. Investments in the construction sector also increased significantly. Despite the negative impact of the COVID-19 crisis on the number and value of new companies incorporated in the manufacturing sector in particular, the overall number of new companies established by the end of fiscal year 2020/21

recorded growth of 27 per cent. The number of companies that expanded capital decreased by 8 per cent for the same period (figure 59).

Nevertheless, the private sector in Egypt still lacks dynamism, as reflected in the comparatively low entry and exit rates. On

average, only three limited liability companies are created annually for every 10,000 working-age persons, compared to an average of 20 in developing countries.<sup>12</sup> This low rate is a challenge that requires significant government effort to promote entrepreneurship and provide support to the private sector to promote effective participation in economic development.

### (b) Foreign direct investments

Foreign direct investment plays a significant complementary role to the domestic business sector in mobilizing funds. It usually introduces new technologies and technical expertise to the national workforce. In addition, multinational corporations can offer essential export market information to boost national exports.

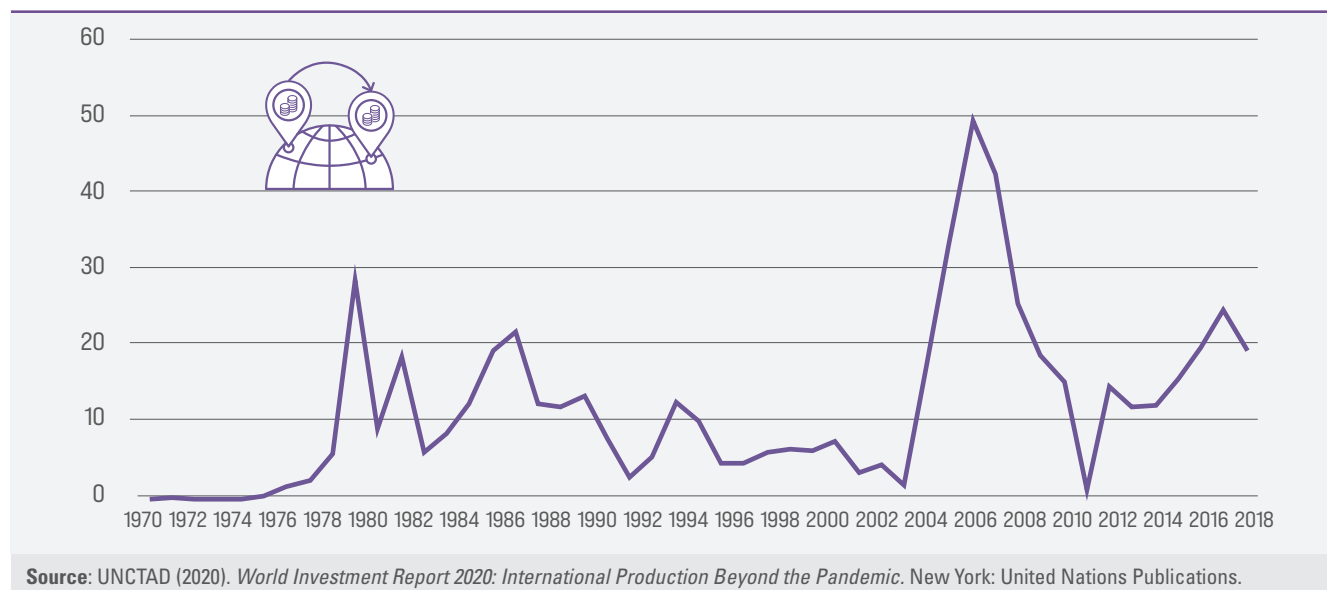
Although global foreign direct investment flows rose by 3 per cent in 2019 to reach \$1.54 trillion, inflows to North Africa decreased by 11 per cent, to \$14 billion. Inflows were reduced to all countries except Egypt, which has remained the largest recipient of foreign direct investment in Africa over the past three years. Inflows increased by 11 per cent to reach \$9 billion, driven primarily by the oil and gas industry, telecommunications, consumer goods and real

estate. Flows to developed and transition economies increased, while those to developing economies declined marginally. Retained earnings accounted for approximately 41 per cent of inflows in Egypt.<sup>13</sup> In the wake of the COVID-19 crisis, foreign direct investment flows into North Africa contracted by 25 per cent, to \$10 billion. Half of that total was directed to Egypt, which nevertheless witnessed a decline of nearly 35 per cent in comparison to the previous year.<sup>14</sup>

Foreign direct investment still does not represent a significant component of national investments in Egypt. It averaged approximately 16 per cent of total gross fixed capital formation between 2008 and 2018 and represented roughly 2.8 per cent of GDP in 2019 (figure 60).

The latest available data from the General Authority for Investment and Free Zones show that total foreign direct investment stock in Egypt is nearly \$163 billion, distributed across nine economic sectors as defined by the Authority. The highest stocks are in financial services which amount to \$38.5 billion, followed by oil and exploration with a total \$34.8 billion and manufacturing which has a total stock of nearly \$32.7 billion. These three sectors represent almost 65 per cent of total foreign direct investment stocks in Egypt.

**Figure 60.** Foreign direct investment, as a percentage of gross fixed capital formation in Egypt (1970–2018)



While manufacturing and oil are among the largest contributors to these stocks, their compound annual growth rates between 2011 and 2019 were 6.6 per cent and 8.7 per cent, respectively, which is significantly lower than less productive sectors. Real estate witnessed a compound annual growth rate of 17.1 per cent during the same period, followed by construction at 14.4 per cent. The agricultural sector had the lowest growth, at 3.52 per cent, and tourism was at 3.9 per cent.<sup>15</sup>

Foreign direct investments are made in natural resources, real estate, construction and light manufacturing. Most of these sectors have limited innovation potential owing to their relatively low complexity. Meanwhile, greenfield investments are being made in promising sectors such as chemicals and renewable energy. Foreign direct investment is also highly concentrated in specific geographical areas. The top 5 governorates accounted for 90 per cent of investments, while the remaining 22 governorates share 10 per cent. This unequal distribution of investments within Egypt is also found in other emerging countries.

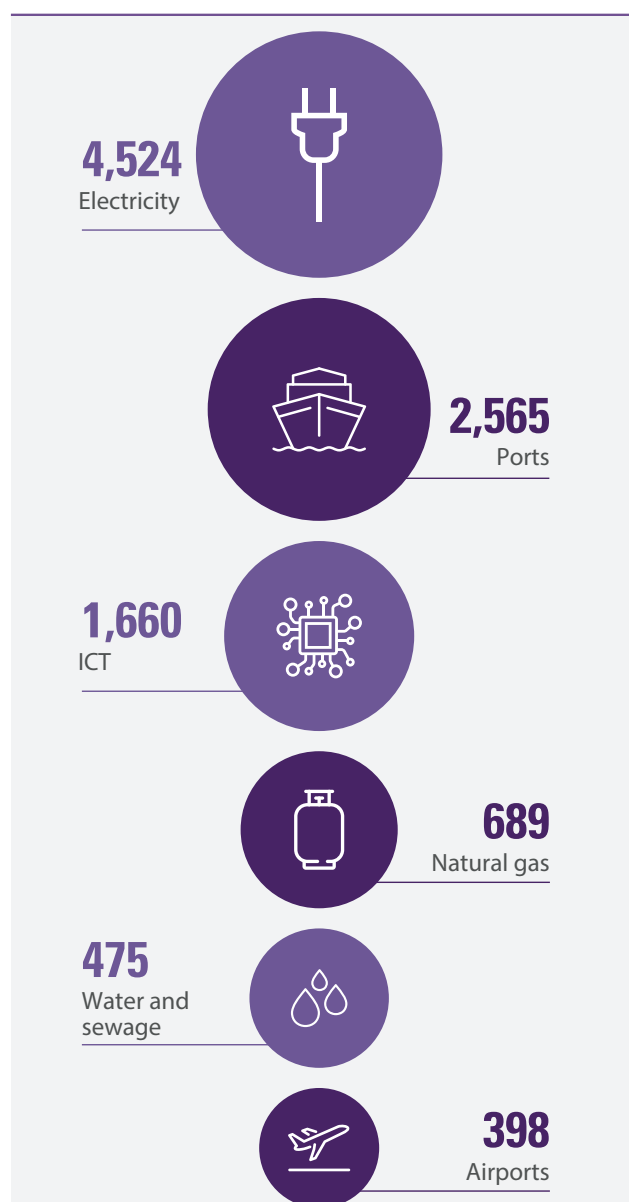
Promoting foreign direct investment in SDG-related activities is a challenge. Global trends show stagnant or declining private sector investment in the SDGs, which is insufficient to close the investment gap. The power, renewable energy and transport infrastructure sectors draw the majority of investments in developing economies, which are often led by a few large economies.<sup>16</sup>

The Government must therefore focus on attracting more foreign direct investment in SDG-related sectors, which can be done in cooperation with other developing countries and international organizations. Egypt recently endorsed the Guiding Principles for Investment Policymaking for the Countries of the D-8 Organization for Economic Cooperation and Development (OECD), which was jointly developed with UNCTAD. The Principles provide guidance for investment policymaking with a view to promoting inclusive economic growth and sustainable development and aligning investment promotion and facilitation policies with the SDGs.

### (c) Public-private partnerships

Egypt has a good regulatory framework for public-private partnership projects that aims to use this mode of investment to boost economic growth and development by improving and expanding infrastructure services. The framework was developed in coordination with the Public-

**Figure 61.** Distribution of public-private partnership investments (in millions of dollars)



**Source:** World Bank, 2021. PPP Projects in Infrastructure in Egypt. Available from: <https://pppknowledgeelab.org/countries/egypt>. Accessed December 2021.

Private Infrastructure Advisory Facility in order to attract private capital, facilitate the development of domestic financial markets, and harness private sector innovation and improve efficiency in public service delivery by transferring operational risks to the private sector.

Between 1990 and 2019, only 55 public-private partnership projects have been implemented, with total investments amounting to \$10.3 billion distributed across the energy, telecommunications and transport sectors. No contracted projects in Egypt have been cancelled under this model. The majority of the projects fall under the electricity sector, which accounts for 32 projects with total investments amounting to nearly \$4.5 billion (almost half of the total value of investments under the public-private partnership model).<sup>17</sup> The average size of projects in the electricity

sector is relatively small, particularly when compared to the transport sector. There are six port-related projects with a total investment value of \$2.6 billion. The average project size is therefore approximately \$427.5 million, compared to \$141.4 million for electricity projects (figure 61).

The top 10 investors in public-private partnership projects account for approximately 44 per cent of the total value of investments in Egypt, invested in 19 projects. The list includes three Egyptian companies that invested approximately \$1.2 billion in six projects (table 15).

The top 10 public-private partnership projects acquired slightly more than 57 per cent of total investments. This list includes the flotation of the Egyptian telecommunications company on the stock exchange (table 16).

**Table 15.** Top 10 public-private partnership investors in Egypt

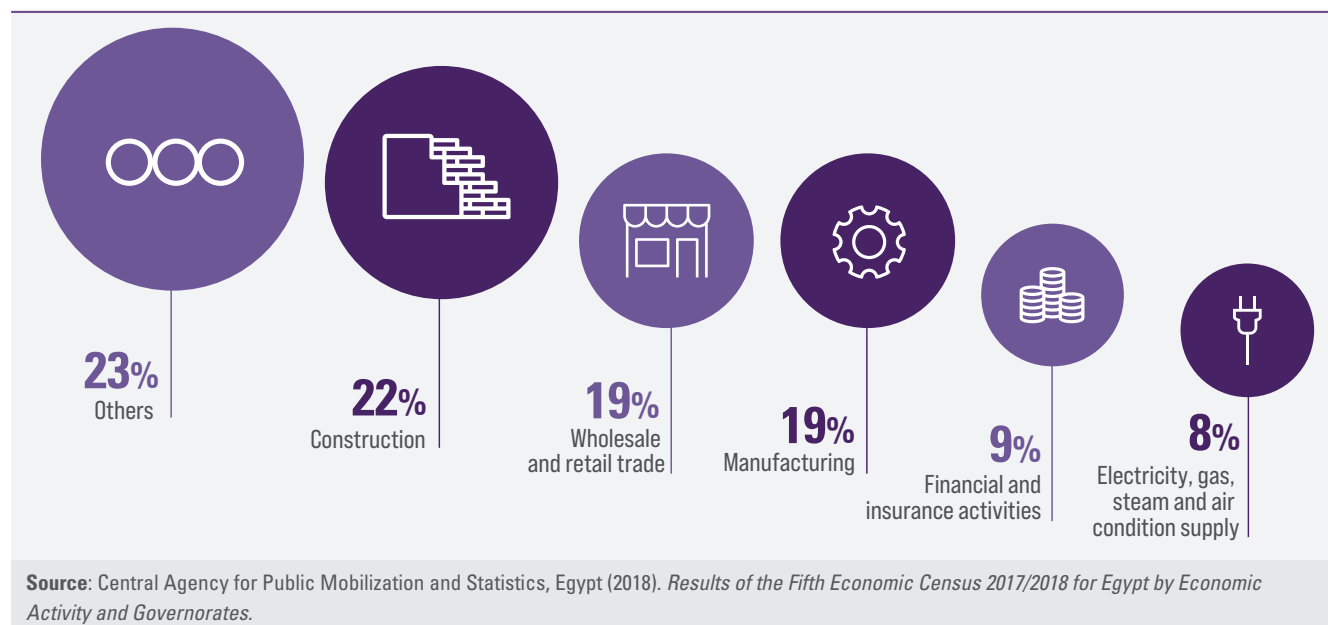
| Company                              | Country of origin    | Investment (in millions of dollars) | Number of projects |
|--------------------------------------|----------------------|-------------------------------------|--------------------|
| France Telecom                       | France               | 749                                 | 1                  |
| 1 Malaysia Development Berhad (1MDB) | Malaysia             | 678                                 | 2                  |
| Toyota Tsusho Corporation            | Japan                | 550                                 | 2                  |
| Orascom                              | Egypt                | 548                                 | 3                  |
| AP Moller - Maersk                   | Denmark              | 492                                 | 2                  |
| Solar Millennium                     | Germany              | 315                                 | 1                  |
| Amiral Holdings Limited              | Egypt                | 314                                 | 1                  |
| Kato Investment                      | Egypt                | 289                                 | 2                  |
| Siemens Gamesa                       | Spain                | 276                                 | 1                  |
| Alcazar Capital Limited              | United Arab Emirates | 272                                 | 4                  |
| <b>Total</b>                         |                      | <b>4,483</b>                        | <b>19</b>          |

**Source:** World Bank, 2021. PPP Projects in Infrastructure in Egypt. Available from <https://pppknowledgelab.org/countries/egypt>. Accessed December 2021.

**Table 16.** Top 10 public-private partnership projects

| Project                                 | Investment (in millions of dollars) |
|---|-------------------------------------|
| Suez Canal Container Terminal           | 894                                 |
| Telecom Egypt                           | 892                                 |
| Mobinil                                 | 757                                 |
| Damietta Port                           | 640                                 |
| Sokhna Port Bunkering Phase III         | 498                                 |
| New Cairo Wastewater Treatment Plant    | 475                                 |
| East Mediterranean Gas Pipeline Company | 469                                 |
| Scatec Solar Portfolio                  | 450                                 |
| Sidi Krir Power Station                 | 414                                 |
| Ras Ghareb Wind Farm                    | 400                                 |
| <b>Total</b>                            | <b>5,889</b>                        |

**Source:** World Bank, 2021. PPP Projects in Infrastructure in Egypt. Available from <https://pppknowledgelab.org/countries/egypt>. Accessed December 2021.

**Figure 62.** Top 5 industries for the public sector

Egypt is still considered a lucrative market for public-private partnership investors, given its supportive frameworks, the number of high-quality projects implemented during the previous 30 years and the major milestone achieved with the issuance of Law No. 67 in 2010. The successful implementation of public-private partnership projects requires more consultation among stakeholders to guide project selection and secure

public support, using current success stories as marketing tools to attract new investments.

#### (d) Public business sector

The Egyptian public sector has historically played an important role in the economy. Data from the economic census reports 1,536 state-owned establishments. The top five industries

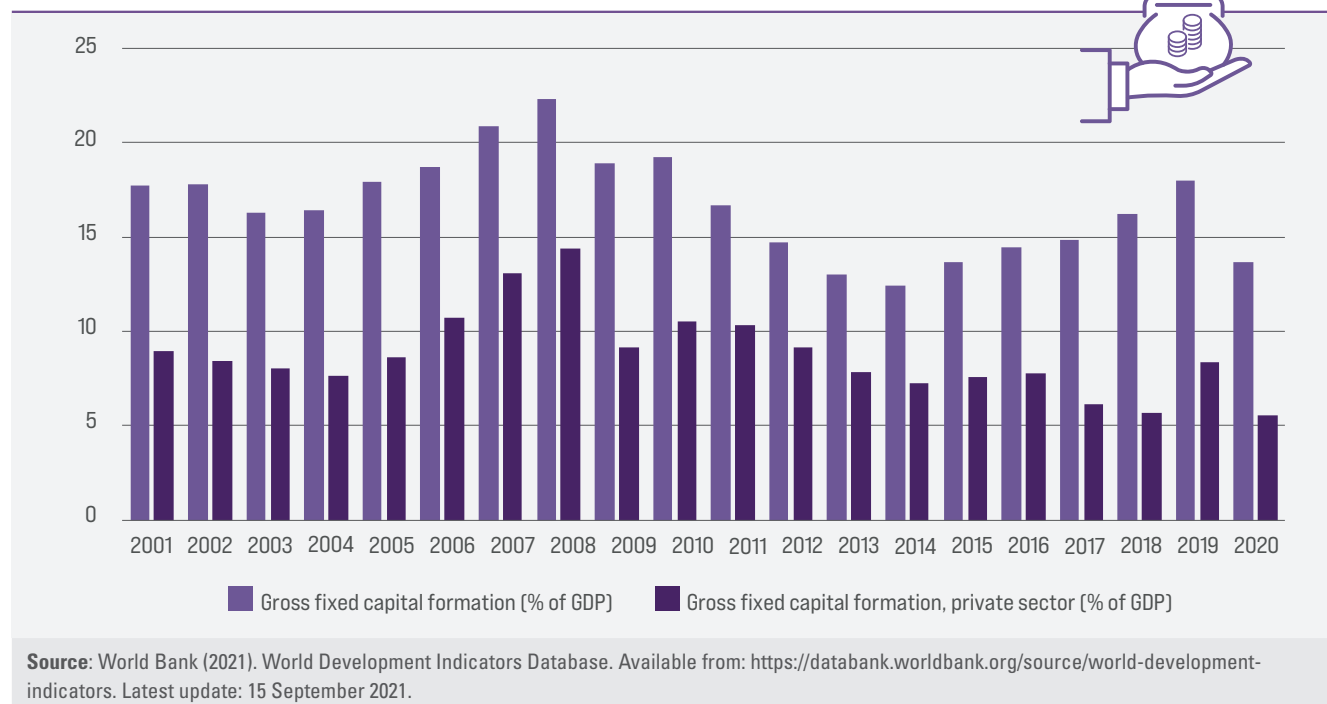


for the public sector encompass approximately 80 per cent of the total establishments, distributed across the construction; trade; manufacturing; financial services; and electricity, gas, steam, and air conditioning supply sectors (figure 62).

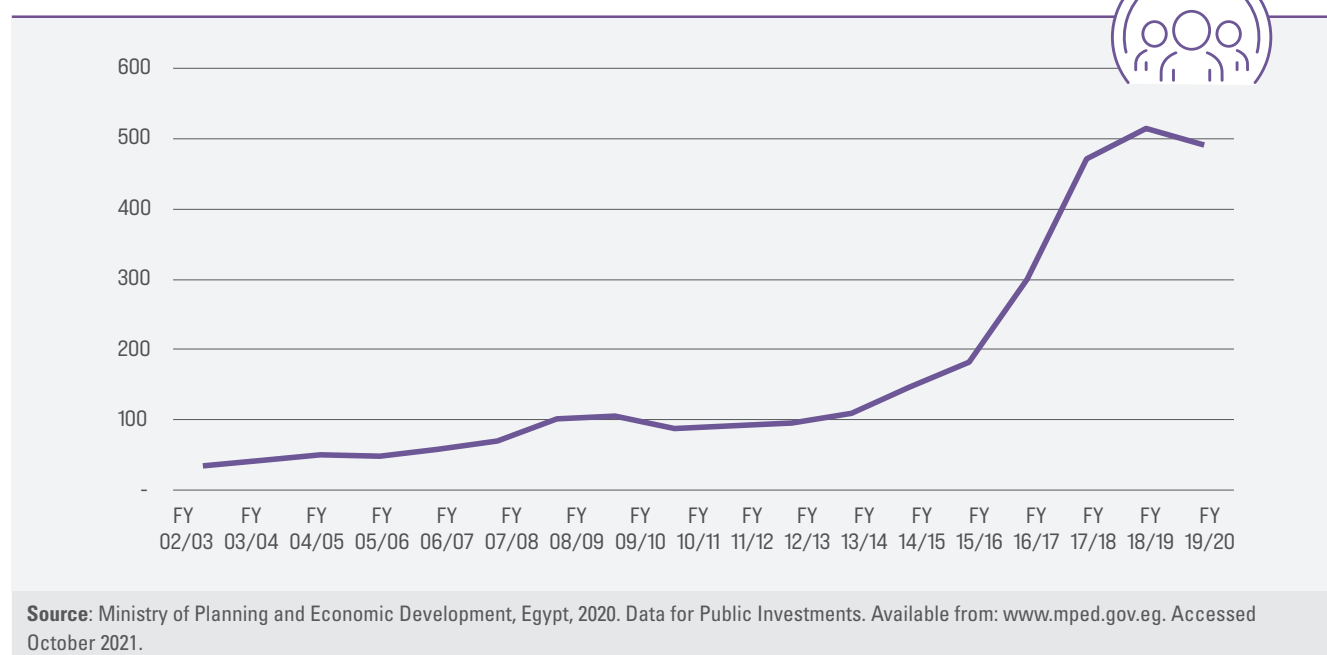
In addition to central government bodies, the Egyptian economy still relies on government economic authorities and public business enterprises as critical sources of gross capital formation, particularly given the large government infrastructure projects being implemented (figure 63).

6

**Figure 63.** Gross fixed capital formation, as a percentage of gross domestic product (2001-2020)



**Figure 64.** Public investments from fiscal year 2002/03 to 2019/20, in billions of Egyptian pounds



Infrastructure development is an important component of the Egypt Vision 2030. It is one of the economic development pillars, alongside the development of human resources and skills to support a modern industry and innovation base, as well as improved governance to maximize the positive effects of reforms. In particular, the economic pillar of the Egypt Vision 2030 incorporates infrastructure megaprojects such as the development of the Suez Canal economic zone.

Egypt embarked on an ambitious public investment programme beginning in fiscal year 2014/15 to upgrade and improve the national infrastructure. This programme was implemented through public enterprises and private subcontractors. This led to a significant increase in investments from the Government and public enterprises, with an average annual growth of 38 per cent during the period 2014/15–2018/19 (figure 64).

High-quality infrastructure guarantees better standards of living for citizens and helps to improve productivity and efficiency in the business sector, especially the private sector. This includes public utilities such as power stations, water supply, sanitation and sewage, ICT, piped gas, and solid waste collection and disposal. It

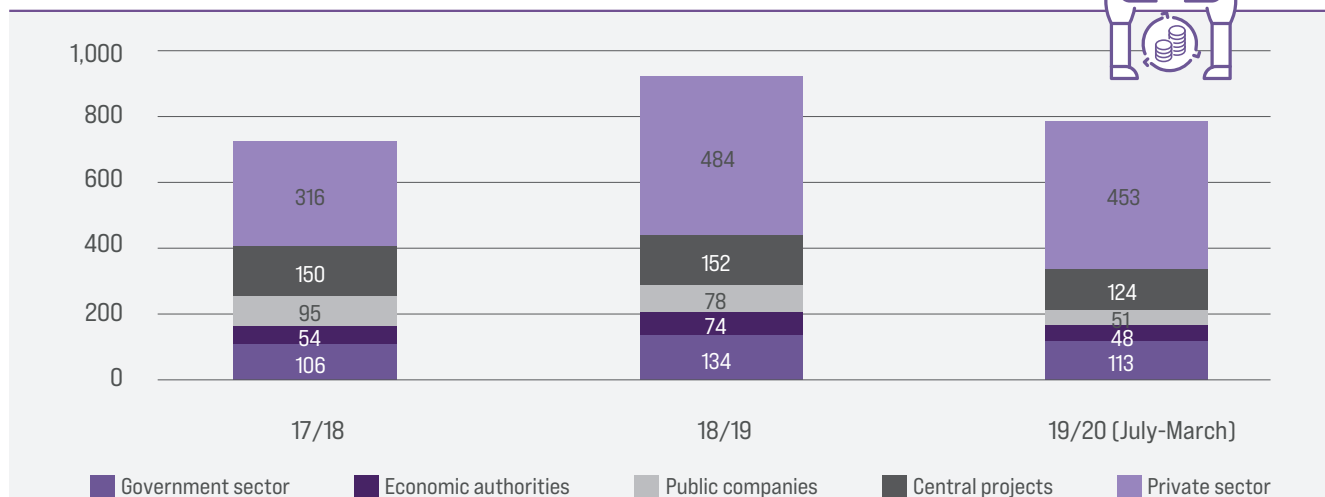
also includes public works and transport facilities like roads, railways, urban transport, airports, and ports and waterways.

During the period from fiscal year 2017/18 to March 2020, figures showed that central government projects received the largest share of government investments, while the public companies' share was consistently declining. The most significant investments made through public companies are investments in the Egyptian Electricity Holding Company, which is responsible for the construction of new power plants and investments in electricity transmission networks.

It should be noted that the private sector's share of investments increased from 43.9 per cent to 57.5 per cent over this period (figure 65).

Although government investments represent a significant share of the national gross capital formation, as mentioned previously, public companies and economic authorities are not the main contributors to investment activities. The share of investments from public companies is declining, and the most significant economic authorities contributing to investments are the Suez Canal Authority and the Egyptian General Petroleum Corporation.

**Figure 65.** Distribution of total investments from 2017/18 to 2019/20 (July–March)



**Source:** Central Bank of Egypt, 2020. Total Investments. Available from: <https://www.cbe.org.eg/ar/EconomicResearch/Statistics/Pages/TimeSeries.aspx>. Accessed October 2021.



## Foreign direct investment still does not represent a significant component of national investments in Egypt.

SOEs in Egypt dominate the utilities, infrastructure and finance sectors, the performance of which affects broad segments of the population and the business sector. Good governance of SOEs is critical to ensure that they contribute to economic efficiency and competitiveness. They can address market failures, guarantee quality public service delivery and contribute to the broader economy when they operate efficiently, transparently and on a level playing field with private enterprises.

The 228 SOEs employ approximately 450,000 employees and are subject to Law No. 203 of 1991 on the public business sector. There are eight holding companies with 119 subsidiaries owned by the Ministry of Public Business Sector. The remaining companies are owned by the Ministries of Petroleum and Mineral Resources, Agriculture and Land Reclamation, Electricity and Renewable Energy, Trade and Industry, Planning and Economic Development, Water Resources and Irrigation, International Cooperation, Defense and Military Production, and Supply and Internal Trade.

The latest available financial data for 2017/18 show an increase of 21 per cent in SOE revenues, approximately LE 103 billion, compared with the previous year. The total net profit was nearly LE 11 billion, an impressive 52 per cent annual growth in net profit. Commodity and service exports for SOEs amounted to LE 16.5 billion, with a growth rate of 48 per cent compared to 2016/17.

## D. Opportunities for the business sector

This section will highlight opportunities for the business sector to contribute to the SDGs in Egypt by investing in economic and social infrastructure, which is considered the backbone of sustainable economic development. While this discussion is meant to reflect on profitable business opportunities from investments in SDG-related projects, it is also important to mention the role of corporate social responsibility activities to support public service delivery, particularly the social infrastructure. The Egyptian business sector has long supported local communities through activities related to corporate social responsibility.<sup>18</sup>

There are a number of business initiatives in Egypt that align with this trend. The Egyptian chapter of the United Nations Global Compact Local Network was launched in 2004. The Industrial Modernization Center and the Egyptian Institute of Directors jointly launched the Egyptian Corporate

Responsibility Center, the mandate of which is to empower businesses to develop sustainable business models and to improve the national capacity to design, apply and monitor sustainable policies on corporate social responsibility.

These developments reflect the readiness of the Egyptian business sector to contribute more effectively to achieving the SDGs through a disciplined framework that upholds internationally recognized principles for mainstreaming sustainability in business activities in a manner that complements government efforts to achieve development objectives.

### 1. Economic infrastructure gaps













According to a World Bank study on infrastructure investment in Egypt, the country has benefited historically from a high share of public investment

in infrastructure among countries in the MENA Region; however, public infrastructure investment has been declining without a corresponding rise in private investments.<sup>19</sup>

According to the Global Infrastructure Outlook of the G20, Egypt will face a significant infrastructure financing gap between 2018 and 2038, estimated to be at least \$230 billion. During this period, the estimated

financing capacity for the Government could reach \$445 billion, while the total needed for infrastructure investments would be approximately \$675 billion.<sup>20</sup> Among the greatest challenges are the maintenance of existing infrastructure, limited connectivity, the lack of multimodal transport, an overreliance on roads and a fragmented port system that leads to high transport costs and poor logistics performance compared to other countries in the region.<sup>21</sup>

**Table 17.** Potential pipeline for infrastructure business opportunities

| Sector               | Primary SDG  | Secondary SDG   | Potential opportunities  |
|----------------------|--|---|--|
| Transport            |   |        | <ul style="list-style-type: none"> <li>• International air cargo hubs.</li> <li>• Improvements to freight capacity in Egypt.</li> <li>• Dry ports and logistics centres at Alexandria, the Greater Cairo Metropolitan Area, the Nile Delta and Upper Egypt.</li> <li>• New railways connecting ports, dry ports and logistics hubs.</li> <li>• Mass transit in the Greater Cairo Metropolitan Area.</li> </ul> |
| Energy               |   |     | <ul style="list-style-type: none"> <li>• 800MW of solar photovoltaic and wind power plants.</li> <li>• Interconnections between Port Said and the Suez Terminal and Ain Sokhna, plus upgrades to the existing pipeline.</li> <li>• Pipeline links from Ain Sokhna to Suez; the construction of oil terminals with a storage capacity of 1 million m<sup>3</sup> at both Suez and Mersa el Hamra.</li> </ul>    |
| Water and sanitation |   |    | <ul style="list-style-type: none"> <li>• Desalination plants.</li> <li>• Wastewater treatment plants.</li> <li>• Irrigation solutions.</li> </ul>  |

Source: Author, based on data from the World Bank.

In partnership with government investment vehicles, the private sector can promote innovations and high-quality standards in infrastructure development. At the same time, infrastructure development can have a positive impact on businesses by creating investment opportunities and increasing production capacity (table 17). It is also a primary driver of job creation and reduced unemployment.

## 2. Social infrastructure gaps

In addition to improving the economic infrastructure, promoting human development is one of the pillars of the Egypt Vision 2030. Mobilizing investments in social infrastructure (i.e. education and health) is essential to achieving the related SDG targets.

According to PricewaterhouseCoopers: “Egypt represents an excellent opportunity for investors

and education providers looking for growth in the MENA Region”, owing to its favourable investment conditions, including sustainable demand for education.<sup>22</sup> The Government should identify workable business models to allow the business sector to contribute to the investments necessary for public schools rather than limiting investors to establishing private schools.

The Ministry of Education and Technical Education announced the first phase of schools to be built under the public-private partnership model in 2016, under which the Government would provide the private sector with land and the investor would build and operate the schools. The first contracts were not signed until January 2019. This delay reflects serious problems with the programme’s implementation. While it aims to build 1,000 schools by 2030, there were only 24 schools in six governorates offered in phase one and 60 schools to be offered in phase two.<sup>23</sup>

**Figure 66.** Egypt expenditure on health, as a percentage of gross domestic product



**Source:** World Bank (2021). World Development Indicators Database. Available from: <https://databank.worldbank.org/source/world-development-indicators>. Latest update: 15 September 2021.



The public-private partnership model must be implemented effectively in the education sector to enable the Government to expand its educational services while improving quality. Corporate social responsibility can also play a very important role in supporting the basic education system. According to a survey of 104 companies carried out by the American Chamber of Commerce in Egypt, almost 90 per cent of respondents reported being engaged in corporate social responsibility and education was the most common area receiving support from the private sector.<sup>24</sup>

To achieve its SDG targets, Egypt faces a critical challenge in improving technical education and shifting society's negative perception of this type of education. The Ministry of Education and Technical Education is planning to expand enrolment in the dual education system by 10 per cent by 2030, in partnership with investor associations in different governorates. Based on the country's economic development priorities and investment map, the Ministry also plans to increase the number of applied technology schools to 100 by 2030, in partnership with large enterprises.

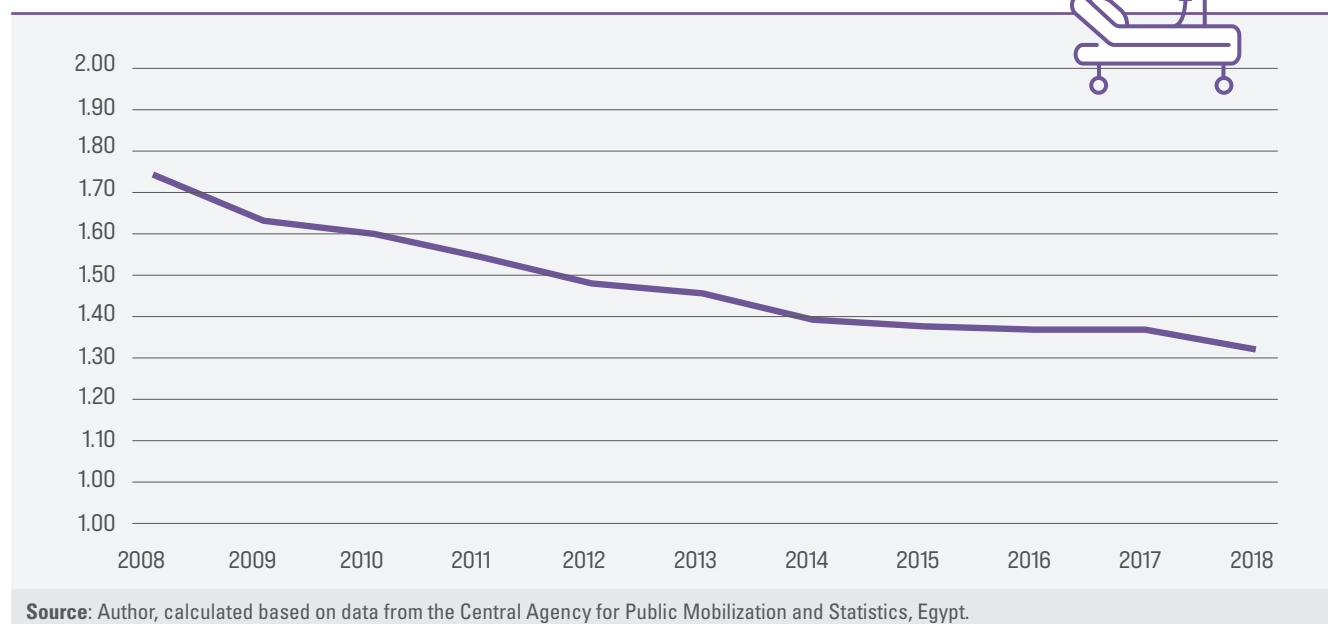
A high degree of involvement from the business sector is necessary to implement the programme,

and the tendering and licensing processes must be streamlined to ensure that the model is applied successfully and smoothly, based on the mutual interests of the State and the business partner. This is particularly important since many companies are already investing in their own training programmes. The Government must therefore be more adaptable to the needs and capacities of the business sector.

Although the Government is constitutionally mandated to allocate not less than 3 per cent of GNP to the health sector and to increase that amount to be on par with global levels, the sector is one of the most underfinanced in Egypt (figure 66). Between 2006 and 2017, average government spending on the health sector did not exceed 1.5 per cent of GDP, while the global average hovered around 5.7 per cent and OECD countries spent 7.2 per cent.<sup>25</sup>

The investment gap in the health sector is mentioned in many studies and reports. Data from the 2014 Demographic and Health Survey indicate that progress on health sector indicators is slowing down and there are growing disparities when compared to global and regional indicators, despite significant improvements made since 1990 in key health indicators.<sup>26</sup>

**Figure 67.** Number of hospital beds per 1,000 people



**Table 18.** Forecasts for cumulative investment requirements in the health sector

| Year | Scenario 1: 1.5 beds per 1,000 people |  |  |                                      | Scenario 2: 2 beds per 1,000 people |  |  |                                      |
|------|---------------------------------------|--|--|--------------------------------------|-------------------------------------|--|--|--------------------------------------|
|      | Beds                                  | Buildings<br>(in billions<br>of dollars) | Equipment<br>(in billions<br>of dollars) | Total (in<br>billions of<br>dollars) | Beds                                | Buildings<br>(in billions<br>of dollars) | Equipment<br>(in billions<br>of dollars) | Total (in<br>billions of<br>dollars) |
| 2030 | 51,000                                | 12–7                                     | 5–4                                      | 17–11                                | 110,000                             | 26–15                                    | 11–9                                     | 37–24                                |
| 2050 | 102,000                               | 25–14                                    | 10–8                                     | 35–22                                | 178,000                             | 43–24                                    | 18–14                                    | 61–38                                |

**Source:** Colliers International (2017). The Pulse, 7th Edition: Egypt Healthcare. Dubai.

Government plans in the health sector require massive investments and harmonized actions with the business sector. The Government has recently launched a specialized investment fund to provide seed capital and equity financing for health-care projects. This is a positive signal to the private sector to seriously consider investing in this lucrative market.

Some investment reports estimate that in order to cater to the needs of the health sector, an additional 51,000 beds are needed by 2030, assuming the current ratio of beds per 1,000 people. However, Egypt must increase the ratio of beds per 1,000 people to a minimum of two beds in order to improve the quality and quantity of health-care services (figure 67). At that ratio, 110,000 beds are needed by 2030 and a staggering 178,000 beds are needed by 2050, along with approximately 203,000 additional doctors. This creates a great

demand for hospital buildings and clinic spaces, as well as 62,000 long-term care beds.<sup>27</sup>

Table 18 shows the number of additional beds and the potential investments in real estate and health care (e.g. medical fit-outs and equipment) that are needed to cater to the demands of the growing population in the upcoming years.

While there is a significant opportunity for health-care providers to invest in the sector, public-private partnership faces challenges as a result of the poor benefits offered to private providers and the ambiguity in the public-private partnership framework in this sector. The new universal health insurance system will create opportunities for more public-private partnerships with its vision for standardizing health-care services and improving the quality, responsiveness and pricing of medical services offered to citizens.

## E. Conclusion and policy recommendations

Egypt and all other developing countries are facing significant challenges in mobilizing the funds required to implement public investments in the physical and social infrastructure, which would enable them to meet their development targets under the 2030 Agenda. The Addis Ababa Action Agenda identifies the role of the private sector as a

key partner in implementing the projects needed to complement Governments' investments in order to bridge the financing gap, which cripples countries' abilities to achieve their development objectives. The business sector, including public enterprises and the private sector, has great potential to contribute to government investment activities

in order to provide public services and improve public infrastructure and facilities.

Although the role of the business sector in financing development or participating in achieving the SDGs is new, there are several frameworks and mechanisms that can promote effective partnerships between governments and the business sector to encourage investments in projects that have an impact on development. Public-private partnership is a crucial investment framework that facilitates private sector contributions to public projects. Studies and reports show that this model is an essential component in national investment mobilization schemes, and its implementation strongly correlates to an enabling macroeconomic and regulatory environment. While the public-private partnership framework in Egypt is considered advanced, it is still limited by government bureaucracy and bottlenecks in implementation, particularly with regard to the relevance and availability of pipeline projects to be offered to investors.

The private sector around the world is increasingly streamlining environmental, social and governance criteria for investments and focusing on corporate social responsibility activities related to the SDGs across their internal operations and value chains. This has become a priority despite the global challenges they might face in applying those principles in developing countries.

The Egyptian legal and regulatory business environment has recently witnessed many reforms and improvement initiatives to allow both the domestic and foreign private sector to actively engage in the implementation of public service projects and to encourage investors to participate in public service delivery in collaboration with the Government or under its supervision. Gross capital formation as a percentage of GDP in Egypt, used to measure the value of investment, is lower than the average across the MENA Region as well as the average in lower-middle-income countries.

This reflects the need and the potential for new investment opportunities across all sectors, including a variety of public services.

Foreign direct investment is still a fraction of total inland investment and, consequently, a much lower percentage of GDP. It is concentrated in the oil and gas sector and light manufacturing, with a limited impact on innovation and technology transfer.

The private sector is predominantly composed of micro- and small enterprises with limited financial capabilities. Moreover, their activities are concentrated in wholesale and retail trade, with minor contributions to the manufacturing and hospitality sectors. SOEs are still important economic players, but their contributions to national investments have decreased significantly over the years. The Government announced measures to improve the transparency and efficiency of SOEs, with a view to creating a level playing field for public and private companies as a means of enhancing the overall business environment. While private sector-led job creation is the only pathway for sustainable economic inclusion, the private sector still suffers from limited growth, low productivity, narrow potential for job creation and a lack of competition in some sectors.

In light of the information presented in the chapter, the following policy recommendations can be made:

1

Translate the national planning framework, based on the Egypt Vision 2030 development objectives, into quantifiable metrics that clearly identify gaps and required investments, highlighting the potential for private contributions. This should involve an enriched public-private dialogue to better adjust policies and should be led by well-organized business associations and clear policy advocacy mechanisms.

2

Ensure that public investment priorities are results oriented, based on clearly defined policy goals, realistic, well informed and founded on evidence. They should also be robust, with investments that can position the country competitively in the global context. Investment plans should also be resilient; identify social, environmental and economic impacts; ensure value for money; and adapt efficiently to changes in resource allocation.

3

Pursue complementarities and reduce divergence among sectoral strategies, identify joint investment priorities and maximize the potential for investments to work towards unified purposes. Moreover, investment plans should precisely reflect the specificities and assets of different geographic locations and adopt effective instruments for coordinating across national and subnational levels of Government to bridge any fiscal, information or policy gaps.

4

Provide upstream support for public-private partnerships, including project feasibility studies and economic, social and environmental impact assessments, to improve the Government's ability to design and formulate a high-quality bankable public project pipeline. This includes improving availability, harmonization, clarity and the dissemination of timely, comparable and quality information about relevant investment opportunities. The Government must also develop the skills needed to manage public-private partnership programmes and refine the processes for project appraisal and prioritization.

5

Improve investment support by reinforcing the expertise of public officials and institutions involved in facilitating investments and public-private partnerships at the national and subnational levels. This is essential to laying the foundation for a streamlined business environment and efficient tendering processes for public projects selected for private sector contributions.

6

Align measures to facilitate business and reduce regulatory burdens with sustainable development objectives. This should coincide with improved corporate governance measures, labour rights protections, environmental and health standards and measures to fight corruption, and promote business integrity.

6



The Egyptian legal and regulatory business environment has recently witnessed many reforms and improvement initiatives.



7

Create a national platform to engage with the private sector on sustainability and the green economy and promote their relevance to core business processes, products and services. Establish mechanisms to ensure a minimal level of disclosure about the metrics used for corporate reporting on SDG impact, which can play a significant role in raising awareness in the business sector and improving its level of commitment.

8

Develop and apply targeted strategies to promote foreign direct investment focused on SDG sectors. Priority should be given to the proactive promotion and facilitation of SDG investments and to the creation of a continuous pipeline of bankable, green and inclusive projects to be offered to foreign investors.

9

Support businesses' corporate social responsibility activities through relevant tax and non-tax incentives and improve the processes for project creation and selection by employing a participatory programmatic approach that actively engages local communities in the design and implementation phases.



There are several frameworks and mechanisms that can promote effective partnerships between governments and the business sector.





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# Role of the financial sector

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# 07











A major driving force is the development of digital technology, bringing about critical changes to both banking and non-banking institutions.



## A. An overview of the financial sector in Egypt

The development of the banking system in Egypt can be traced back to the mid-nineteenth century, when the growth of the cotton industry and the opening of the Suez Canal led to an inflow of foreign capital. In response, a few local banks were established, including the National Bank of Egypt, which was founded in 1898 with the assistance of the British. It was also a time when foreign banks emerged and grew. Their business depended heavily on crop export finance, agricultural credit and mortgage facilities for residential buildings with high interest rates. Nevertheless, there were almost no instruments provided to small businesses, so the informal financial market (also known as the “non-organized” market), with its punitive interest rates, was their only option for access to funds.

The financial sector of Egypt was largely influenced by the transition from socialism (1959–1972) to capitalism (beginning in 1973).





Between 1960 and 1990, the Egyptian financial economy was heavily repressed by frequent government intervention in the market mechanism. In particular, the Government formed the CBE and drew a clear distinction between commercial banks and special institutions. It also set ceilings for nominal deposit and lending interest rates, enforced a high ratio of required reserves and decided the allocation of credits to different projects. In 1991, however, Egypt began an economic reform programme, including a financial liberalization policy, following the recommendations of the World Bank and the IMF. This decision improved the efficiency and transparency of the financial sector, and it gradually stabilized. It now enjoys a more solid foundation.

## Moving forward to 2030

The financial sector has undergone significant changes since the 2015 Addis Ababa Action Agenda. A major driving force is the development of digital technology, bringing about critical changes to both banking and non-banking institutions. Despite raising concerns in terms of cybersecurity, the broad use of digitization enhances financial inclusion and increases the efficiency of financial activities with lower

transaction costs. As Egypt works to achieve the SDGs by 2030, the unexpected outbreak of COVID-19 has imposed greater challenges, both locally and globally. Taking into account the current situation, the sections of this chapter will elaborate on the role of the financial sector in Egypt concerning the six aspects listed below. The main objectives of this chapter are to analyse the performance of the banking and non-banking financial sectors, assess the role of informal finance and the private sector, and discuss the challenges as well as new opportunities to finance sustainable development and close financial gaps.

### (a) Dominance of the banking sector

In Egypt, banks play a dominant role in the formal financial sector, and the efforts of the CBE to strengthen the banking sector and achieve financial inclusion cannot be overlooked. Nevertheless, the current size of the banking sector does not entirely meet the demands and needs of all people and businesses in Egypt. This section will discuss traditional sources and the relatively low cost of finance, the limited access to finance and the way in which traditional banks tend to favour large firms and ignore the financial needs of SMEs.

### (b) Limited role of non-banking financial institutions

The non-banking financial sector in Egypt is relatively small in market size and highly underdeveloped. It has a small insurance sector; limited private equity, hedge fund and pension fund activity; and underdeveloped capital markets. This section will discuss the features of the current non-banking financial sector and analyse the potential role of pension schemes and contractual savings institutions.

### (c) Informal finance

To address the undersupply of financial services in the formal financial market, informal finance has emerged and thrived in Egypt. It has become



quite popular among households and SMEs, which have limited or no access to formal finance. This section aims to explore the role of informal finance in Egypt by analysing the way in which low financial inclusion contributes to the growth of this sector and how informal finance operates to provide financing to its target population.

#### (d) Financing for sustainable development

Egypt must develop a financing strategy to implement the 2030 Agenda in order to promote inclusive economic growth, protect the environment and enhance social inclusion. It is worth noting that the CBE issued specific guidance on promoting FFD. Several sources of finance to consider are taxes, domestic investment, foreign direct investment, portfolio investment, remittances, loans and ODA. This section introduces the situation in Egypt since the Addis Ababa Action Agenda, potential financing sources and estimates of financing gaps.

#### (e) Potential role of the private sector in closing financing gaps and supporting development objectives

The private sector can play a crucial role in ensuring that there are sufficient funds to close the financing gaps in Egypt. Securitization, a process of transforming an illiquid asset or group of assets into a security through financial engineering, is one of the ways to attract private investment. This section will focus on



### Egypt has one of the lowest ratios of private credit to GDP in comparison with other countries in the MENA Region.

using financial leverage through securitization, blended finance and public-private partnerships to boost private sector contributions to financing development projects. It will also address non-banking financial development.

#### (f) Unique financial challenges and policy implications

Given the current situation in Egypt, the financial challenges must be acknowledged. Only when the challenges and problems are addressed can Egypt move towards achieving the SDGs. This section is therefore dedicated to identifying the challenges of financing gaps, understanding the role of non-traditional financial sources in meeting the Goals and exploring the role of financial technology.

Before addressing these topics, the next section will introduce a simple conceptual 4x2 framework that lays out the basic structure of the financial sector in Egypt. This framework serves as a baseline to facilitate an understanding of the later sections.

## B. The 4x2 framework

The financial sector in general has two components: financial institutions and financial markets. Financial institutions are corporations dealing in financial services and monetary transactions, such as deposits, loans, currency

exchange and investments. Commercial banks, investment banks, trust companies, brokerage firms, investment dealers and insurance companies are examples of financial institutions. They function as intermediaries of financial

markets. Financial markets, on the other hand, are any markets in which the trading of securities occurs. Examples include the bond market, stock market, foreign exchange market and derivatives market. The two components combined provide a holistic view of the financial sector.

There are three main types of financial institutions: depository institutions, contractual institutions and investment institutions. Depository institutions refer to deposit-taking institutions in charge of deposits and loans, including commercial banks, credit unions, trust companies and mortgage loan companies. Contractual institutions generally include insurance companies and pension funds. Long-term liabilities and stable cash flows are characteristics of contractual savings institutions that make them ideal providers of term finance. Investment institutions include investment banks, underwriters and brokerage firms.

There are various ways to understand and categorize financial markets. One is to divide the markets into primary and secondary markets. Primary markets create securities, and newly formed securities are bought and sold. A classic example is the initial public offering. In contrast, secondary markets handle the buying and selling of existing securities, with transactions occurring among investors instead of between issuers and investors. Another way to view the financial market is to divide it into capital markets and money markets, the former referring to long-term finance such as bonds and stocks and the latter concerning short-term debt financing and investment.

An in-depth analysis of financial institutions and financial markets is required to fully examine the financial sector. In order to measure financial development more accurately with respect to economic growth and poverty reduction, the World Bank Global Financial Development Database has developed a 4x2 framework, which consists of four dimensions: financial depth, access, efficiency and stability. Applying these four dimensions to both financial institutions and financial markets should,

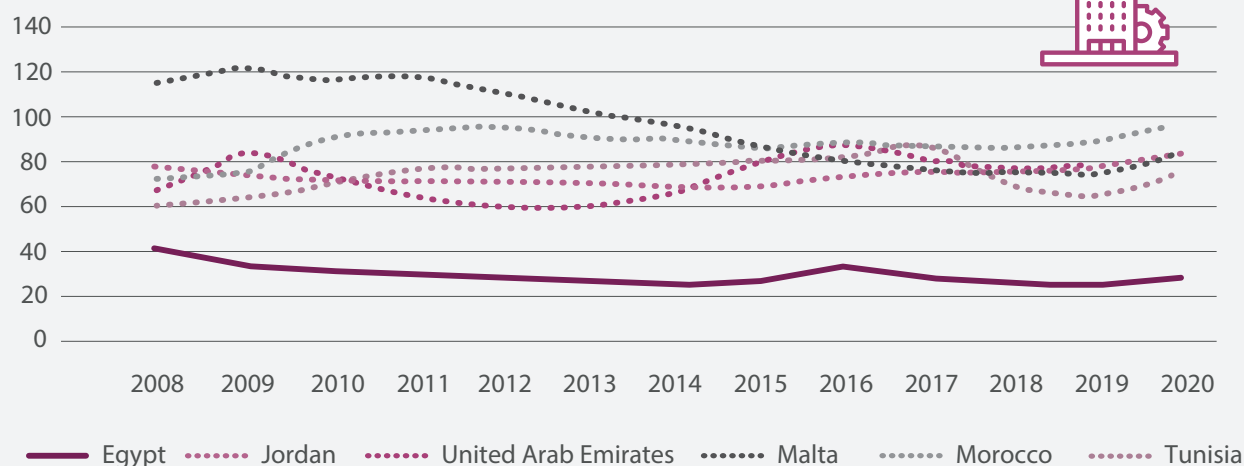
in theory, provide a holistic view of the level of financial development in a specific economy.

## 1. Financial depth

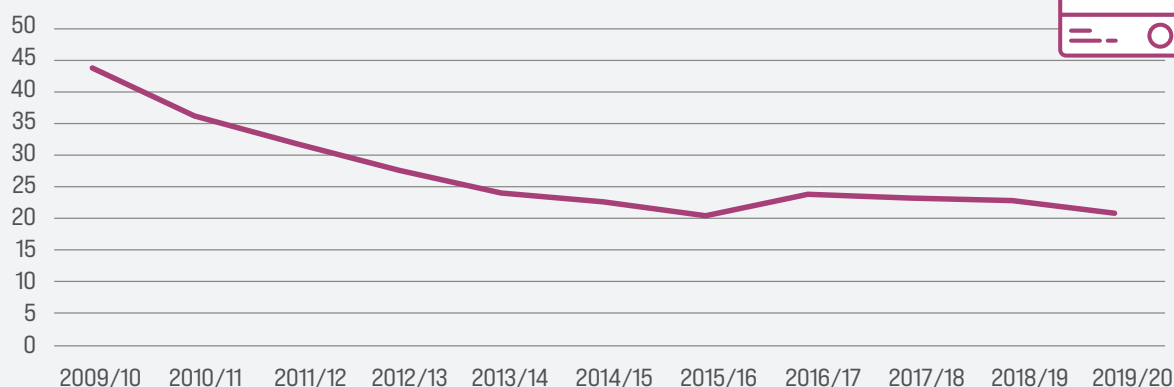
Financial depth generally captures the financial sector relative to the economy in terms of size and level of economic output. For financial institutions, some key measurements include private sector credit, financial institutions' assets, M2, deposits and gross value added by the financial sector as a percentage of GDP. In particular, a higher proportion of private credit to GDP is an indicator that the economy has a relatively deep financial system. According to the latest available data, as presented in figure 68, Egypt has one of the lowest ratios of private credit to GDP in comparison with other countries in the MENA Region, at 27 per cent in 2020. Jordan has a ratio of private credit to GDP of 83 per cent; Malta has approximately 84 per cent. This disparity highlights the fact that Egyptian financial institutions still need to work harder to achieve greater financial depth. Furthermore, as shown in figure 69, towards the end of 2020, the proportion of private business sector credit to total credit decreased to approximately 20 per cent, nearly half its level in 2010. This decrease in private sector credit can be attributed to the impact of the global financial crisis of 2007 to 2009, the 2011 Arab revolution, the floating of the Egyptian pound and the impact of COVID-19.



**In particular, a higher proportion of private credit to GDP is an indicator that the economy has a relatively deep financial system.**

**Figure 68.** Financial institutions' private credit, as a percentage of gross domestic product

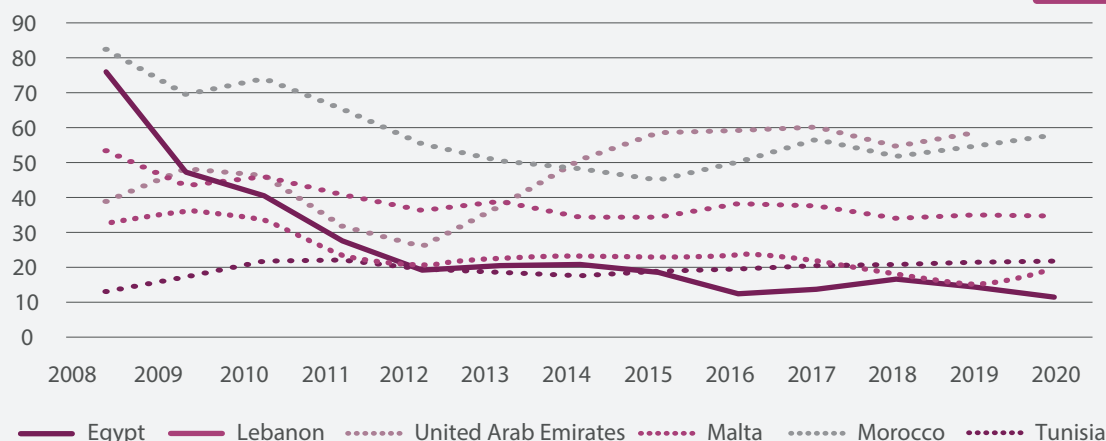
Source: Author, based on GFD, 2019

**Figure 69.** Private business sector credit, as a percentage of total credit

Source: Author, based on the annual reports of the Central Bank of Egypt.

For financial markets, some key measurements of financial depth include stock market capitalization and the ratios of outstanding domestic private debt securities to GDP, public debt securities to GDP, international debt securities to GDP and stocks traded to GDP. Of those, the stock market capitalization-to-GDP ratio is the most common way to approximate the size of stock markets, while the ratio of outstanding volume of private debt securities to GDP is the most frequently used indicator to measure the size of the bond market. Countries with deep financial systems tend to have larger percentages. The stock market

capitalization-to-GDP ratio of Egypt was one of the highest in 2008, but it quickly dropped significantly and is currently one of the lowest in the MENA Region (figure 70). Such a significant drop in the size of the stock market may be attributed to the global financial crisis in 2008, which largely reduced both the value and volume of traded stocks in the main market. Moreover, due to political uncertainty, the Egyptian stock market experienced an absence of initial public offerings and private placements during the period 2011–2013. Nevertheless, although the stock market size reflects the possibility of a

**Figure 70.** Stock market capitalization, as a percentage of gross domestic product (2008–2020)

**Source:** Author, based on TheGlobalEconomy.com (2021). Global Economy database. Available from <https://www.theglobaleconomy.com>. Accessed December 2021

lack of financial depth, in terms of the M2-to-GDP ratio, Egypt actually outperforms comparator countries in financial depth.<sup>1</sup> Although the lack of data on bond market size makes it difficult to draw a definitive conclusion, the lack of depth in the stock market and financial institutions provides meaningful insight, which indicates that Egypt must improve its financial depth to catch up with other MENA countries.

## 2. Financial access

Financial access is an important dimension since it is a strong indication of financial inclusion, or the use of financial services by individuals and firms. Access to financial services is different from the use of financial services. Those who have access may have the ability to use such services but actively choose not to, while those without access have no means to use any financial services, regardless of their desire. Improvement in access to finance by both individuals and firms has proven to reduce poverty and increase economic growth in the MENA Region.

For financial institutions, some key indicators of financial access include the number of accounts

and branches per thousand adults (for commercial banks), the percentage of people who have a bank account and the percentage of firms holding lines of credit. According to the latest available data, only 33 per cent of adults in Egypt had a commercial bank account in 2017, which is one of the lowest proportions among all MENA countries. In contrast, over 90 per cent of adults in countries like Malta and the Islamic Republic of Iran have basic access to banking services (figure 71). This figure, however, demonstrates that Egypt has taken initiatives to improve its financial inclusion, as only 14 per cent of adults had a bank account in 2014.<sup>2</sup> The outbreak of COVID-19 has further motivated the CBE to increase the use of electronic channels by abolishing the fees and commissions applied when using electronic points of sale and by issuing electronic wallets and prepaid cards for free for six months.<sup>3</sup>

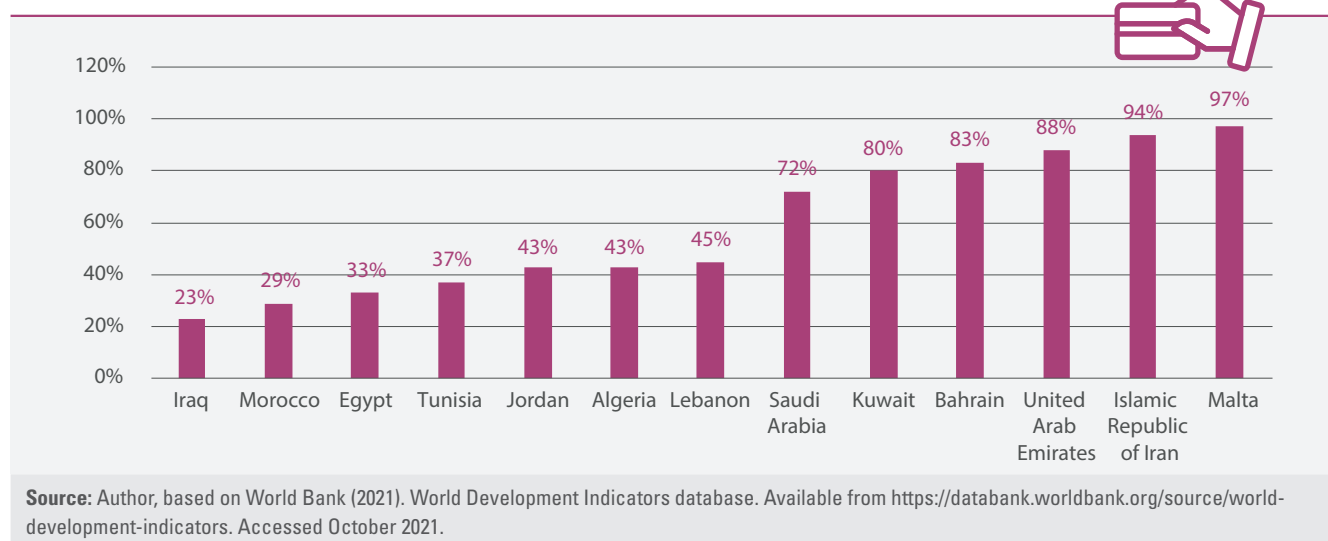
For financial markets, some key indicators of financial access include the percentage of market capitalization excluding the top 10 largest companies, the percentage of value traded outside of the top 10 traded companies, government bond yields (3 months and 10 years), the ratio of domestic to total debt services, the ratio of private to total debt securities (domestic) and the ratio of new corporate bond issues to

GDP. These variables serve as the estimation of market concentration. These variables serve as the estimation of market concentration. As shown in figure 69, Egypt's ratio of market capitalization excluding the top 10 companies to total market capitalization was 55.2 per cent in 2018, one of the highest in the MENA Region. This percentage implies that financial markets in Egypt are relatively more accessible, especially compared with the accessibility of financial institutions. Although it is clear that the proportion of market

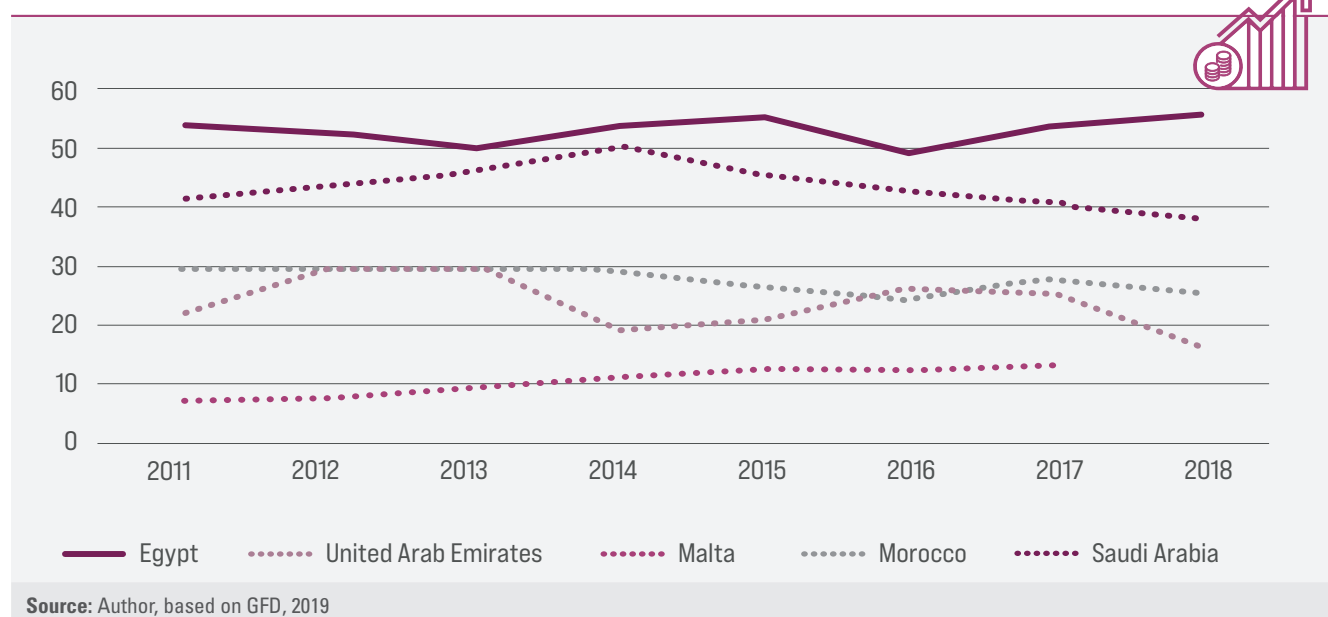
capitalization in Egypt is relatively high, it has not yet stimulated real investment opportunities that contribute to economic growth. Figure 73 shows that the market capitalization of listed domestic companies as a percentage of GDP exhibits a falling trend over the period 2011–2020. In 2020, market capitalization reached 11.4 per cent, after a low of 10 per cent in 2016.

To achieve significant improvements in financial inclusion in Egypt, the national financial inclusion

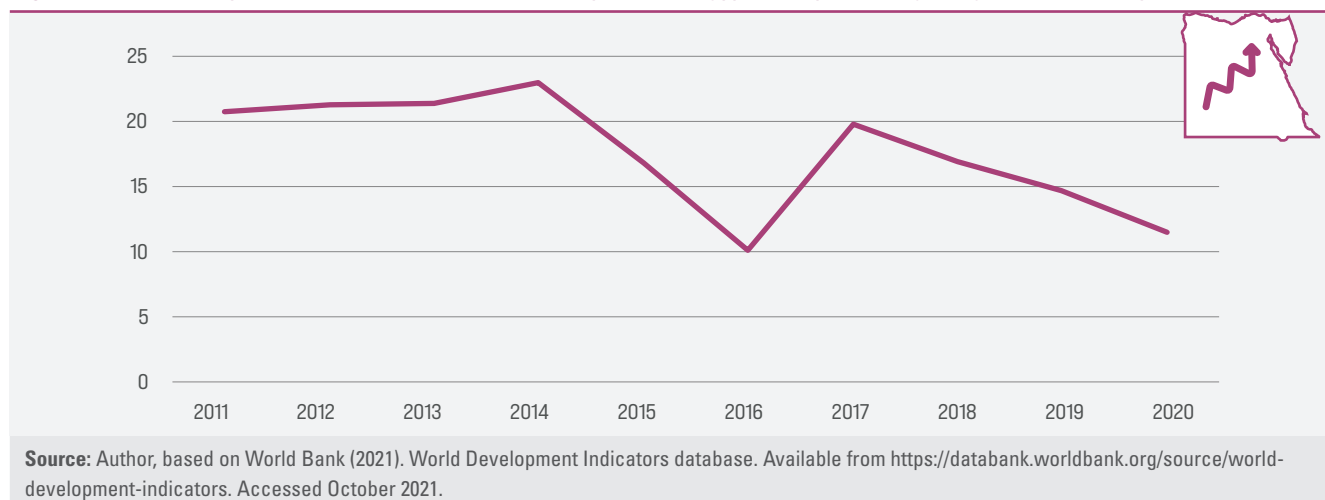
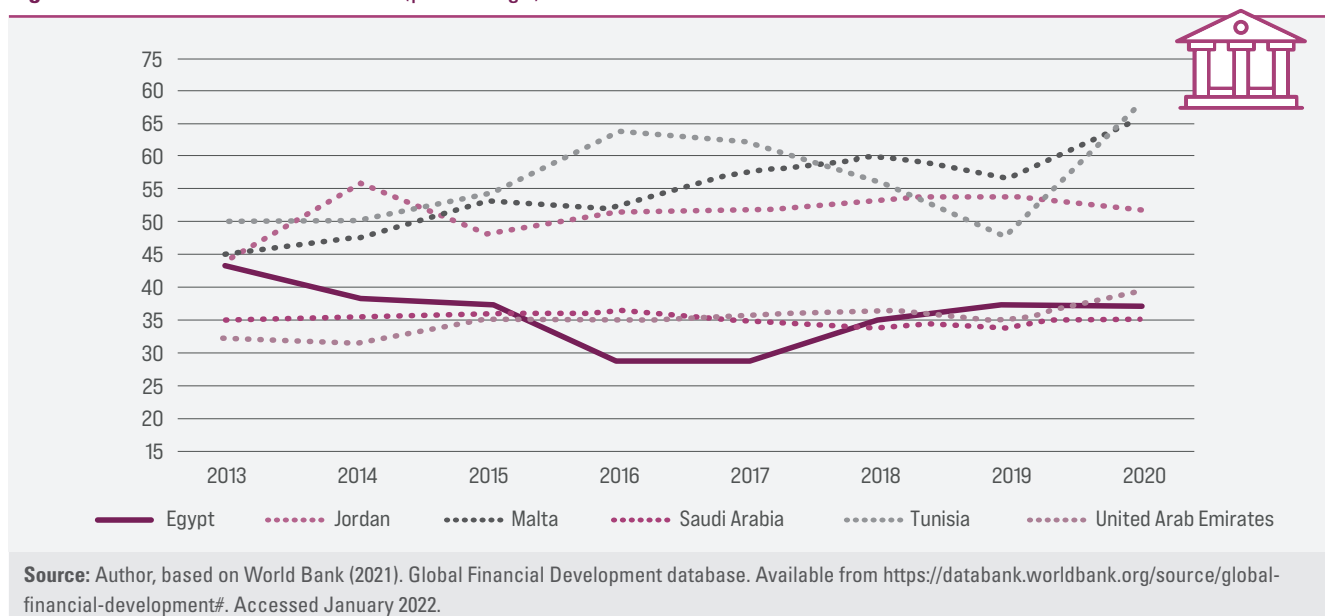
**Figure 71.** Adults with a bank account in 2017



**Figure 72.** Market capitalization excluding the top 10 companies, as a percentage of total market capitalization





**Figure 73.** Market capitalization of listed domestic companies in Egypt, as a percentage of gross domestic product**Figure 74.** Bank cost-to-income ratio (percentage)

strategy framework was crafted in consultation with a wide range of national stakeholders and aligned with the Egypt Vision 2030, particularly its third objective concerning a competitive and diversified economy. The vision for financial inclusion in Egypt focuses on formal financial inclusion for all segments of society to achieve sustainable growth.<sup>4</sup>

### 3. Financial efficiency

Financial efficiency measures the overall efficiency of the financial sector. For financial institutions,

these measurements include net interest margin, lending-deposits spread, non-interest income to total income, overhead costs (as a percentage of total assets), profitability (return on assets, return on equity) and Boone indicator or H-statistics. Specifically, the bank cost-to-income ratio in Egypt was 37 per cent in 2020 (calculated as the operating expenses of a bank as a share of the sum of net interest revenue and other operating income), which is considered low and generally efficient compared to the operational efficiency of banks in other MENA countries (figure 74). For financial markets, measurements of financial

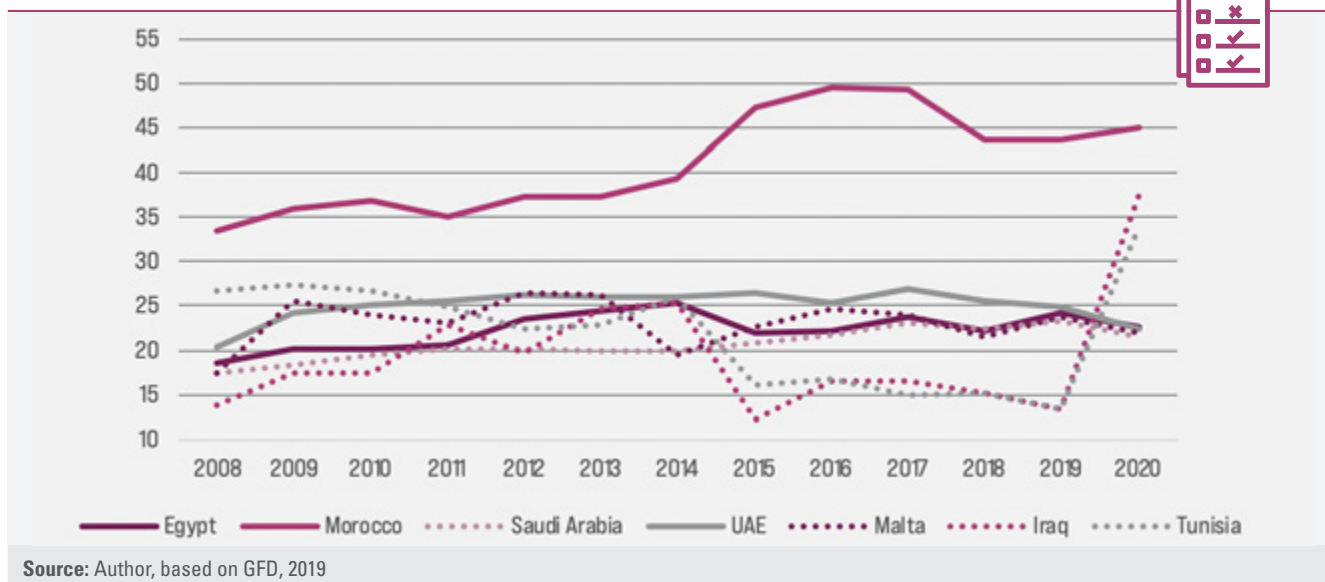
efficiency include share turnover ratio, stock price synchronicity, private information trading, price impact, liquidity/transaction costs, quoted bid-ask spread for governmental bonds and turnover ratio of bonds on securities exchanges.

## 4. Financial stability

A stable financial system is capable of efficiently allocating resources, assessing and managing financial risks, maintaining employment levels close to the economy's natural rate and eliminating relative price movements of real or financial assets that would affect monetary stability or employment levels. For financial institutions, a common measure is the z-score, which compares returns and capitalization with their associated risks. A higher z-score, therefore, corresponds to a lower probability of insolvency. The z-score of banks in Egypt was 22.59 in 2020, which is not far from the average z-score of banks in the other MENA countries (27.87) listed in figure 75. This implies that banks in Egypt are relatively stable. Other measurements of financial stability include capital adequacy ratio, asset quality ratio and liquidity ratio. For financial markets, the volatility of stock price index and/or sovereign bond index, the

skewness of the index, the ratio of short-term to total bonds and the correlation with major bond returns are all proper measurements of market financial stability. In the case of Egypt, since the CBE requires all banks to comply with the updated international regulatory framework for banks (Basel III, soon to be Basel IV), its attempt to buffer against systemic risks may positively contribute to financial stability. The Basel III standards are a set of micro- and macroprudential measures aiming to strengthen the regulation and risk management of banks. Macroprudential measures are financial policies targeting the stability of the financial system as a whole, such as promoting the establishment of buffer capital. Microprudential measures, on the other hand, emphasize the soundness and stability of individual financial institutions, with requirements including raising the minimum common equity capital from 2 per cent to 4.5 per cent. While microprudential measures are strongly required for maintaining financial stability, relying only on microprudential oversight could make the system less stable. With the effective implementation of the Basel framework, Egypt is expected to see an improvement in the resilience of its banking system, an increase in confidence in prudential ratios and a more transparent and predictable

Figure 75. Bank z-score



regulatory environment for the banking sector.<sup>5</sup> Nevertheless, some studies claim that the impact of Basel III on Egyptian banks is relatively limited and that it plays a positive yet less definitive role

in financial stability.<sup>6</sup> The facilitation of a stable financial environment, therefore, still depends on other previously mentioned factors, as well as the effectiveness of Basel IV.

## C. Dominance of the banking sector

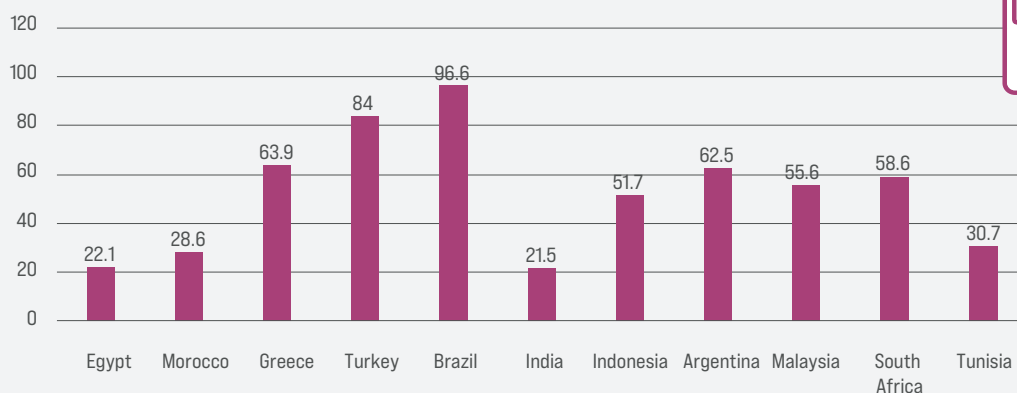
Within the formal financial sector of Egypt, traditional providers of finance (i.e. banks) are remarkably dominant, which is a typical trait of developing countries. In 2020, bank assets accounted for approximately 89.7 per cent of GDP,<sup>7</sup> whereas the size of non-banking financial institutions has been considerably smaller. According to the Oxford Business Group, the non-banking financial segment in Egypt is widely seen as underpenetrated. Consequently, the Egyptian Government and the CBE are embarking on initiatives to incentivize non-banking financial institutions to grow.

### 1. Limited access to finance in general

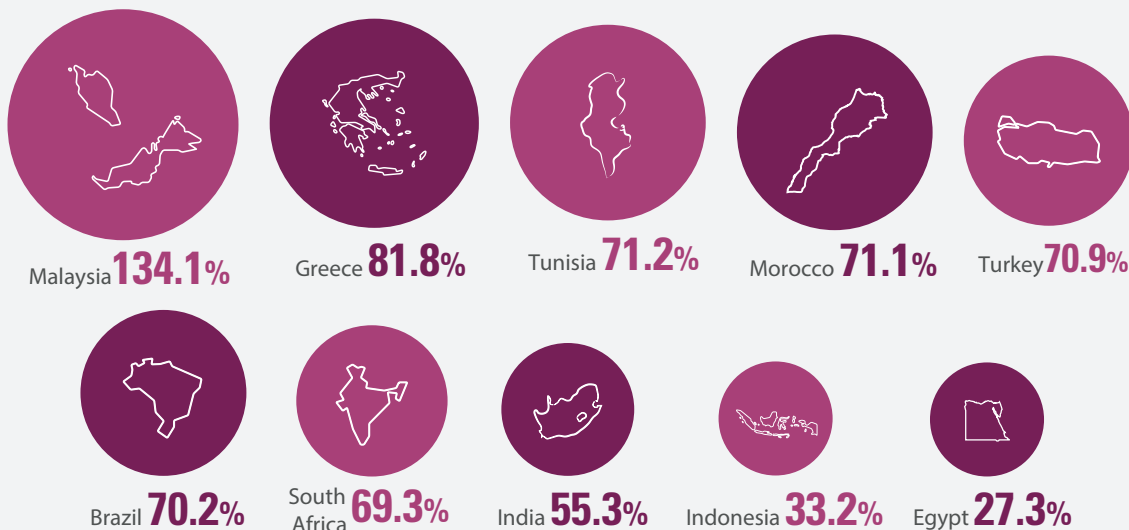
The relatively large size of the banking sector is still insufficient; the banking sector, as well as the financial sector as a whole, underserves the Egyptian market. There is a shortage in the provision of financial services, exhibited by deficient access to finance. Egypt continues to lag behind in access to finance measures. For instance, as shown in figure 76, in 2020 Egypt had the lowest number of ATMs, approximately 22 per 100,000 adults, among selected emerging economies. In addition, the Egyptian banking sector provides extremely limited credit to the private sector, which should be the main driver for economic growth and employment, as illustrated by figures 74 and 75, even when compared to similar oil-importing countries in the MENA Region (e.g. Morocco and Tunisia). To increase access to finance, the CBE and other

banks have begun to expand their mobile wallet service and implement e-banking methods to digitize transactions. They also allow remote self-registration of wallet accounts to promote access to financial services for all people. Furthermore, in the wake of the pandemic, the CBE launched further initiatives to install 6,500 new ATMs across the country and issue digital lending and savings regulations through mobile wallets.<sup>8</sup> These efforts are expected to improve financial inclusion and convenience for individuals and MSMEs.

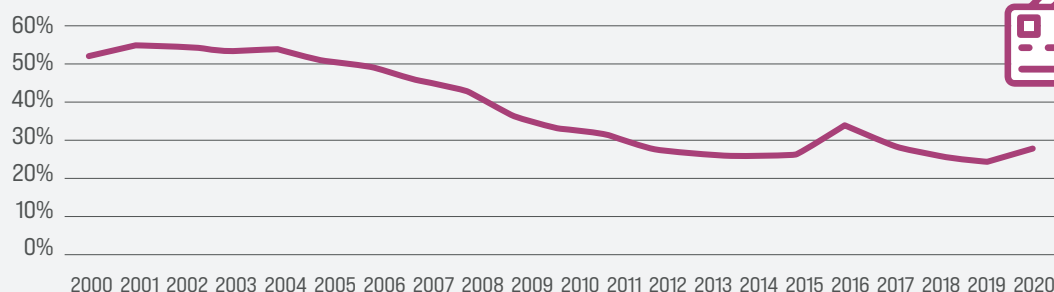
According to figure 78, it is evident that the demand for private borrowing has decreased since 2001. This is a result of the disruptions in the investment environment following the 2011 Arab revolution, as well as the higher interest rates following the flotation of the Egyptian pound in 2016, which made it costly for businesses and individuals to obtain funding from Egyptian banks. Moreover, according to the World Development Indicators, the percentage of the Egyptian firms using bank credit to finance investment was approximately 10 per cent in 2020. This number is startlingly low, particularly given the underdeveloped non-banking financial sector. It means that approximately 90 per cent of Egyptian firms have almost no access to credit for financing investments, which impacts their ability to grow and compete. Similarly, individuals in Egypt also face exclusion from the banking system, with over 50 million people relying heavily on cash for daily transactions. In fact, 84 per cent of private sector workers still earn cash wages, and for this reason in particular, 5 per cent of Egyptians have access to private health insurance.<sup>9</sup>

**Figure 76.** Number of automated teller machines, per 100,000 adults (2020)

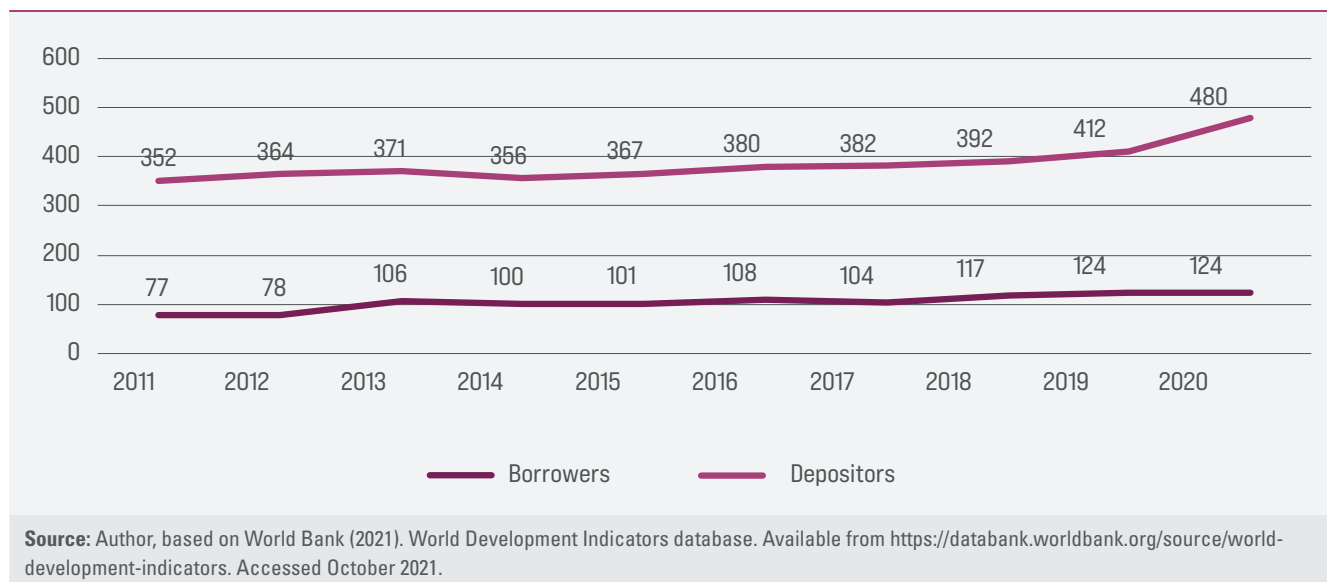
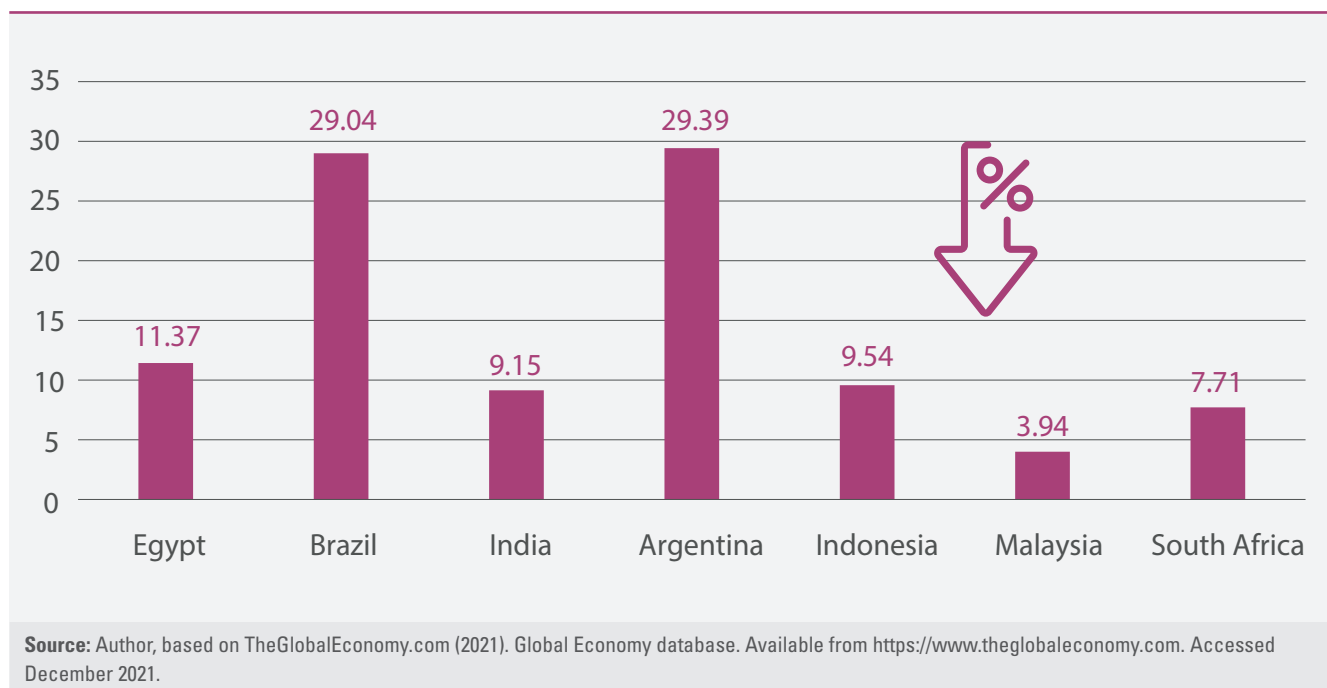
**Source:** Author, based on World Bank (2021). World Development Indicators database. Available from <https://databank.worldbank.org/source/world-development-indicators>. Accessed October 2021.

**Figure 77.** Domestic credit to private sector by banks, as a percentage of gross domestic product (2020)

**Source:** Author, based on World Bank (2021). World Development Indicators database. Available from <https://databank.worldbank.org/source/world-development-indicators>. Accessed October 2021.

**Figure 78.** Domestic credit to private sector, as a percentage of gross domestic product

**Source:** Author, based on World Bank (2021). World Development Indicators database. Available from <https://databank.worldbank.org/source/world-development-indicators>. Accessed October 2021.

**Figure 79.** Depositors and borrowers with commercial banks, per 1,000 adults**Figure 80.** Interest rates on bank credit to the private sector, as a percentage (2020)

The use of finance, on the other hand, has shown a sharp increase in recent years. In figure 79, for every 1,000 adults in Egypt, there were 480 depositors with commercial banks in 2020; this number was only 352 in 2011. Likewise, the number of borrowers with commercial banks had increased to 124 per 1,000 adults, a 61 per cent increase from 2011.

## 2. Negative effect on economic growth

Without a doubt, low access to finance represents a major obstacle for economic growth in Egypt. Emara and El Said illustrate empirically that increased access to finance



positively impacts economic growth.<sup>10</sup> According to impulse response studies, the GDP of Egypt is highly responsive to a reduction in the costs of credit participation, implying that limited credit availability is a major growth obstacle.<sup>11</sup> A strong connection prevails between real per capita growth and financial development. Achieving high growth momentum requires more bank financing for the private sector, while well-developed institutions are a precondition for economic growth. Interestingly, while the percentage of private credit to nominal GDP in Egypt dropped to a record low of 24.15 per cent, it began to increase in January 2020 and reached 27.45 per cent by December 2020.<sup>12</sup> This pattern highlights that more credit can be directed to the private sector.

### 3. Low cost of finance

Interestingly, Egypt exhibits a relatively low cost of finance. Based on data from the Global Economy database, the interest rate on bank credit to the private sector is 11.37 per cent, which is not particularly high compared to other emerging countries in 2020 (figure 80). According to Moody's credit rating agency, in 2020, the CBE continued to reduce interest rates and the domestic cost of its borrowing as a result of

the declining inflation and a credible monetary policy.<sup>13</sup> Hence, one implication of this pattern could be that the low access to finance in Egypt is not driven by the high cost of finance so much as by the limited availability of credit.

### 4. Good stability and efficiency

The Egyptian banking sector is performing relatively well in terms of stability. Bank liquidity in local and foreign currencies was recorded as 54 per cent and 72 per cent, respectively, as of December 2020, compared to 44 per cent and 68 per cent in December 2019. Similarly, the liquidity coverage ratio was 1,017 per cent for the local currency and 170 per cent for foreign currency as of December 2020, compared to 757 per cent and 201 per cent in December 2019.<sup>14</sup> Additionally, table 19 shows that Egyptian banks score higher than the average z-score for the selected group of emerging economies, signaling a relatively stable sector for the year 2020. This is expected, given the dominance of public banks and the clear preference for lending to the public sector. The cycle of dependence between the Government and the banking sector is discussed further in the next sections. Although such a cycle is often unhealthy from the perspective of economic growth, it does help maintain the solvency, and thus the stability, of the banking sector.

**Table 19.** Z-score and return on assets and equity (2020)

| Country        | Z-score      | Return on assets<br>(percentage after tax) | Return on equity<br>(percentage after tax) |
|----------------|--------------|--|--|
| Brazil         | 15.44        | 1.01                                       | 9.61                                       |
| <b>Egypt</b>   | <b>22.59</b> | <b>1.01</b>                                | <b>12.91</b>                               |
| India          | 19.36        | 0.21                                       | 2.16                                       |
| Indonesia      | 4.52         | 0.91                                       | 6.68                                       |
| Malaysia       | 31.18        | 0.66                                       | 4.47                                       |
| Morocco        | 44.99        | 0.67                                       | 5.87                                       |
| South Africa   | 14.25        | 0.62                                       | 8.03                                       |
| Tunisia        | 33.93        | 0.04                                       | 0.60                                       |
| Turkey         | 12.33        | 1.31                                       | 9.11                                       |
| <b>Average</b> | <b>22.07</b> | <b>0.72</b>                                | <b>6.60</b>                                |

**Source:** Author, based on World Bank (2021). Global Financial Development database.

Available from <https://databank.worldbank.org/source/global-financial-development#>. Accessed January 2022.

**Figure 81.** Percentage of bank assets held by the top 3 banks (2020)

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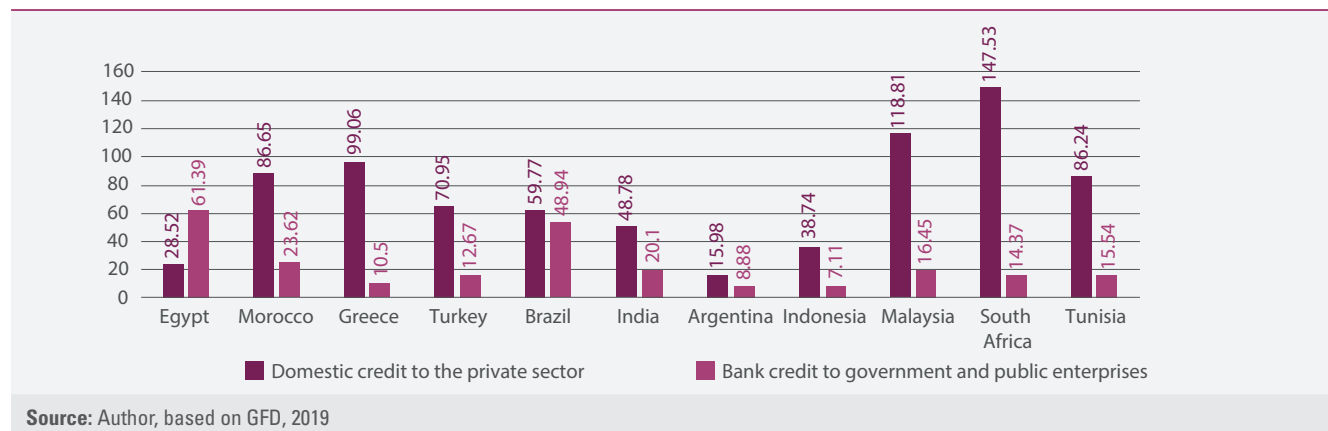
Despite support from the Government, private banks (unlike public banks) face certain barriers limiting their development. Poshakwale and Qian find that private banks earn lower abnormal profits and are more competitive than public banks, since public sector banks in Egypt are significant players that can use their dominant position to their advantage.<sup>15</sup> The results show that while private banks are more profit-efficient than public banks, the latter are more cost-efficient. The National Bank of Egypt, Bank Misr and Banque du Caire, which are large public banks, control 40 per cent of the banking sector.<sup>16</sup> Nevertheless, the imbalance between the development of public and private banks has been improving in recent years. According to statistics published in the CBE statistical bulletin from 2021, the percentage of loans by private banks to total loans has reached approximately 59 per cent.

In addition, the Egyptian banking sector exhibits relatively desirable efficiency and profitability, shown by above-average returns on both assets and equity. This can be explained in part by the

relatively low cost of finance. Kohlscheen and others provide empirical evidence that there is a negative relationship between short-term interest rates and bank profitability.<sup>17</sup> Thus, as the interest rate in Egypt remains relatively low, it is reasonable to observe a higher profitability of banks. Additionally, other factors such as improving governance and legal frameworks in the banking sector could be contributing to the observed favourable efficiency and profitability.

## 5. High bank concentration ratio and dominance of public banks

In comparison with other emerging countries, Egypt has an average bank concentration ratio when measured by the percentage of bank assets held by the top three banks; however, in an absolute sense, Egypt exhibits a high concentration of banks. The top three banks hold almost 83 per cent of bank assets in 2020. This indicates insufficient competition within the banking sector, as shown by figure 81.

**Figure 82.** Credit to public versus private sectors, as a percentage of gross domestic product (2017)

The problem of high bank concentration, however, becomes worse when coupled with the dominance of the public sector in banking. The banking sector in Egypt has evolved over the past decades and undergone many reform programmes in the direction of privatization. The most influential programme was the Economic Reform and Structural Adjustment Programme launched by IMF in 1991. Under the Programme, a number of steps were taken to shift ownership within the banking sector towards private parties and to maintain independent supervision of State-owned banks. Despite the largely successful efforts of the Egyptian Government and international financial institutions to privatize and liberalize the banking sector, public banks still dominate the scene.

Public banks suffer from the inefficiencies that tend to prevail in public enterprises in general, which negatively affect their profitability and credit availability. It is important to note that the Egyptian banking sector immensely favors public enterprises. In general, Egyptian banks make significantly more credit available to the Government and public enterprises than they do to the private sector. As illustrated by figure 82 for the year 2020, Egypt is the only country among the selected group of emerging countries in which bank credit to the Government and public enterprises exceeds domestic credit to the private sector (expressed as a percentage of GDP). There is also a significant gap between the two figures. This is a clear manifestation of the crowding-out

phenomenon that typically hinders the economy's growth potential.

## 6. Lower access to small and medium-sized enterprises

In addition to the general deficiency in financial access faced by Egyptian firms, there is a positive correlation between the size of the firm and its access to finance. Small Egyptian firms with bank credit represented less than 4 per cent of the total number of small firms in 2020.<sup>18</sup> When compared to the 10 per cent reported when firms of all sizes are combined, this number indicates that smaller firms face more difficult conditions in seeking financing. This is particularly alarming bearing in mind that those small enterprises make up most of the Egyptian private sector and could have a remarkably positive impact on the country's economic growth. According to the economic census, there are 3.65 million MSMEs in Egypt, including 3.4 million micro enterprises (94.3 per cent), 216,000 small enterprises (5.6 per cent), and 2,181 medium-sized enterprises (0.1 per cent).<sup>19</sup> Moreover, increased access to finance raises the probability of small firms becoming exporters, thus improving the country's trade balance and boosting the diversification of the export basket.<sup>20</sup> Additionally, increased access to finance reduces the relative volatility of gross capital formation between sectors with low and high research and development intensity, taking into account labour productivity.<sup>21</sup>

**The CBE is requiring commercial banks to increase lending to SMEs to 20 per cent of their portfolio**

**20%**

of their portfolio



It is worth mentioning, however, that the Egyptian Government is directing considerable efforts and resources towards developing SMEs. For example, it is providing lucrative free zone offerings. Additionally, the CBE is requiring commercial banks to increase lending to SMEs to 20 per cent of their portfolio; in 2018 alone, EGP 30 billion were set aside for loans to SMEs.<sup>22</sup> As announced on its website, the CBE has also embarked on several initiatives to support SMEs in particular and better financial inclusion in general. These initiatives include low-interest loans (7 per cent and 12 per cent) to medium-sized enterprises to finance machinery, equipment and working capital; low-interest loans (8 per cent) for private industrial and agricultural sectors;

mortgage finance for low-income groups (with interest rate as low as 3 per cent); low-interest loans (5 per cent and 8 per cent) for tourism companies embarking on hotel renovations and purchasing vehicles; and support for small players struggling to repay their debts. Those initiatives have resulted in granting EGP 213 billion in credit facilities from December 2015 to September 2020; 81 per cent of funding has already been used for 126,000 SMEs in the industrial, agricultural and service sectors, as well as over 900,000 micro clients.<sup>23</sup>

Moreover, in June 2020, the CBE announced its EGP 100 billion financing initiative to support SMEs in the industrial, agricultural and construction sectors. The volume of funding for the initiative to support MSMEs amounted to approximately EGP 180 billion, from which approximately 120,000 companies and 1 million borrowers benefited. Additionally, the Micro, Small and Medium Enterprise Development Agency plays a significant role in providing financial instruments to SMEs and helping them to reach needed funding. Over the last seven years, the Agency has pumped EGP 36 billion into over 1.4 million MSMEs.<sup>24</sup>

7

## D. Limited role of non-banking financial institutions

The non-banking financial sector in Egypt is underdeveloped; non-banking financial institutions' assets represented 11.6 per cent of GDP in the fiscal year 2018/19.<sup>25</sup> Despite the improvement over previous years, there is still significant potential for advancement in the non-banking financial segment. The Financial Regulatory Authority has set a number of strategic objectives for non-banking financial markets to help achieve the Egypt Vision 2030. In particular, the Authority aims to enhance the sector's legislative framework and prepare the infrastructure needed to introduce new financial

instruments and structural reforms. Although there have been many improvements over the past few decades, the size of non-banking financial institutions did not increase much compared to the size of the banking sector, as evidenced by the small differential between financial system deposits and bank deposits (referred to in the previous section).

According to the Authority's official website, investment funds in 2019 totaled 110 and are categorized as follows: 89 funds established by banks, 3 funds established by insurance

companies and 18 investment funds established in the form of joint stock companies. Once again, this signals the dominance of the banking sector. This section provides an overview of the performance of the most important non-banking financial institutions in Egypt.

## 1. Non-banking financial services and the microfinance market

Arguably, one of the most dynamic non-banking financial services is microfinance, which has thrived exclusively after the promulgation of a new microfinance law in 2014. According to available data from the Financial Regulatory Authority, the microfinance loan portfolio of Egypt grew at a three-year compound annual growth rate of 54 per cent, reaching EGP 16.5 billion (\$1 billion) in 2019. The average loan size doubled from 2016 to 2019, increasing from EGP 2,463 (\$151.18) to EGP 5,304 (\$326.89). The number of beneficiaries grew at a compound annual growth rate of 19 per cent over the same period, to 3.1 million.<sup>26</sup> Population growth and the relatively low banking sector penetration rate served as a strong catalyst for microfinance market growth.

Aiming to facilitate the growth of the non-banking financial services segment, the Egyptian Government, the Financial Regulatory Authority, and the CBE put forth several strategies, which included setting a minimum paid-in capital for companies financing SMEs and those offering microfinance lending worth EGP 20 million (\$1.2 million) and EGP 5 million (\$308,000), respectively; urging NGOs and lending companies offering microfinance loans to provide insurance coverage for their borrowers equivalent to their outstanding loans; and obliging leasing companies to abide by nine financial solvency standards, such as a minimum capital adequacy ratio of 10 per cent with a three-year target of 12 per cent.<sup>27</sup>

Other popular non-banking financial services include securities, insurance, consumer finance and mortgage finance, some of which are discussed in depth in the following sections.

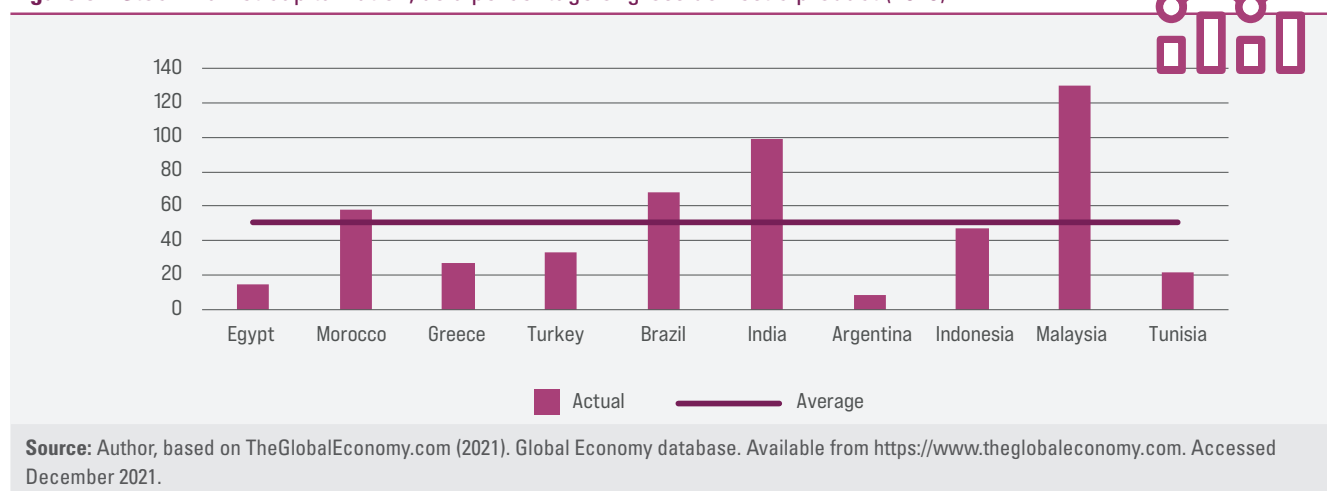
## 2. Securities market

The Egyptian stock market has undergone substantial developments since the 1990s, mainly through the Economic Reform and Structural Adjustment Programme and the “Egypt capital markets development project” in the 1990s. Such developments included automated trading, better transparency and disclosure procedures, and enhanced flexibility and diversity of the market. Currently, the Egyptian Exchange records 224 listed stocks, according to its official website. Figure 83 is a time series of the stock market capitalization index. There is a notable upward trend lasting until the global recession, from which recovery took several years, especially given the political turmoil in the country beginning in 2011. The index, as expected, subsequently took another downturn with the COVID-19 crisis.

When compared to other emerging economies, Egypt is lagging behind in the capitalization of its stock market. As shown by figure 84, stock market capitalization as a percentage of GDP is significantly below average.

Aggravated by regional turmoil, the market liquidity continues to be low. This signifies the immaturity of the market. According to the official website of the Financial Regulatory Authority, the total value of trading during 2019 increased by 14.3 per cent compared to 2018; however, as a percentage of GDP, the stock market value traded remains extremely low, at 4.43 per cent in 2020.<sup>28</sup> The result of poor stock market liquidity is a waste of potential financial leverage. ElBannan provides empirical evidence that stock liquidity increases leverage in the case of Egypt as an emerging economy, unlike in a developed economy like the United States of America.<sup>29</sup>



**Figure 83.** Market capitalization – Egyptian Exchange index**Figure 84.** Stock market capitalization, as a percentage of gross domestic product (2020)

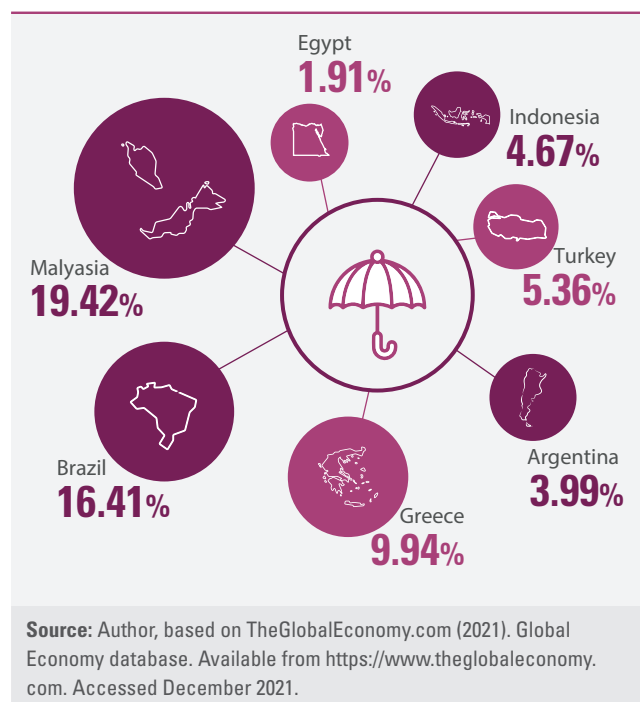
In general, the development of the Egyptian securities market remains considerably below its potential. According to the available data, the bond market also exhibits immaturity and poor capitalization; the corporate bond issuance volume to GDP amounted to approximately 0.3 per cent in 2010. Furthermore, investment financed with equity or stock sales represented 1.2 per cent of total investment in 2013.

### 3. Insurance sector

The insurance sector of any economy has the capacity to function as a growth driver, mainly through providing risk alleviation and loss indemnification to production activities. The

empirical analysis presented by Chang also suggests that in developing economies, private credit from the financial sector responds positively to the size of insurance assets.<sup>30</sup> This means that increased insurance activities could enhance access to finance for the private sector and thus improve capital formation in the MENA Region. This finding is particularly relevant in Egypt, where credit to the private sector is largely constrained. Furthermore, an enhanced insurance sector would help increase financial resilience. Insurance has proven to lessen the damage sustained by a financial disaster and increase the corresponding speed of recovery.<sup>31</sup> That is the basis for the recent global initiatives for disaster risk reduction, launched primarily by the World

**Figure 85.** Insurance company assets, as a percentage of gross domestic product (2019)



Bank in partnership with the governments of some developed economies. Despite the lack of a clear national strategy, Egypt has been a beneficiary of the global Disaster Risk Financing and Insurance (DRFI) in an attempt

to improve the country's risk management capacity and financial resilience.

Similar to the securities market, the size of the insurance sector in Egypt is also limited. As shown in figure 85, in 2019, Egypt lags behind in terms of the volume of insurance company assets, compared to other emerging countries.

Table 20 also shows that Egypt exhibits the lowest figure for insurance premiums as a percentage of GDP among the selected group of emerging economies. This is certainly an indication of wasted potential for growth, especially given the large market stemming from the country's massive population, which is also gradually ageing. Nevertheless, this also shows that there is significant potential in the insurance sector in Egypt.

The COVID-19 crisis is seemingly causing insurance sectors worldwide to expand, as individuals, companies and governments increasingly prioritize resilience and agility. This is particularly true for insurtech companies, which are positioned for success. Consequently, the pandemic could be an extra driver for the Egyptian insurance sector to flourish.

**Table 20.** Total volume of insurance premiums (2020)

| Country      | Total volume of life and non-life insurance premiums (percentage of GDP) |
|--------------|--|
| Brazil       | 1.41   |
| Egypt        | 0.68   |
| Greece       | 2.00   |
| India        | 3.31   |
| Indonesia    | 1.68   |
| Malaysia     | 3.48   |
| Morocco      | 3.34   |
| South Africa | 12.67  |
| Tunisia      | 1.98   |
| Turkey       | 1.20   |

**Source:** Author's calculations, based on World Bank (2021). Global Financial Development database. Available from <https://databank.worldbank.org/source/global-financial-development#>. Accessed January 2022.

## 4. Mutual funds

Relative to other non-banking financial institutions, mutual funds have been growing in Egypt. Mutual fund assets made up almost 5 per cent of GDP in 2009.<sup>32</sup> Youssef and Zhou provide empirical evidence that greater independence of fund directors, as well as fund directors being different from equity owners, would further improve the performance of mutual funds in Egypt.<sup>33</sup>

On a related note, Kordy and others show that money market funds in Egypt, and in emerging economies generally, do not provide investors with the desired safety usually present in this type of investment. They recommend the use of floating net asset value instead of amortized net asset value to counterbalance market disruptions signaled by severe interest rate volatility.<sup>34</sup>

## 5. Pension funds

Unlike mutual funds, the size of the pension funds market in Egypt is currently extremely small; nevertheless, it has tremendous potential. Pension funds' assets amounted to 1.5 per cent of GDP in 2019.<sup>35</sup> The Egyptian pension funds market is almost all public, and the percentage of Egyptians covered by the public pension system is estimated to exceed 80 per cent of the employed population, one of the highest levels among developing countries. Every employer is obligated to enroll in the relevant public pension scheme via the social security authority. Although most private companies provide private insurance for their employees as part of their benefits package (private insurance is typically more generous), which makes them legally eligible to opt out of the public pension scheme, it is common for such companies to continue enrolling all their employees in public pension schemes.

It is worth noting that Egypt is undergoing a pension system reform, moving away from a clear-cut, pay-as-you-go scheme to a scheme closer to a fully funded system. Under the new regime, a unified retirement fund is being established

for all categories and all types of insurance, as opposed to separate funds for civil servants and employees in the private sector. The new scheme also covers new categories of employees who were not covered by the old regime. All of these developments suggest that the pension funds market in Egypt is likely to grow and witness major changes in the coming few years, which could be a great opportunity for the Egyptian Government. In light of the urgent need for more capital to finance the SDGs, pension funds could contribute to reducing financing gaps. The real challenge would be for development organizations to develop methods to attract this typically risk-averse capital and strike a balance between development impact and risk-adjusted returns.

## 6. The potential role of the non-banking financial sector in fostering economic growth

Although the role of non-banking financial institutions in Egypt is currently limited, there seems to be great potential for insurance companies, pension funds and investment institutions such as mutual funds to have a meaningful contribution to economic growth. Zhou and Dev find a bidirectional relationship between shadow banking and economic growth. Rateiwa and Aziakpono also show that there is a long run equilibrium relationship between economic growth and the development of non-banking financial institutions. They demonstrate



**Pension funds market in Egypt is likely to grow and witness major changes in the coming few years.**

that a bidirectional causal relationship exists between both variables.<sup>36</sup> The finding that the causality is bidirectional is double-edged. On the one hand, promoting the development of non-banking financial institutions can enhance economic growth; on the other hand, poor economic growth can negatively affect the development of non-banking financial institutions and lead to slower growth.

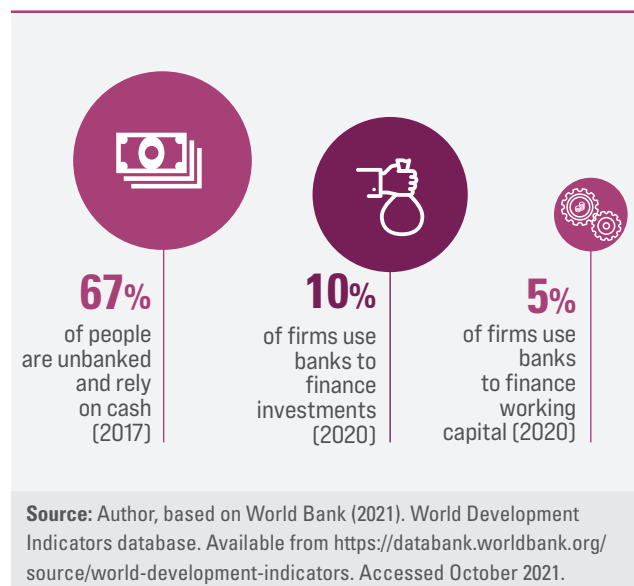
There is generally a strong trend in the literature to promote non-traditional banking in order to foster economic growth. More interestingly, agent banking enables non-banking formal services to represent a significant driver for formal financial inclusion. In Egypt, the CBE empowers mobile network operators and other non-banking financial sectors, leveraging them as bank agents to reach out to different segments in the Egyptian market in order to provide various financial services. Nevertheless, an equally strong trend highlights the risks that accompany the growth of shadow banking activities.

As in the case of the Great Recession, the problem was aggravated by the unanticipated behaviour of investors in shadow banks removing their funds all at once. Further issues with shadow banking continue to prevail for many reasons, but primarily because of the difficulty in estimating the size of the shadow banking sector and insufficient transparency and disclosure obligations. Zhou calls for targeted functional regulation to encourage shadow banking activities while limiting the corresponding potential risks by way of solid macroprudential policies.<sup>37</sup> This leads to the belief that good governance is key for financial development and inclusion. Emara and others illustrate that in order for macroprudential policies to have a positive impact on financial inclusion, good institutional quality must prevail.<sup>38</sup> In addition, Lemma argues that caution must be exercised when implementing expansionary monetary policies since they generally increase the liquidity available on the market, thereby reducing flows that feed the shadow banking sector with secure loans.<sup>39</sup>

## E. Informal finance

Informal finance refers to contracts or agreements on financing sources conducted without recourse to the legal system. Typical forms of informal finance include trade credit, pawnshops, community cooperatives, private moneylenders and interpersonal borrowing, such as from family members or friends. Although informal finance provides financial services to people who otherwise have limited access, improving access to finance has empirically been proven to minimize the size of the informal sector in the MENA Region and thus reduce the likelihood of moneylenders exploiting market power with usurious interest and unfair seizure of collateral. Difficulties in regulating and monitoring the informal financial market have also raised concerns.

**Figure 86.** Access and use of financial services

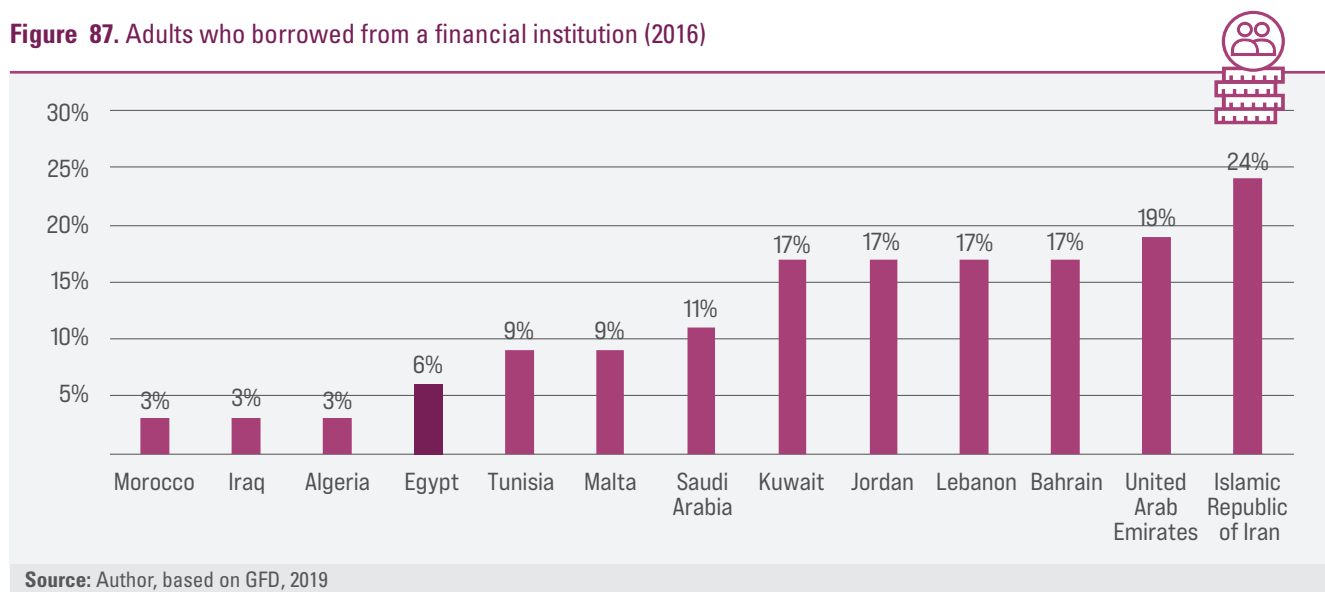


## 1. The informal financial market in Egypt

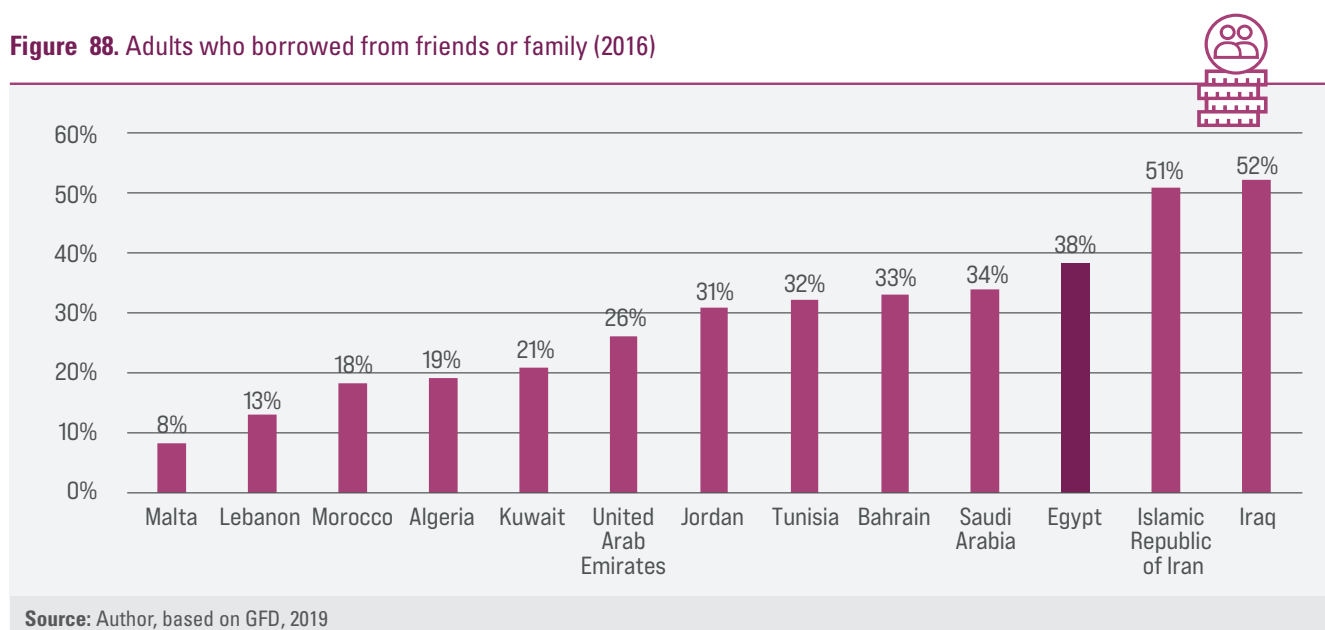
Egypt is one of the countries where the informal financial economy thrives, and the most common forms of informal finance are rotating savings and credit associations, village savings and loan associations, accumulating savings and credit associations and occasional borrowing from relatives and friends. According to World Bank data, 49.1 per cent of people in Egypt who are aged 15 years or older borrowed money

in 2016. Among those who borrowed, 77.4 per cent borrowed from family or friends while only 12 per cent borrowed from a financial institution. Similarly, 30.6 per cent of people saved money in 2016, but only 6.2 per cent saved at a financial institution. The data reflect the extent to which people in Egypt have relied on informal finance. Moreover, a survey by the University of Chicago in 2000 shows that among the 86 per cent of households that participated in either the formal or informal credit market, 69.5 per cent reported links to the informal sector, while only 46.5 per cent had links to the formal sector.<sup>40</sup>

**Figure 87.** Adults who borrowed from a financial institution (2016)



**Figure 88.** Adults who borrowed from friends or family (2016)

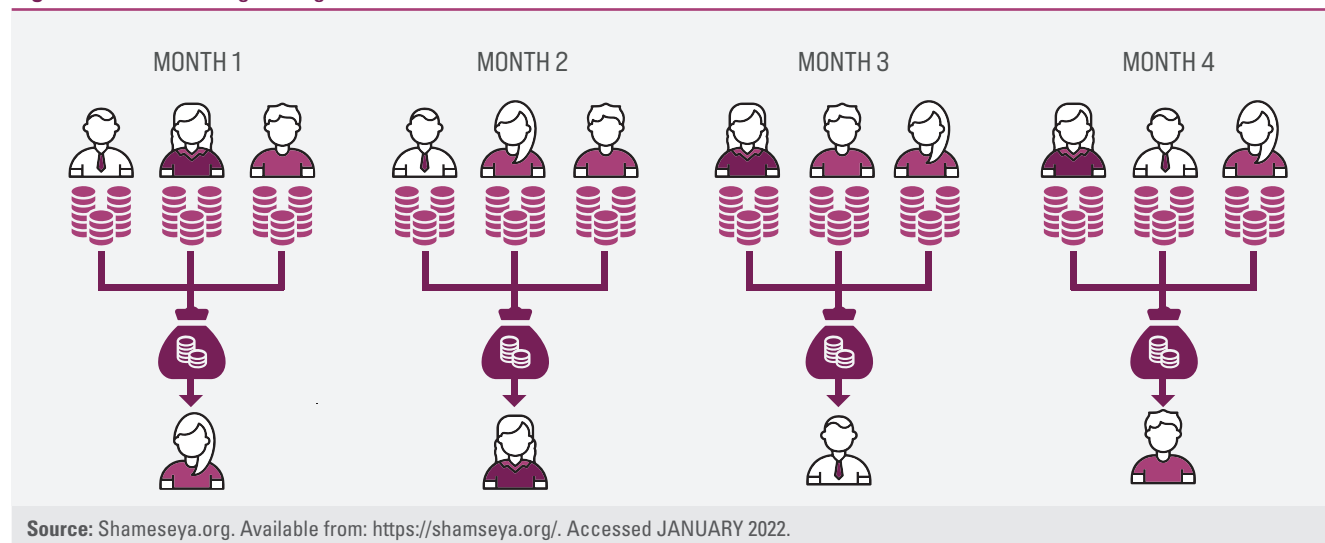




**Table 21.** Comparison of rotating savings and credit associations and Principal Bank for Development and Agricultural Credit services

| Rotating savings and credit associations (informal finance)                             | Principal Bank for Development and Agricultural Credit services (formal finance)         |
|---|--|
| Flexible loan contracts   | Less flexible loan contracts and deposits  |
| Lower transaction costs for institutions and agents                                     | Higher transaction costs for institutions and agents                                     |
| Resolves problems with asymmetric information and agency directly                       | Resolves problems with asymmetric information and agency at some cost                    |
| Immediate matching of surplus and deficit units (discontinuous intermediation)          | Flexibility in matching surplus and deficit units (continuous intermediation)            |
| Limited scale and scope of financial services   | Large scale and scope of financial services  |
| Concentrated portfolio (higher risk)  | Diversified portfolio (lower risk)   |
| Liquidity problem   | More available liquidity   |
| Compulsory saving (social obligation)   | Voluntary saving (no social obligation)  |
| Credit reserves   | No credit reserves   |
| No explicit interest payments on loans or deposits (consistent with Islamic principles) | Interest payment on loans and deposits (offers some types of Islamic financial services) |

Source: Author, based on Baydas, M. and others (1995). Informal finance in Egypt: “Banks” within banks. *World Development*, vol. 23, No. 4, pp. 651–61.

**Figure 89.** The rotating savings and credit associations model

## 2. Low financial penetration and financial access

The pervasion of informal finance in Egypt reflects a fundamental issue: low financial penetration and limited access to finance. Despite efforts to

prioritize financial inclusion over the last several years, Egypt has one of the highest levels of financial exclusion compared with other countries in the MENA Region. An improvement of 10 per cent in financial access measures leads to an increase of 0.03 per cent in GDP growth in the region.<sup>41</sup> According to the most recent data from

2017, 67 per cent of people in Egypt are unbanked and rely primarily on cash, which means that two thirds of the population is cut off from formal banking and financial services (figure 86) and only 3.3 per cent of people own a credit card.<sup>42</sup> A similar situation is also evident at the corporate level. The 2020 World Bank Enterprise Survey indicates that only 10.3 per cent of Egyptian firms surveyed claimed to have access to financial instruments. In addition, 18.3 per cent reported encountering significant constraints in access to finance, which is proven to reduce economic growth, particularly in the presence of weak governance measures.<sup>43</sup> Moreover, in 2020, the number of borrowers from commercial banks amounted to only 124 per 1,000 adults. With such a low financial penetration rate, it is not surprising to observe the growing trend in the informal financial market.

### 3. Other historical reasons for thriving informal finance

Nevertheless, financial exclusion is not the only reason for the development of informal finance. During the 1990s, the overall repression of formal financial markets, large inflows of overseas workers' remittances and other distortions in the economy fostered the growth of informal finance. The growth of the private sector in agricultural markets at the time further stimulated the expansion of the informal financial market. Owing to the privatization of the farm marketing system, the market has more power in determining interest rates, and credit subsidies have reduced dramatically. These changes resulted from various reforms and increased the farmers' incomes, enabling them to engage in financial activities such that the demand for rural financial services grew sharply. In the early 1990s, however, villages generally lacked banks, and the Principal Bank for Development and Agricultural Credit became a monopoly, with approximately 900 banking units within the country.<sup>44</sup> In response to the insufficient provision of rural financial services, informal finance has grown to become one of the financial arrangements in which many Egyptian rural firms

and households regularly participate (compare figures 87 and 88).

## 4. Rotating savings and credit associations

Rotating savings and credit associations, called "gam'iyas" in Egypt, are self-help financial groups that are popular and widely used in Egypt to address financial needs, including new births, deaths, marriages and health concerns. Under a gam'iya, each member of the group periodically contributes a given amount or share to a pot, and the funds from the pot are distributed in turn to one or more of the members. Once every member has received a share, the group can either disband or adjust its members and continue. Since it is a form of informal finance, there are no legal contracts, and it relies heavily on mutual trust and the fulfilment of mutual interest within the group (figure 89). Village savings and loan associations use the core structure of rotating savings and credit associations and add greater flexibility in savings and loans, while reinforcing the accountability elements. Accumulating savings and credit associations, unlike rotating savings and credit associations, allow the savings to be accumulated rather than redistributed instantly, with a member appointed to manage an internal fund.

Although policymakers often assume that the emergence of rotating savings and credit associations and other forms of informal finance is due entirely to limited access to finance, the research of Baydas and others shows that even among those who are well educated and have ready access to formal financial institutions, many still prefer informal finance because formal finance in Egypt does not provide the types of financial services they require.<sup>45</sup> Formal institutions are attractive in their liquidity, efficiency and security; nevertheless, certain unique features of informal finance cannot be substituted. These include flexibility, a social reserve that can be called upon in times of emergency and consistency with Islamic laws on interest payments. Table 21 depicts

some major differences between Principal Bank for Development and Agricultural Credit services and rotating savings and credit associations.

## 5. Characteristics of the informal financial market

Generally, people in Egypt prefer to fund themselves whenever possible, so they are unlikely to choose borrowing from the informal financial market unless they run down their savings. This can be beneficial, as the informal financial market bears the risk of encountering loan sharks, or people who lend money at an unreasonably high interest rate that goes against legislation. Although a representative of the Egyptian Organization for Human Rights claims that this practice is not a widespread phenomenon in Egypt, some studies describe

the informal financing system as “costly, risky and inconvenient.”<sup>46</sup>

Moreover, according to a study by Mohieldin and Wright, income has a positive and increasing impact on the probability of taking out an informal loan, since informal professional moneylenders would believe they have a greater chance of recovering the principal.<sup>47</sup> Hence, unless the moneylenders are their relatives or good friends, people who live in rural houses or separate rooms in shared houses are less likely to borrow successfully from the informal financial market, since they are considered as having low wealth and income. The same study also shows that individuals who have a waged income are less likely to borrow from informal finance because their income source is relatively secure and stable, and they have a low chance of unexpected shortfalls in income.

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## F. Financing for sustainable development

As countries grow and strengthen their economies, it is important to assess whether the growth is sustainable in the long run. International organizations such as the United Nations and the World Bank have increasingly become more concerned with this concept of sustainable development. According to the World Bank, a financial system has key functions such as producing information about investments and distributing capital; facilitating the exchange of goods and services; and mediating trading, diversification and risk management.<sup>48</sup> There are costs associated with these functions that are critical to determining the efficiency and development of the financial system. In fact, the World Bank defines financial development as overcoming costs that are products of the financial system. Financial development therefore occurs when financial instruments, markets and intermediaries (which improve the capability of key functions) facilitate information, transaction costs and enforcement of

monetary policy. Financial sector development is an important concept because it plays a significant role in economic development. It assists with capital accumulation and technological progress, increases access to information and enhances investor confidence. Additionally, it expands access to finance to poor and vulnerable groups, which aids in reducing poverty and inequality. Given the benefits of developing the financial sector, it is clear why international organizations are becoming increasingly interested in assisting developing countries with sustainable development.

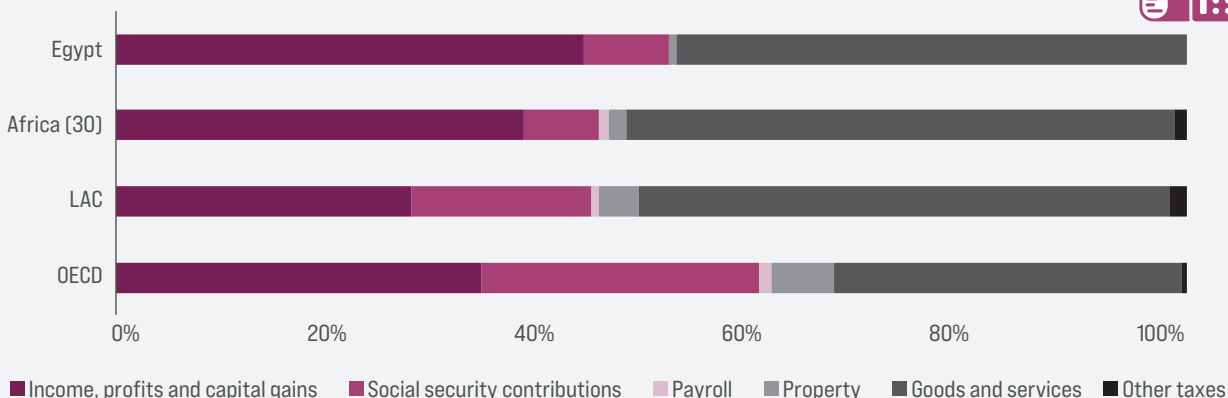
It is also important to discuss the concept of FFD. The World Bank has formulated an approach called “maximizing finance for development” to support developing countries’ sustainable development by leveraging all sources of finance. Essentially, this approach uses a variety of financial infrastructure and monetary policy to improve the lives of people in developing countries. Unfortunately, many of

**Figure 90.** Tax-to-gross domestic product ratio over time (percentage)

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Source: Author, based on the Organization for Economic Cooperation and Development (2020). Revenue Statistics in Africa 2020: 1990–2018. Paris.

**Figure 91.** Structure of tax revenues, as a percentage of total taxation (2018)

Source: Author, based on Organization for Economic Cooperation and Development (2020). Revenue Statistics in Africa 2020: 1990–2018. Paris.

the countries in need of FFD would not be able to source these funds themselves, which is where international organizations play an important role.

## 1. The situation since the Addis Ababa Action Agenda

In 2015, the Addis Ababa Action Agenda created a global framework for financing development based on the SDGs and indicated important aspects of financial systems for further focus. In an attempt to promote inclusive economic growth, protect the environment and promote social inclusion, the 193 Member States of the United Nations reached an agreement to focus on seven action areas: domestic public resources; domestic and international

private business and finance; international and development cooperation; international trade as an engine for development; debt and debt sustainability; addressing systemic issues; and science, technology, innovation and capacity-building. In the present report, special attention is given to domestic public resources and domestic and international private business and finance, since they involve major sources of finance.

As a result of the Addis Ababa Action Agenda, international organizations such as the World Bank and the United Nations have been diligently working towards sustainable growth for developing countries; however, these goals would not be possible without sufficient financing to achieve them. In fact, the World Bank estimated the

global cost of achieving the SDGs to be \$4 trillion to \$4.5 trillion a year through 2020.<sup>49</sup> Even when combining development aid, remittances, foreign direct investment and philanthropy, the world still has a \$2.5 trillion financing gap every year. This is one of the main reasons why “maximizing finance for development” proposes increasing the role of the private sector and relying on it as a source of finance, innovation and expertise to help countries reach their development goals.

“Maximizing finance for development” plans to utilize public resources and garner private resources to assist with development while not encumbering those countries that have unsustainable debt or liabilities. For example, Indonesia struggled with a significant lack of access to electricity, despite having 40 per cent of the world’s geothermal reserves. One reason they were originally unable to access these reserves was due to the high cost. Fortunately, the World Bank created an innovative credit facility to assist with financing to provide more access to electricity.

## 2. Domestic public resources

Domestic public resources cover the quantity and quality of domestic resource mobilization, including taxation and budgeting and the use of resources. They play a significant role in FFD by increasing equity and ensuring macroeconomic stability. Since the Addis Ababa Action Agenda, the tax-to-GDP ratio of Egypt has shown an upward trend, from 15.6 per cent in 2015 to 16.7 per cent in 2018 (figure 90), indicating greater domestic resource mobility. This ratio is calculated on the basis of a calendar year using tax revenue figures submitted by focal points from Ministries of Finance, tax administrations or statistics offices and GDP figures from the IMF World Economic Outlook.<sup>50</sup> Coinciding with the global trend of developing countries relying more on corporate income taxes than developed countries, the corporate income tax in Egypt accounted for 28 per cent of its total tax revenue in 2017,

followed by other taxes on goods and services (23 per cent) and VAT (21 per cent) (figure 91).

Having greater tax mobilization, however, is far from enough, since maintaining this upward trend and using resources effectively are equally important. Potential tax avoidance and evasion and corruption must be evaluated to ensure that the system is fair and provides stable public and social welfare in order to achieve the SDGs. According to PricewaterhouseCoopers Middle East, the informal sector in Egypt accounts for 40 per cent of the country’s GDP. In particular, 85 per cent of SMEs are considered informal and 40 per cent of cash-based transactions take place in the informal sector.<sup>51</sup> It follows that the thriving informal economy in Egypt should also be regulated and absorbed into the formal economy to prevent further loss of tax revenue. In terms of tax administration, efficient tools like the Tax Administration Diagnostic Assessment Tool (TADAT) can be adopted to measure key components of tax administration and assist in decision-making regarding tax administration reform.<sup>52</sup>

The Government should also consider investment in technology and digitization to support all parts of the fiscal system, such as e-filing of tax returns, to make the entire process simpler and faster. This would also help avoid any potential tax revenue loss, which occurs when tax returns are transferred physically, since it is easier to make mistakes when returns are processed manually. Since 2015, digital technologies have played a significant role in FFD, particularly in financial markets, public finance and development pathways (i.e. trade and investment). Key digital technologies include cloud computing, big data, artificial intelligence and distributed ledger technology. Digitization fosters financial inclusion, enabling more individuals to access financial services in an increasingly convenient way. Actions currently being taken by the CBE include the release of new versions of regulations governing mobile payments, technical payment aggregators and payment facilitators, internet banking, quick



response code standards and prepaid cards. During the COVID-19 pandemic, the unique benefits of a digital economy have become more evident, as it facilitates the normal operation of financial activities, such as transferring money and making payments, with minimal human interaction.

Another major advantage of digitization is the creation of more effective flows or exchanges of information, goods and services, which makes e-government extremely beneficial. E-government refers to the use of ICT by government agencies that are responsible for transferring information between people, businesses and all other governmental stakeholders. Interaction with e-government takes several vivid forms, such as government-to-citizen, government-to-government, government-to-employee and government-to-business. In addition to e-filing for tax returns, as mentioned previously, other examples of e-government include sending information on general holidays and other notifications via the Internet, as well as allowing citizens to apply for services or grants and engage in dialogues with governmental agencies online.

While the Egyptian Government is considering expanding the development of e-government, it is equally important to note that there are certain associated disadvantages, such as the lack of equal public access to the Internet and electronic devices, which are essential to e-governance. The digital divide can be a problem if there are relatively high poverty rates in certain regions of the country, where low-income people either cannot afford or have limited or no access to the Internet, computers or mobile phones. Another drawback is the lack of reliability of information posted online, as well as vulnerability to cyberattacks and fraud.

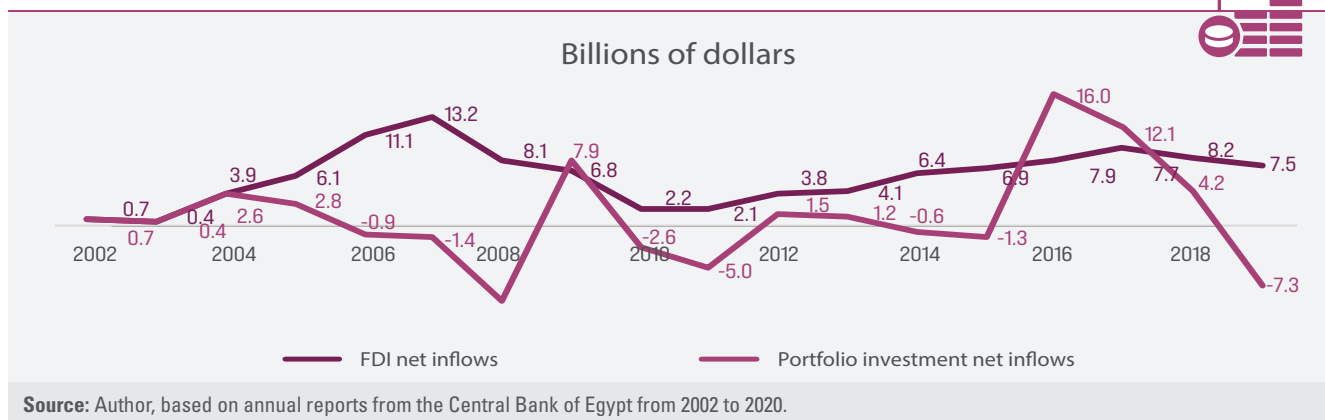
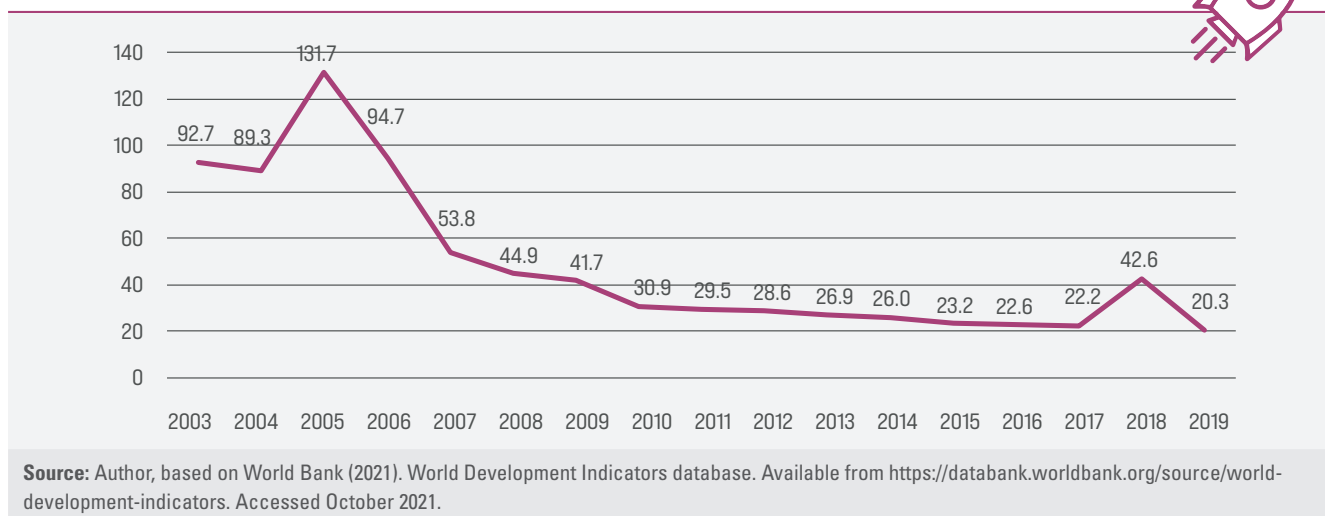
Moreover, as the public sector accounts for a large portion of FFD, their indicators could be sensitive to adaptation with Basel III, which imposes certain standards on bank capital

adequacy and market liquidity risk. With a much larger capital base, the banking sector is more resilient to any potential financial crisis, such as the economic breakdown during the COVID-19 pandemic. The decrease in the volatility of the banking sector ensures the stable financing of domestic public resources for the SDGs. In particular, Basel III allows banks to continue providing credit to individuals and businesses despite the ongoing crisis, thereby enabling firms to continue normal operations and preventing the risk of a significant drop in tax revenue.

### 3. Domestic and international private business and finance

Another crucial aspect of FFD is to foster an economic environment that allows private businesses to engage in activities and investment with their innovation. The investment trends of Egypt over the past decade reveal the following features: (i) a gradually increasing trend of foreign direct investment net inflows, which reached \$7.5 billion in 2019; (ii) low and fluctuating portfolio investment net inflows, revealing a falling trend and reaching a deficit of \$7.3 billion in 2019; (iii) a relatively stable cost of business start-up procedures of an average of approximately 29 per cent of GNI per capita over the period 2009–2019; and (iv) a decrease in the ratio of remittance inflows to GDP over the past three years.

Egypt was the largest foreign direct investment recipient in Africa in 2018, with a significant amount of investment skewed towards the oil and gas industry. Several large investment projects are also taking place in other sectors, such as a \$2 billion project to improve grain storage infrastructure by Nibulon, a Ukrainian agricultural company, and a \$1 billion project for the construction of a medical city with Atraba Integrated Holding, a Saudi Arabian company.<sup>53</sup>

**Figure 92.** Investment of Egypt**Figure 93.** Cost of starting a business in Egypt, as a percentage of gross national income per capita

As a more stable source of external finance, foreign direct investment enhances productive capacity, creates employment and fosters globalization by facilitating the integration of domestic Egyptian companies into the international value chain. Acknowledging these benefits, the Government announced Law No. 72 on investment in 2017, which simplified the incorporation process and provided additional incentives to attract foreign investments such as tax exemptions, unified customs rates and free land.<sup>54</sup> The increase in foreign direct investment from \$6.9 billion in 2016 to \$8.2 billion in 2019 partially demonstrates the effectiveness of this new policy.

The trend in the portfolio investment of Egypt is less optimistic. Portfolio investment generally

covers transactions in equity securities and debt securities. In 2019, the net inflows of portfolio equity, including equity securities other than those recorded as direct investment, reached -\$12 billion, and the portfolio investment was -\$7.3 billion (figure 92). This area therefore requires careful management and strategic planning in FFD, especially given the volatile nature of these types of investments.

In terms of private sector development, although the general trend reflects a slowly falling cost of starting a business, as shown in figure 93, the average cost of 27.28 per cent of GNI per capita over the period 2009–2019 is still relatively high compared to 2019 data from some other MENA countries like Morocco (3.6 per cent), Saudi

Arabia (5.4 per cent) and Tunisia (2.9 per cent).<sup>55</sup> Such costs and other barriers to entry should be reduced in order to encourage domestic entrepreneurship. As explained in chapter 3, the increased fiscal consolidation is expected to facilitate greater participation by the private sector.

Other ways to foster the private sector include lowering the administrative burden of regulatory compliance and improving the efficiency of business facilitation measures, which includes providing comprehensive online information portals to increase transparency and prevent asymmetry in terms of access to information. To maximize the private sector's contributions to sustainable development, strategies concerning the private sector must be coherent with the SDGs.

As it did for Indonesia, the World Bank explored opportunities and barriers to expand commercial finance and private investment in Egypt. The Government selected four priority sectors: energy, transport, water and sanitation and agriculture. The energy sector consists of oil and gas transmission and distribution, as well as electricity generation, transmission and distribution.

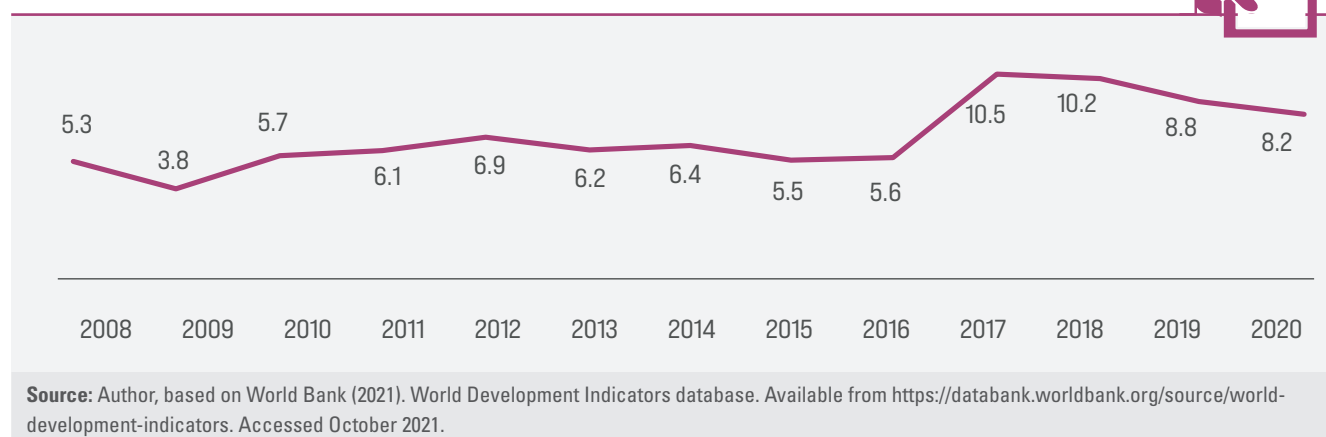
Transport includes multimodal freight transport and logistics, which cover airports and railways. Water and sanitation cover bulk water supply and distribution, as well as wastewater treatment. Lastly, agriculture covers value addition and transformation, enhanced efficiency of value

chains, and sustainable water and land resource management. Each of these sectors has costs associated with its development, much like Indonesia and its geothermal reserves. In these cases, there are clearly ample opportunities to introduce new and improved technologies in order to increase private funding and utilize public resources to fund these developments.

Thus far, the World Bank has made strides within Egypt through the International Finance Committee, which has invested \$723 million in Egypt to promote investments, increase standards of education and create jobs. Additionally, the Committee has provided advising services to improve access to finance and assist in the development of SMEs and public-private partnerships<sup>56</sup>. While these are efforts currently being undertaken, tapping into the private sector's potential will generate sustainable growth and improve the lives of people in the country.

In terms of creating jobs, the Committee plans to focus on creating jobs for young people, given that unemployment is a significant issue in Egypt and for this demographic in particular.<sup>57</sup> In fact, the youth unemployment rate in Egypt in 2020 was 29.96 per cent. While it is important to consider the impact of COVID-19 on unemployment, it is also important to note that youth unemployment has trended above 20 per cent since at least the early 1990s<sup>58</sup>.

**Figure 94.** Remittance inflows for Egypt, as a percentage of gross domestic product



As mentioned in chapters 3 and 6, public-private partnerships also provide Egypt with significant opportunities to expand the role of the private sector to improve FFD. Egypt has established a number of such partnerships throughout its history, some of which culminated in success while others were unsuccessful. Kamel and others examined public-private partnerships in Egypt, including previous case studies, and the way in which they should function in the present day to increase the probability of success. They determined that the Government must treat such partnerships with professionalism and take a holistic approach to avoid the factors that led to failure in the past.<sup>59</sup> Samir and Maher also explored the history of public-private partnerships in Egypt and found that environmental factors, specifically political and economic stability and the legal framework, are key to success.<sup>60</sup>

Beginning in 2017, the inflow of remittances, including personal transfers and employee compensations, increased in Egypt (figure 94). In light of the COVID-19 pandemic, however, there was a 0.6 per cent decline in remittance inflows to GDP. While GDP experienced an increase of 19.8 per cent in 2020, overall remittance inflows shrank, partially because of weak economic growth and employment levels in migrant host countries.<sup>61</sup> The higher ratio of remittances to GDP underscores the importance of managing and reducing associated transaction costs. Emara and Zhang show that an improvement of 10 per cent in digitization measures increases remittance inflows by 0.14 per cent in emerging countries.<sup>62</sup> In the MENA Region, the average cost of sending \$200 in 2019 was 7 per cent, much higher than the target of 3 per cent set in the Addis Ababa Action Agenda and the 2030 Agenda. Fintech companies tend to charge lower transaction fees than conventional money transfer service providers like banks. Thus digitization plays a critical role in increasing efficiency, leading to reduced transaction and production costs.

According to the United Nations, fintech solutions and digital channels can be utilized to reduce overall costs to meet the 3 per cent goal<sup>63</sup>. Digitization shortens the processing time such that the transfer process becomes almost instantaneous and is very low in cost, maximizing both effectiveness and efficiency. The Egyptian Government should therefore invest more in technology and digitization and implement policies to encourage the ICT industry to expand research and development to digitize the financial sector. Although the state of digitization in Egypt, and digital banking in particular, still has a long way to go, the past few years have shown remarkable improvement, especially with the onset of the COVID-19 crisis and the need for reduced physical interaction. For instance, the Ministry of Finance will replace five million payment cards used for disbursing dues to government employees with free “Meeza” payment cards, which offer some banking services. In addition, the new law for central bank and banking activities, approved by the Prime Minister in July 2020, aims to follow recent banking trends such as e-payments, fintech businesses and cryptocurrencies. In addition, the Egyptian Sovereign Wealth Fund has made significant efforts and deployed resources in this regard. Many fintech start-ups have flourished over the past couple of years, such as Prime Fintech, which was established during the COVID-19 pandemic. Funding has also been received by several newly established fintech accelerator hubs, such as Startupbootcamp and Flat6Labs, and numerous fintech businesses, such as Paymob, ElGameya, Shahry, Fatura and MoneyFellows.

Nevertheless, the Egyptian Government should also bear in mind the potential risks associated with a digital economy, including cybersecurity and fraud. The CBE is already working on developing a computer security incident response team for the banking sector and is providing support to commercial banks to enhance their anti-money-laundering systems.

## G. Potential role of the private sector in closing financing gaps and supporting development objectives

In view of the persistent development needs and prevailing financing gaps, it is becoming apparent that more efforts are needed to solicit funds from the private sector. For the SDGs to be achieved, available resources must be utilized more efficiently and more financing must be sourced from the private sector.

### 1. Financial leverage through securitization to attract private investment

Many discussions are now being held within the development community about securitization and whether it could be the way forward in terms of incentivizing the private sector to participate in development financing. Securitization refers to a process of transforming an illiquid asset or group of assets into a tradable security via financial engineering. Securitization can promote sustainable assets and create investable opportunities by de-risking development projects to better fit the desired risk/return profiles of institutional investors; however, it requires multilateral development banks to play a stronger role as catalysts for private investment by securitizing their loans. It also requires and supports the further maturation of capital markets.

It is also worth noting that there might be room for Islamic banks, which are abundant in Egypt, to engage in securitization with a less risky approach. Drawing on lessons from the Great Recession, Islamic securitization involves lower bank risk than bank securitization, owing to the stricter monitoring conducted under the Islamic model.

### 2. Foreign direct investment

Another typical but central means of FFD is foreign direct investment. Egypt has been

successful in encouraging foreign investors to invest in the country, achieving favourable results in the wake of the global financial crisis and the subsequent local and regional political turmoil.

In order to further encourage foreign direct investment in the country, the financial sector must make advancements. Makoni suggests that there is no evidence that foreign investors are coming to Egypt for its natural resources; however, financial market development plays a crucial role in channeling inward foreign direct investment. Emara and El Said show that a one-notch increase in sovereign ratings enhances foreign direct investment by approximately 0.33 per cent of GDP for a sample of emerging countries, including Egypt. It is promising that Standard and Poor's sovereign credit rating for Egypt has improved over the past few years; it was upgraded from B- to B in 2018 and currently remains at a B with a stable outlook, despite the COVID-19 crisis. Makoni therefore recommends that the Egyptian Government should open the economy by removing trade barriers and continue to provide a welcoming environment to investors.



Despite efforts to prioritize financial inclusion over the last several years, Egypt has one of the highest levels of financial exclusion compared with other countries in the MENA Region.



### 3. Blended finance

Blended finance represents another creative way to encourage the private sector to view investing in development goals as more lucrative. Basile and Neunuebel argue that there is a positive connection between blended finance and political and macroeconomic stability and higher national income. The European Network on Debt and Development highlights the importance of ODA in removing investment barriers, which has a positive impact on private investment in developing countries in situations in which purely commercial motives would have precluded such opportunities.

The efforts made in Egypt should make it an excellent candidate for receiving FFD from the private sector in the form of blended finance. In fact, some successful blended finance projects have already been implemented in the country. In a recent speech, the Minister of International Cooperation mentioned several infrastructure projects that have been executed on a blended finance basis in the COVID-19 era, which helped the economy of Egypt maintain a high growth rate during the global economic slowdown.

### 4. Public-private partnerships

To reiterate, public-private partnerships are another, more typical form of financing sourced partly from the public sector and partly from the private sector. Egypt has a long history of public-private partnership projects. In the 1990s, several sizeable infrastructure projects were implemented under the

scheme, such as Al Alamain International Airport and El-Faum/Aswan Highway.

Previous public-private partnerships encountered issues, mostly stemming from administrative mismanagement, and many unfortunately did not reach the financial closure stage. Egypt then implemented a series of reform measures, which included issuing a special law regulating the public-private partnership scheme (Law No. 67 of 2010) and establishing a special public-private partnership unit within the Ministry of Finance. According to the World Bank report entitled *Benchmarking Public-Private Partnerships Procurement 2015: A Pilot in 10 Economies*, Egypt must enhance the gatekeeping process for such projects and further clarify the role of the Ministry of Finance throughout the entire process, not only during the project solicitation stage. The benefits of the recent reforms to the scheme need more time to develop, following years of political turmoil and global economic crises.

### 5. Comparative advantages of the public and private sectors

There is no doubt that channeling private investment in a way that better serves development goals is no less challenging than obtaining more private investment in the first place. Table 22 below lists foreign direct investment to Egypt by sector in 2019/20. As mentioned in chapter 6, the oil sector receives the most investments by far, despite being one of the sectors furthest from achieving the SDGs.

**Table 22.** Foreign direct investment to Egypt by sector (2019/20)

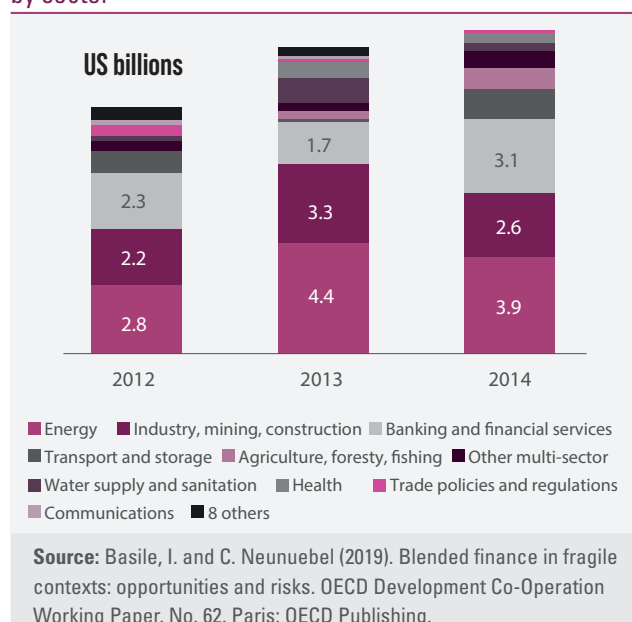
| Main invested sectors | Fiscal year 2019/20 (percentage of total foreign direct investment inflows) |
|-----------------------|---|
| Oil                   | 45.9  |
| Financial services    | 14.1  |
| Manufacturing         | 12.0  |
| Construction          | 5.6   |
| Real estate           | 4.2   |

**Source:** Author, based on data from the Central Bank of Egypt. Accessed 2021.

Even in the context of joint financing between the public and private sectors, it is hard to funnel private investments towards more development-oriented sectors. Although blended finance might allow for better channeling of private capital, private investments tend to concentrate in sectors with clearer revenue streams, such as the energy sector, with an even higher concentration in more fragile economies (figure 95).

Humphrey illustrates that, for instance, a financing gap of approximately \$1 trillion per year exists in the infrastructure of developing countries, while \$100 trillion of institutional investor resources await allocation each year. He emphasizes the role of multilateral development banks in ensuring better allocation of institutional investor funds through the design of tailored and country-specific investment packages and the mitigation of some of the corresponding deterring risk factors. Nevertheless, he also stresses reasonable management of expectations and suggests that, while there is room for better channeling of private credit, a sizeable role for direct financing by governments and ODA will remain. This statement leads to the important observation that having the right mentality is

**Figure 95.** Private finance mobilized through infrastructure, by sector



key, even when attempting to revolutionize the development scene. To expect that private credit will close the current infrastructure financing gap is largely unrealistic; nonetheless, it is crucial to provide more development-centred incentives for the private sector while maximizing the private credit benefits to sectors that are already popular.

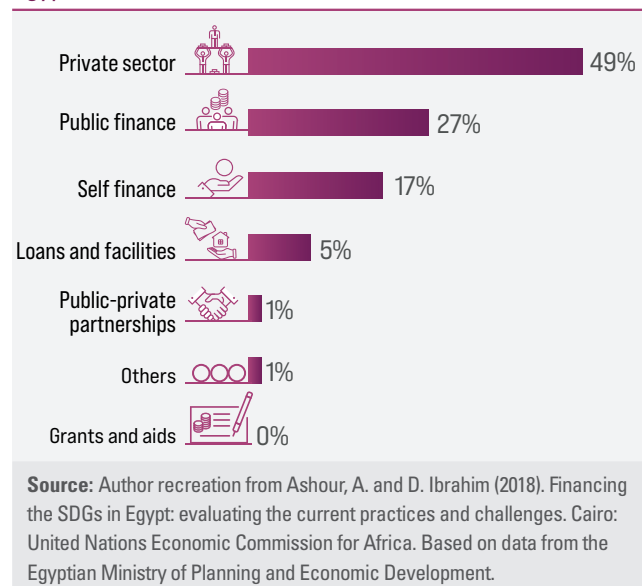
## H. Unique financial challenges and policy implications

Ratha and others show that the developed world's commitment to provide ODA to developing countries continues to decrease, whereas ODA previously constituted up to 70 per cent of financial flows. Moreover, the persistent recession in many European Union countries and the United States, as well as the relatively slow growth in China and South-East Asian countries, makes it more important for developing countries to better mobilize domestic resources and implement out-of-the-box measures to finance the SDGs. This is even more true in the wake of the COVID-19 public health crisis and the resultant global economic recession. As a result, non-banking financial institutions could

play an extremely important role in closing the financing gap for sustainable development projects.

Additionally, the structural ranking analysis conducted by Buletova and Stepanova shows that the position of Egypt in the world rankings in terms of both economic growth and financial development is largely dependent on the level of digitization to be achieved. The Government clearly realizes the importance of digital transformation and has recently made significant efforts to that end. For instance, the Egyptian Ministry of Communications and Information Technology launched a campaign to promote the development

**Figure 96.** Average funding for sustainable development in Egypt (2011–2017)



of the ICT infrastructure and digital services for government entities. Although much more needs to be done in this regard, it is clear that Egypt has acknowledged the importance of e-government since 2004 when it launched the e-government portal. This transformation has also taken place on the financial front; according to its website, the CBE allocated \$1 billion for a fintech fund. Moreover, several fintech startups have been launched in Egypt over the past few years. These include mobile wallets and payment platforms, as well as microcredit and “buy now, pay later” solution providers. This trend has only accelerated with the outbreak of COVID-19. Fintech platforms constitute a revolution in economic development through financial inclusion.

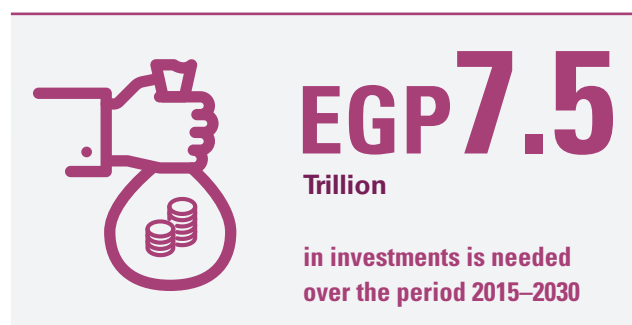
## 1. Financing for development in previous years

Figure 96 illustrates the distribution of FFD among different financing parties between 2011 and 2017 in Egypt. On average, nearly half of the investment in Egypt comes from the private sector. The public sector accounts for 27 per cent, with the majority of public investment flowing into infrastructure sectors and human development. While this shows that Egypt has

been performing relatively well in relation to obtaining funds from the private sector, public investment still depends on the budget deficit allocated to cover investment finance.

## 2. Forecast for Egypt to achieve the Sustainable Development Goals by 2030

Nevertheless, it is important to note that the overall “pie” (i.e. the absolute amount raised for development financing) must increase significantly in order to achieve the SDGs by 2030. There is also a need for a larger relative contribution from the private sector, whether foreign or domestic. It can also be independent or joint funding with the Government in the form of public-private partnerships or blended finance. According to Ashour and Ibrahim, the Egypt Vision 2030 forecasts that LE 7.5 trillion in investments is needed over the period 2015–2030; two thirds of that amount must be financed by the private sector. Ashour and Ibrahim present different FFD scenarios in Egypt to achieve the SDGs. In the moderate scenario, which is neither optimistic nor pessimistic and assumes a partial macroeconomic reform, 30 per cent of FFD will be obtained from the State budget, 60 per cent will come from the private sector and the local community and the remaining 10 per cent will come from loans and grants. Under that scenario, achievement of the SDGs is estimated to reach 63 per cent: full coverage in urban areas and 38 per cent coverage in rural and deserted areas. Unique financial challenges and policy implications.



# I. Conclusion and policy recommendations

In conclusion, achieving the aggressive FFD goals as they currently exist will require Egypt to undertake a series of progressive measures. The most important will be to increase access to finance for the private sector, and SMEs in particular; improve the capacity of non-banking financial institutions; facilitate securitization; better channel foreign direct investment and domestic private capital towards development-centred investments with the proper incentives; and encourage joint financing between public and private parties.

Additionally, Egypt must improve the mobilization and use of domestic resources rather than continue its overreliance on ODA. The fact that Egypt established the Sovereign Wealth Fund in 2018 is a positive step towards attracting more private capital and perhaps increasing the domestic savings rate, which is currently extremely low. Interestingly, Emara and Kasa provide empirical evidence on a sample of emerging countries, including Egypt, which shows that a one-unit improvement in the financial access index leads to a 0.04 per cent increase in domestic savings accumulation as a percentage of GDP. Additionally, Hussein and others suggest that financial development is one of the key determinants for real private savings in the long term.

Other available methods for mobilizing domestic resources include more efficient tax administration and greater efforts to formalize the massive informal sector in the country, possibly by making compliance less costly and offering tax holidays. Furthermore, digitization and new technologies should be utilized to improve FFD. Digitization fosters higher productivity, spurs economic growth and increases employment through the adoption of digital services that connect Governments, enterprises and consumers. Nevertheless, it



**As countries grow and strengthen their economies, it is important to assess whether the growth is sustainable in the long run.**

is important to consider that the impact of digitization may vary significantly depending on the nature of the sector and the economic structure. For instance, tradable sectors benefit more in terms of employment, while non-tradable sectors enjoy benefits to productivity and growth. Policymakers should create and implement digitization plans for targeted sectors to maximize its impact. Moreover, macroprudential regulations should be solidified, particularly in emerging economies, to allow for the development of non-traditional banking, including more innovative financing techniques. It is also important to note that the financial sector ranks behind only telecommunication companies in relation to investing in ICT. This means that financial development is crucial for the development of the digital economy and, consequently, for economic growth.

In view of the analysis of the Egyptian financial sector in this chapter, the following policies and strategies are recommended for improving the sector's capacity and enhancing its contribution to achieving the SDGs.

**Short-term****1**

Streamline the informal sector: in addition to the benefit of mobilizing domestic resources, this would empower players in the informal sector and enable them to have a financial footprint and benefit from literacy efforts usually offered by formal providers.

**2**

Encourage inclusivity in promoting financial inclusion: this would ensure better allocation of the benefits to be reaped from greater access and usage of financial services. A concrete example would be formulating a strategy for increasing access to the Internet in parallel with promoting digitization and Internet banking to ensure that no one is left behind.

**Medium term:****1**

Expand the uses of e-government: in line with measures already being adopted, the Government should seize the opportunity to increase awareness of the efficiency of services provided through the Internet. It should also widen the scope of services offered through its e-portal to include paying for taxes and government services, among other options.

**2**

Increase touch points by financial service providers: this is particularly important given the high population density in urban areas. The introduction and improvement of branchless banks, mobile banking services, agency banking and other emerging technologies is expected to significantly increase banking penetration and access to finance.

**3**

Digitize cash payments: Egypt is still relatively far from the goal of a cashless economy, and the use of cash remains prevalent. Building a strong financial services sector provides tremendous opportunities that stem from digitizing payments, such as utility and merchant payments. A good starting point would be to target the 84 per cent of wage payments made in cash within the private sector, which could be digitally disbursed through diverse financial service providers. The Government has taken the initiative in this regard by introducing Meeza cards to a significant portion of government employees. Incentives should be given to the private sector to embark on similar initiatives under the umbrella of financial inclusion. The new cashless payment law, signed in April 2019, indicates another good initiative to promote a cashless society. Under the law, the public and private sectors must disburse and receive a certain volume of payments through digital channels. The strict implementation and adaptation of the law should improve the efficiency of payment systems and boost digital financial inclusion.

**Long term:****1**

Invest in innovation ecosystems: it is critical to support fintech companies and other financial innovation ecosystems, given that this sector is already extremely promising. While initiatives undertaken by the CBE and the Egyptian Sovereign Wealth Fund are important, they remain insufficient. The Government must spend more on fintech and incentivize the private sector to invest in it.



2

Embark on regulatory reforms: it is obvious that without the appropriate legal and administrative frameworks, it is difficult to achieve goals related to financial penetration and financial inclusion, which are key to achieving the SDGs. Accordingly, the Egyptian Government must focus on gradually improving the regulatory landscape to make it more friendly, for example, in relation to licensing diverse providers. This will encourage strong participation from non-banking financial providers, such as insurance providers, mobile money providers, fintech companies and monetary financial institutions, which have proven to be effective drivers of economic growth.



Another major advantage of digitization is the creation of more effective flows or exchanges of information, goods and services, which makes e-government extremely beneficial.

7



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53. International Finance Corporation, 2020a.

54. World Bank, 2020a.
55. Makoni, 2018.
56. Emara and El Said, 2021.
57. Trading Economics, 2021.
58. Emara and Kasa, 2020.
59. Hussein and others, 2017.
60. Schepinin and Bataev, 2019.
61. United Nations, 2020b.
62. UNCTAD, 2019.
63. IFC, 2020b.

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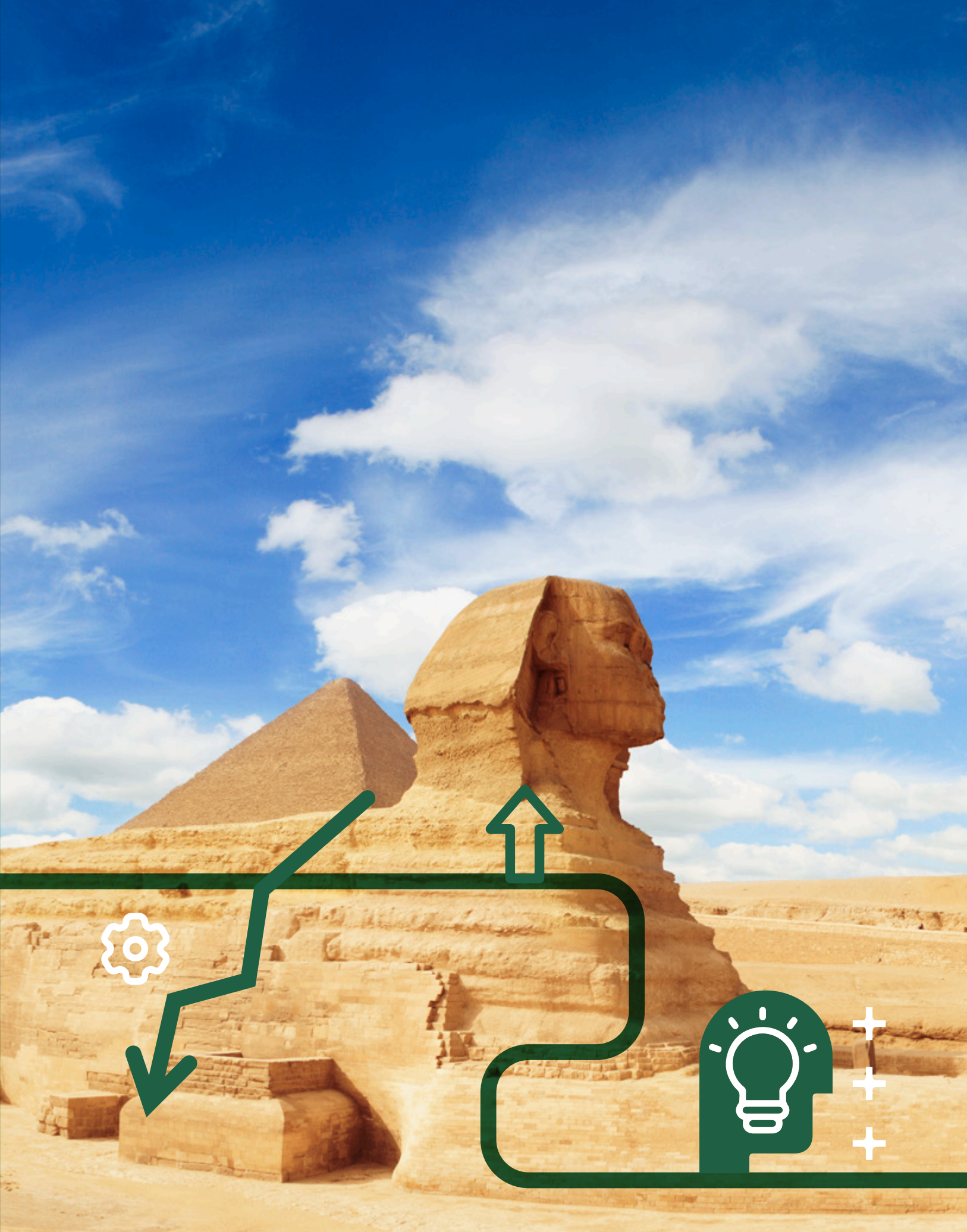
# Debt management in Egypt and financing the Sustainable Development Goals

*by Sarah El-Khishin*



# 08









Egyptian involvement in commercial financing, increased access to international financial markets and debt market development are essential to supporting the financing of SDG spending needs.



## Background

There are general drivers of debt that are common to all emerging markets and developing economies. Egypt has its own debt issues that require debt sustainability to be defined in a way that suits the Egyptian context and accounts for the country's specific economic and political dynamics. While debt vulnerabilities in many emerging markets and developing economies are generally driven by surging private debt and non-financial borrowing owing to a low-interest environment, debt vulnerabilities in Egypt mainly arise from fiscally driven public debt owing to longstanding structural imbalances and poor institutional performance. Since the 1990s, Egypt has been engaged in successive attempts at structural reform to address its macrofiscal imbalances and debt problems. However, several factors impeded the sustainability of the outcomes from these reforms.

In 2015, Egypt launched its national Sustainable Development Strategy: Egypt Vision 2030, which has been continuously revised to comprise the pillars of the 2030





Agenda and the SDGs as well as recent domestic and global dynamics. In 2016, the country implemented a domestic economic reform programme under an IMF Extended Fund Facility that involved fundamental monetary and fiscal reforms and serious austerity measures, resulting in sound macroeconomic outcomes and a clear impact on the country's debt profile. As part of the global economy, Egypt had to reverse its austerity measures during the COVID-19 pandemic,

which has already caused changes to growth and macroeconomic trends in many countries. Despite this impact, Egypt has shown good resilience to the effects of the pandemic, as evidenced by the relevant data and outlook projections.

Addressing debt management and sustainability is an essential part of the country's new strategic direction and development priorities. In this context, this chapter addresses debt in Egypt through three interconnected pillars: debt drivers; debt dynamics following recent structural reforms and the COVID-19 pandemic; and, most importantly, Egypt's ability to finance the SDGs without worsening its debt profile. Section A contains an overview of debt in Egypt, its recent trends and projections. Section B presents a debt sustainability analysis for Egypt in light of two scenarios: a baseline scenario and a proposed SDG scenario. The latter calibrates the baseline scenario with projections based on the country's commitment to financing the SDGs. In section C, features a proposal of a SDG-related debt management framework for Egypt, with discussions of relevant opportunities, financing options, needed reforms and potential risks.

## A. Egyptian debt: an overview

Debt vulnerabilities in emerging markets and developing economies are generally driven by surging private debt, especially non-financial borrowing. Such forms of debt increase external vulnerability to shocks and sudden reversals of capital flows. Increased commercial borrowing and more sovereign borrowing from commercial creditors to finance ambitious growth trajectories also constitute a source of increasing debt vulnerabilities in emerging markets and developing economies. In a global environment characterized by low interest rates, increased liquidity and quantitative easing, along with a

decline in global growth patterns, more emerging markets and developing economies appear to be in a state of debt distress. The COVID-19 pandemic merely accelerated a debt crisis already predicted in many such markets and economies. As an emerging economy, Egypt is still exposed to many of the above vulnerabilities. Debt issues in Egypt, however, are mainly driven by public debt and structural fiscal problems, as well as institutional drivers (figure 97).

Debt in Egypt is primarily fiscally driven. Approximately 72 per cent of total debt is public

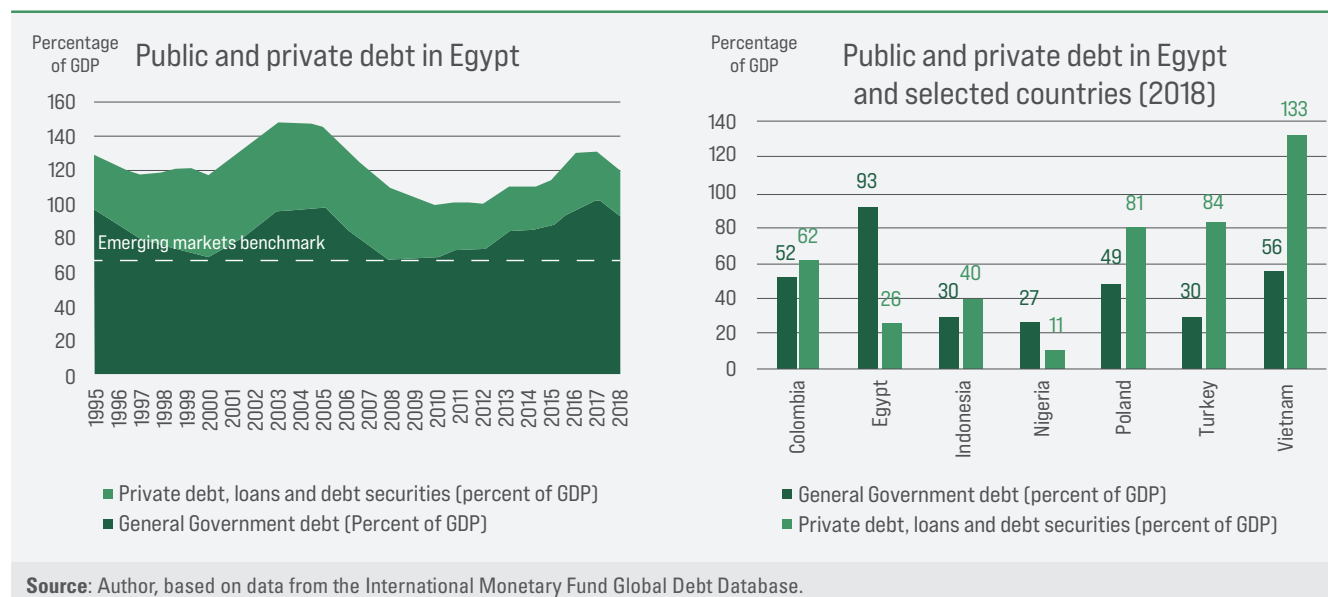
debt (figure 98).<sup>1</sup> Public debt currently stands at around 85 per cent of GDP, exceeding the 70 per cent benchmark for emerging markets.<sup>2</sup> It previously approached 100 per cent of GDP in the 1990s and early 2000s, and exceeded 100 per cent of GDP in 2017 prior to the implementation of recent reforms. In 2018, public debt still constituted around 93 per cent of GDP in 2018, the highest

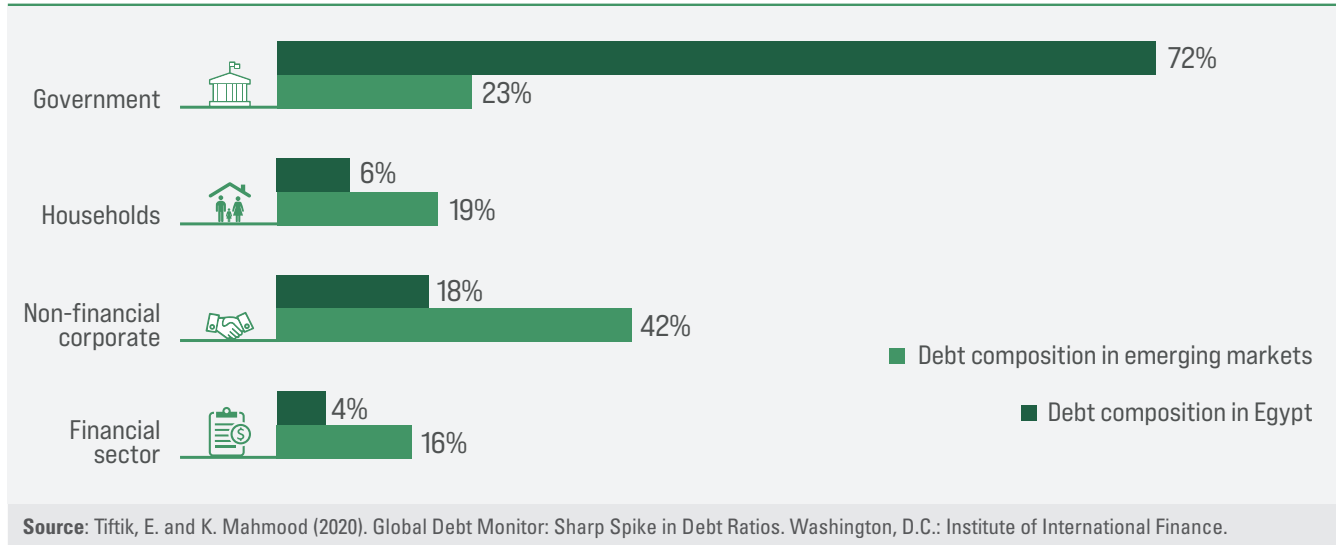
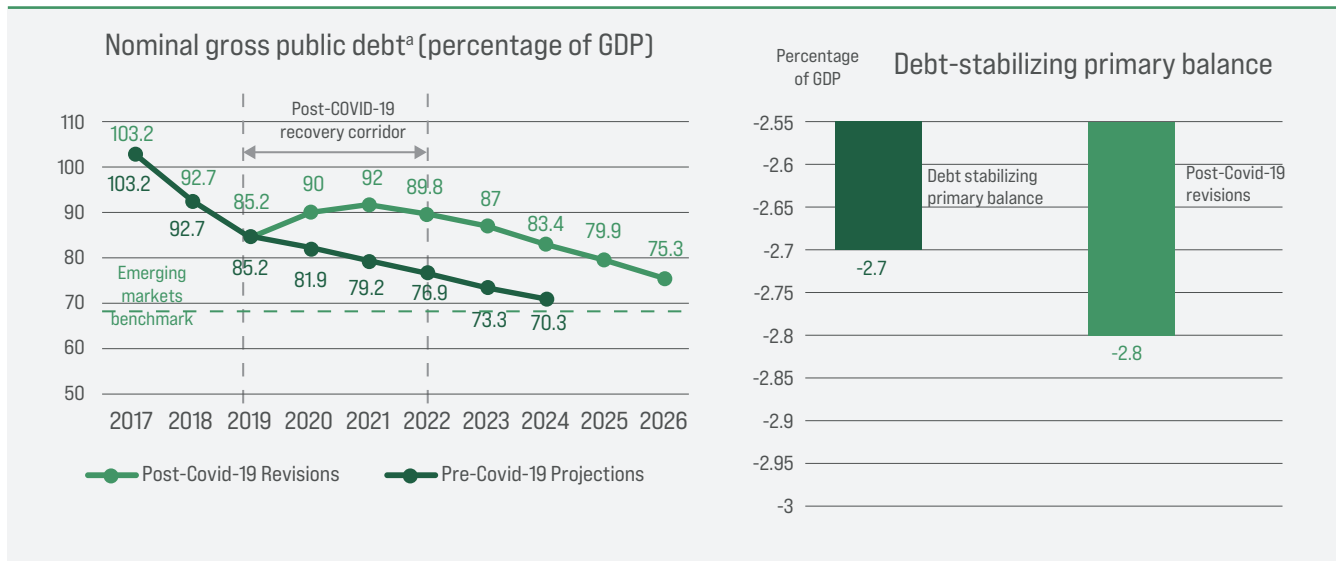
share of public debt as a proportion of GDP among the countries selected for comparison (figure 98). Domestic public debt is considered the main driver of debt vulnerabilities in Egypt (figure 99). As for external debt, although it accounts for a smaller share, it is on the rise and might also pose future risks to the sustainability of the country's debt profile, as will be shown later in this chapter.

**Figure 97.** Common debt drivers in emerging markets and developing economies – How does Egypt compare?



**Figure 98.** Debt trends in Egypt and selected emerging markets (2005–2018)



**Figure 99.** Debt composition in Egypt and emerging markets (first quarter of 2020)**Figure 100.** Revised projections of public debt following the COVID-19 pandemic

Public debt had increased over the period from 2008 until the implementation of the national reform programme in 2016 under the IMF Extended Fund Facility. The reform resulted in many improvements in fiscal, monetary and macroeconomic indicators, and debt took a downward trend for the first time since 2008. As is the case with most countries, the COVID-19

pandemic has clearly affected the Egyptian economy. While it is showing relatively resilient performance compared to many emerging markets and developing economies, the shock has already resulted in a reversal of the short-lived declining trends in debt levels, owing to the global slowdown and the accommodations adopted by the Egyptian Government at the onset of the pandemic.

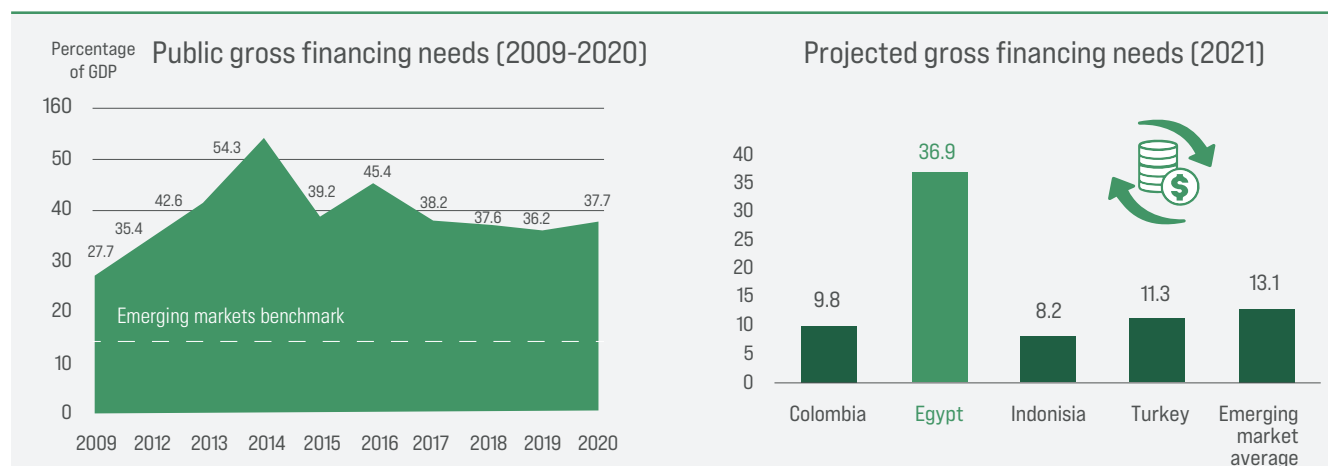
Revised post-COVID-19 projections show a recovery corridor that is expected to last for at least two years. Debt trends are expected to resume their downward trajectory in 2022, conditional on resuming austerity measures and the fiscal consolidation plan (figure 100). Revised projections of the IMF debt sustainability analysis show a declining trend at levels higher than pre-COVID-19. Debt-stabilizing primary balance is projected at -2.8 per cent of GDP in 2026.<sup>3</sup> Despite these developments, country's debt profile still suffers from many risk factors, which are magnified by the recent COVID-19 shock. The main identified factors contributing to the rising debt burden in Egypt are the primary balance, as well as exchange rate misalignments (especially during periods of exchange rate instability), interest-growth differentials and institutional factors.

Gross financing needs are consequently high, far exceeding the benchmark of 15 per cent for emerging markets.<sup>4</sup> As a percentage of GDP, gross financing needs in Egypt have been at approximately 37 per cent in recent years. Compared with other emerging markets in 2020, Egypt's gross financing needs constitute a significantly higher percentage of GDP, (figure 101). In order to limit debt sustainability risks,

the Government realizes it must reduce its gross financing needs. Its ongoing efforts in that regard include extending the maturities of government securities, which will reduce the rollover risk and in return improve the debt path. The Government has also established a quantitative ceiling on the share of net new short-term domestic issuance to total domestic treasury issuance. These efforts have already begun to take effect, as there has been a decline in short-term public debt.

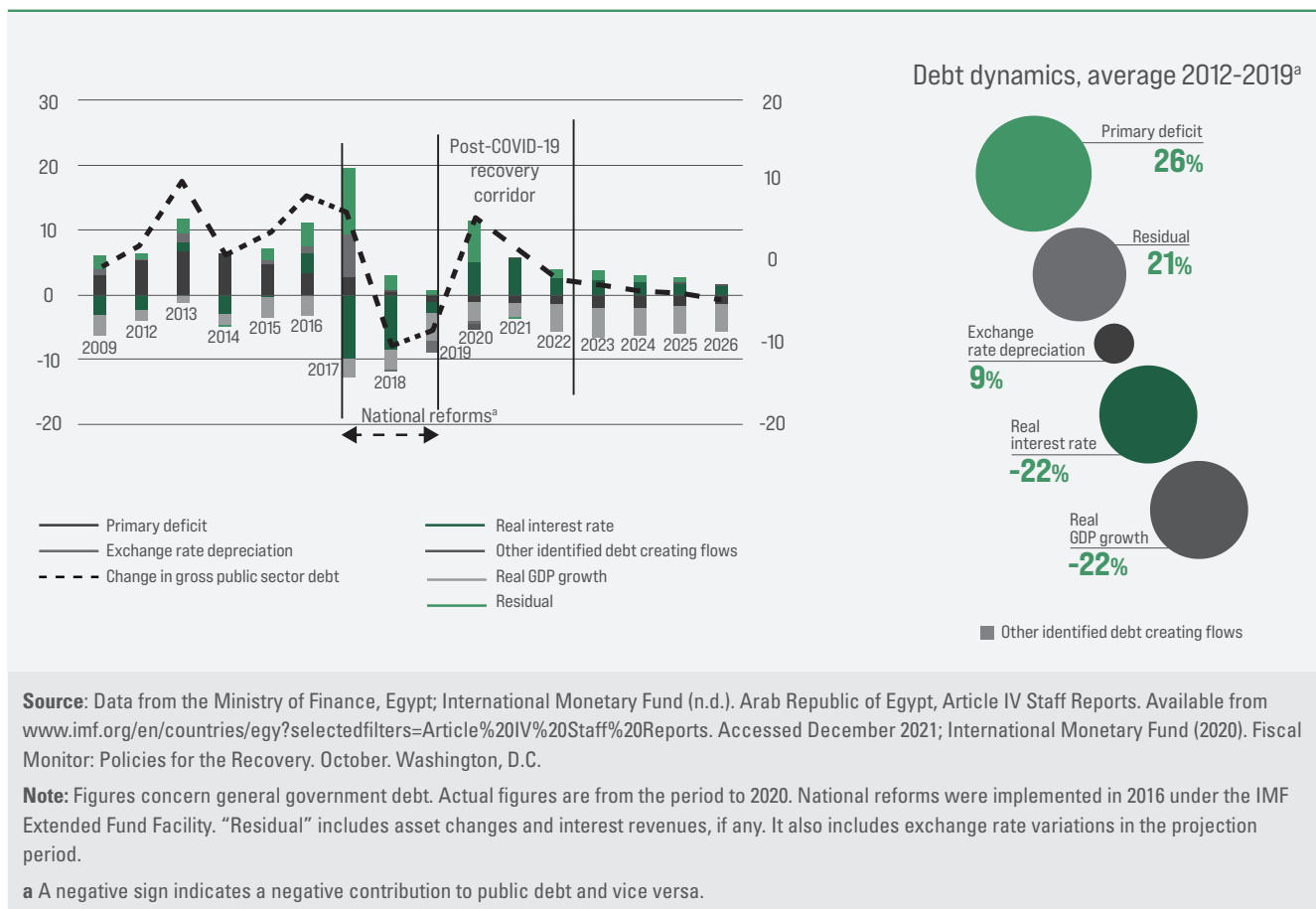
There have been notable improvements in the country's primary balance in recent years. The primary balance component contributed, on average, approximately 26 per cent of the gross public domestic debt accumulation during the period 2012–2019, as shown in figure 102. It was not until fiscal year 2018/19 that the primary balance began to show a negative contribution to debt accumulation. Following the recent fiscal reforms, Egypt achieved a primary surplus beginning in 2017/18 (figure 103) contributing significantly to reversing the trend in public debt.<sup>5</sup> The COVID-19 pandemic resulted in an interruption to the austerity track that had a pre-COVID-19 aim of maintaining a primary surplus of 2 per cent, thereby creating a downward trajectory in public debt.

**Figure 101. Gross financing needs in Egypt (2009–2021)**



**Source:** International Monetary Fund (n.d.). Arab Republic of Egypt, Article IV Staff Reports. Available from [www.imf.org/en/countries/egy?selectedfilters=Article%20IV%20Staff%20Reports](http://www.imf.org/en/countries/egy?selectedfilters=Article%20IV%20Staff%20Reports). Accessed December 2021; International Monetary Fund (2020). Fiscal Monitor: Policies for the Recovery. October. Washington, D.C.; International Monetary Fund (2021). Fiscal Monitor: A Fair Shot. April. Washington, D.C.

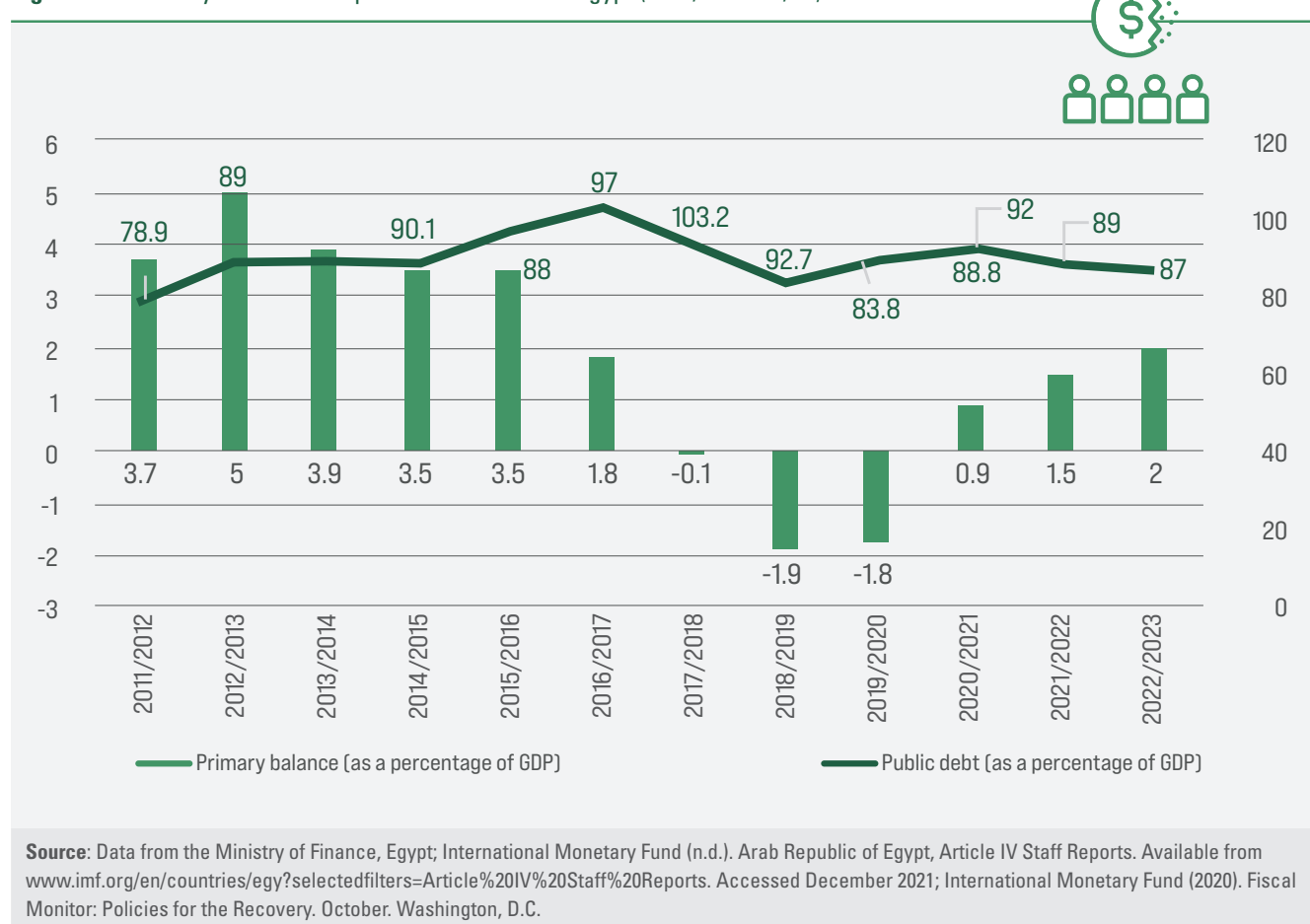
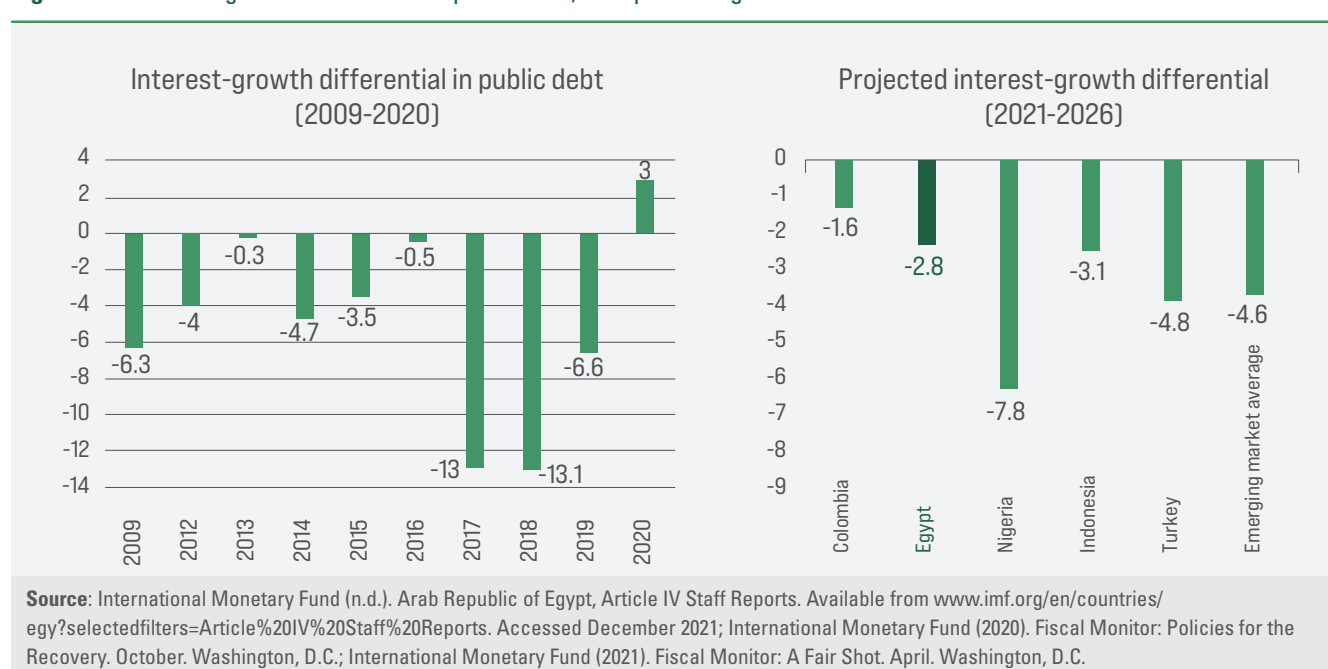


**Figure 102. Public debt dynamics in Egypt (2009–2026)**

Extra budgetary activities and institutional fiscal problems reflect on public debt in the residual component of debt dynamics. Fiscal factors also contribute significantly to driving debt indirectly through the residual component, the second main contributor to accumulated public debt. Residual debt accounts for over 20 per cent of debt dynamics during the period 2012–2019. Residual includes extrabudgetary borrowing or on-lending by the Government, as well as contingent liabilities. Contingent liabilities constitute a fundamental fiscal risk to the country’s debt dynamics, especially post-COVID-19, and might result in perceived higher debt accumulation over the medium term.<sup>6</sup> Loan guarantees constitute the largest explicit contingent liabilities in Egypt and pose a real threat to the debt trajectory (figure 103). According to the Ministry of Finance, Egypt secured loans that averaged around 20.5 per cent of GDP in 2020/21, of which 8.5 per cent are

domestic loan guarantees and 12 per cent are external loan guarantees.

The negative interest-growth differential reflects efforts to reduce debt ratios, even given the growing fiscal deficit. The real interest-growth differential aggregately contributed to improving the debt position during the mentioned period. Several factors play a role in this, most prominently declining global interest rates in recent years. Projections indicate that Egypt will sustain a negative interest-growth differential over the medium term, which appears to be a good position compared to its comparator countries (figure 104). Nevertheless, risks from anticipated global monetary tightening following COVID-19, along with slowing growth, might impact the country’s debt position if interest rates began to increase.

**Figure 103.** Primary balance and public debt trends in Egypt (2011/12–2019/20)**Figure 104.** Interest-growth differential in public debt, as a percentage

Tradable debt constitutes around two thirds of total domestic debt and approximately 53 per cent of GDP. Tradable debt in Egypt is mostly domestic debt denominated in local currency. Domestic tradable debt constitutes around 75.6 per cent of the total tradable debt, while the remaining 34.8 per cent are denominated in foreign currency, mainly in the

form of United States dollar Treasury bonds and euro Treasury bills issued in the domestic market (table 23).<sup>7</sup> Approximately 81 per cent of Treasury securities are held by Egyptian commercial banks, while the non-banking sector holds the rest (figure 106).<sup>8</sup> The Government aims to increase its tradable debt to reach 80 per cent of total debt by 2023/24.<sup>9</sup>

**Table 23.** External debt in Egypt, residency versus currency criteria (2020)

|                            | Debt denominated in foreign currency<br>(percentage of GDP) | Debt denominated in foreign currency<br>(percentage of total debt) |
|----------------------------|---|--|
| External debt by currency  | 26.1  | 24   |
| External debt by residency | 34.1  | 22   |

**Source:** International Monetary Fund (2020). Arab Republic of Egypt: request for a 12-month stand-by arrangement – press release; staff report; and statement by the Executive Director for the Arab Republic of Egypt. Country Report, No. 2020/266. Washington, D.C.; Ministry of Finance, Egypt (2020). Egypt's Medium-term Strategy (2021–2024). Cairo.

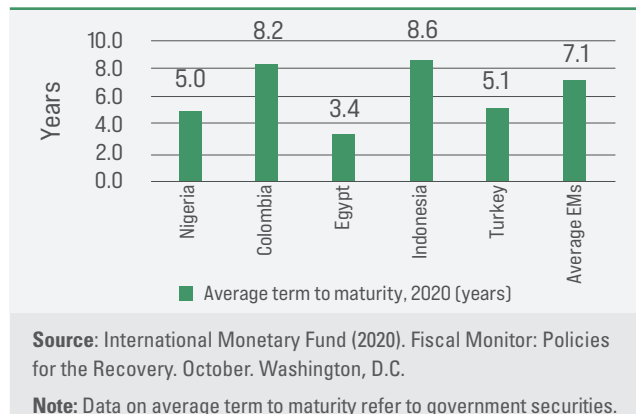
**Note:** The medium-term debt strategy employs the currency criteria for measuring external debt rather than residency criteria to account for exchange rate-related factors while addressing external debt position. It covers Treasury bills and bonds issued in the domestic market and denominated in dollars and euros and bilateral and multilateral loans, as well as the international issuances of Eurobonds. Domestic debt includes all securities issued in Egyptian pounds; IMF generally uses the residency criteria, and external debt covers multilateral and bilateral public sector borrowing, private borrowing and prospective financing.

**Table 24.** Total tradable and non-tradable debt (as of June 2020)

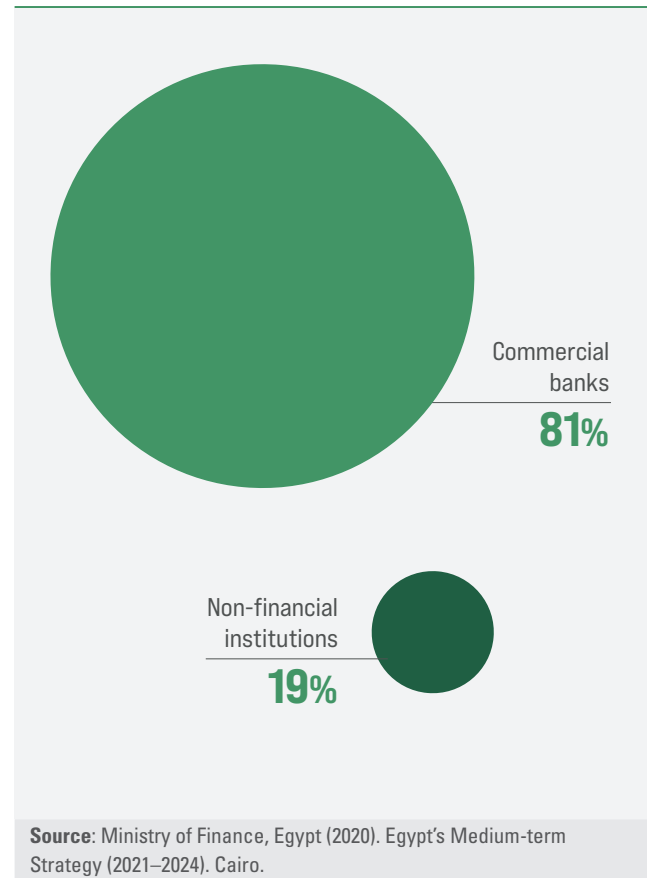
|   | Domestic debt | External debt | Total debt | Projected debt in 2023/24 |
|---|---------------|---------------|------------|---------------------------|
| <b>Tradable debt</b><br>(Percentage of total)     | 75.6          | 34.8          | 68         | 80                        |
| <b>Non-tradable debt</b><br>(Percentage of total) | 24.4          | 65.2          | 32         | 20                        |

**Source:** Ministry of Finance, Egypt, 2020b

**Figure 105.** Debt maturity in Egypt and selected comparators (2020)



**Figure 106.** Holders of average treasury securities (2018)

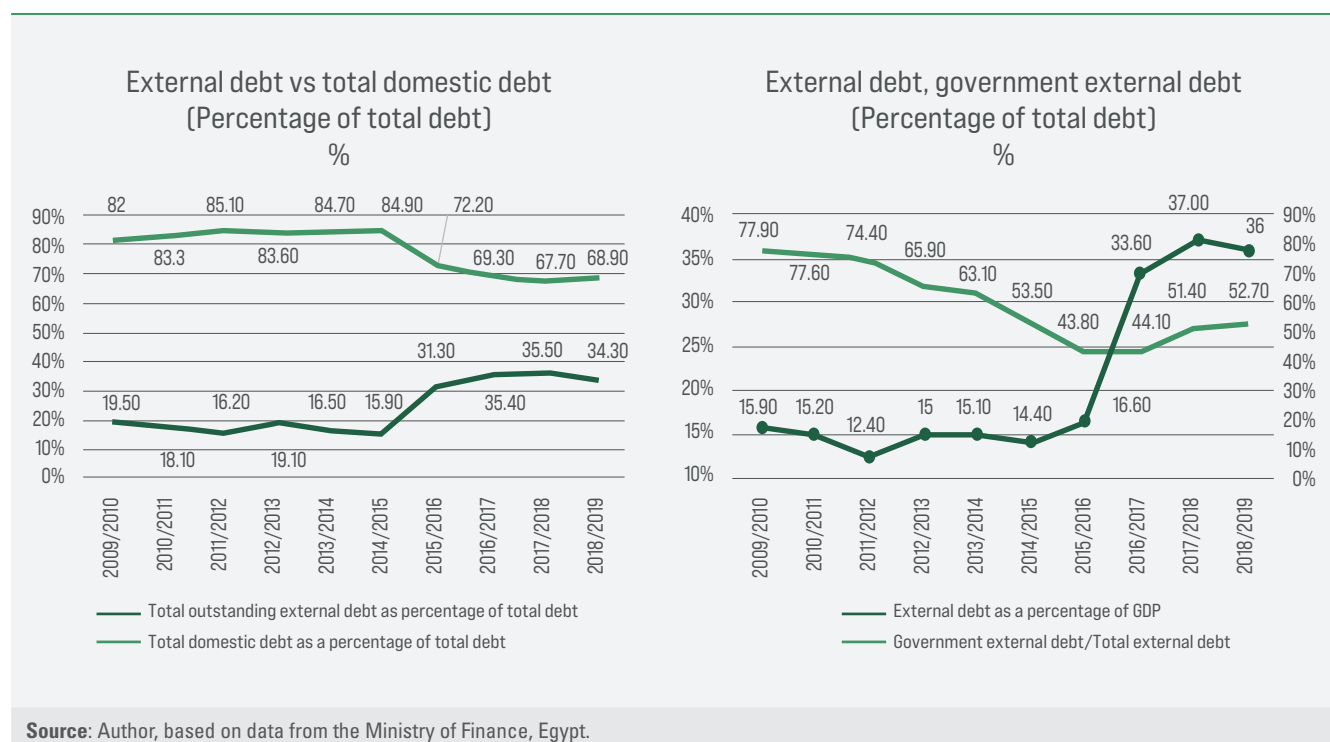


Domestic debt in Egypt is short-term in nature, which is central to refinancing risk. Figure 105 shows average debt maturity compared to a set of comparators, according to the IMF 2020 Fiscal Monitor. The average term to maturity on total government securities for Egypt is 3.4 years, significantly shorter than the selected comparators. According to the country's medium-term debt strategy, the average time to maturity for total tradable domestic and external central government debt was 3.11 years in 2019.<sup>10</sup> Major maturity problems avail in domestic debt (Treasury bills and bonds in Egyptian pounds), which was estimated to be 1.9 years in 2020, according to data published by the Ministry of Finance in the Medium-term Debt Strategy (2021-2024). The average term to maturity of external tradable debt, meanwhile, was 8.3 years in June 2020.

The country's external debt position has been on the rise since 2014; it is sustainable but subject to future risks. Debt denominated in foreign currency constitutes 25.9 per cent of the total central government debt, compared to 74.1 per cent

denominated in the local currency.<sup>11</sup> To be precise, external debt held by non-residents constitutes around one third of the country's total debt. Nevertheless, as shown in figure 107, external debt has been on a steep upward trend since 2014. Table 24 shows that debt held by non-residents and debt denominated in foreign currency (22 per cent and 24 per cent, respectively) are well below the high-risk benchmarks for emerging economies (45 per cent and 60 per cent, respectively).<sup>12</sup> Recent efforts by the Government to lengthen maturity risks in Treasury issuance, in addition to the high share of local currency debt by domestic financial institutions are recognized as factors in minimizing external debt vulnerabilities. While exchange rate imbalances might, at first glance, appear to play a relatively minor role in driving public debt vulnerabilities in Egypt (with the exception of years during which there was official devaluation), implicit implications of exchange rate imbalances and currency mismatches still have an impact on the residual component of debt dynamics, as the residual takes into account valuation effects not included in the single bilateral exchange rate.<sup>13</sup>

**Figure 107.** External debt position of Egypt (2009/10–2018/19)

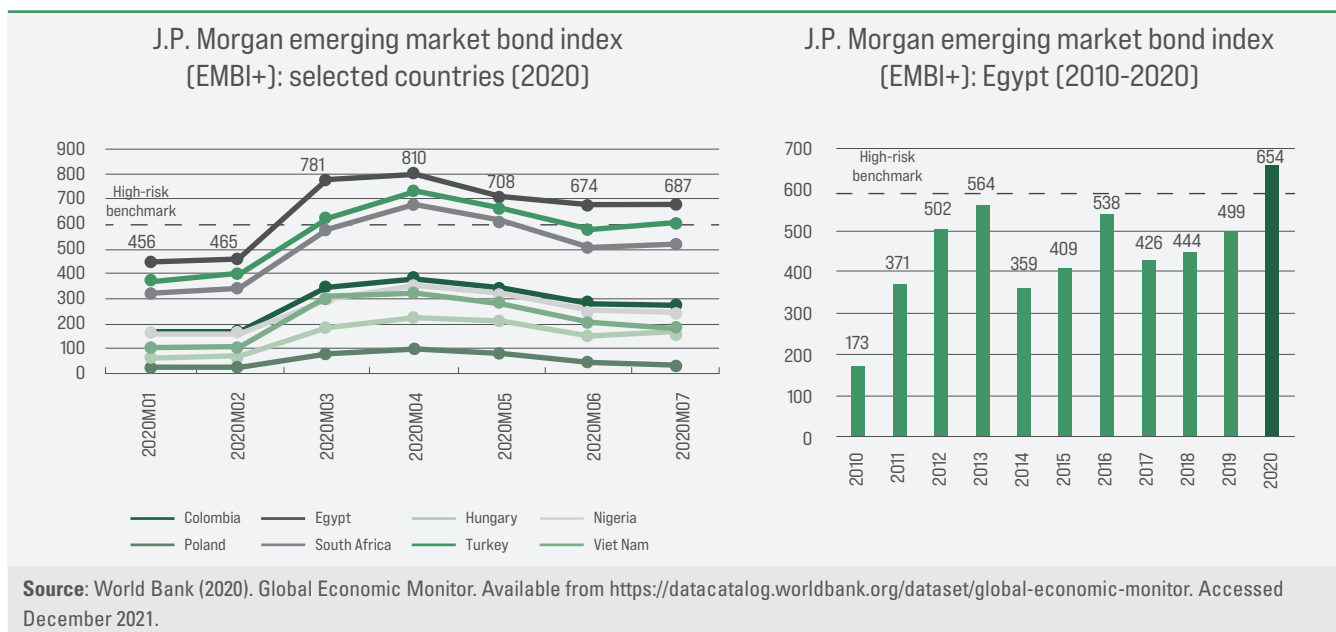


Spread on sovereign bonds of Egypt have continuously shown a rising trend, significantly surpassing the high-risk benchmark of 600 basis points, since the onset of the COVID-19 pandemic and the consequent risk-off sentiment. Despite recent improvements, the Emerging Market Bond Index Global (EMBIG) is still exceeding the high-risk benchmark and continues to be high compared to selected emerging markets, as shown in figure 108. Again, the high proportion of domestic shares in the Egyptian Treasury market is considered one of

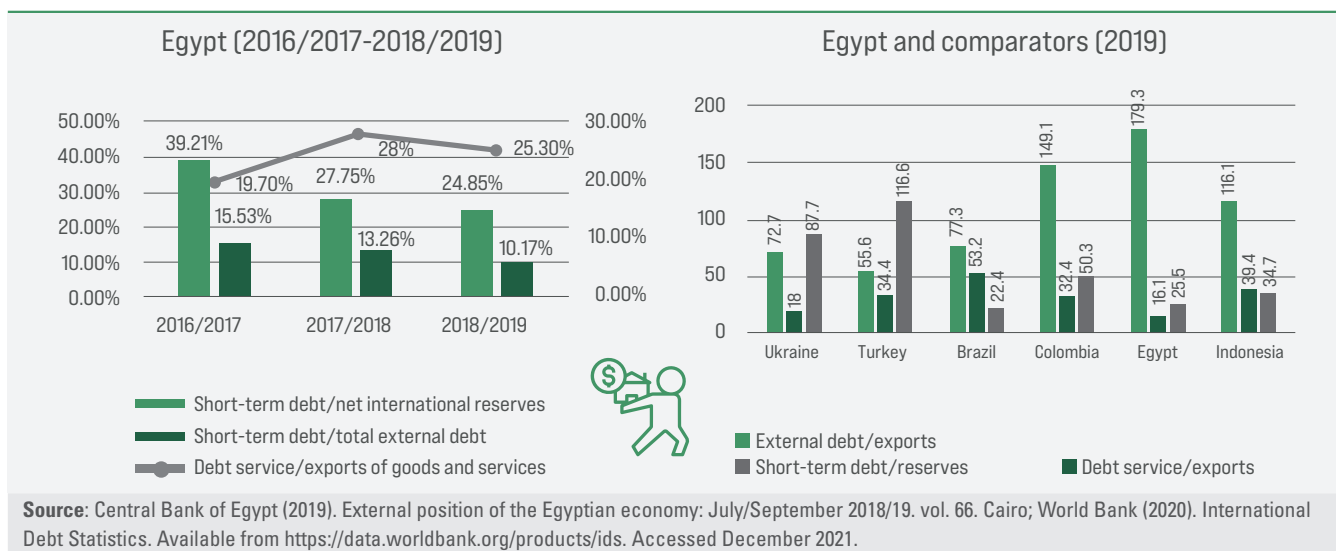
the risk-mitigating factors. The large shares of local currency and local security bills and bonds from domestic financial institutions minimize the country's vulnerabilities to external debt shock (figure 109).

In Egypt, the proportions of short-term external debt to reserves and to external debt have declined slightly in recent years; however, the country still needs to improve its external debt vulnerability position by decreasing the share of short-term debt and improving its balance of payments.

**Figure 108.** Sovereign spread (emerging market bond index+) – Egypt and selected countries



**Figure 109.** External debt vulnerability indicators





**Box 2. External debt vulnerability during the COVID-19 pandemic – Egypt among emerging markets and developing economies**

The external vulnerability index is used to measure the external vulnerability arising from overindebtedness and financial fragility in emerging markets and developing economies. Overindebtedness is assessed on the basis of the liquidity and solvency of the external balance sheets of emerging markets and developing economies, while financial fragility is assessed using debt architecture in terms of maturity, reserve adequacy and the contribution of private debt to overall debt. A number of emerging markets and developing economies were found to be more vulnerable to the impacts of the COVID-19 pandemic, compared to the effects of the global financial crisis. Vulnerabilities are mainly driven by pre-existing conditions such as poor debt architecture, exchange rate imbalances and fiscal distress.

## External vulnerability in Egypt and a number of emerging markets and developing economies



**Source:** El-Khishin, S. and M. Mohieldin (2020). External debt vulnerability in emerging markets and developing economies during the COVID-19 shock. *Review of Economics and Political Science*, vol. 6, No. 1, pp. 24–47.

## B. Debt sustainability, the Sustainable Development Goals and Egypt Vision 2030

Debt is essential to achieving public investment goals relating to the SDGs. Debt sustainability involves the ability to achieve such goals without increasing debt ratios or the effective use of borrowed resources. Egypt is committed to achieving the SDGs and its national development agenda, which has been designed and revised to be consistent with SDG commitments. While achieving the SDGs would create opportunities for debt repayment, the country's ability to balance financing the SDGs with the need to maintain debt sustainability is essential. This is particularly if the aforementioned challenges and risks continue. This section discusses debt management and sustainability in light of the country's commitment to achieving the SDGs.

The SDG debt sustainability gap is defined by the United Nations as "the difference between the primary fiscal balance consistent with achieving SDGs 1–4 by 2030 and the balance required to maintain stable public debt ratios".<sup>14</sup> In other words, it is the amount of debt, as a percentage of GDP, that will be required to finance the SDG targets.<sup>15</sup> First, a baseline scenario/business-as-usual scenario, which assumes the continuation of current trends and projections, is designed.

This is followed by designing an SDG public debt scenario, which calibrates baseline assumptions considering alternative primary balance projections under the SDG scenario assumptions. The SDG-consistent primary balance is a projected indicator that assumes base levels of government expenditure and adds the expenditure required to achieve the SDGs. Assumptions of the medium-term fiscal impact in the form of domestic resource mobilization, the structure of public spending and the available financing options are designed under both scenarios (technical notes and details on methodology are presented in annexes 5–7). The SDG debt sustainability gap is the difference between the two scenarios. After calculating the SDG debt sustainability gap, alternative options to move to the second scenario without causing a debt crisis are navigated, that is, the financing options that could help the Egyptian economy to achieve the SDGs without causing a deterioration in the debt profile. In this regard, two key issues must be identified: first, the sectors to be included as SDG-related spending sectors and second, the means of quantifying the spending needed in these sectors to achieve the SDGs by 2030.

### Box 3. Debt sustainability analysis – the IMF definition of debt sustainability versus the United Nations definition

The debt sustainability analysis (DSA) has been initiated by the IMF. The IMF-DSA is part of Article IV consultations and can readily be applied to many countries. It involves constructing a five-year baseline forecast, estimating debt dynamics and running several stress tests, analysing the sustainability of debt levels under the constructed stress tests and shock scenarios. On the other hand, the United Nations-DSA, in the context of the SDGs and financing for development, is perceived differently. While there is a common base with the IMF-DSA, the United Nations-DSA provides a framework that focuses on building scenarios of debt under the assumption of financing the SDGs using alternative sources of finance. Under the United Nations-DSA, baseline macroeconomic scenarios are first estimated, then the total expenditure and investment needs associated with the SDGs are calculated. This is followed by estimating the medium-term fiscal impact with assumptions on domestic resource mobilization, the composition of public expenditure, available financing options and support from the international community. Debt sustainability is then analyzed under these assumptions.

Source: Author.

**The SDG debt-stabilizing/sustainability gap is defined as the debt-stabilizing primary surplus minus the SDG-consistent primary surplus.**






## 1. Defining public spending sectors and spending benchmarks related to the Sustainable Development Goals

Financing the SDGs is a joint process involving both the public and private sectors. There are some specific sectors in which SDG spending is a

primary obligation by the Government, meaning public spending is the primary source of funding. Recent studies identified specific sectors in which public spending is required to achieve the relevant SDGs. Table 25 summarizes sectors with SDG-related public spending in reviewed studies. This includes increasing spending in areas relevant to achieving the targets of Goals 1–4.

In the 2018 and 2021 VNRs of Egypt issued by the Ministry of Planning and Economic Development, in coordination with the United Nations and UNDP, areas were identified for measuring the progress made in the aforementioned goals and their relevant targets. Examples of the progress reported are summarized in table 26.

**Table 25.** Sectors identified for public spending related to the Sustainable Development Goals in a number of reviewed studies




| Study                      |   | Sectors with SDG-related public spending  |
|----------------------------|---|---|
| United Nations (2020)      |   | <ol style="list-style-type: none"> <li>1. Education</li> <li>2. Health</li> <li>3. Infrastructure: roads, electricity, water and sanitation</li> </ol>  |
| Kharas and McArthur (2019) |  | <ol style="list-style-type: none"> <li>1. Social spending (public social protection expenditure, excluding health)</li> <li>2. Agriculture and rural development</li> <li>3. Health</li> <li>4. Education</li> <li>5. Water and sanitation</li> <li>6. Energy</li> <li>7. Transport</li> <li>8. Flood protection</li> <li>9. Biodiversity conservation spending</li> <li>10. Justice spending on public order and safety by the general government</li> </ol> |
| Munevar (2018)             |  | <ol style="list-style-type: none"> <li>1. Social protection and poverty</li> <li>2. Food security and agriculture</li> <li>3. Health</li> <li>4. Education</li> </ol>   |
| Vorisek and Yu (2020)      |  | <ol style="list-style-type: none"> <li>1. Hunger, food security, nutrition and sustainable agriculture (Goal 2)</li> <li>2. Water and sanitation (Goal 6)</li> <li>3. Energy (Goal 7)</li> <li>4. Climate action (Goal 13)</li> </ol>   |
| Gaspar and others (2019)   |  | <ol style="list-style-type: none"> <li>1. Education</li> <li>2. Health</li> <li>3. Infrastructure: roads, electricity, water and sanitation</li> </ol>  |

**Source:** United Nations, Inter-agency Task Force on Financing for Development (2020). Financing for Sustainable Development Report 2020. New York: United Nations; Kharas, H. and J. McArthur (2019). Building the SDG economy: needs, spending, and financing for universal achievement of the Sustainable Development Goals. Global Economy and Development Working Paper, No. 131. Brookings Institute; Munevar, D. (2018). Debt sustainability and the Sustainable Development Goals. Presentation at the Summer School 2018 of the United Nations Conference on Trade and Development. Geneva, 3–7 September; Vorisek, Dana Lauren and Yu, Shu, Understanding the Cost of Achieving the Sustainable Development Goals (February 27, 2020). World Bank Policy Research Working Paper No. 9164, Available at SSRN: <https://ssrn.com/abstract=3545657>; Gaspar, V. and others (2019). Fiscal policy and development: Human, social, and physical investment for the SDGs. IMF Staff Discussion Note, No. SDN/19/03 (January). Washington, D.C.: International Monetary Fund.

A number of studies estimated the spending needed and the financing gaps to be addressed in order to achieve the SDGs by 2030. Gaspar and others provide an estimate of the additional total spending required to achieve the SDGs in five identified sectors (education, health, roads, electricity and water and sanitation) relative to current baseline scenarios (from 2018) in a sample of low-income developing countries and emerging markets.<sup>16</sup> Average additional spending to achieve the SDGs in those sectors is estimated to be 4 per cent of GDP for emerging markets and 15 per cent for low-income developing countries. Kharas and McArthur identified 10 sectors for SDG-related public spending (table 27) and provided an estimate of the minimum public

spending needs for the SDGs in 134 low- and middle-income countries. Minimum spending for the SDGs annually is estimated to be \$350 per capita for low-income countries, \$583 per capita for lower-middle-income countries and \$2,559 per capita for upper-middle-income countries. UNDP proposed five scenarios to explore the impact of different policy mixes on achieving the SDGs in Egypt by 2030. One scenario assumes spending increases on the SDGs in sectors 1–4, with increases in public spending on health and education to 5 per cent and 2.8 per cent of GDP, respectively (compared to the 2015 levels of 3.7 per cent and 2.1 per cent of GDP, respectively) and the stabilization of spending on infrastructure at the 2015 level of 3.04 per cent of GDP.

**Table 26.** Reported progress on public spending in Egypt towards achieving the Sustainable Development Goals

| Main reported progress in public spending |   |  |
|---|---|--|
| Goal 1                                    |    | Public investment in social housing projects                       |
| Goal 2                                    |  | Commodity subsidies<br>Egyptian Food Bank<br>School food programme |
| Goal 3                                    |  | Public investment in health  |
| Goal 4                                    |  | Public investment in education                                     |

**Source:** Ministry of Planning and Economic Development, Egypt (2018). Egypt's Voluntary National Review 2018. Cairo; Ministry of Planning and Economic Development, Egypt (2021). Egypt's 2021 Voluntary National Review. Cairo.



**Table 27.** Benchmarks for additional public spending in sectors related to the Sustainable Development Goals

|  |  |  |
|--|--|--|
| Gaspar and others, 2019                    | Identified SDG sectors<br>1. Education<br>2. Health<br>3. Infrastructure: roads, electricity, water and sanitation   | Average additional spending in the five sectors is a median of 4 per cent of GDP for emerging markets and 15 per cent for low-income developing countries; however, countries vary in their spending needs based on many factors.  |
| Kharas and McArthur 2019                   | SDG-related public spending sectors<br>1. Social spending (public social protection expenditure, excluding health)<br>2. Agriculture and rural development<br>3. Health<br>4. Education<br>5. Water and sanitation<br>6. Energy<br>7. Transport<br>8. Flood protection<br>9. Biodiversity conservation spending<br>10. Justice spending on public order and safety by the general government | Minimum spending for SDGs annually is estimated to be:<br>• \$350 per capita for low-income countries<br>• \$583 per capita for lower-middle-income countries<br>• \$2,559 per capita for upper-middle-income countries  |
| United Nations Development Programme, 2019 | Public spending on SDG sectors 1–4 in Egypt.   | <ul style="list-style-type: none"> <li>Increasing public spending on health and education to 5 per cent and 2.8 per cent of GDP, respectively (compared to the 2015 levels of 3.7 per cent and 2.1 per cent of GDP, respectively).</li> <li>Stabilizing spending on infrastructure at the 2015 level of 3.04 per cent of GDP.</li> </ul> |



**Source:** Gaspar, V. and others (2019). Fiscal policy and development: human, social, and physical investment for the SDGs. IMF Staff Discussion Note, No. SDN/19/03 (January). Washington, D.C.: International Monetary Fund; Kharas, H. and J. McArthur (2019). Building the SDG economy: needs, spending, and financing for universal achievement of the Sustainable Development Goals. Global Economy and Development Working Paper, No. 131. Brookings Institute; United Nations Development Programme (2019). Sustainable Development Goals: MAPS engagement for Egypt 2018–2019 – Mainstreaming Acceleration and Policy Support (MAPS) for SDGs. Policy Paper. New York.

**Note:** As explained in Gaspar and others (2019), the variations between the estimates in different studies can be attributed to a number of methodological issues.

## 2. Baseline and Sustainable Development Goal scenarios: narrative and assumptions

Under the baseline scenario, the Egyptian economy is assumed to continue with its current macrofiscal trends, maintaining the COVID-19 recovery package then resuming its fiscal austerity measures to begin a downward trajectory in public debt in 2022. Since the beginning of the COVID-19 pandemic, research has relied on data and reports from the Ministry of Finance and an IMF-revised debt sustainability analysis. The latter assumes a temporary growth shock to the pre-COVID-19 baseline scenario that should stabilize

over the medium term, as well as a decline in effective interest rates on general government debt consistent with the decline in inflation rates.<sup>17</sup> The revised baseline scenario also assumes a corridor recovery period from the shock that leads to an increase in general government debt, from 84 per cent in 2018/19 to 93 per cent in 2020/21. A return to a debt-to-GDP ratio of 77 per cent is expected in 2024/25, conditional on restoring growth and primary surplus to pre-COVID-19 projections.

On the other hand, the SDG public debt scenario is estimated by calibrating baseline trends with an SDG-adjusted primary balance according to predetermined assumptions of public expenditures and benchmarks extracted from the studies reviewed. The main assumptions are drawn up



on the basis of reviewing relevant studies on the public capital spending required to finance the SDGs. More assumptions are added to account for the country's specific characteristics and macrofiscal performance, within the context of its commitment to the SDGs and the Egypt Vision 2030. The main assumptions for the scenario and narrative can be summarized as follows:

- Increased efficiency in public spending. Egypt will maintain policies to increase the efficiency of public spending, otherwise spending gaps to finance the SDGs will inflate.
- Stable demographic process. Current population growth trends will stabilize. A deterioration in demographic performance, reflected in higher population growth rates, will certainly mean a larger spending gap. Alternatively, if Egypt is to pursue policies intended to decrease population growth rates, this will have a positive impact on SDG spending gaps through the operation of the demographic dividend mechanism.<sup>18</sup>
- A steady growth in SDG spending. SDG-related public spending on health and education will increase steadily until 2030; public investment in infrastructure would also increase, but at a decreasing rate.
- Benchmarks for public spending on SDGs. The benchmarks for additional public spending would constitute only the lower end of the

additional public spending needed. More spending pressures may occur as a result of increased assumptions.

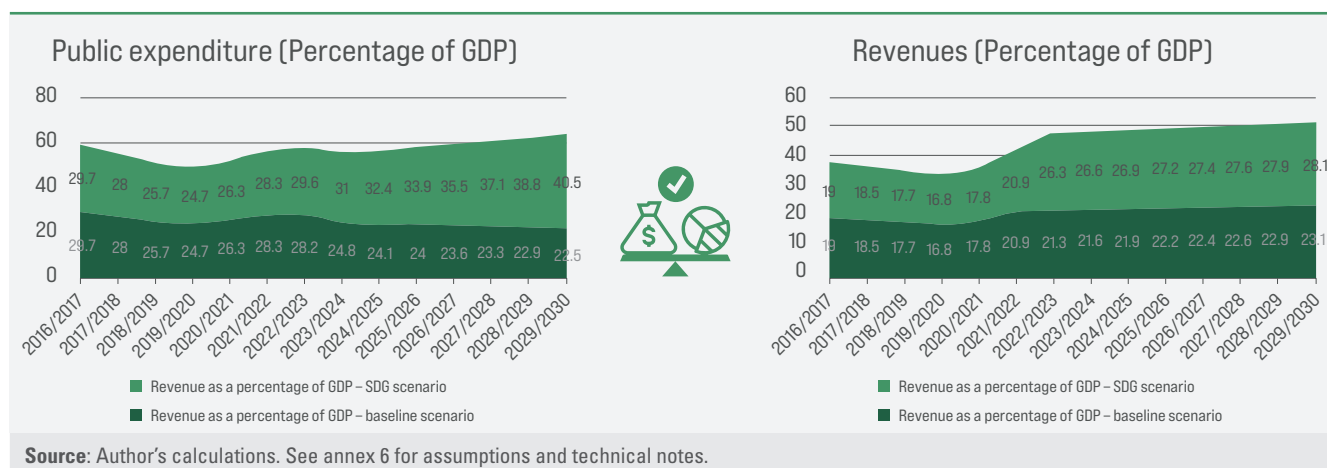
- Revenues will increase by 5 per cent of GDP above the baseline every year. It is assumed that a 5 per cent increase in tax revenue would be sufficient to finance additional SDG-related spending and close the financing gap for most emerging markets.<sup>19</sup>

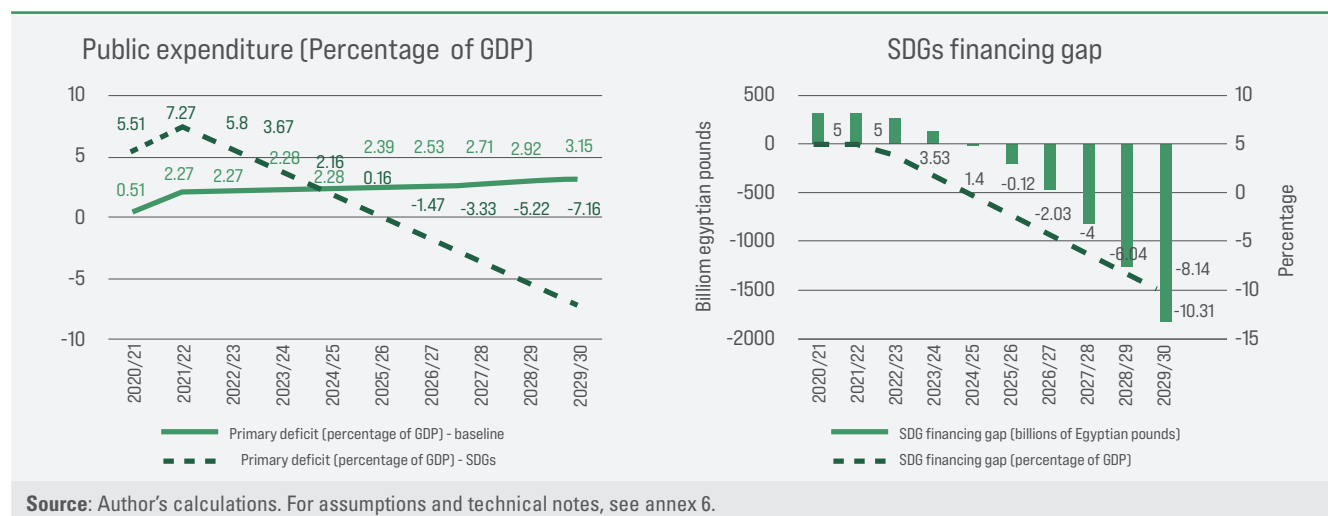
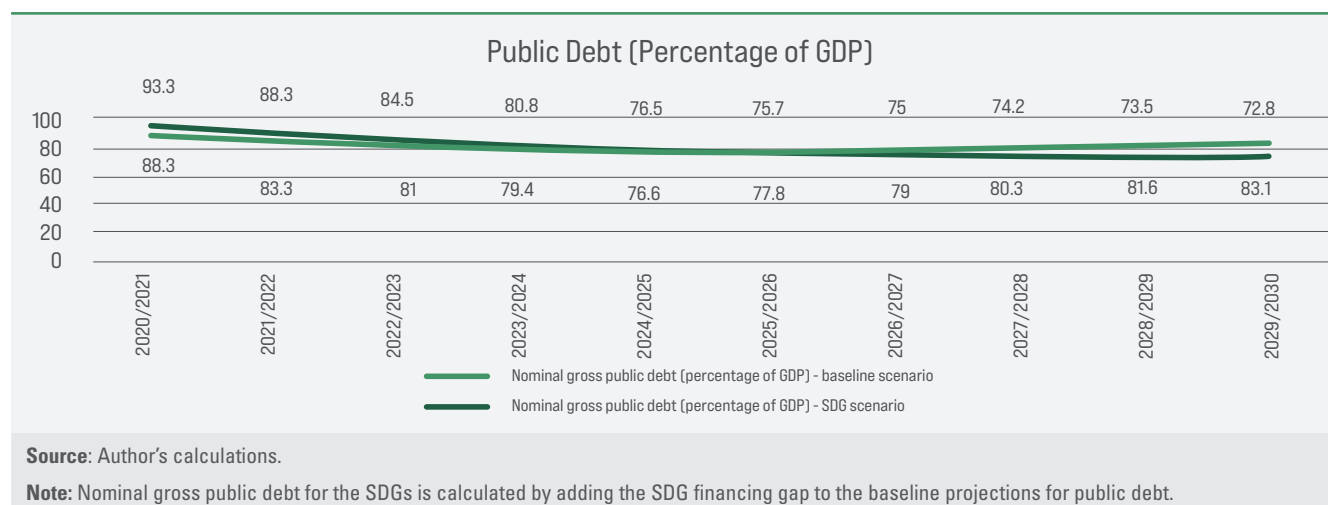
The baseline and SDG assumptions are quantified and presented in annex 6.

### 3. Debt sustainability gap for the Sustainable Development Goals in Egypt

Based on these assumptions and the quantitative assumptions in annex 5, the results of both scenarios are depicted in the figures below. Figure 110 shows that primary expenditures under the SDG scenarios significantly exceed the baseline scenario and that the gap widens over time. In 2030, primary expenditures under the SDG scenario are estimated to be 28.5 per cent of GDP, compared to a baseline projection of approximately 9 per cent of GDP.<sup>20</sup> Assuming an increase in revenue of around 5 per cent annually, revenues are expected to increase to approximately 17 per cent of GDP in 2030, compared to a baseline projection of 12.6 per cent.

**Figure 110.** Primary expenditure and revenue projections (baseline and Sustainable Development Goal scenarios)



**Figure 111.** Primary deficit projections (baseline and Sustainable Development Goal scenarios) and the Sustainable Development Goal financing gap**Figure 112.** Nominal gross public debt (baseline and Sustainable Development Goal scenarios)

The SDG financing gap is estimated to be approximately 10.31 per cent of GDP by 2030, whereas the primary balance is projected to reverse again to a negative trajectory, reaching around -7.16 per cent by 2030 (figure 111). This is logical given the increased SDG financing gap. Assuming a dependence on debt to achieve these needs and requirements, the nominal gross public debt trajectory has a higher path compared to the baseline trajectory, which assumes that Egypt will continue on a path of fiscal consolidation. It is estimated that public debt in Egypt will be around 83.1 per cent of GDP by 2030, compared to a baseline projection of 73 per cent, assuming that

the country finances additional public spending on the SDGs by issuing more debt and all other factors remain the same. Gaspar and others highlight that, while spending in 2030 is the focus of the analysis, there must be a gradual rise in spending before 2030; cumulative spending would therefore grow significantly until 2030.<sup>21</sup> A more detailed analysis, one that is beyond the scope of this chapter, would involve a deconstruction of sectoral spending. In such an analysis, it is expected that spending in some SDG-related sectors, such as education and health, would increase exponentially, while other sectors, such as infrastructure, would witness a declining rate of

growth or a decline in public spending allocations as countries near the achievement of the SDGs.

In conclusion, to achieve the SDGs at sustainable debt levels, Egypt must mobilize other financing options to cover the SDG financing gap, estimated to be approximately 10.31 per cent of GDP by 2030. This gap is

calculated on the assumption that other factors (other than the scenario assumptions) remain the same. Funding this gap while maintaining debt sustainability requires securing different sources of finance, as well as improving the efficiency of public spending, as mentioned earlier. Several proposals are explored in the next section.

## C. Egyptian debt management framework for the Sustainable Development Goals: opportunities, financing options, necessary reforms and potential risks

In recent years, Egypt has already initiated many radical shifts in its strategic directions and has begun to reformulate its vision for development. In addition to constitutional requirements, these new directions are evident in recent strategic frameworks, recognized international efforts and economic diplomacy, laws drafted and institutional and implemented actions. Moreover, Egypt has announced its interest in the FFD agenda and is working towards producing an integrated national financing framework with the United Nations and a fund for SDG support. Within this context, the Government implemented a paradigm shift towards widening and diversifying its financing sources for development plans and public projects. A number of measures were implemented to that end, and many more are planned. The main aims in this regard are to improve and reform conventional finance tools, introduce and diversify alternative sources of development finance, introduce Islamic and Sharia-compliant principles into finance tools and go green in development activities and in finance tools.

The Government's efforts to improve debt management and sustainability within the Egyptian medium-term debt strategy continue. The strategy is aimed at improving the requirements and

payment obligations of Treasury funds, minimizing repayments costs, developing domestic financial markets and new debt tools, and decreasing refinancing risks. The medium-term debt strategy is also aimed at moving towards longer yield curves and extending maturities, as well as enhancing the liquidity of Egyptian primary and secondary debt

### Box 4: Egyptian medium-term debt strategy (2021–2024)

The medium-term debt strategy, revised in 2020, proposed four key targets:

1. Continue the downward trend of budget sector debt (central government debt) as a percentage of GDP over the medium term to reach approximately 80 per cent of GDP by June 2024.
2. Reduce the share of the budget sector or central government domestic debt maturing within one year and the share subject to interest rate refixing. The aim is to reduce gross financing needs (covering all outstanding debt) to below 30 per cent of GDP by June 2024, down from above 40 per cent recently.
3. Increase the share of tradable debt to 75–80 per cent by June 2024, up from around 68 per cent in June 2020.
4. Extend and increase the average time to maturity of domestic and foreign central government debt to reach 4.5–5 years by June 2024.

**Source:** Ministry of Finance, Egypt (2020). Egypt's Medium-term Strategy (2021–2024). Cairo.

markets and widening financing options to include innovative alternative options.

The announced targets and objectives are essential yet challenging. In this regard, the Government must still adopt a number of policy measures to establish the concept of responsible borrowing, achieve the debt targets and objectives it announced and ensure the sustainability of its debt path, along with achieving the SDGs and the Egypt Vision 2030 objectives. There are three main conclusions obtained from the analysis presented in this chapter that are crucial to the design of future debt strategies and policies.

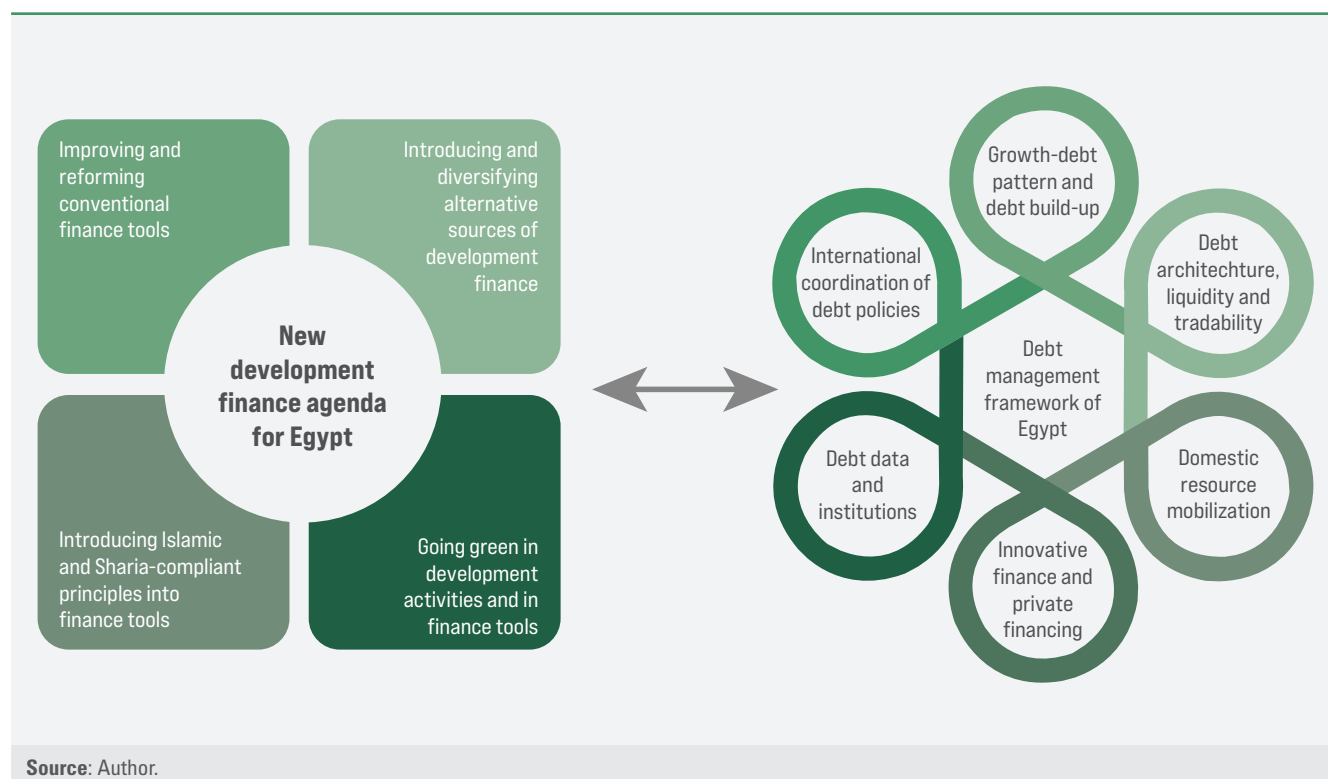
First, Egyptian debt is mainly fiscally driven. Fiscal pressures will persist with increased commitments to achieve the national development agenda and public spending targets identified for the SDGs. Securing a debt-sustainable path to achieve the SDGs must also consider the fiscal problems and public financial management issues highlighted in this chapter, as well as in other chapters of this report.

Second, Egyptian debt is characterized by low liquidity and tradability, both domestically and internationally. Moreover, domestic debt maturity is very short, which presents clear refinancing risks. This requires addressing the interactions between the debt market, debt instruments and the financial market in Egypt.

Third, private financing and alternative financing are essential to bridging SDG financing gaps and thus securing a debt-sustainable path, while fulfilling SDG-related spending needs.

The SDG debt management framework proposed in this chapter suggests some policy measures believed to be necessary to achieve the country's goals and finance public spending for the SDGs without harming debt trajectories. The framework incorporates a number of interconnected policies related to the growth-debt pattern, debt build-up and architecture, alternative sources of finance and domestic resource mobilization, and debt management and institutional measures (figure 113).

**Figure 113.** Egyptian debt management framework for the Sustainable Development Goals



Mainly, growth patterns in Egypt must be more inclusive. Inclusive growth contributes to lowering spending pressures and would help to decrease the primary spending gap for the SDGs. A larger and more inclusive GDP intuitively implies a larger tax base, more mobilized domestic resources and a longer-term sustainable source of financing the SDGs. The role of the private sector in financing development and bridging spending gaps has been discussed and highlighted in different parts of this report.

Egypt is making progress in implementing a medium-term budgetary framework that involves a medium-term expenditure and revenue framework as well as a medium-term debt strategy. The incorporation of SDG-related public spending and revenue objectives, projections and targets within these frameworks is essential. SDG-related public spending requirements must be integrated within the current introduction of the country's medium-term strategic frameworks. The implications of these spending requirements should also be reflected in revisions of the country's medium-term debt strategy, which should incorporate assumptions and projections relating to the SDG primary financing gap and the estimated revenues needed to achieve the SDGs by 2030. The Government has recently adopted radical measures to enhance domestic resource mobilization. This includes, for example, the introduction of VAT and restructuring real estate tax administration, among other measures that aim to increase tax and non-tax revenues. The newly proposed medium-term revenue strategy addresses many measures to reform tax administration and enhance the tax base, as highlighted in chapter 4 of this report. The strategy is being revised to incorporate the recovery from the COVID-19 pandemic. In particular, it is recommended that revision of the strategy should also incorporate the country's commitment to the SDGs and the estimated revenues needed to fund the SDG primary financing gap identified in this chapter. Also, the expected increase in revenues resulting from investment in the SDGs should be considered in the medium-term revenue strategy.

The medium-term debt strategy is intended to increase the liquidity and tradability of debt instruments, increasing the share of tradable debt and strengthening secondary market transactions. Strengthening the country's non-banking financial market is necessary to fund the SDG spending gaps. The analysis of the financial sector in Egypt, presented in chapter 7 of this report, shows the continued dominance of the banking sector and the relatively underdeveloped status of non-banking financial markets. Developing the non-banking financial sector, which is necessary for economic growth in general, also has significant implications as a secondary market for debt and for the liquidity of debt instruments. Likewise, there are important measures to improve the efficiency of debt secondary market (as mentioned in the medium-term debt strategy), such as efforts towards clearing the country's debt instruments against the euro, rejoining the J.P. Morgan Bond Index, reducing financing costs in the secondary market, introducing electronic trading platforms and introducing new clearing systems and settlement.<sup>22</sup>

The Government is advancing towards the introduction of public-private partnership investment schemes within the public investment structure to support necessary financing. The Egyptian Parliament recently gave provisional approval to new amendments to Law No. 67/2010 on the participation of the private sector in infrastructure, service and public utility projects. This is a step towards increased institutionalization and facilitation of public-private partnership projects and the participation of the private sector in financing development within the SDG framework. The new measures will improve the involvement of the private sector in financing development projects, particularly with the expected enactment of the Law on unified public finance, which also addresses the transformation to programme-based budgeting and further implementation of the medium-term budget framework. Such institutional measures should be utilized to involve the private sector in filling the estimated SDG financing gap.



Egypt has recently been pursuing innovative finance mechanisms, such as sovereign green bonds, Islamic sukuk and climate/SDG debt swaps. Green bonds can also offer an alternative solution to financing public-private partnership projects. The Sovereign Green Financing Framework, announced in September 2020, highlights the country's commitment to issuing green bonds as part of its strategic vision to achieve the SDGs and the Egypt Vision 2030. The Financial Regulatory Authority approved the legal framework for issuing green bonds in July 2018. Green bonds are intended to provide new financial tools to fund eco-friendly projects in specific fields. The guidelines were developed with the support of the International Finance Corporation and are based on the Green Bond Principles of the International Capital Market Association.

Egypt was the first country in the MENA Region to issue green bonds. In 2020, \$750 million worth of bonds were issued as the first climate-friendly securities. This resulted in an increase in green investments, estimated to be around 14 per cent of public investments in Egypt. Another \$1.9 billion worth of green bonds are planned to be issued by the private sector. As one of the alternative financing solutions for achieving the SDGs, green bonds not only offer an alternative source of financing public investments but also contribute to increasing the share of tradable debt of the total Egyptian debt profile, which can consequently help to decrease debt risks compared to other non-tradable debt options. Law No. 138 on 2021 sovereign bonds (sukuk) was ratified in July 2021, and the Government is now preparing to issue Sharia-compliant sovereign bonds (sukuk) in the first half of 2022.

Debt-for-climate swaps are also among the measures considered to close SDG financing gaps and overcome fiscal distress resulting from the COVID-19 pandemic. The Government participated in the launch of the ESCWA climate/SDG debt swap initiative, which aimed to support debt relief efforts and improve climate finance in middle-income countries in the Arab region that

are facing increasing debt burdens, growing SDG-related needs and heightened risks in the wake of COVID-19 and its impact on debt trajectories. Efforts in this regard are still progressing and must be intensified to close SDG financing gaps.

Increasing commercial financing, access to international financial markets and debt market development are essential to supporting the financing of SDG spending needs in Egypt. With the development of new debt instruments, Egypt will be more exposed to global financial markets and floating debt risks, which would pose further economic risks. This must be addressed with caution, prudent measures and a strong institutional framework governing new debt instruments.

## Debt management, data and institutions

For Egypt to maintain a debt-sustainable path, several structural and institutional problems still need to be solved. The country must work more on managing fiscal risks that directly impact its debt profile.

Contingent liabilities constitute one of the core fiscal problems that hurt the Egyptian debt trajectory. Despite continuing efforts, loan guarantees top the list of the country's main contingent liabilities. Being issued on an ad hoc basis and having increased, they constitute a clear threat to the debt sustainability path. New institutional arrangements must be introduced to contain the problem of loan guarantees. Other contingent liabilities, such as pension obligations, challenges related to State-owned enterprises (SOEs) and the continued adoption of a cash basis instead of accrual basis in national accounting will continue to result in hidden deficits and pose fiscal risks that have an impact on the residual component of debt dynamics.

The Government of Egypt has recently taken steps to improve the performance of SOEs,

and its medium-term debt strategy already defines several measures to enhance the quality of related data. Measures include actions both to improve the performance and efficiency of the public business sector and to improve their institutional structure and interactions with public finances. SOEs play a significant role in driving fiscal risks and threatening the country's debt profile. Among the strong recommendations in this regard is the disclosure of data on SOEs and the consideration of their debt in official debt components to increase transparency and minimize hidden fiscal risks that further threaten the debt profile.

To minimize similar fiscal risks and the residual component in debt dynamics, it would also be helpful to improve public financial management and debt transparency, accountability and reporting on the obligations and commitments of the Egyptian public sector; minimize asymmetries in information; and ensure that borrowed resources are reported and included in the calculation of debt dynamics.

Fiscal policy in Egypt is characterized by a dependence on discretionary measures

and the limited power of fiscal rules over the budget. This can be argued to be a core contributor to the unsustainability of some structural adjustment programmes. The 2016 national reforms established a fiscal consolidation path that was implemented successfully until it was interrupted by the COVID-19 pandemic, when the Government had to adopt a set of expansionary fiscal policies in line with global practices and advice. Efforts to resume the austerity path and sustain the positive outcomes of downward debt trajectory may be threatened if Egypt does not secure its fiscal and debt policies with proper rules and institutions that limit future discretionary interventions.

In sum, a comprehensive SDG debt management framework is expected to support the sustainability of the country's debt path during its journey to implement the 2030 Agenda and the Egypt Vision 2030. It should address the country's structural, fiscally driven debt problems; incorporate new and innovative SDG financing tools to fund the estimated SDG spending gaps; and acknowledge the role of private financing and international cooperation in debt management.

## D. Conclusion and policy recommendations

1

Egypt has debt problems arising from its status as an emerging country, with growing needs and financing gaps coupled with its longstanding macrofiscal-financial imbalances. While debt vulnerability in emerging markets and developing economies is generally driven by private external debt, debt in Egypt is mainly caused by spending.

2

Key risks to the sustainability of the Egyptian debt profile arise from limited fiscal space, short-term maturity and low tradability of domestic debt. This is in addition to extrabudgetary activities and contingent liabilities arising from institutional weaknesses.

3

The Government recently took radical steps to reform its macrofiscal performance. In addition to structural and institutional reforms, it is introducing new financial tools to support its development finance agenda, engage the private sector and lessen fiscal burdens. Such measures will certainly have an impact on the sustainability of the country's debt path.

4

Debt is essential to achieving public investment goals relating to the SDGs. Financing the SDGs and development entails increased pressure on spending requirements and, consequently, leads to further threats to debt management and sustainability. Debt sustainability in this context implies the ability to achieve SDG-related public investment goals without increasing debt ratios and to make effective use of borrowed resources.

5

The Egypt Vision 2030 is a commitment to achieving global SDGs, in addition to the nationally defined development agenda. To finance the SDGs and achieve this vision, it is necessary to secure financial requirements to ensure the sustainability of the debt path, which is one of the SDG targets and a core concern for the Egyptian economy.

6

The shock of the COVID-19 pandemic reversed an austerity path that began in 2016 and caused an increase in debt levels, which are expected to continue rising before resuming a downward trend towards the desired 70 per cent debt-to-GDP benchmark for emerging markets.

7

The SDG financing gap in Egypt is estimated to reach approximately 10.31 per cent of GDP in 2030. Funding this gap while maintaining debt sustainability requires securing different sources of finance, as well as improving the efficiency of public spending.

8

In view of recent reforms and strategic directions, the SDG debt management framework proposed in this report affirms the need to continue to address the country's fundamental debt problems, incorporate new innovative SDG financing tools to finance estimated SDG spending gaps, and recognize the role of private financing and international cooperation in achieving the SDGs and national investment needs.

9

The main policy measures discussed in the proposed framework involve: (1) improving the liquidity and tradability of the country's debt instruments and strengthening non-banking financial markets and access to international markets to fund SDG spending gaps; (2) intensifying private sector involvement in development finance and developing public-private partnership projects; (3) making progress in the production of innovative sources of financing, such as sovereign green bonds, Islamic sukuk and climate/SDG debt swaps; and (4) managing fiscal risks and improving public financial management and fiscal and debt regulations.



## Endnotes

1. For the purpose of the analysis, this chapter adopts the definition of “government debt” used by IMF for debt sustainability analysis: total government debt (nominal gross public debt) comprises domestic debt held by residents in both local and foreign currency and external debt held by non-residents and denominated in foreign currency. “The general government comprises the budget sector, the Social Insurance Funds and the National Investment Bank (NIB). The budget sector comprises the central government (administration), the governorates (local administration) and public service authorities, including the General Authority for Government Services, a number of regulatory authorities, funds, universities and hospitals” (IMF, 2020b).
2. IMF establishes a benchmark for public debt risk levels for advanced economies, as well as emerging markets, called “market-access countries”. The benchmark is 50 per cent of GDP for advanced economies, while it used to be 60 per cent for emerging markets, before being recently revised to 70 per cent (IMF, 2013a).
3. IMF, 2021b.
4. Gross financing needs are defined as “[t]he financial needs required to roll over maturing debt; defined as the fiscal deficit, plus any other transactions that require financing, plus amortization” (IMF, n.d.).
5. Ministry of Finance, Egypt, and UNICEF, 2020.
6. IMF, 2021a.
7. The medium-term debt strategy classifies debt using the currency based on the currency-denomination base in order to account for exchange rate risks and to estimate the amount of public debt that is vulnerable to exchange rate fluctuations. According to this strategy, external debt incorporates Treasury bills and Treasury bonds issued in the domestic market and denominated in dollars and euros. It also covers international issuances of Eurobonds and bilateral and multilateral external debt loans.
8. The non-banking sector includes insurance companies and funds, the National Postal Authority, holding/investment companies and individuals (households).
9. The medium-term debt strategy covers only central government debt, while this chapter focuses on general government debt. (Ministry of Finance, Egypt, 2020b).
10. The debt in the medium-term debt strategy focuses on central government debt, while IMF debt covers general government debt, as highlighted earlier in this chapter.
11. This covers United States Treasury bills, United States Treasury bonds and euro Treasury bills issued in the Egyptian domestic debt market at an exchange rate of \$1 = LE 16.205 (Ministry of Finance, Egypt 2020b).
12. IMF, 2021a.
13. Al-Nashar, 2019.
14. United Nations, Inter-agency Task Force on Financing for Development, 2020.
15. The methodology of Munevar (2018) is used to calculate the SDG sustainability gap.
16. Gaspar and others, 2019.
17. IMF, 2020b.
18. For more on demographic dividends in Egypt, please see Nassar and others (2017).
19. Gaspar and others, 2019; IMF, 2013b.
20. Calculated as a percentage of nominal GDP.
21. Gaspar and others, 2019.
22. More on the reform programme of the Egyptian capital market and the implications for debt can be found in the Egyptian medium-term debt strategy (Ministry of Finance, Egypt, 2020c).

The author would like to acknowledge the efforts of Nour Abdelbaki in the preparation of this chapter.

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# Trade as an engine for sustainable development and growth

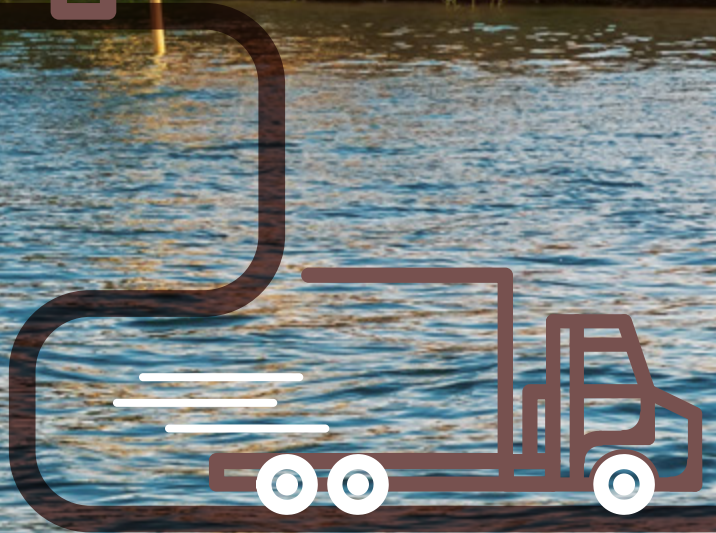
*by Chahir Zaki*



# 09









Trade can boost sustainable development through several channels.

## Background

While trade openness plays an important role in boosting economic growth, it might not be sensitive to sustainable development. This may be the case if it negatively affects the environment, increases inequality or deteriorates labour conditions. The 2015 Addis Ababa Action Agenda is therefore aimed at increasing world trade in a manner consistent with the SDGs, including exports from developing countries, while committing to integrating sustainable development into trade policy at all levels; supporting the integration of small, vulnerable economies in regional and world markets; and recognizing the need for value addition by developing countries and for further integration of MSMEs into value chains.

Indeed, trade can boost sustainable development through several channels. First, in terms of gender equality, trade can create more opportunities that ensure women's full and effective participation in business and exports (Goal 5). Second, as exporting firms are the most productive firms, they will need to hire more skilled workers in order







to face the fierce competition of global markets. Such skilled workers are, in general, formally hired. For this reason, trade can be perceived as a tool that reduces informality, improves working conditions and provides workers with more decent jobs (SDG 8).<sup>1</sup> Moreover, increasing the number of SMEs in regional and global value chains can boost industry and innovation in emerging economies (SDG 9). Yet, it is important to note

that multilateralism is threatened by the trade war between the United States and China, by the protectionist measures imposed by different countries to curb the COVID-19 pandemic and by the World Trade Organization (WTO) Appellate Body crisis. Deepening trade relations and saving the multilateral system can therefore empower partnerships for achieving the SDGs (SDG 17)..

This chapter examines how trade can be an engine not only for growth but also for sustainable development, including in the case of Egypt. It has two objectives. First, section B begins with an overview of trade flows and trade policies in Egypt. Second, section C explores the link between trade policy and several SDGs, namely gender equality, decent work, industry and innovation, reduced inequalities and partnerships for the SDGs. The main findings show that while Egypt is relatively more diversified than other comparator countries, it still specializes in traditional products. To mainstream the SDGs in trade policy, it is therefore necessary to upgrade exports, address non-tariff measures, link trade and industrial policies and deepen trade agreements. Section D concludes and provides a number of policy recommendations.

## A. Overview of trade flows and trade policies in Egypt

The objective of this section is to show how both trade flows and policies in Egypt did not directly address development issues. Indeed, with an exports structure largely concentrated in capital intensive goods and trade agreements that focused primarily on tariff liberalization, the manufacturing sector did not succeed in creating many jobs (especially decent ones, which affected SDG 8) and instead produced traditional goods (affecting the country's ability to achieve SDG 9), which disconnected trade partnerships rather from development goals (affecting the ability to achieve SDG 17).

### 1. Developments in trade

#### (a) Long-term trends

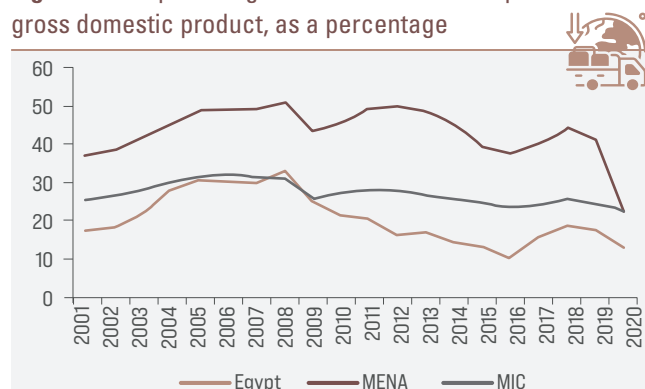
Egypt has one of the more diversified economies in the MENA Region, along with Jordan, Morocco and Tunisia. In terms of its trade policy, it has implemented several reforms aimed at liberalizing trade and improving export performance. At the export level (figure 114), the country's share remained relatively stable between 2001 and 2019 at approximately 17.4 per cent, with a minimum of 10.3 per cent in 2016 and a maximum of 31 per cent in 2008. This share is lower than that of middle-

income countries (24.8 per cent) and the MENA Region as a whole (41.5 per cent in 2019, being a large exporter of oil and oil products). Figure 115 shows that the share of imports to GDP increased from 22.3 per cent to 25.7 per cent between 2001 and 2019, followed by a decline in 2020 to 20.7 per cent. It is important to note that these trends change when considering the trade balance of goods, as this has been always in deficit in Egypt, amounting to 10.45 per cent of GDP in 2018. By contrast, the trade balance of services generally registers a surplus, totalling 16.9 per cent of GDP in 2018. It is important to note that the export boom in the 2000s in Egypt, which declined sharply after the global financial crisis but bounced back after 2016, was more volatile than that of other MENA or

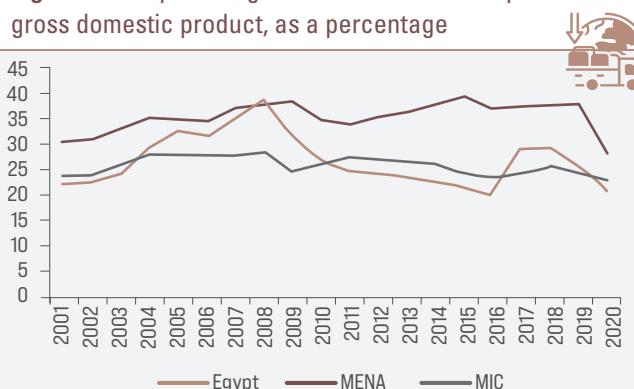
middle-income countries whose exports followed a more gradual pattern.

A more detailed look at the structure of exports shows that Egypt is more diversified than the MENA Region since its share of fuel exports represents 33.7 per cent of merchandise exports on average. Nevertheless, this share remains higher than that of middle-income countries (20 per cent), as shown in figure 116. The share of manufactures exports amounts to 45.2 per cent of merchandise exports in Egypt, 22.5 per cent in the MENA Region and 66 per cent in middle-income countries (figure 117). This can partially explain why the exports structure of Egypt failed to create a significant number of jobs.

**Figure 114.** Exports of goods and services compared to gross domestic product, as a percentage



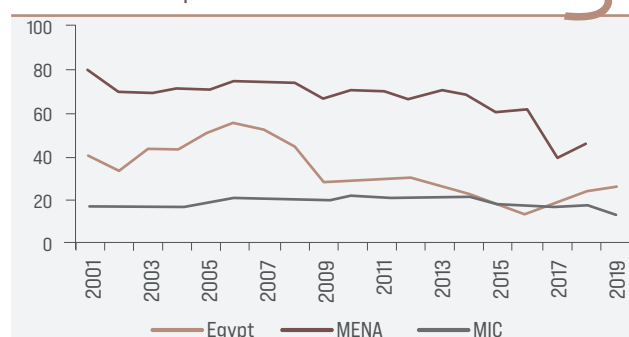
**Figure 115.** Imports of goods and services compared to gross domestic product, as a percentage



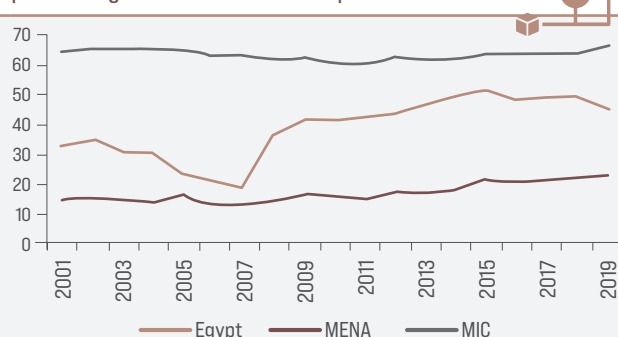
**Source:** Source: World Bank (2021). World Development Indicators database. Available from <https://databank.worldbank.org/source/world-development-indicators>. Accessed on 15 October 2021.

**Abbreviations:** MENA, Middle East and North Africa; MIC, middle-income countries.

**Figure 116.** Fuel exports, as a percentage of merchandise exports



**Figure 117.** Manufactures exports, as a percentage of merchandise exports



**Source:** World Bank (2021). World Development Indicators database. Available from <https://databank.worldbank.org/source/world-development-indicators>. Accessed on 15 August 2021.

**Abbreviations:** MENA, Middle East and North Africa; MIC, middle-income countries.

However, this aggregate analysis hides a lot of heterogeneity. The next section therefore provides a more detailed analysis of the sectoral and geographical distribution of exports and imports.

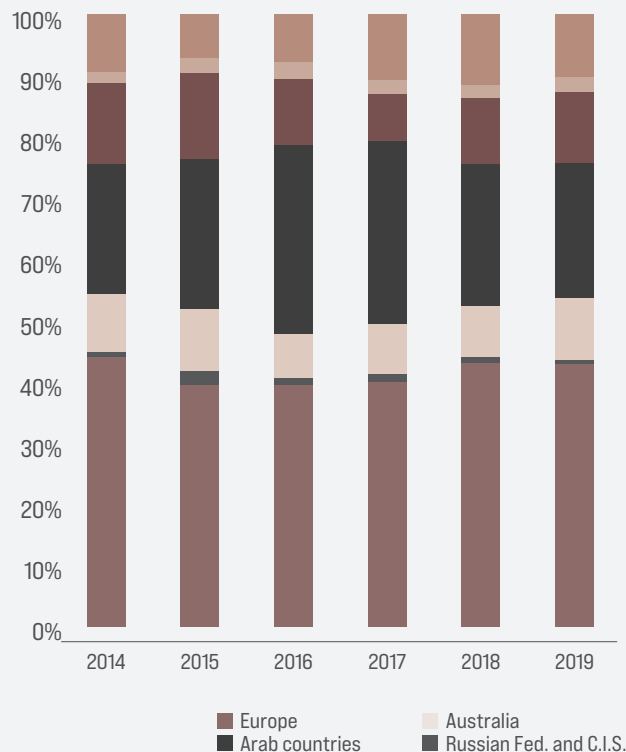
### (b) Where do exports go and where do imports come from?

The main trading partner of Egypt for both exports and imports is Europe (mainly the European Union, as well as some countries that are not member States), with 43 per cent of exports (figure 118) and 35 per cent of imports (figure 119) in 2019. Trade was primarily with France, Germany and Italy. Clearly, one of the potential reasons behind this significant share is the Association Agreement that has been in force since 2004.<sup>2</sup> The second most important destination for Egyptian products is Arab countries, primarily Saudi Arabia, with a share of

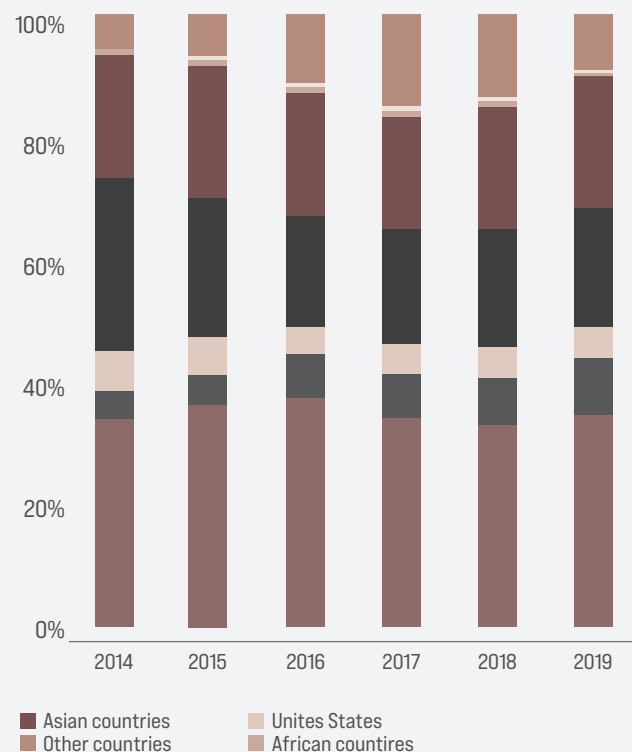
21.6 per cent in 2019. With regard to imports, Asia, chiefly China, is ranked second with a slightly increasing share (rising from 19 per cent in 2014 to 22 per cent in 2019).

This difference in the destinations of exports and the origins of imports shows that exports are more regionalized than imports, since they are concentrated in closer economies (Arab and European countries), compared to more remote countries for imports (Asian countries). It is clear that proximity to Europe can help Egypt to develop regional value chains similar to those between Germany and Eastern European countries. Indeed, in three key German industries (motor vehicles, chemicals and machinery) a production network had been developed with Eastern European countries, which has helped them to grow and gradually rise to the levels of Western Europe.

**Figure 118.** Geographical distribution of exports



**Figure 119.** Geographical distribution of imports



**Source:** Author, based on data from the Central Bank of Egypt.

**Abbreviations:** CIS, Commonwealth of Independent States.



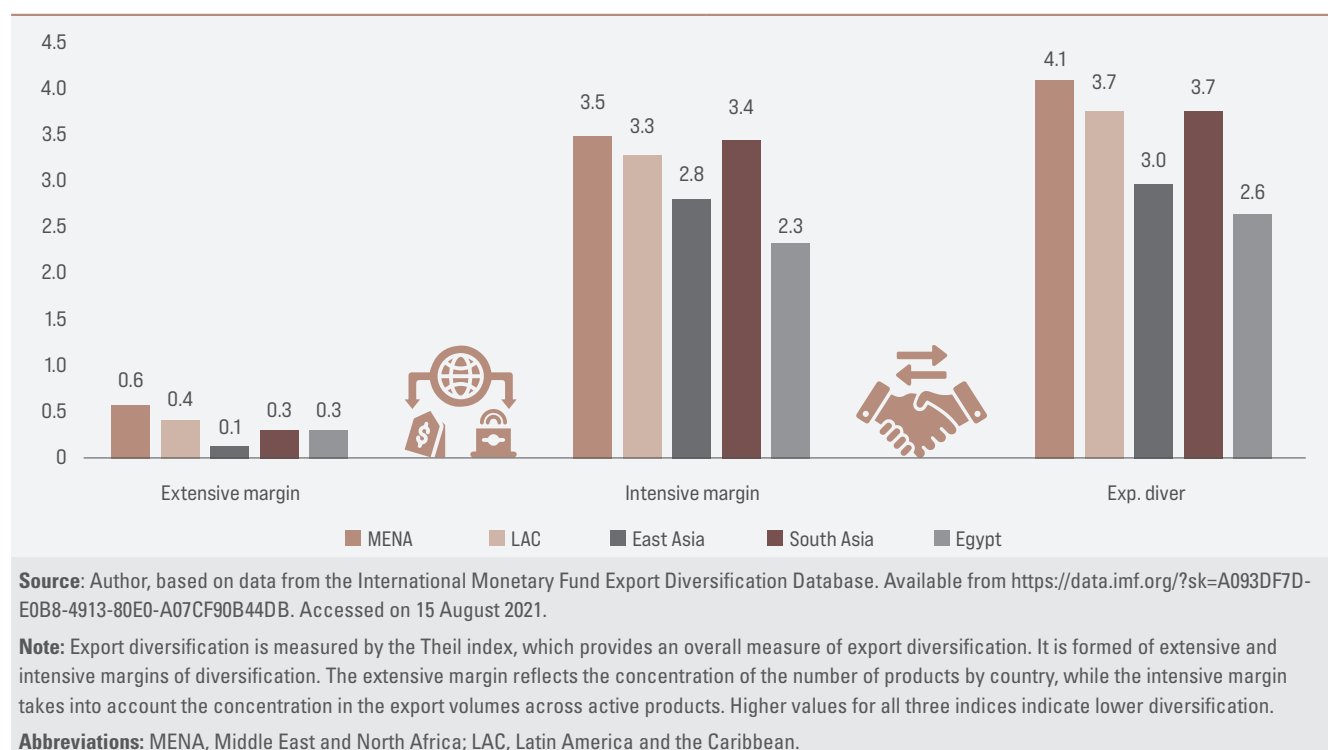
### (c) What does Egypt export and import?

This section focuses on trade in goods only. Indeed, at the product level, the export structure of Egypt is more diversified than other emerging economies, as shown by the Theil index in figure 120. The higher the value of the index, the lower the diversification. This pattern holds for the intensive margin, which reflects the concentration in export volumes across active products. By contrast, for the extensive margin (which reflects

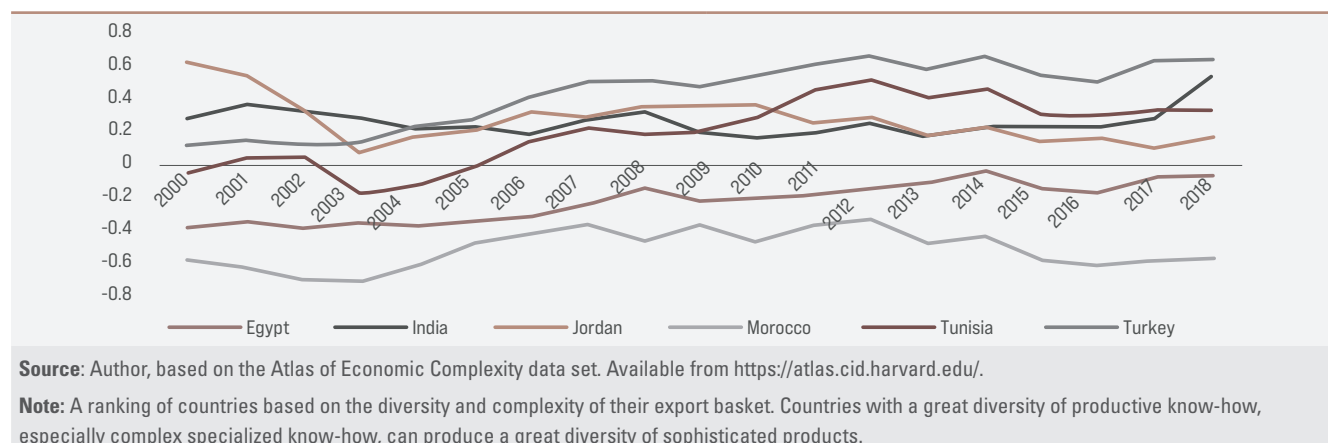
the concentration in the number of products by country), East Asia appears to be more diversified.

Despite this diversification, Egypt remains specialized in traditional sectors that are not intensive in complex know-how. Indeed, figure 121 shows that, according to the Economic Complexity Index, despite a slight improvement, Egypt ranks below other comparator economies such as Jordan, Tunisia and Turkey.

**Figure 120.** Export Diversification Index (2014)



**Figure 121.** Economic Complexity Index

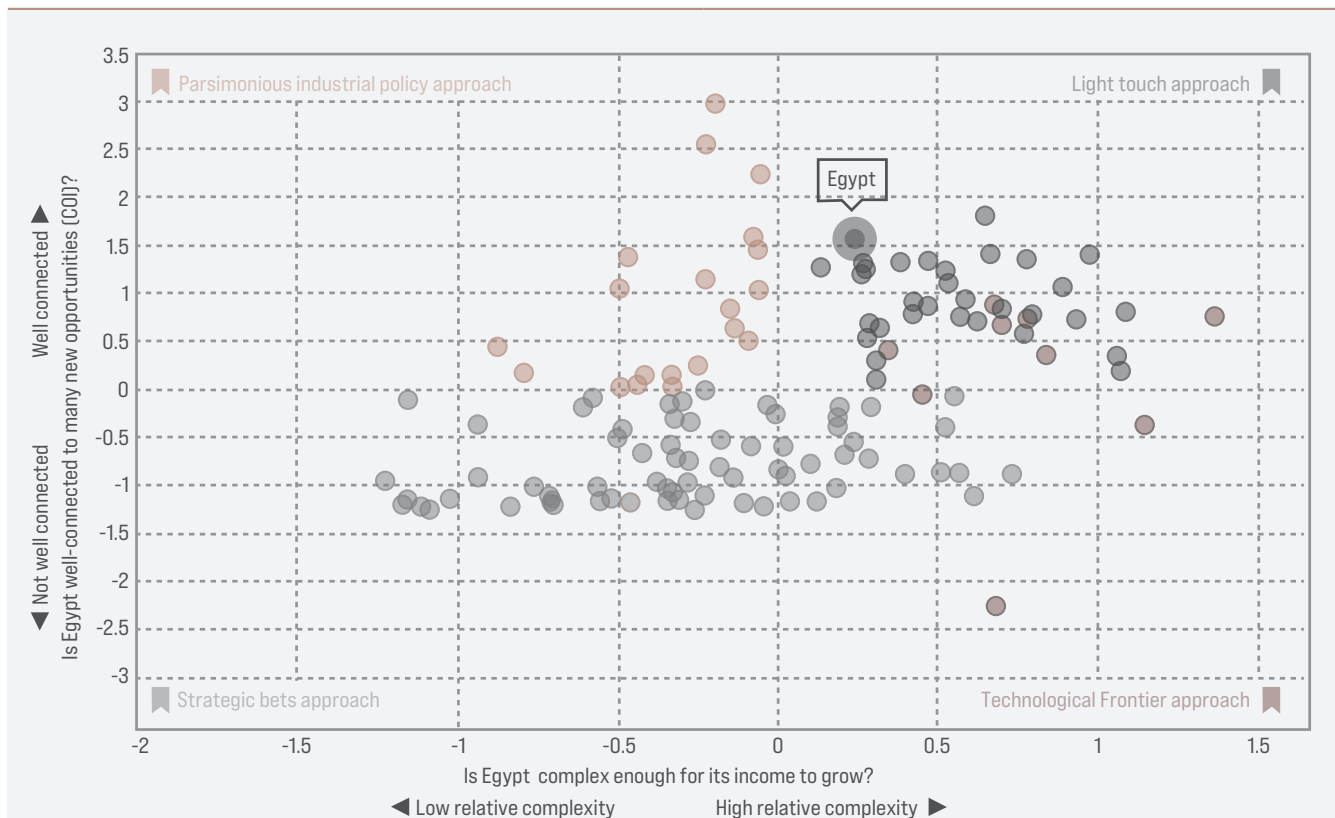


This is confirmed by the fact that Egyptian exports have a low share of high technology exports (1.1 per cent of manufactured exports) compared to all MENA countries (7.4 per cent) or middle-income countries (21.2 per cent). For this reason, a stronger link between industrial policies and trade policies will help to increase exports from the manufacturing sector.

Fortunately, Egypt can easily diversify its exports to include new products that are more complex, based on the Economic Complexity Outlook Index, which measures how many complex products are near a country's current set of productive capabilities (figure 122). Since 2003, Egypt has added 62 new products that

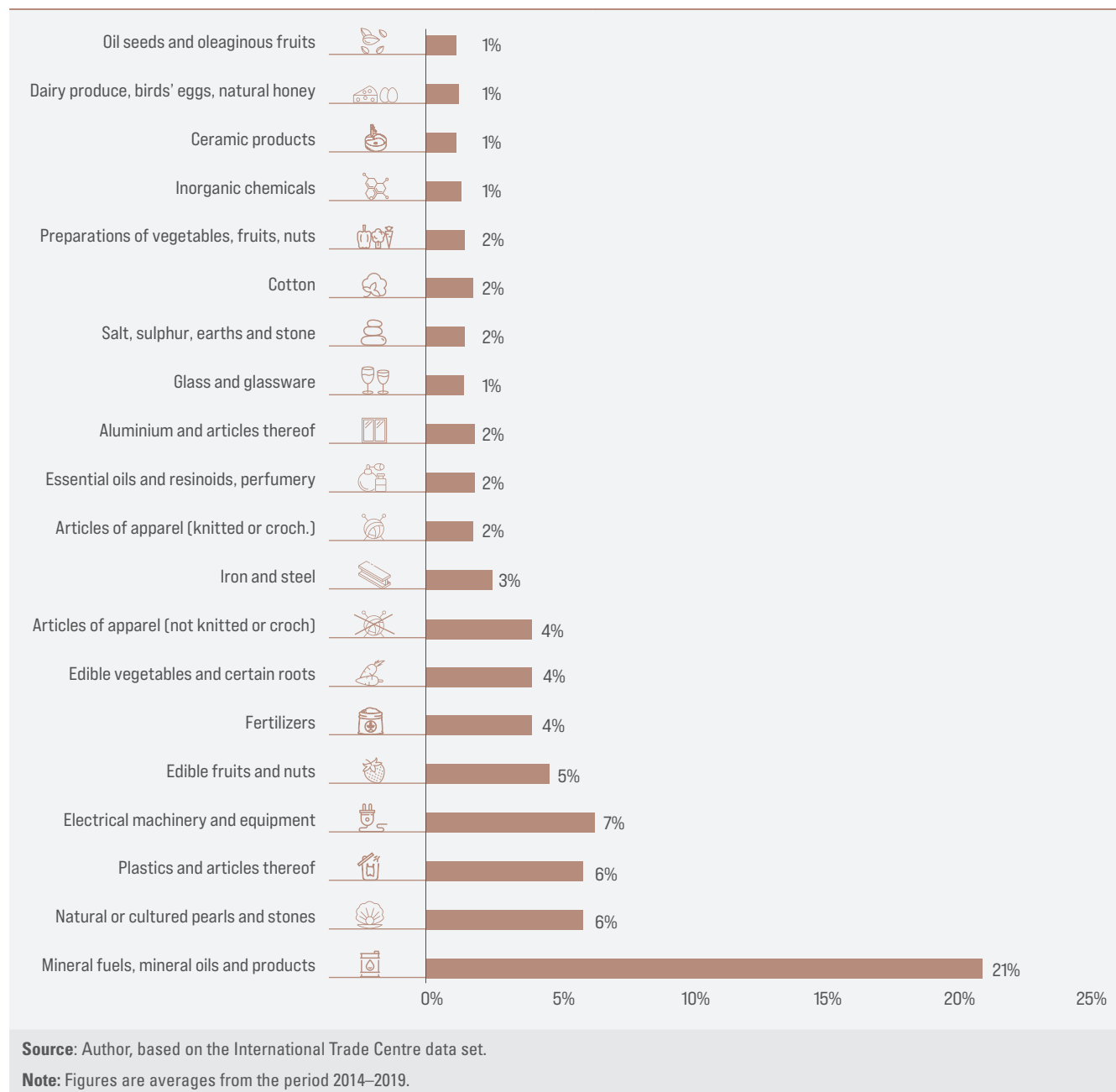
are incrementally more complex. As suggested by the Atlas of Economic Complexity data set, Egypt can follow the “light touch approach”, as it is positioned to take advantage of many opportunities to diversify its production using its existing know-how. This is true mainly for parts of motor vehicles, cars and electrical and electronic products. Export diversification has three positive effects. First, it will help Egypt to overcome export instability that might negatively affect firms' decisions to invest. Second, it will lead to a stabilization of export earnings and thus reduce the country's external vulnerability. Third, knowledge spillovers can be generated from new production techniques that can impact other sectors.

**Figure 122.** Economic Complexity Outlook Index



**Source:** Author, based on the Atlas of Economic Complexity data set. Available from <https://atlas.cid.harvard.edu/>.

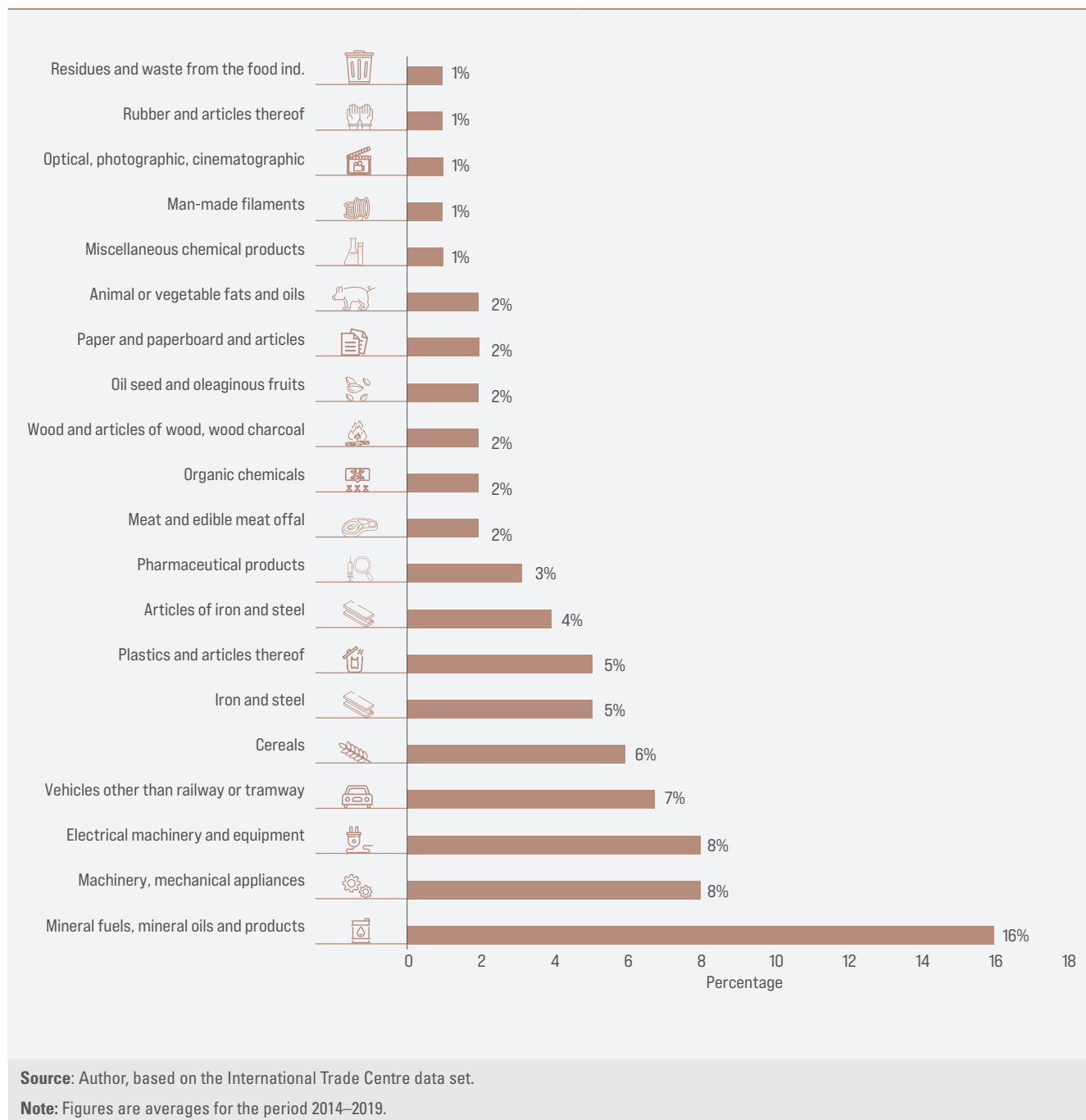
**Notes:** The x-axis measures the relative complexity of products and the y-axis measures the ease of diversification for a country. Parsimonious industrial policy approach: limited opportunities require bottlenecks to be addressed to help overcome short distances to related products. Strategic bets approach: few nearby opportunities call for coordinated long jumps into strategic areas with future diversification potential. Technological frontier approach: having exploited virtually all major existing products, gains come from developing new products. Light touch approach: ample space to diversify calls for leveraging existing successes to enter more complex production. The higher the value of the index, the more complex the exports. Negative values show either a low level of complexity or a low ability to diversify.

**Figure 123.** Top 20 exported products, HS2 level

At a more detailed level (HS2),<sup>3</sup> figures 123 and 125 show that minerals represent a significant share of exports and imports (21 per cent and 16 per cent, respectively). For exports, plastics (6 per cent), electrical machinery (7 per cent), edible fruits (5 per cent), fertilizers (4 per cent) and items of clothing (6 per cent, crocheted or non-crocheted) represent the most exported products. As for imports, machinery and mechanical appliances (8 per cent), electrical machinery

(8 per cent), vehicles (7 per cent) and cereals (6 per cent) are among the most imported products. This structure shows the extent to which the country's imports are chiefly capital goods of high added value, while exports have a lower added value, which affects job creation.

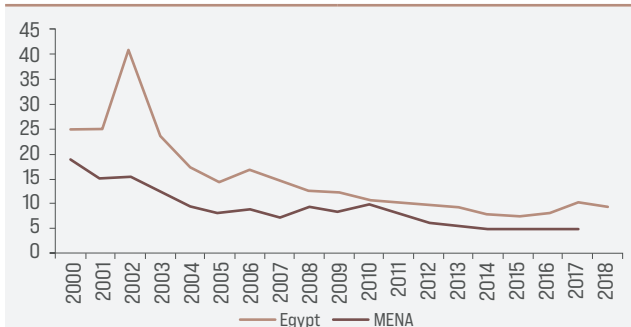
Clearly, to make exports more competitive, several reforms must be implemented at both the industrial and trade policy levels, as will be shown in section D.

**Figure 124** Top 20 imported products, HS2 level

## 2. Developments in trade policy

The analysis of tariffs and non-tariff measures is of particular interest when examining the competitiveness of Egyptian exports. First, in terms of tariffs, exports rely significantly on imported inputs. Indeed, according to data from CBE, 70 per cent of the country's imports are

concentrated in raw materials, capital goods and unfinished goods. Tariffs on imports are therefore likely to affect the competitiveness of exports. As for non-tariff measures, it is important to note that Egyptian exporters do not only face such measures in the destination markets, but in Egypt as well. More efforts are therefore needed to reduce the negative effects of such barriers.

**Figure 125.** Evolution of tariffs for all products

**Source:** World Bank (2021). World Development Indicators database. Available from <https://databank.worldbank.org/source/world-development-indicators>. Accessed on 15 August 2021.

**Note:** Figures represent the tariff rate, applied, simple mean, for all products (as a percentage).

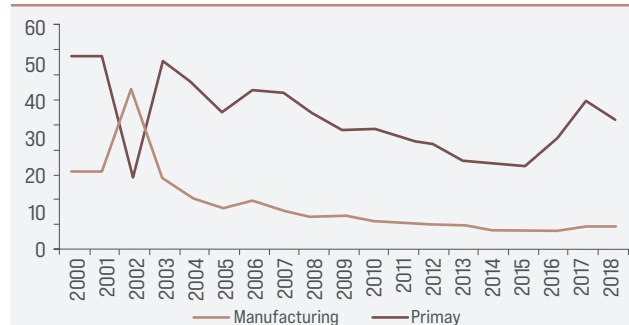
### (a) Tariffs

Over the last two decades, Egypt has significantly liberalized its trade; the average tariff declined from 25 per cent in 2000 to 9.6 per cent in 2018. Nevertheless, this level remained higher than the average in the MENA Region, which reached 5.1 per cent in 2018 (figure 125). At the sectoral level, the manufacturing sector underwent a more pronounced liberalization, as its average tariffs declined from 21.6 per cent to 6.6 per cent over the same period. Conversely, the primary sector remained much more protected, with an average tariff of 35 per cent as at 2018 (figure 126).

Despite these developments, and while the literature has shown that tariffs have a negative impact on the economy through their effect on consumers (i.e. higher prices) and on producers (i.e. more costly imported intermediate inputs), non-tariff measures seem to be more harmful, as they are less transparent and, in some cases, more exorbitant.

### (b) Non-tariff measures

According to UNCTAD, non-tariff measures are generally defined as policy measures other than ordinary customs tariffs that can potentially have an economic impact on international trade in goods, changing quantities traded,

**Figure 126.** Evolution of tariffs by product for Egypt

**Source:** World Bank (2021). World Development Indicators database. Available from <https://databank.worldbank.org/source/world-development-indicators>. Accessed on 15 August 2021.

**Note:** Figures represent the tariff rate, applied, simple mean (as a percentage).

or prices or both. Whereas the development of multilateral trade negotiations led to the reduction of tariff barriers, the use of non-tariff measures as an instrument for trade regulation and consumer safety protection has increased in recent decades.

Table 28 confirms that non-tariff measures are generally more protective. Indeed, the average ad-valorem equivalent of both technical (those related to sanitary and phytosanitary measures and technical barriers to trade) and non-technical measures (other non-tariff measures) is 18.2 per cent for imports to Egypt. The products that experience a high ad-valorem equivalent of non-tariff measures are processed rice, vegetable oil and fats, fishing, dairy products, beverages and mineral products. These non-tariff measures chiefly include sanitary and phytosanitary measures that aim to protect human or animal life from risks related to additives, contaminants, toxins or disease-causing organisms. Technical barriers to trade, meanwhile, deal with standards, mandatory technical regulations and the procedures such as testing or certification that ensure that a certain product meets the quality requirements of the importing country. As a result, improving the quality of exported products will help to avoid such measures in the main destination markets, especially the European Union and Arab countries.



**Table 28.** Ad-valorem equivalents of non-tariff measures

| Product                        | Tech.<br>(percentage) | Non-tech.<br>(percentage) | Product                            | Tech.<br>(percentage) | Non-tech.<br>(percentage) |
|--------------------------------|-----------------------|---------------------------|------------------------------------|-----------------------|---------------------------|
| Beverages and tobacco products | 19.7                  | 6.5                       | Machinery and equipment n.e.c.     | 1.6                   | 1.4                       |
| Bovine meat products           | 0.0                   | 0.0                       | Manufacturing n.e.c.               | 4.9                   | 12.7                      |
| Animal products n.e.c.         | 2.4                   | 4.2                       | Minerals n.e.c.                    | 0.6                   | 0.8                       |
| Crops n.e.c.                   | 8.2                   | 1.3                       | Chemical, rubber, plastic products | 1.2                   | 2.0                       |
| Food products n.e.c.           | 58.1                  | 2.6                       | Electronic equipment               | 0.9                   | 0.9                       |
| Meat products n.e.c.           | 9.8                   | 5.0                       | Metal products                     | 3.2                   | 1.1                       |
| Processed rice                 | 159.9                 | 51.1                      | Paper products, publishing         | 0.5                   | 0.5                       |
| Plant-based fibres             | 0.4                   | 0.0                       | Petroleum, coal products           | 1.0                   | 5.6                       |
| Vegetable oils and fats        | 44.8                  | 5.6                       | Textiles                           | 1.0                   | 0.4                       |
| Vegetables, fruit, nuts        | 3.3                   | 1.5                       | Ferrous metals                     | 0.3                   | 0.2                       |
| Sugar                          | 2.1                   | 0.0                       | Leather products                   | 4.5                   | 2.1                       |
| Forestry                       | 2.5                   | 1.1                       | Wood products                      | 1.8                   | 0.6                       |
| Fishing                        | 18.3                  | 1.8                       | Motor vehicles and parts           | 2.5                   | 3.0                       |
| Cereal grains n.e.c.           | 0.0                   | 0.2                       | Metals n.e.c.                      | 0.3                   | 0.1                       |
| Dairy products                 | 9.4                   | 2.6                       | Mineral products n.e.c.            | 6.5                   | 48.4                      |
|                                |                       |                           | Clothing                           | 6.5                   | 5.2                       |

**Source:** Author, based on data from the United Nations Conference on Trade and Development.

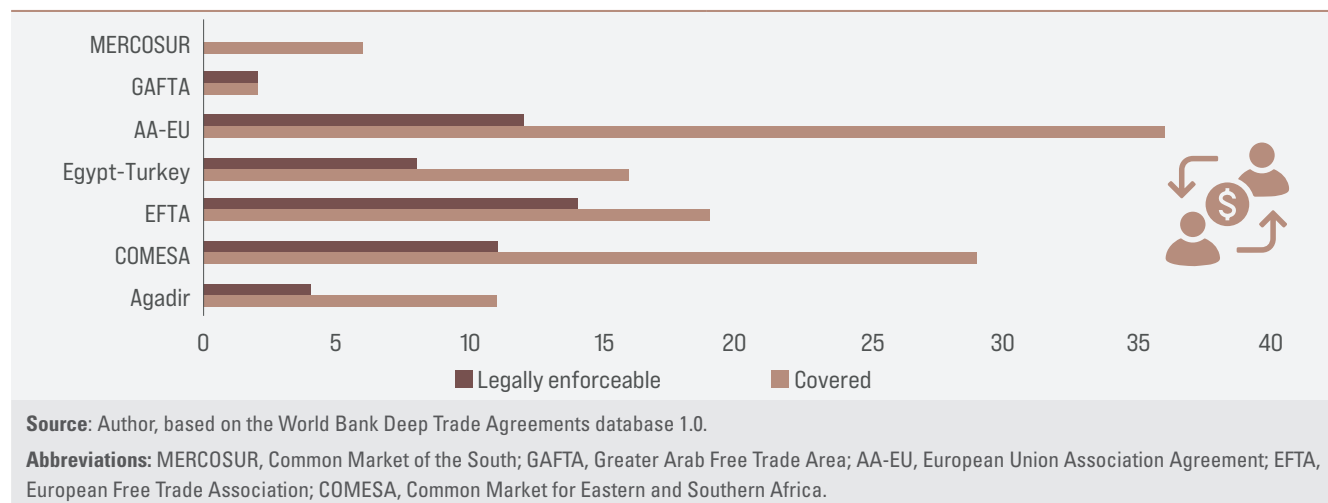
**Note:** The ad-valorem equivalent of technical measures captures the effects of these measures: Chapter A – Sanitary and phytosanitary measures: requirements restricting the use of specific substances, hygienic requirements or other measures for preventing the dissemination of diseases, as well as conformity assessment measures related to food safety, such as certification, testing and inspection, and quarantine. Chapter B – Technical measures: labelling requirements and conformity assessment measures relating to technical product requirements, including certification, testing and inspection. The ad-valorem equivalent of non-technical measures captures the effects of these measures: Chapter D – Contingent trade measures: measures to counteract the adverse effects of imports, including anti-dumping, countervailing and safeguarding measures. Chapter E – Quantitative restrictions: licensing requirements, quotas and other quantity control measures, import prohibitions that are not related to sanitary and phytosanitary measures or technical barriers to trade. Chapter F – Price controls: measures to control or affect the prices of imported goods to support or stabilize the domestic price of competing products or raise tax revenue. Includes para-tariff measures. Chapter G – Finance measures: policies restricting payments for imports, including regulation of access and cost of foreign exchange and terms of payment see [https://unctad.org/system/files/official-document/ditctab2019d5\\_en.pdf](https://unctad.org/system/files/official-document/ditctab2019d5_en.pdf).

**Abbreviations:** n.e.c., not elsewhere classified.

### (c) Trade agreements

Along with tariffs and non-tariff measures, trade agreements explain why trade and competitiveness in Egypt has not really improved over time. In fact, the country has signed several trade agreements. While shallow agreements deal only with tariff reduction (i.e. trade liberalization), deep ones address issues such as non-tariff measures, mobility of persons, capital mobility and trade in services. It is worth noting that the

majority of trade agreements of Egypt at both the bilateral and regional levels are rather shallow.<sup>4</sup> They have therefore led to more liberalization but without any real integration into the global economy. Figure 127 confirms this by comparing the number of policy areas in the agreements to the number of those that are legally enforceable. There are two comments to be made here. First, the number of legally enforceable areas is

**Figure 127.** Policy areas included in free trade agreements of Egypt

generally lower than the number of policy areas covered, which reduces the efficiency and the depth of the agreements. Second, most of these legally enforceable articles deal mainly with tariff reduction. As a result, other crucial issues (namely service restrictions and non-tariff measures) are not among these articles, causing most of these agreements to have a limited effect.<sup>5</sup>

At the bilateral level, Egypt has concluded free trade agreements with the European Union (2004), the members of the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland, 2004), Turkey and other Arab countries. At the regional level, Egypt has acceded to the Greater Arab Free Trade Area, the Common Market for Eastern and Southern Africa and the Agadir Free Trade Agreement (with Jordan, Morocco and Tunisia). Egypt also has a full-fledged agreement that

came into force in 2017 with countries in the Common Market of the South. Finally, Egypt signed the Qualifying Industrial Zones protocol in December 2005. Egypt also ratified the Agreement establishing the African Continental Free Trade Area.<sup>6</sup> While trade agreements that address tariff removal are necessary to increase trade, they are insufficient in view of the need for greater focus on non-tariff measures and service provision.

Against this background, it is important to note that two issues must be prioritized. First, trade policy must take into consideration industrial priorities in order to make exported products more competitive in world markets. Second, investment treaties that encourage foreign direct investment in the manufacturing sector will help to develop regional value chains and upgrade exports.<sup>7</sup>

## B. Promoting trade consistent with the Sustainable Development Goals

It is important to examine how trade policy can be used as a tool to achieve the SDGs. In other words, reforming trade policy can also

have developmental goals. This section will chiefly focus on SDGs 5, 8, 9, 10 and 17.

**Table 29.** Ranking of variables according to the 2020 Doing Business report

|                                   | Morocco | Jordan | Tunisia | Egypt |
|-----------------------------------|---------|--------|---------|-------|
| Global rank                       | 53      | 75     | 78      | 114   |
| Rank within group                 | 3       | 6      | 8       | 12    |
| Starting a business               | 5       | 11     | 2       | 9     |
| Dealing with construction permits | 3       | 15     | 6       | 11    |
| Getting electricity               | 3       | 8      | 6       | 11    |
| Registering property              | 9       | 8      | 12      | 16    |
| Getting credit                    | 9       | 1      | 7       | 4     |
| Protecting minority investors     | 3       | 12     | 8       | 7     |
| Paying taxes                      | 5       | 8      | 12      | 19    |
| Trading across borders            | 3       | 5      | 8       | 16    |
| Enforcing contracts               | 5       | 10     | 8       | 20    |
| Resolving insolvency              | 4       | 9      | 3       | 8     |

**Source:** World Bank (2021). Doing Business data. Available from <https://www.doingbusiness.org/en/data>. Accessed on 1 August 2021.

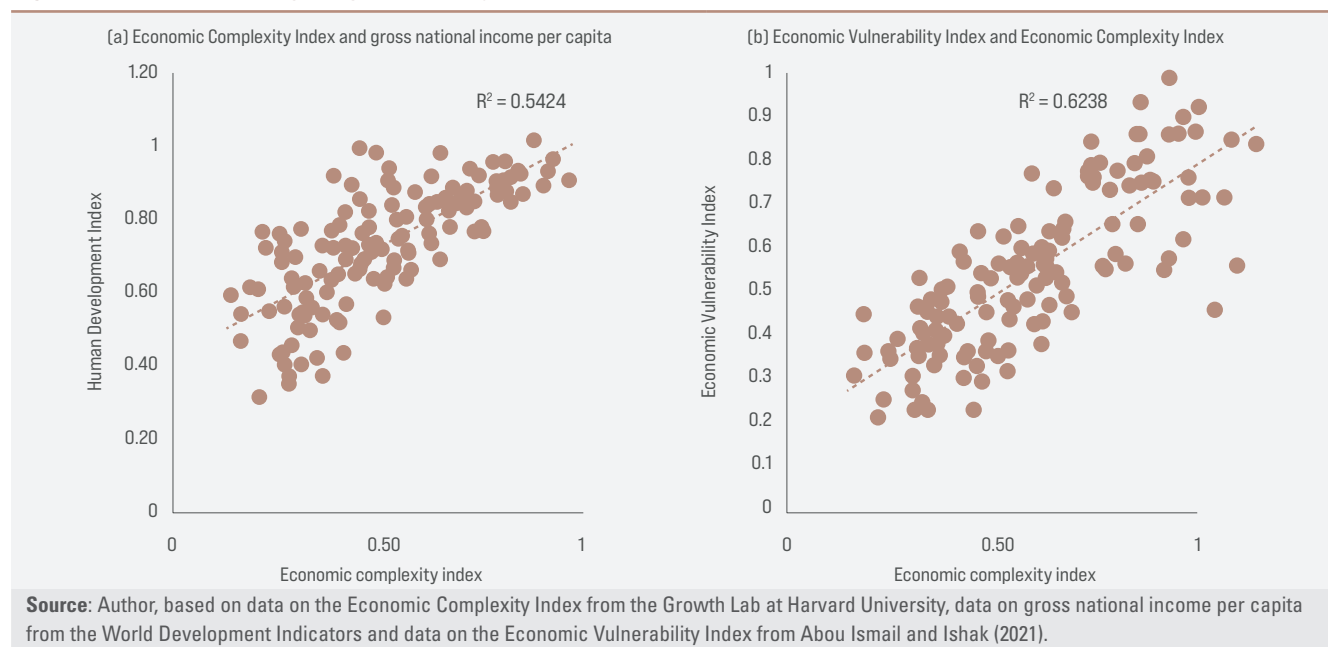
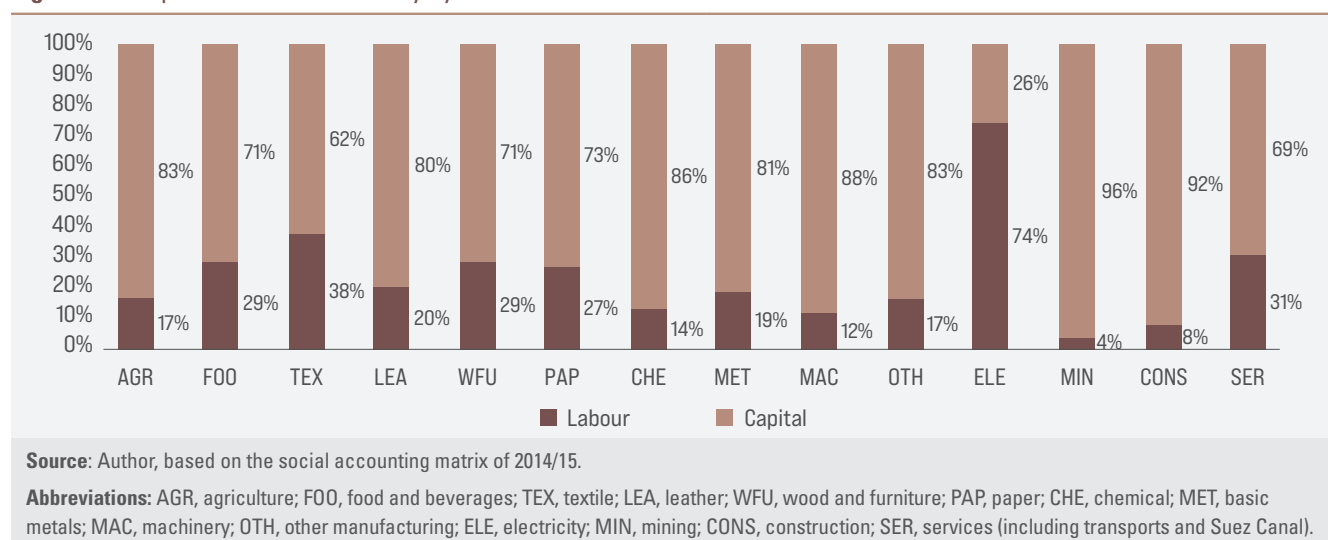
## 1. SDG 9: Link between trade and industry

As has been argued by Karam and Zaki, upgrading exports requires efficient economic institutions measured by quicker procedures, protection of investors' rights and more.<sup>8</sup> In addition, promoting the insertion of firms into global value chains requires an enabling domestic environment. Table 29 shows that, according to the Doing Business data set, Egypt ranks below its comparator economies (Jordan, Morocco and Tunisia), especially in terms of property rights, paying taxes, enforcing contracts and trading across borders. Attracting more foreign direct investment associated to technology transfer in the manufacturing sector will therefore clearly require better institutions. This will help to develop regional or global value chains, reform the industrial sector, integrate SMEs into global markets and achieve SDG 9, which is aimed at building resilient infrastructure, promoting sustainable industrialization and fostering innovation.

Integration into regional or global value chains will help Egypt to diversify and increase the complexity of its exports. As has been shown, Egypt can adopt a light touch approach by building on its current know-how. Integration into a regional or global value chain will help to accelerate this trend if more foreign direct investment is channelled into

the non-oil manufacturing sector. Exports that are more complex will lead to higher economic growth and lower economic inequality. Indeed, economies with more knowledge-intensive production structures are more inclusive (figure 128 (a)). In the same vein, Abou Ismail and Ishak (2021) show that more economic complexity is associated with less vulnerability, as measured by the Economic Vulnerability Index, which measures the dependency of a country on three volatile sources of income: commodity exports, tourism and agriculture.<sup>9</sup> Economies with higher levels of complexity are more resilient to external shocks (figure 128 (b)).

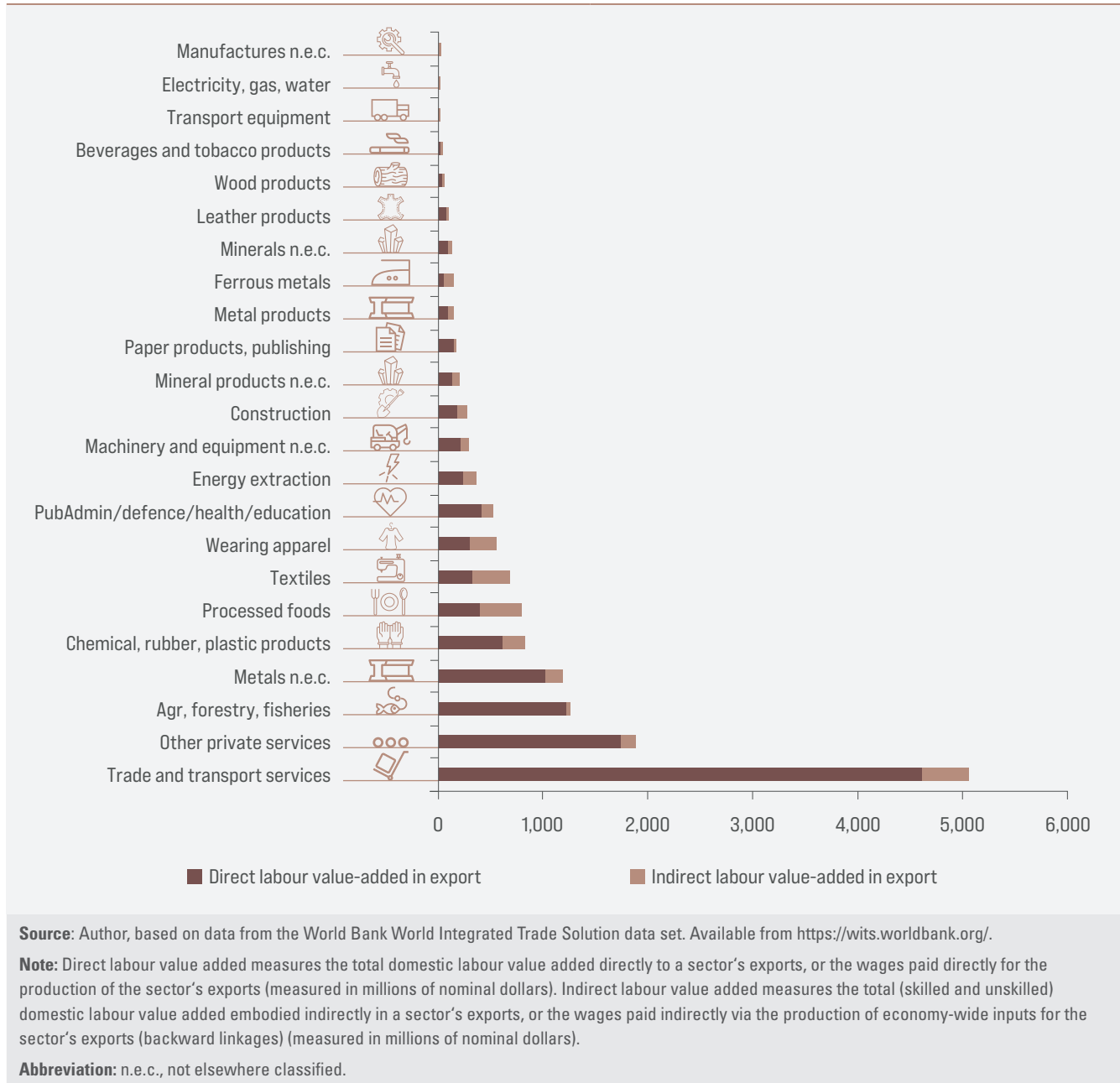
Among the recent initiatives that link trade to industry, it is important to mention the structural adjustment programme launched by the Ministry of Planning and Economic Development in April 2021. It enhances the efficiency of the labour market and technical and vocational education and training. Moreover, it identified several dimensions required to develop the institutional framework to promote exports and the role of the private sector. More specifically, it targets the creation of a supportive and enabling environment for competition, facilitating and developing trade by removing obstacles and upgrading the transport and logistics sectors.

**Figure 128.** Economic Complexity Index and growth outcomes**Figure 129.** Capital and labour intensity by sector

## 2. SDG 8: Link between trade and labour demand

Trade can also become an effective policy that creates jobs; however, since most of the sectors in which Egypt has a comparative advantage are capital intensive (especially textiles, chemicals, agriculture and processed food, as shown in figure 129), increases in exports did not lead to lower unemployment.

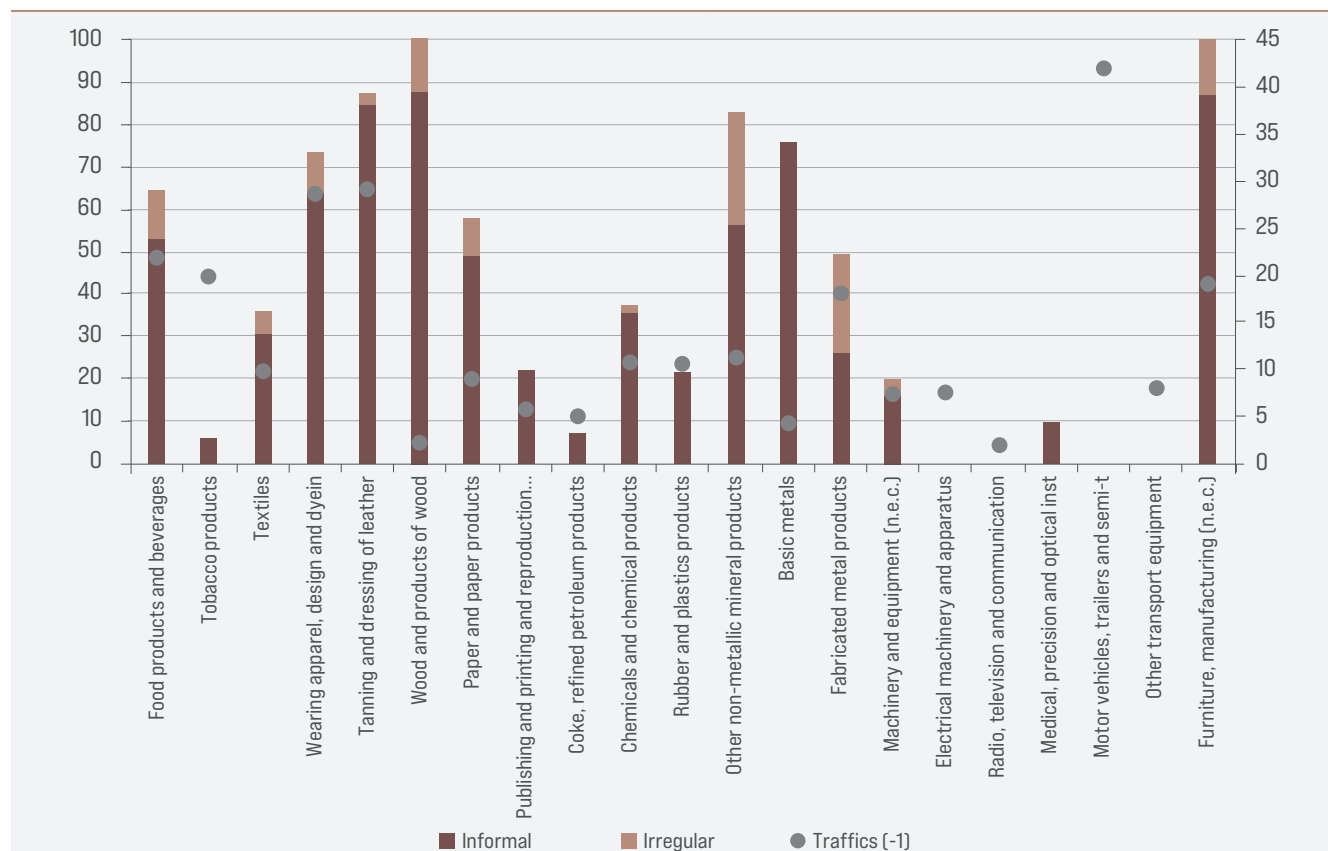
This is also confirmed by figure 130, which shows that the labour value added is generally low, whether it is direct or indirect, with mainly services that are labour intensive (particularly transport and trade services that include the Suez Canal, and other private services in financial services, tourism and telecommunications). This again corroborates the fact that the manufacturing sector is more capital intensive and must be reformed in order to boost employment.

**Figure 130.** Value added to exports by direct and indirect labour

As a result, since SDG 8 is aimed at creating decent jobs, exports can help to improve both the number and quality of jobs. First, as long as Egypt is specialized in capital-intensive goods, exports cannot create more jobs. Upgrading the exports structure to become labour intensive will therefore help to achieve the objective of creating jobs. As for “decent” jobs, Ben Salem and Zaki argue that the more trade is liberalized, the more firms will have to face

fiercer competition.<sup>10</sup> They will therefore have to hire more productive workers that are generally formal workers. Consequently, trade can be perceived as a tool to formalize the informal sector and provide workers with better-quality jobs. This is confirmed by figure 131, where the share of irregular and informal workers is the highest in more protected sectors (such as clothing, processed food and the tanning and dressing of leather).



**Figure 131.** Informal, irregular shares and industry tariffs (2012)

**Source:** Ben Salem, M. and C. Zaki (2019). Revisiting the impact of trade openness on informal and irregular employment in Egypt. *Journal of Economic Integration*, vol. 34, No. 3, pp. 465–497.

**Note:** Informal employment conventionally refers to any job that does not comply with labour market legislation and does not provide worker benefits. It primarily concerns small firms. Irregular employment is defined as the number of workers with a contract duration of less than 12 months, the self-employed and contributing (unpaid) family workers.

### 3. SDGs 5 and 10: Link between trade and inequality

Lastly, there is also literature that shows that trade policy can increase or decrease inequality, in terms of both gender and skills. Indeed, in a more competitive framework (i.e. with a higher trade liberalization), the demand for women workers can increase and thereby reduce levels of gender inequality. Becker shows that, theoretically, free trade implies a more competitive environment and, consequently, a less discriminatory economy.<sup>11</sup> In the same line, Artecona and Cunningham find that the gender wage gap fell in industries that became competitive owing to trade liberalization.<sup>12</sup> In addition, with the skill bias of technological change, trade openness will lead to a higher demand

for skilled workers, leading to more inequality between skilled and unskilled workers. This will depend on two factors: the abundance of each type of worker in a given economy and the skill requirements for exported goods.

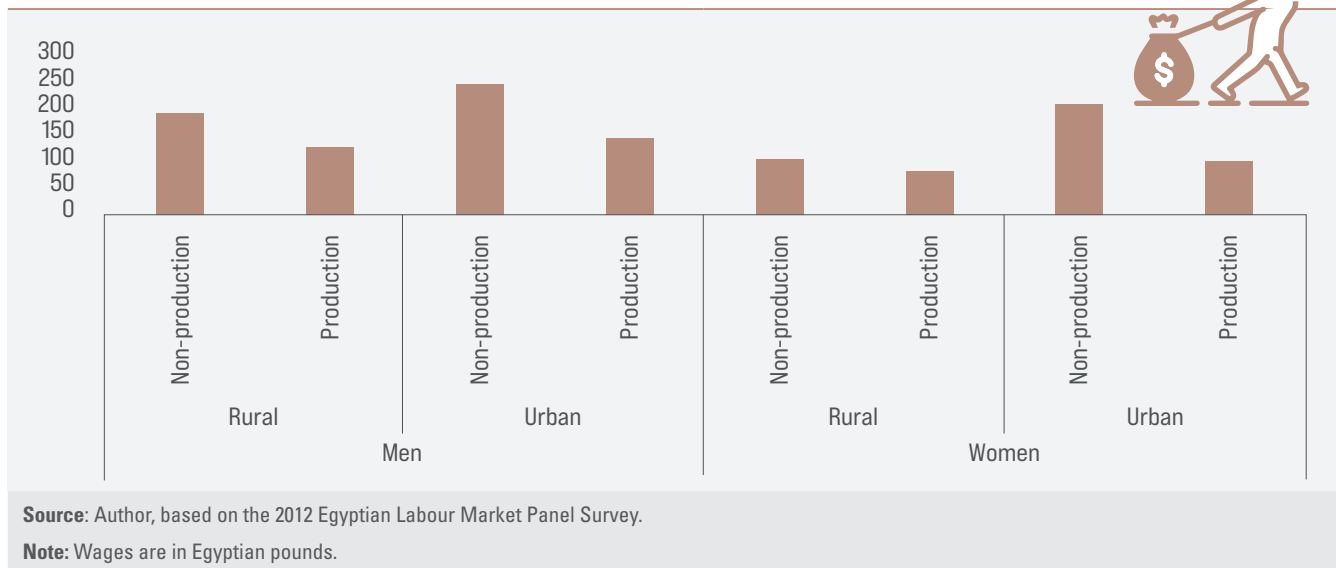
Using data from the Egyptian Labour Market Panel Survey, figure 132 shows that men earn more than women for all labour segments and that the real hourly wage of skilled workers is higher than for unskilled workers. Nevertheless, since most Egyptian exports are more intensive in production labour compared to non-production labour (figure 133), boosting exports will increase the demand for these workers and reduce inequality between the two categories.

Figure 133 compares the real hourly wage of workers who work in protected sectors against those who work in sectors that are more open. Indeed, sectors that have a lower average tariff and do not have any non-tariff measures are characterized by higher wages. More open trade can therefore lead to less inequality and help to achieve SDGs 5 and 10.

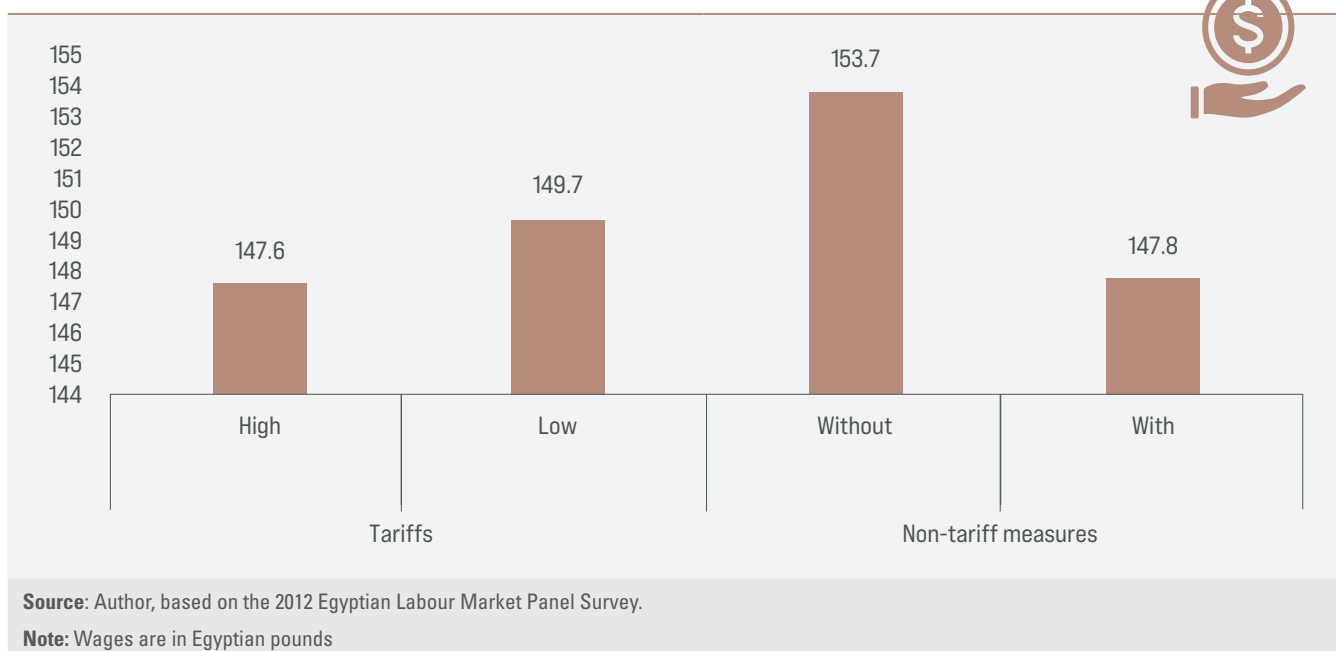
All of these reforms will require more efforts at both the regional and multilateral levels,

where the SDGs are mainstreamed in trade policy. Nevertheless, it is important to note that multilateralism is threatened by the recent trade war between the United States and China, the protectionist measures imposed by different countries to curb the COVID-19 pandemic and the WTO Appellate Body crisis. Deepening trade relations and saving the multilateral system can therefore empower partnerships for the SDGs (SDG 17).

**Figure 132.** Real hourly wage by segment (2012)



**Figure 133.** Real hourly wage and trade barriers (2012)



## C. Conclusion and policy recommendations



Integration into regional or global value chains will help Egypt to diversify and increase the complexity of its exports.

This chapter has shown the extent to which exports suffer from a number of bottlenecks that have negatively affected the social outcomes of trade policy in Egypt. This is why, from a policy perspective, in order to move forward, several issues should be taken into consideration.

### 1. A new export strategy

The Government of Egypt has recently announced its willingness to increase exports from \$29 billion in 2019 to \$100 billion. To develop an export strategy, supply-related factors that take into account the country's competitiveness must be combined with demand-related factors (measured by global import growth rates). Products can therefore be divided into four groups:

#### Category 1

Category 1 includes products with a high comparative advantage and high global demand. This category should be the first priority for Egypt, as Egyptian supply aligns with global demand. It includes the following sectors: chemical industries, wood and paper, processed foods, metals, agricultural products and electrical and electronic products.

#### Category 2

Category 2 includes products with high comparative advantage and low global demand. This category should be understood as a tool to increase exports in the short term, as Egypt is characterized by a comparative advantage but global demand is declining, especially in textiles and some metal products.

#### Category 3

Category 3 includes products with a low comparative advantage and high global demand, mainly machinery and equipment. In the medium term, this category should be considered the second priority for Egypt. Owing to the presence of global demand and the absence of a comparative advantage, government support is needed to increase the comparative advantage of these sectors.

#### Category 4

Category 4 includes products with a low comparative advantage and low global demand. This category must therefore be avoided because of the country's lack of a comparative advantage and the low global demand. This category includes some agricultural and chemical products.

Bearing in mind that the annual growth rate of exports is 9 per cent on average, Egypt will need 14.5 years to achieve the goal of \$100 billion of exports if exports continue to grow at the same pace.<sup>13</sup> Nevertheless, the higher the annual growth rate, the shorter the period required. For instance, if the growth rate increases to 15 per cent or 30 per cent, the goal will be achieved in nine or five years.<sup>14</sup> Consequently, to boost exports and reach this goal, the Government will have to focus on the

first three categories.<sup>15</sup> At the destination level, with the ratification and the implementation of the African Continental Free Trade Agreement, it will be crucial to increase trade in African markets. Indeed, Youssef and Zaki show that Egypt is significantly undertrading with Africa and there is a significant potential in such a large market.<sup>16</sup>

It is important to note that, in April 2021, the Ministry of Planning and Economic Development launched a structural reform program that identifies several dimensions required to develop the institutional framework to promote the role of the private sector. More specifically, it targets the creation of a supportive and enabling environment for competition, facilitating and developing trade by removing obstacles and upgrading the transport and logistics sectors. This will improve the manufacturing sector and thus increase the competitiveness of exports.

## 2. A more inclusive trade policy

Several reforms are required in order to make trade policy more inclusive and thus help to achieve the SDGs.

### SDG 9

For SDG 9 on industry and innovation, attract and channel more foreign direct investment into the manufacturing sector in general, and in priority sectors in particular, to develop global value chains and create more jobs. This will require a mainstreaming of industrial policy within trade policy. In other words, more coordination is needed between industrial priorities and trade policy developments.

### SDG 8

For SDG 8 on decent employment, encourage domestic investment and channel foreign direct investment into the manufacturing sector to increase exports. A freer environment is associated with less informality, which will help to achieve this SDG.

### SDGs 5+10

For SDG 5 on gender equality and SDG 10 on reduced inequalities, remove service restrictions and non-tariff measures that negatively affect wages in order to make trade freer. This will lead to increased competition and a higher demand for more productive workers, thus increasing wages and reducing inequalities.

### SDGs

Expand the country's trade agreements to address such issues will improve their effectiveness in terms of sustainable development. Moreover, strengthening multilateralism, international cooperation and global partnerships is crucial to avoiding protectionist measures that might impede the achievement of the SDGs.

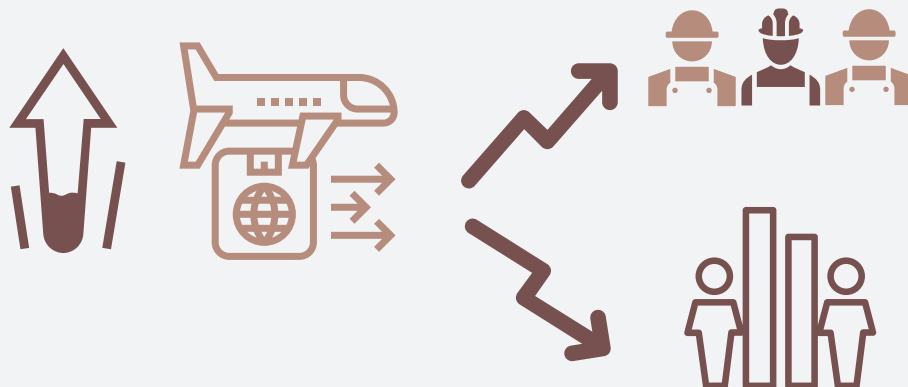


The share of imports to GDP increased from

22.3%  25.7%



Boosting exports will increase the demand for these workers and reduce inequality between the two categories.



The Government of Egypt has recently announced its willingness to increase exports from

\$29  
BILLION



\$100  
BILLION





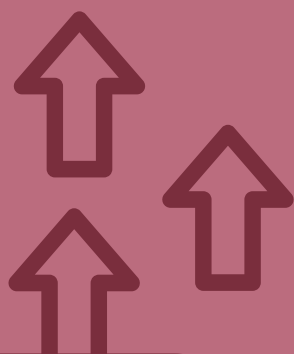
## Endnotes

1. Ben Salem and Zaki, 2019; Al Azzawi and Said, 2009.
2. Youssef and Zaki, 2019.
3. HS2 is the two-digit level of the Harmonized System classification used for globally traded products.
4. Adly, 2018; Zaki, 2021a.
5. Rodrik, 2018.
6. Obviously, it is not sufficient to count the number of policy areas covered by a trade agreement. It is also crucial to determine the magnitude of preferential margins, product coverage and the application of rules on state aid competition administered under agreement in relation to the weight of trade undertaken within each preferential agreement. However, this requires a more detailed analysis for each agreement on its own.
7. UNCTAD (2018) argues that “trade agreements” should rather be properly designated as “comprehensive economic and trade agreements” to avoid limiting them to tariff removal only.
8. Karam and Zaki, 2019.
9. Abou Ismail and Ishak, 2021, Income, Decent Work and Economic Resilience: Three Proposed Indices for Arab Countries from a Human Development Perspective, mimeo.
10. Ben Salem and Zaki, 2019.
11. Becker, 1971.
12. Artecona and Cunningham, 2002.
13. Zaki, 2021b.
14. For more details on the estimation method, the products of each category, see Zaki, 2021b.
15. In order to calculate the number of years required, the following formula was used:  $(\log Y_t - \log Y_0) / (\log(1+g)) = N$ , where  $Y_t$  is total exports (100 billion),  $Y_0$  is total exports in 2019,  $g$  is the average annual export growth rate and  $N$  is the number of years required.
16. Youssef and Zaki, 2019.

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# Science, technology, innovation, and digitalization

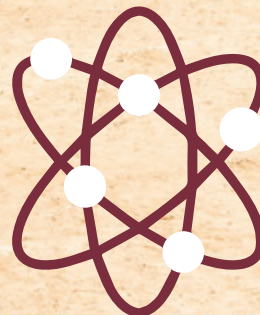
*by Khaled El-Sayed and Maged Ghoneima*



# 10







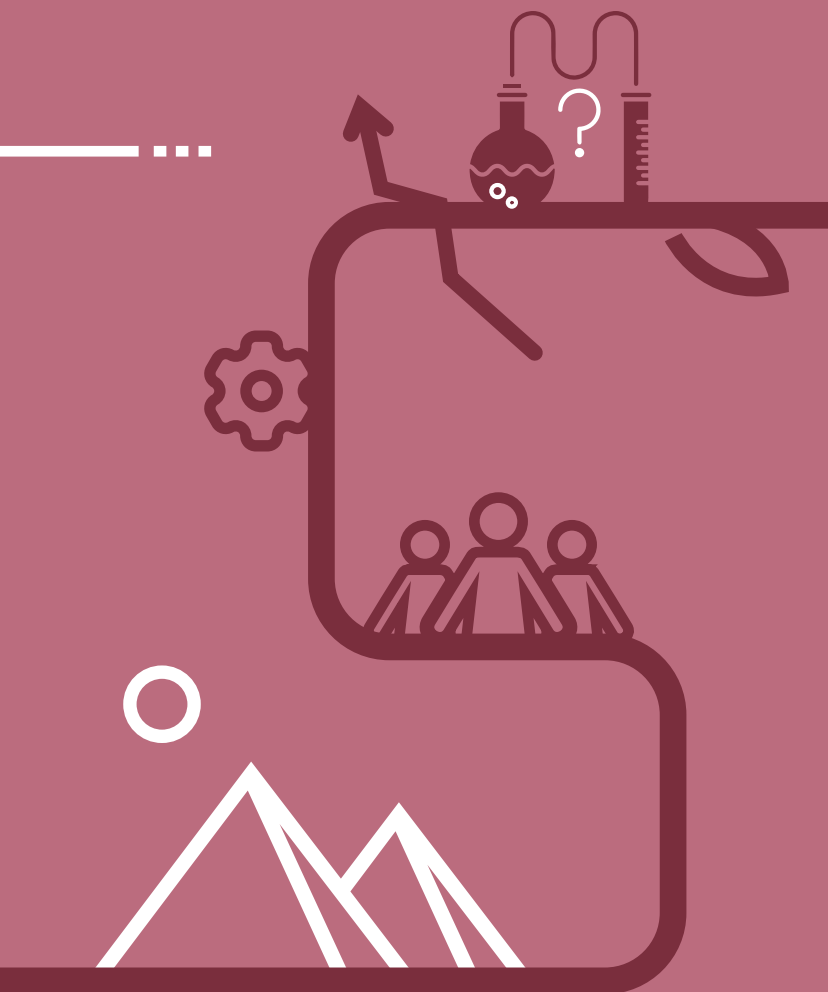




With the onslaught of the Covid-19 pandemic, it has become clearer that STI is an essential tool for achieving the SDGs and is instrumental in building resilient societies.

## Background

The role of science, technology and innovation (STI) has long been recognized as essential to achieving sustainable development. In fact, one of the shortfalls of the Millennium Development Goals (MDGs) was their limited emphasis on the role of STI in meeting their targets. Conversely, of the 169 targets of the 2030 Agenda, 48 directly relate to STI, with technological innovation also having a notable role to play in relation to the remaining targets. The Third International Conference on Financing for Development in 2015 recognized STI as one of its seven action areas stating that “appropriate incentives, [...] harnessing the potential of science, technology and innovation, closing technology gaps and scaling up capacity-building at all levels are essential for the shift towards sustainable development and poverty eradication”.<sup>1</sup> With the global onslaught of the COVID-19 pandemic, it has become clearer that STI is an essential tool for achieving the SDGs and is instrumental in building resilient societies and reducing the likelihood of shock.





This is particularly true for developing nations, which already struggle to provide clear linkages between STI and the SDGs. They also face a unique set of challenges that require tailored and urgent interventions, including a lack of adequate funding, insufficient government commitment, unequal access to data and knowledge, inadequate ICT infrastructure, the need for further inclusion of marginalized and resource-constrained groups, and the importance of fostering frugal innovation.<sup>2</sup>

Egypt explicitly recognizes the role of STI and digitalization (STI+D) in achieving sustainable development at the national level. This is reflected in the Egypt Vision 2030, the most recent version of which identifies technology and innovation, digital transformation and data accessibility as

enablers for achieving its goals. In its 2021 VNR, Egypt recognized the digital divide as one of the most pressing challenges facing the country in its efforts to achieve sustainable development. It also identifies information technology and digital transformation as a major catalyst for future national development endeavours.<sup>3</sup> ICT was selected in the second phase of the structural reform programme as one of three priority sectors for the coming four years, along with agriculture and manufacturing. Several national strategies and plans have been put into action that focus on unlocking the potential of STI+D to accelerate development efforts in Egypt.

This chapter discusses national efforts to embrace STI+D as a cornerstone of inclusive sustainable development and financing development. Accordingly, it is divided into three parts. Section A is diagnostic in nature, examining the current status of STI+D in Egypt in terms of resources, efforts and outputs. Section B investigates the reasons for the disconnect between the government efforts to advance STI+D and the results, which are lower than they should be. Section C provides policy recommendations to maximize the uptake and use of STI+D in Egypt. It is noteworthy that this chapter does not focus on STI+D in general but rather its use in supporting sustainable development efforts in Egypt, with a particular focus on its role as an area of action for FFD. The chapter should therefore serve as a starting point for a national dialogue on the importance of STI+D and its contribution towards financing and achieving sustainable and inclusive development at the national level.

## A. Current status of science, technology, innovation and digitalization in Egypt

While the Third International Conference on Financing for Development does not provide quantitative targets for STI action areas, various

indicators can be used to evaluate development in STI at the national level. Key among them is the annual WIPO Global Innovation Index (GII), which



measures the performance of every national economy using seven different STI-related pillars.

Egypt has been undergoing a commendable and relatively steady, if still below target, progression in its overall GII ranking, rising from 107th place (out of 128 countries) in 2016 to 94th place (out of 131 countries) in 2021. The sustainable development strategy of Egypt had originally targeted a global rank of 85th by the year 2020. Table 30 shows its rank in each of the seven GII pillars.

Considering score rather than rank, GII for Egypt has been narrowly fluctuating around an average of 27.5 out of 100 over the past ten years (2011 to 2020), with the lowest score of 24.2 in 2020 and a slight increase to 25.1 in 2021. The 2020 GII states that Egypt is one of eleven economies that were “performing below expectations for their level of development while before they were performing at expectations.”<sup>4</sup>

**Table 30. Ranking of Egypt in the 2020 Global Innovation Index**

| GII pillars                      | Egypt's rank |       |
|----------------------------------|--------------|-------|
|                                  | 2020         | 2021  |
| Institutions                     | 115          | ▲ 114 |
| Human capital and research       | 90           | ▼ 93  |
| Infrastructure                   | 99           | ▲ 92  |
| Market sophistication            | 106          | ▲ 96  |
| Business sophistication          | 103          | ▼ 106 |
| Knowledge and technology outputs | 65           | ▼ 70  |
| Creative outputs                 | 101          | ▼ 104 |
| Overall                          | 96           | ▲ 94  |

**Source:** Dutta, S. and others, eds. (2020). Global Innovation Index 2020: Who Will Finance Innovation? 13th ed. Geneva: World Intellectual Property Organization. Ithica, New York: Cornell University; Fontainebleau, France: European Institute of Business Administration; Geneva: World Intellectual Property Organization.

## 1. Resources dedicated to research and development

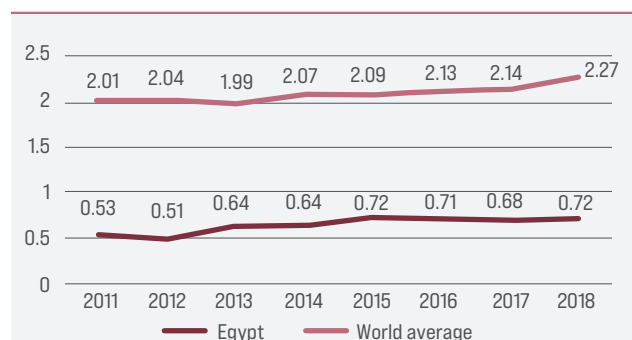
As a percentage of GDP, spending on research and development in Egypt has largely been steady over the past decade, remaining at approximately 0.7 per cent of GDP from 2015 to

2018, below the global average of around 2.2 per cent and slightly below the constitutional mandate of 1 per cent.

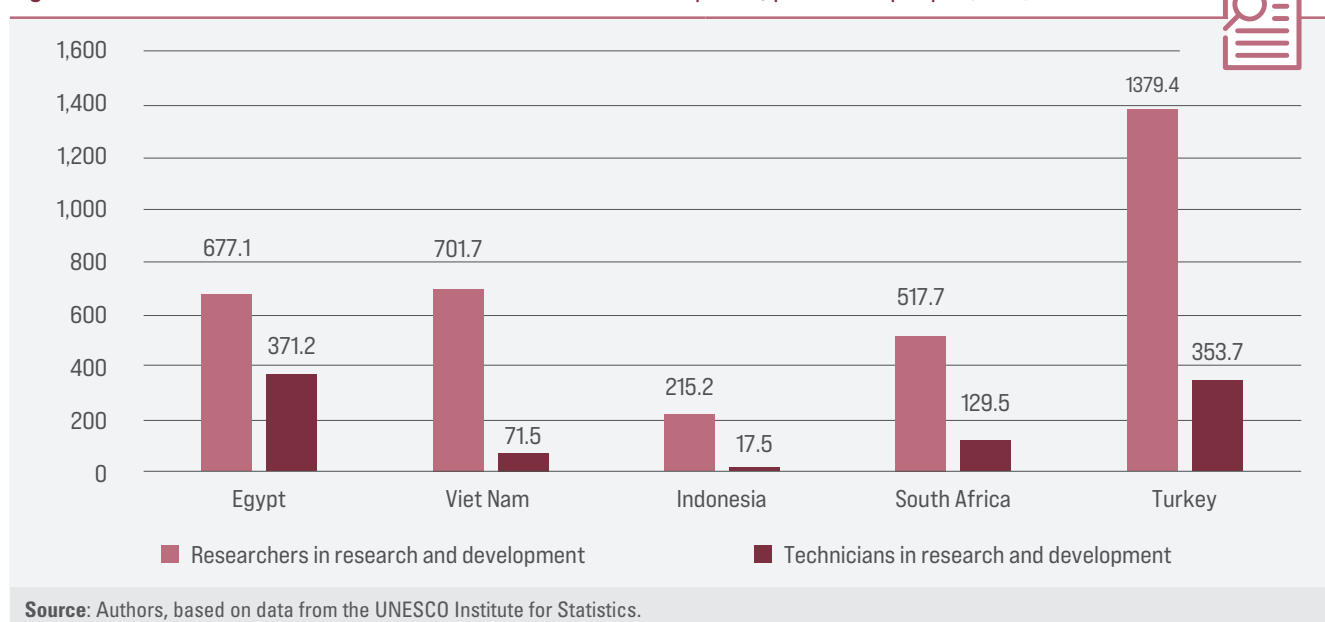
While expenditures on research and development remain stable but comparatively low, human resources dedicated to research and development in Egypt, such as the number of researchers and technicians, are relatively on par with several comparator countries, as shown in figure 135. While the number of researchers per million inhabitants in Egypt is markedly higher than the average for its income group of lower-middle-income countries, at 267.4 per million, it is still significantly below the 2017 global average of 1,207.1 per million.








The notably large number of dedicated research and development researchers and technicians could be a result of the numerous public research centres in Egypt, the most prominent of which is the National Research Centre, which is considered the largest multidisciplinary research and development centre in Egypt. It had over 4,800 staff as at March 2021 and is dedicated to research in applied science and technology within the sectors of national priority. The Centre was established in 1956 and is under the purview of the Ministry of Higher Education and Scientific Research. Table 31 shows some of the public centres in Egypt.

**Figure 134. Research and development expenditure, as a percentage of gross domestic product**



**Source:** Authors, based on the UNESCO Institute for Statistics using data from the World Bank World Development Indicators database. Available from <https://databank.worldbank.org/source/world-development-indicators>. Accessed December 2021.

**Figure 135.** Researchers and technicians in research and development, per million people (2017)**Table 31.** Sample of public research and development centres in Egypt

| Established in:  | Research staff:            | Research areas include:   |
|--|----------------------------|---|
| <b>National Research Centre</b>                                |                            |   |
| 1956   | 4,800                      |  Circuits, cloud computing, automation, satellites, renewable energy                   |
| <b>Electronics Research Institute</b>                          |                            |   |
| 1989   | 215                        |  Circuits, cloud computing, automation, satellites, renewable energy                   |
| <b>Theodor Bilharz Research Institute</b>                      |                            |   |
| 1964   | 482 + (a 300-bed hospital) |  Tropical medicine, immunology, biochemistry   |
| <b>National Institute for Oceanography and Fisheries</b>       |                            |   |
| 1924   | 558                        |  Sustainable fishing and fish farming, combatting pollutants of the marine environment |
| <b>Egyptian Petroleum Research Institute</b>                   |                            |   |
| 1974   | 430                        |  Petrochemicals, efficient use of concentrates, nanotechnology, petroleum replacements |
| <b>National Research Institute of Astronomy and Geophysics</b> |                            |   |
| 1903   | 321                        |  Exploratory geophysics, earthquake monitoring, astronomy                              |
| <b>Agricultural Research Center</b>                            |                            |   |
| --   | --                         |  Precision farming, biotechnology, agriculture production development, GMOs            |

Source: Authors, based on data from the Council of Research Centers and Institutes, Egypt.

Note: Staff data as at January 2021.

With the exception of the Agricultural Research Center, which is affiliated with the Ministry of Agriculture and Land Reclamation, the rest of the centres in table 31 are under the supervision of the Ministry of Higher Education and Scientific Research, which supervises at least 11 research and development centres and institutes with a combined research staff of over 7,300 researchers and professors. There are also an estimated 13 other research and development centres under different ministries and a plethora of centres affiliated with public universities.<sup>5</sup> For a simple point of reference, the Faculty of Engineering at Cairo University alone has 15 research and development centres.<sup>6</sup>

## 2. Scientific and technological output

Given the relatively sizeable institutional and human resources dedicated to STI+D and notwithstanding the reduced financial resources, several indicators show the STI+D output of Egypt to be markedly low. Among the seven subindices of the GII, the lowest score for Egypt is usually in the “innovation output” subindices, which

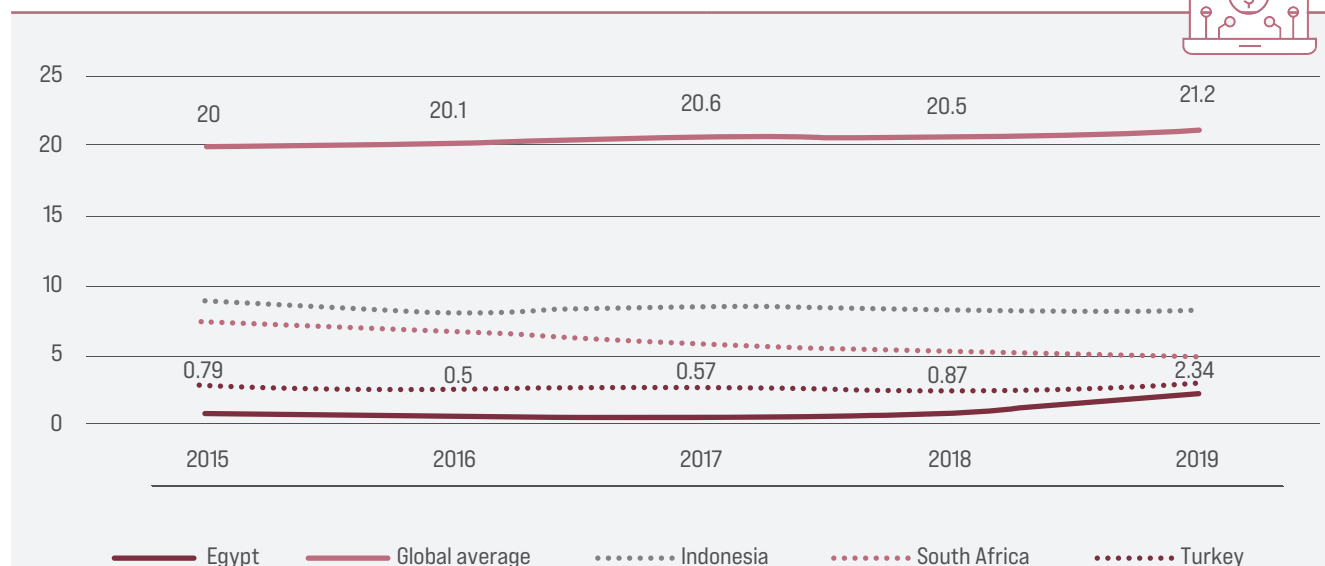
measure knowledge and technology outputs such as patents, software spending and ICT service exports, as well as creative outputs such as brand value, the printing and media market and mobile app creation.

Since 2015, high tech exports as a percentage of total exports only edged above the 1 per cent mark in 2019, reaching 2.3 per cent and remaining significantly below the global average of 21.2 per cent. This number is also quite far below the average of 4.7 per cent for the MENA Region.

Nevertheless, the uptick in 2018 and 2019, as shown in figure 136, signals a positive future outlook, as the downtrend during the period 2015–2017 can be attributed to the increase in other Egyptian manufactured exports, such as refined petroleum products.

As for knowledge creation, the number of scientific and technical journal articles published per million people in Egypt has historically been higher than the average for Arab States (except in 2017 and 2018) and at an average position in relation to comparator countries (figure 137).

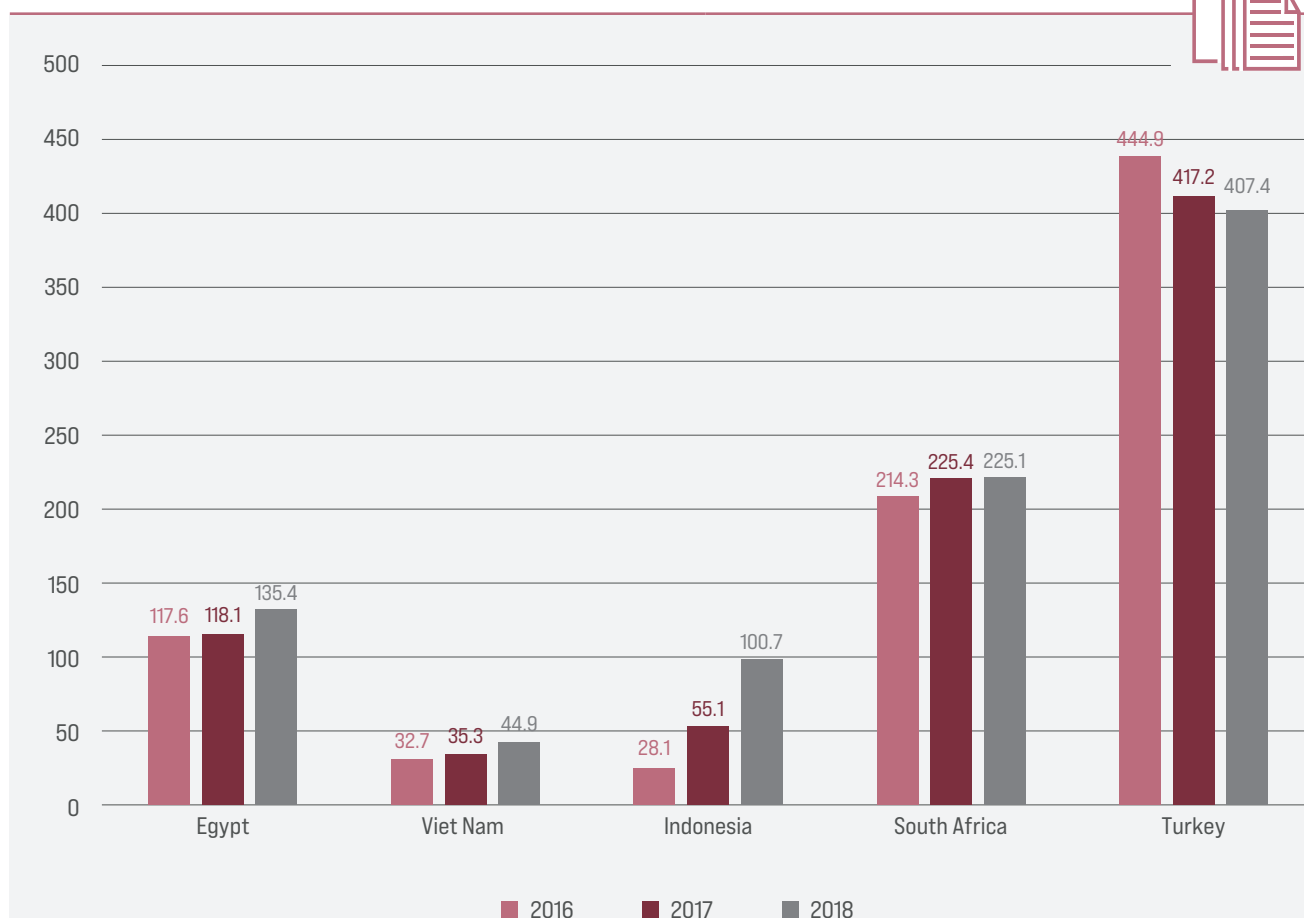
**Figure 136.** High-tech exports, as a percentage of manufactured exports



Source: Authors, based on data from the UN Comtrade Database.

**Figure 137.** Scientific and technical journal articles, per million people

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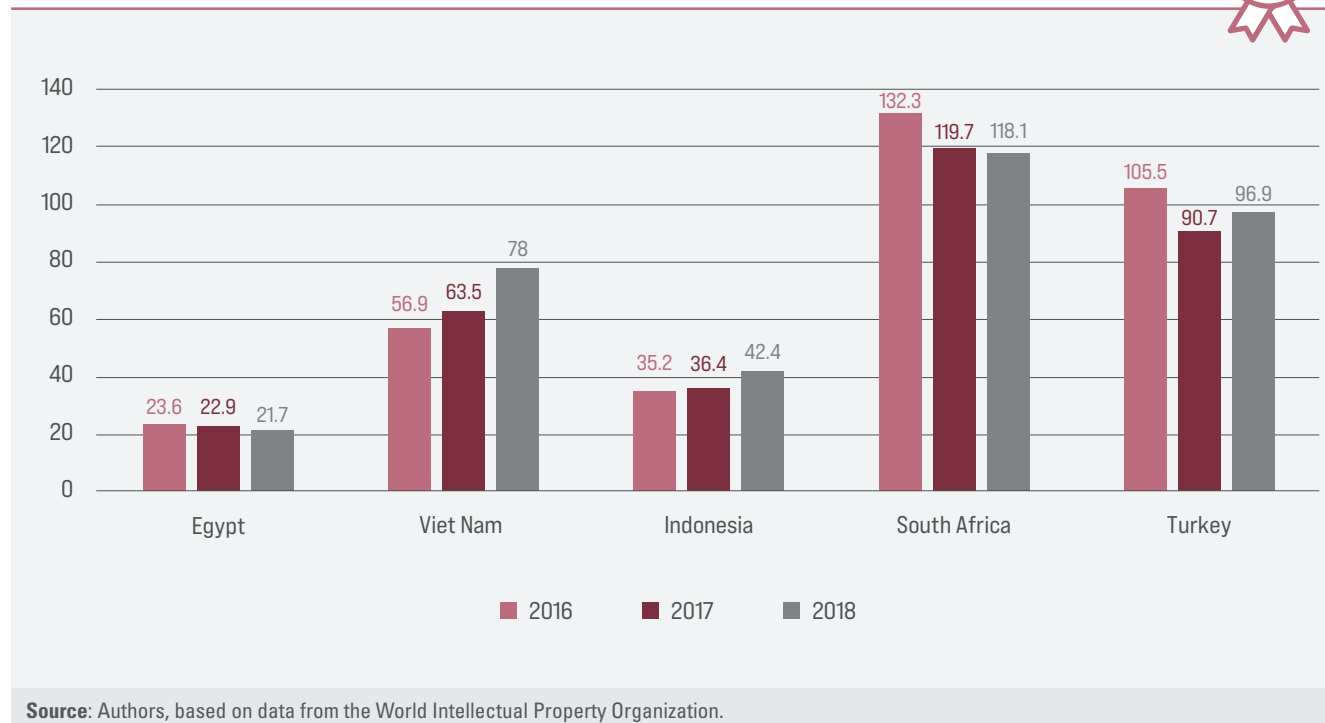
**Source:** Authors, based on the National Science Foundation, using data from the World Bank World Development Indicators database. Available from <https://databank.worldbank.org/source/world-development-indicators>. Accessed December 2021.

The Hirsch index ranking of Egypt (cumulative from 1996 to 2019), as measured by Scopus data, puts it at a global rank of forty seventh of 240 countries and regions, ranking below South Africa at thirty third and Turkey at thirty sixth, but it is above Indonesia at fifty seventh and Viet Nam at sixty second. Egypt also shows an average performance in the quality of its science and research output relative to comparator countries.<sup>7</sup>

Over the past few years, there has been a greater emphasis on improving the quality of Egyptian scientific output. One example of this emphasis is at the Kasr Al-Ainy Faculty of Medicine at Cairo University, which used to require a large number of published papers for faculty promotions with little regard to the level of the journals in which they were published. Recently, however, faculty

promotion guidelines were modified to allow for fewer published papers on the condition that they are published in journals with a high impact at both the local and international levels.<sup>8</sup>

Although such emphasis on high quality knowledge creation has been noticeable in regard to academic papers and journal articles, patent creation in Egypt paints a less positive picture, as yearly applications averaged 23.6 patents per million people over the ten-year period of 2011–2019, which is quite low compared to the global annual average of 360.5 patents and the annual regional average of 67 patents for the MENA Region (figure 138). Egyptian patent applications have also slightly decreased in absolute value, from 2,279 in 2017 to 2,183 in 2019.

**Figure 138.** Total patent applications, per million people

### (a) Tertiary education

In the Third International Conference on Financing for Development in 2015, United Nations Member States pledged to scale up investment in education in science, technology, engineering and mathematics and to enhance technical, vocational and tertiary education and training.<sup>9</sup> Tertiary school enrolment in Egypt has grown from 26.8 per cent in 2011 to 35.2 per cent in 2017, edging closer to the 2017 global average of 37.9 per cent. Figure 139 shows the number and classification of universities in Egypt.

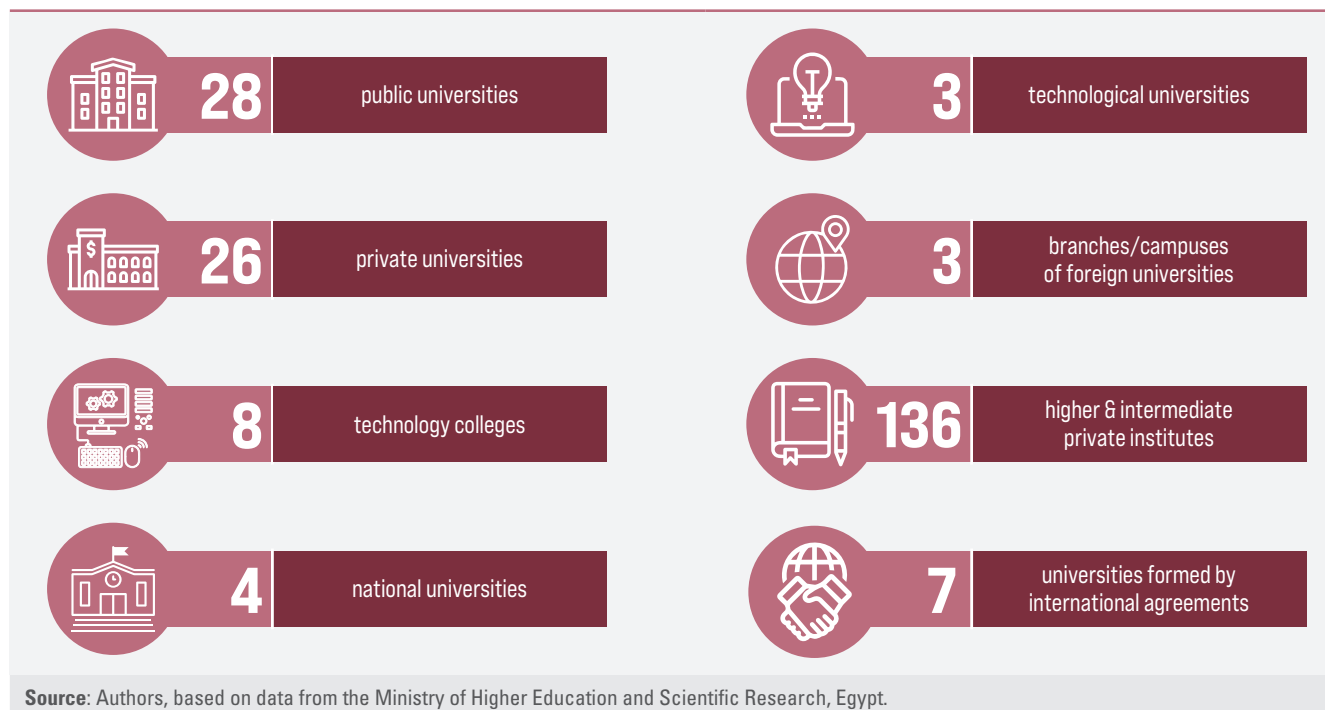
The quality of tertiary education has been a major national issue over the past few decades, with no Egyptian university ranked in the global top 400 of the 2021 Times Higher Education World University Rankings or in the top 600 in its teaching subindex.

Another major issue is the lack of absorptive capacity in the labour market for higher education graduates. University graduates and postgraduate

degree holders have consistently had the highest unemployment rates in Egypt, reaching 17.7 per cent in the census held in the first quarter of 2020. This number rises dramatically to 34.7 per cent for female graduates and postgraduate degree holders.<sup>10</sup>

However, the Government of Egypt does not seem oblivious to the challenges in tertiary education and has announced multiple plans and initiatives to address them. One such initiative concerns technological universities, which is one of the commitments in the country's medium-term sustainable development strategy. It encompasses the need for dedicated public institutions for studies in science, technology, engineering, mathematics and rising technologies. The aim of these universities is to bridge the gap between university graduates and the expected future labour demand in key future industries, which is why their curricula are designed to accommodate more practical experience and hands-on learning methods rather than traditional academic teaching. In the academic year 2020/21, three such universities have already begun to receive students, in New Cairo, Beni-Suef and Qena,



**Figure 139.** Higher education institutions in Egypt

with six more currently under construction. The three established technological universities have programmes in field such as renewable energy, mechatronics, autotronics and ICT, with postgraduate studies also planned in these fields. As they are yet to have graduates, the effectiveness of these technological universities remains to be seen. Nevertheless, they appear to be a step in the right direction, with future foresight and a clear focus on innovation that has arguably been lacking in the Egyptian tertiary education system.

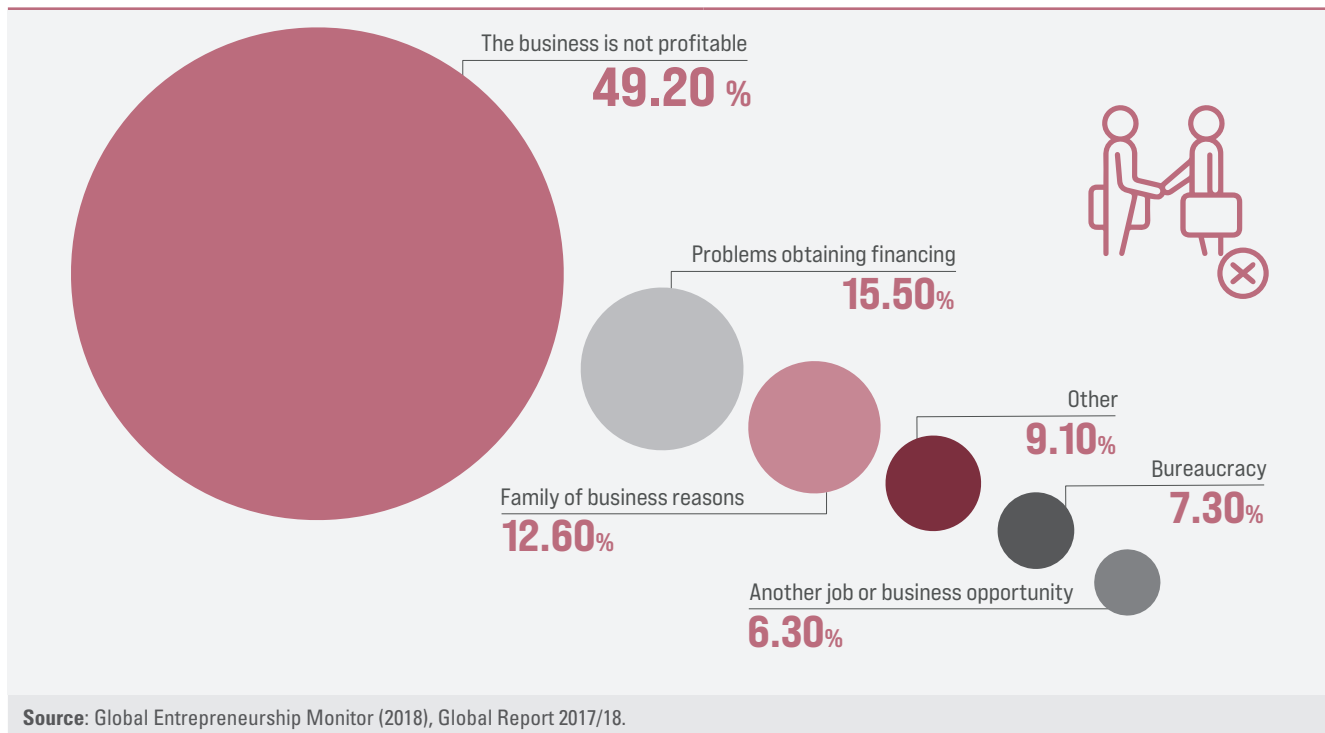
In 2019, an updated version of the National Strategy for Science, Technology and Innovation 2030 was released with some key focus areas to provide universities with greater autonomy in scientific research. The Strategy addresses some key challenges in scientific research, including the restrictions on universities and research centres to produce scientific publications for the purpose of professional promotion, which has caused researchers to be reluctant to enter into contracts with industry to develop the sector

through scientific research. The Strategy is also focused on addressing the infrastructure and data challenges faced by researchers within the scientific community.

### (b) Entrepreneurship

The latest data on total early-stage entrepreneurial activity by the Global Entrepreneurship Monitor in its Egypt National Report indicate that, as of 2017, around 13.3 per cent of the adult population in Egypt aged 18–64 years were either actively setting up a new business or have a business that is younger than 3.5 years, slightly higher than the global average of 12.3 per cent that same year. There is a similar rise in the overall societal perceptions of and attitude towards entrepreneurship in Egypt, as 75.9 per cent of Egyptians perceive it as a good career choice.

Nevertheless, the country's performance in several entrepreneurship-related indicators seems to run counter to this appetite and high regard for the entrepreneurial spirit.

**Figure 140.** Reasons for business discontinuation in Egypt (2017 survey)

For example, a key factor in the levels of entrepreneurship in Egypt is the lack of alternatives. The Global Entrepreneurship Monitor: Egypt National Report 2017/18 found that 42.7 per cent of entrepreneurs cite necessity owing to the absence of other work alternatives as the reason for opening their businesses, high above the global average of 22.2 per cent.<sup>11</sup>

Business discontinuation is another key challenge in the entrepreneurial scene in Egypt, with a rate of 10.2 per cent in 2017, ranking Egypt first among the 54 countries that participated in the Global Entrepreneurship Monitor Report. Figure 140 shows the reasons for business discontinuation in Egypt.

The Micro, Small and Medium Enterprise Development Agency in Egypt recognizes several key challenges to the business environment and entrepreneurial culture, which include challenges relating to bankruptcy laws; tax burdens, not only in the form of the amount of taxes levied on businesses but also in terms of difficulties with tax calculation and collection; lack of seed capital and general financing challenges; institutional and legislative

challenges caused by bureaucracy and corruption; educational and training issues; and structural challenges owing to the majority of micro- and small enterprises preferring the informal sector.<sup>12</sup>

In fact, the economic census of 2017/18 found that the number of formal private sector establishments was 1.76 million, while the number of informal establishments was 1.98 million, a near 1 to 1.13 ratio, concentrated in the “wholesale and retail trade; repair of motor vehicles and motorcycles” sector (59.4 per cent of informal establishments).<sup>13</sup>

As a result of these challenges and the apparent high appetite and societal regard for entrepreneurship, especially among the youth population, a full ecosystem for entrepreneurship and innovation support has begun to emerge in Egypt in recent years.<sup>14</sup> Start-up accelerators, whether fully private (e.g. Flat6Labs), government supported (e.g. Falak Startups) or university affiliated (e.g. AUC Venture Lab), began witnessing growth in number and activity, offering mentorships, advice on business development, seed funding and often follow-up funding.<sup>15</sup> Summits and

marathons that connect start-ups with investors and support organizations have also been experiencing a rise in popularity and participation. Box 5 provides more information on the evolution of the innovation ecosystem in Egypt.

The Egyptian entrepreneurship scene has been diverse in nature since the start of its rapid growth phase in 2010. Between 2010 and 2013, there was a focus on mobile app-based start-ups, with e-commerce taking the lead between 2013 and 2016, followed by fintech from 2017, with logistics and transport becoming more prominent since 2019.

There have also been some regulatory and legal developments supporting innovators, entrepreneurs, researchers and investors, such as Law No. 23 of 2018 on the provision of incentives to STI. This law exempts higher education institutions and scientific research bodies from taxes and customs fees in a bid to incentivize research and promote innovation. Another example is Law No. 72 of 2017, or the new investment law, which removes obstacles to investment, consolidates investment-related regulations that were previously scattered under different laws and offers tax and non-tax incentives.

### **Box 5. Examples from the innovation ecosystem in Egypt**

#### **1. Government side:**

- 2010: The Technology Innovation and Entrepreneurship Center was created by the Ministry of Communications and Information Technology to spark and motivate entrepreneurship across Egypt.
- 2017: The Ministry of Planning and Economic Development started the Rowad 2030 project, which in turn created nine university incubators.
- 2018: The Central Bank of Egypt launched the NilePreneurs initiative, piloted at Nile University and since expanded to four other universities.
- 2018: The Ministry of International Cooperation created Falak Startups, now one of the country's top incubators.
- Legal infrastructure: Law No. 152 of 2020.

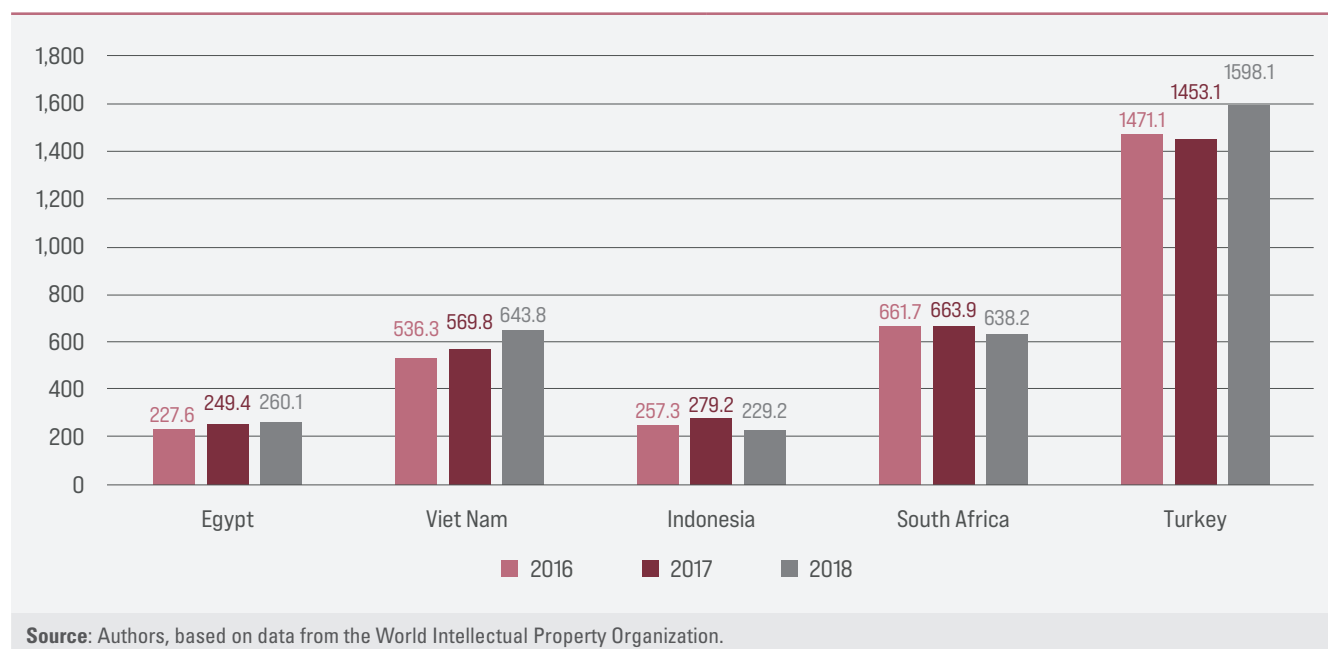
#### **2. University side:**

- The American University in Cairo Venture Lab was the first university-based accelerator in Egypt offering support programmes to early-stage innovation start-ups.
- Ain Shams University Innovation Hub (iHub) was launched in 2012 with over 150 industry partners, which enabled it to offer a variety of programmes for entrepreneurs.
- Hemma by Assiut University, in cooperation with the European Commission, is the first incubator in Upper Egypt with a high impact in the region.

#### **3. Private sector side:**

- Accelerators such as Flat6Labs Cairo and Kamelizer.
- Angel investment networks such as Cairo Angels, Alex Angels, Nile Angels and Egyptian Business Angel Network.
- Venture capital firms such as Sawari Ventures (2010), Endure Capital, Pride Capital and Algebra Ventures.
- Specialized venture capital firms and accelerators such as EdVentures (2017, specializing in education) and Ghabbour Auto (focusing on the automotive industry and fintech).
- Fairs and summits such as the RiseUp Summit and Techne Summit, both of which connect innovators with funders and professionals.

**Source:** Ghoneima, M. and others (2020). The Evolution of the Egyptian Innovation and Entrepreneurship Ecosystem.

**Figure 141.** Total trademark applications, per million people

More policies are still needed, however, to reduce the hurdles faced by researchers, entrepreneurs and investors to further boost the growth of the start-up scene and commercialize more of the research and development outputs generated by research laboratories and institutions. This is clear, especially considering that, despite the growth of this support ecosystem for entrepreneurship and innovation, the number of trademark applications in Egypt (figure 141) remains lower than several comparator countries, despite its steady rise in recent years.

It is worth mentioning that this chapter is focused on entrepreneurship in its capacity as a vessel for STI+D. Chapter 6 provides a better in-depth assessment of topics such as foreign direct investment and the broader role of entrepreneurship and business in FFD.

### (c) International cooperation in science, technology, innovation and digitalization

Another key characteristic of the STI+D scene in Egypt is the contributions and support of international and intergovernmental actors. These contributions include financial and technical assistance targeting business

innovation, capacity-building for young people, support for increasing technological output, knowledge-sharing and supporting key sectors in need of innovation.<sup>16</sup>

In terms of financial contributions, according to the 2021 VNR of Egypt, Goal 9 on industry, innovation, and infrastructure was most linked to STI+D and received 22.3 per cent (\$ 5.7 billion) of total ODA received by Egypt in 2020, making it the second most funded SDG by ODA, after Goal 7 on affordable and clean energy.<sup>17</sup> Chapter 12 elaborates further on overall international development cooperation.

### (d) Digitalization as a national priority

#### (i) Access, connectivity and affordability

As previously mentioned, digital transformation is actively promoted as a national priority for Egypt. Internet accessibility has improved, with the proportion of individuals in Egypt using the Internet increasing from 41.3 per cent in 2015/16 to 57.3 per cent in 2019/20, according to a survey by the Ministry of Communications and Information Technology. The survey also showed an increase

in connectivity with mobile Internet subscriptions, which increased from 28.7 per cent in 2016 to 52.4 per cent in 2020, and asymmetric digital subscriber lines (ADSL), which increased from 4.4 per cent to 8.8 per cent over the same period.<sup>18</sup> Affordability has largely stayed the same, as measured by the Affordability Drivers Index of the Alliance for Affordable Internet, which has described Egypt as having affordable Internet, with a global rank of 36 out of the 72 countries measured in 2020. Although its ranking has stayed the same, its score on the Affordability Drivers Index improved from 45.1 in 2017 to 54.2 in 2020 out of a potential score of 100.<sup>19</sup>

### (ii) E-government

The digitalization of public services is also currently a notable priority for the Government in its aims for efficiency and better governance. A pilot version of “Digital Egypt”, the platform for online government services, was launched in July 2020. According to the Ministry of Communications and Information Technology, the platform included 34 digitized government services, including notarizations, court services and driving and vehicle licensing, with various e-payment methods. A total of 550 government services are planned to be on the Digital Egypt platform by 2023.<sup>20</sup> The platform is just one of five outlets that the Government is using to provide access to digital public services, the rest of which include mobile applications, call centres, citizen service centres and post offices, which have experienced a noticeable upgrade in the number and quality of the services they provide over the past three years.

### (iii) E-payments

The digitalization of public services is matched by a push towards electronic payments and a decreased reliance on cash. One example of this was the joint national campaign of CBE and the Federation of Egyptian Banks in the second half of 2020 to increase awareness and improve access to e-payments. The campaign included the distribution of 100,000 points of sale to retail

vendors and merchants, the cost of which would be covered by CBE.

This transition to e-payments was reflected in the notable growth of electronic transactions handled by banks in Egypt, which reached one billion transactions and saw a near 49 per cent increase in value in the 2020/21 financial year compared to the previous year, according to statements by the CBE Assistant Governor. Over the same period, Internet banking transfers increased by 70 per cent and transactions through mobile wallets more than tripled, increasing by 226 per cent.

### (iv) Digital legal infrastructure

The Government is also working on improving the legal infrastructure pertaining to digitalization and digital security. A key recent development was an amendment to the executive regulations of the e-signature law by the Ministry of Communications and Information Technology in 2020, which resolved a major regulatory challenge. This followed the introduction of several other critical digital infrastructure laws, such as the law against cybercrime and information technology crimes in 2018 and the law on personal data protection in July 2020, which is modelled on the acclaimed European Union General Data Protection Regulation.<sup>21</sup>

### (v) Digital Egypt as a comprehensive plan

The Ministry of Communications and Information Technology oversees the entire Digital Egypt plan, which is intended to lay the foundation for the transformation of Egypt to a digital society. The plan has three areas of focus:

- Digital transformation: digitizing government services through the dedicated platform and other channels, as mentioned above.
- Digital skills and jobs: providing training programmes and initiatives in various ICT fields to expand the skills pool.
- Digital innovation: integrating advanced technologies such as artificial intelligence,



promoting entrepreneurship and establishing an applied innovation centre.

Digital Egypt also recognizes the importance of developing the ICT infrastructure as a prerequisite for achieving any of the plan's goals, specifically by improving the quality of Internet services; however, there is no mention of

improving accessibility or affordability. The plan also mentions the development of a supporting legislative framework as a priority, naming cybercrime, consumer protection, intellectual property and e-signature laws as examples of the steps taken towards the creation of a supportive regulatory environment for the sector.<sup>22</sup>

## B. Challenges

As can be seen from the previous section, STI+D is in no way dormant in Egypt. Improvements in the tertiary education system are progressing, the national entrepreneurship ecosystem is growing and digitalization is at the forefront of major national strategies. While many developing countries suffer from insufficient government commitment to STI as trade-offs are made in favour of other development domains, this is thankfully not the case with the Egyptian Government.

Nevertheless, there remain systemic issues with the STI+D landscape in Egypt that prevent greater strides in related international indices such as the GII. Otherwise, the original 2020 target would have been achieved.

### 1. The financing environment

One of the more obvious and unsurprising systemic issues is the lack of adequate funding, as spending on research and development remained stable over a decade at around 0.7 per cent of GDP, as indicated in figure 134. This falls somewhat short of the constitutional mandate of 1 per cent, with minimal contribution to this funding from industry.<sup>23</sup>

The size of available funding may not be the most significant hurdle; this may instead be the allocation mechanism for the existing

funding. The majority of available institutional financing for public research and development in Egypt is usually absorbed by higher education establishments rather than research institutions. Furthermore, funding is usually allocated based on traditional approaches rather than needs assessments, performance evaluations or alignment with national priorities.<sup>24</sup>

As for funding for private sector innovation, the problem concerns accessibility more than availability. As previously mentioned, the Micro, Small and Medium Enterprise Development Agency already recognizes the lack of seed funding and other financing challenges as one of the major issues facing entrepreneurship in Egypt. The rise of the entrepreneurship and innovation support ecosystem of start-up accelerators and venture capital contributes to bridging the availability gap to some extent. Some national efforts also target microfinancing to support local enterprises.<sup>25</sup> Nevertheless, difficulties in accessing funding remain as creditors, particularly banks, tend to avoid the risk presented by young and untested innovative endeavours. For example, while CBE has mandated that banks increase financing for MSMEs from 20 per cent to 25 per cent of their credit portfolio, most local commercial banks only approve loans for start-ups three years after their establishment.<sup>26</sup>

## 2. The pandemic-induced dichotomy

The COVID-19 pandemic seemed to highlight, if not aggravate, further systemic issues, while at the same time having a catalytic effect on STI+D efforts, thereby underlining its crucial nature.

From early in the pandemic, when policymakers around the world were beginning to instate lockdowns and preventive protocols, it was becoming increasingly clear that there was a double-edged effect of COVID-19 on STI+D activities. On the one hand, sources of funding were expected to dry up, halting venture investments and entrepreneurship, while on the other hand, reliance on STI had never been higher than in efforts to pull the world out of the crisis caused by the pandemic.<sup>27</sup>

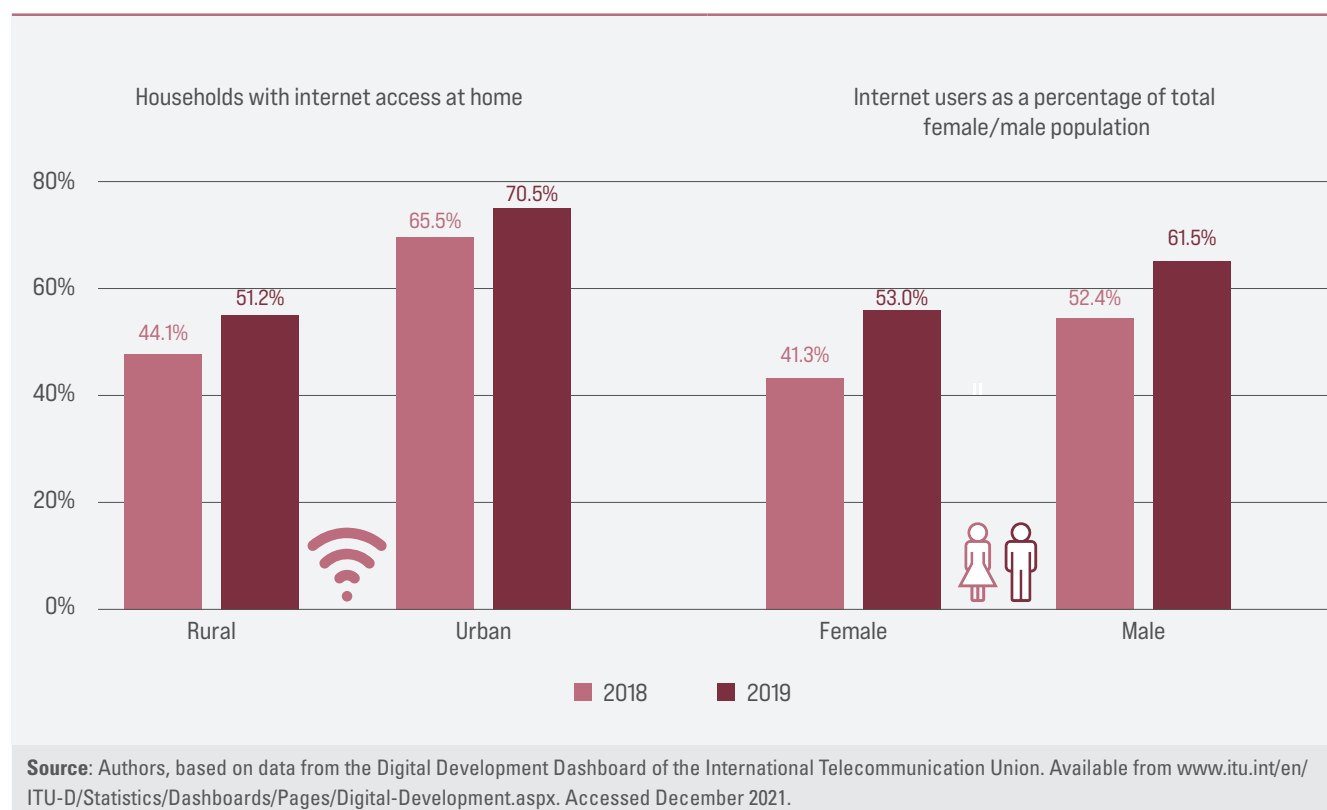
According to the Global Startup Ecosystem Report 2020, pandemic lockdowns led to dried-up capital, with total venture capital funding decreasing

dramatically across continents. The fundraising process was disrupted even when funding remained. The drop in global demand led to drops in revenue, which varied by sector and in turn led to increased layoffs at start-ups.<sup>28</sup>

On the other hand, the pandemic resulted in accelerated digitization efforts, the appearance of a global opportunity and demand for innovation in various fields, a rise in the need for reliable and affordable access to ICT infrastructure and the prioritization of international scientific cooperation.<sup>29</sup>

The dichotomous dynamic of drainage in general resources available to STI+D versus the urgent need for the deployment of STI+D outputs has manifested itself in various ways in Egypt during the pandemic. For instance, one could easily understand from Section B that the momentum of decisions and developments changed during 2020, with an accelerated pace towards digitalization efforts and a transfer to the digital economy.

**Figure 142.** Digital divide in Egypt



This acceleration often had fortunate, if unintended, consequences. A noteworthy example of such consequences is the Government's support grant for irregular work during the pandemic. In March 2020, at the start of partial lockdowns in Egypt, among the many decisions taken to strengthen social safety nets for the most vulnerable groups was a monthly support grant of LE 500 for irregular workers such as carpenters, mechanics, builders, fishers and other craftspeople, as well as on-demand or seasonal workers. To apply for the grant, applicants had to enter their data into a form on the website of the Ministry of Manpower and Immigration. This included some personal and contact information, geographical location, income situation, occupational details and whether they had social insurance with an employer. The latter was a proxy question to avoid asking if they had formal employment or were working informally. About a year later, and as a result of this support scheme, the Government had managed to collect data for over 6.1 million Egyptian irregular workers (2.6 million of whom qualified for the grant), which can be used in the future to improve the targeting of social support schemes or to guide private investments.<sup>30</sup> Even if the data are not comprehensive, a data set that would previously have been tedious and expensive to gather was obtained much more easily because of COVID-19, although under devastating human conditions. Furthermore, the data set enabled the disbursement of the grant to be fully digitized at the local level, linking the applicants with their nearest post office and sending them directions via text message to collect their grant.

At the same time, the pandemic was also found to have had harmful unintended consequences relating to digital technologies, such as deepening the digital divide and increasing the spread of misinformation.

### (a) The digital divide

The digital divide, as previously mentioned, is already recognized in the 2021 VNR of Egypt as one of the key challenges facing the country's

development efforts. The report cites an urban-rural divide in computer ownership and Internet access in households and a male-female divide in Internet usage and smartphone ownership (figure 142).<sup>31</sup>

Unfortunately, the pandemic only served to highlight the extent of the divide. As the Government sought to address this challenge during lockdown by ensuring access to e-learning, increasing the use of e-payments and enhancing international gateways, key challenges emerged that required innovative solutions.<sup>32</sup> For instance, the inequitable access to the Internet meant that a significant proportion of school students did not have access to the education materials provided on successful online platforms such as the Egyptian Knowledge Bank, which was used during school closures to host national curricula and online exams on its platform.<sup>33</sup> This led to the Ministry of Education and Technical Education launching a nationwide television channel called "Madrasatona", meaning "our school", that airs lessons by teachers in different subjects in the Egyptian national curriculum for most school grades. Madrasatona has since been expanded to two television channels, one for primary schooling and another for older students.

### (b) The spread of misinformation

Egypt is developing into a more online society, with social media penetration levels rising to 49 million active social media users as at January 2021 (a 16.7 per cent year-on-year increase from 2020), as reported by Kepios. This represents both an opportunity and a challenge to society. According to the GWI Global Report, Egyptians spend around 7 hours and 36 minutes online per day, of which 3 hours and 6 minutes are spent using social media. A wealth of information is being absorbed daily. The realm of misinformation presents a global challenge, and there is still no solution in sight.

This issue has been highlighted over the past decade but came into focus following the 2016 elections in the United States, where social media was seen as a powerful tool to spread

misinformation that could cause long-term harm to societies. Building on the changes caused by COVID-19, on 2 February 2020, the World Health Organization (WHO) warned of an “infodemic”, stating that: “The 2019-nCoV outbreak and response has been accompanied by a massive ‘infodemic’—an over-abundance of information, some accurate and some not—that makes it hard for people to find trustworthy sources and reliable guidance when they need it.”<sup>34</sup> This massive surge of misinformation has the potential to undermine the effectiveness of public health measures.

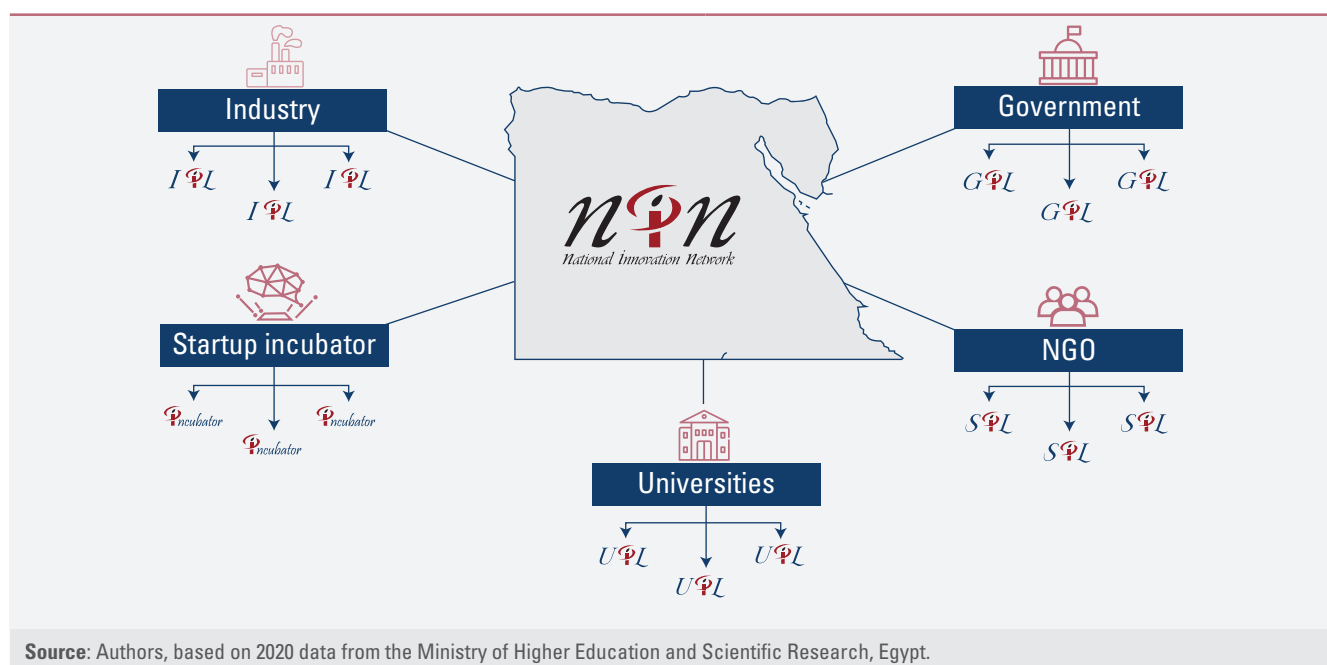
Misinformation costs money and sometimes lives. In that sense, misinformation can have a negative impact on FFD, as it reduces the effectiveness of public measures and may spread false information, alienating stakeholders from the development process. One of the main pillars of achieving the SDGs is a collaborative approach between the Government, the private sector and civil society, a bond that becomes fragile with the increase of misinformation.

The challenge in today’s world is the ease of access to tools to spread misinformation and disinformation. This is true for anyone who wants

to exploit a situation to achieve their own agenda, including, in some cases, government agencies. The Bruno Kessler Foundation launched the COVID-19 Infodemics Observatory in early 2020 to understand the impact of the infodemic on a global scale. With regards to Egypt, the Observatory analysed over 890,000 public social media posts in the period between January 2020 and September 2021 and concluded that Egypt belongs in the medium/high category of the dynamic Infodemic Risk Index. This means that Egyptians have a 58.3 per cent chance of interacting or resharing potentially misinformative content.

It is noteworthy that Egypt has taken several measures to curb the effects of misinformation, including a Facebook page for the Egyptian Cabinet that provides daily debriefs of government efforts, as well as a COVID-19 policy tracker launched by the Ministry of Planning and Economic Development to inform citizens of all policy measures taken by the Government to contain and mitigate the effects of the pandemic. The Ministry of Health and Population also launched an automated response service on WhatsApp to provide accurate information about COVID-19 and answer frequently asked questions.

**Figure 143.** Proposed scheme for the National Innovation Network



Though the risk of misinformation may seem to be very complex, it boils down to restoring trust in public institutions. To a great extent, this can be achieved through transparency and collaboration; Governments must lead by example in using technology to disseminate information to ensure that no misrepresentation takes place. Effective communication methods between public institutions and the general population need to be implemented to eliminate or reduce the void that will undoubtedly be filled with misinformation.

### 3. The need for improved linkages and uptakes

Even before the onslaught of the pandemic and aside from the obvious need for enhanced funding mechanisms, there appears to be a systemic gap; the momentum of STI+D activity and institutional support in Egypt was not being reflected in knowledge, innovative and high-tech outputs. For instance, as previously mentioned, in comparison to similar countries, Egypt is underperforming in high-tech exports as a percentage of total exports, the number of patents and the number of trademarks per million inhabitants.

In other words, there seem to be weak linkages between innovation inputs and innovation outputs, and even weaker linkages between knowledge creation and knowledge utilization. According to a 2013 survey of 3,000 firms in Egypt, most are not likely to partner in research and development activities with universities and research institutions and only 1 per cent benefited from public research and innovation programmes.<sup>35</sup>

This is more generally confirmed by the performance of Egypt in the GII. Although the country has improved its overall rank, it has been experiencing a steady decline in the innovation output subindex over the past three years. Egypt has dropped in this subindex, which measures creative, knowledge and

technology outputs, from seventy ninth place in 2018 to eighty sixth place in 2021, the same three years in which there was a significant push in digital-related regulatory reforms and digitalization efforts.

Weak enforcement of intellectual property rights and the lengthy wait to obtain a patent are among the regulations that further hinder the uptake of STI in the Egyptian economy. Regulatory challenges appear to be caused more by bureaucracy and enforcement issues than by legal infrastructure issues. There is also a mismatch between what is needed and what is being offered.

Egypt must pivot towards a knowledge-based economy in order to be able to satisfy its needs, continue to play its regional leadership role and contribute more to the global economy. To do so, fictitious barriers or gaps between market sectors and knowledge creators need to be eliminated, allowing for increased dialogue and collaboration and, ultimately, better linkages between inputs and outputs. One of the keys is to have better communication and data exchange. This allows service providers to have a better understanding of those seeking their services and thereby provide more appropriate and innovative services. For this to happen, each entity or group of entities must have a focal point in charge of their communication and innovation system.

This has led to the National Innovation Network, which is currently being considered by the Ministry of Higher Education and Scientific Research, in collaboration with several other ministries. Each of these focal points will be an innovation laboratory connected to others in the proposed Network, as shown in figure 143.

The National Innovation Network connects different sets of innovation laboratories and hubs across universities, community centres, society centres and industry clusters that would communicate, exchange data and



services, collaborate and share success stories. The Network would also have an Innovation Academy to provide the necessary capacity-building, as identified through the activities of the innovation laboratories within the Network.

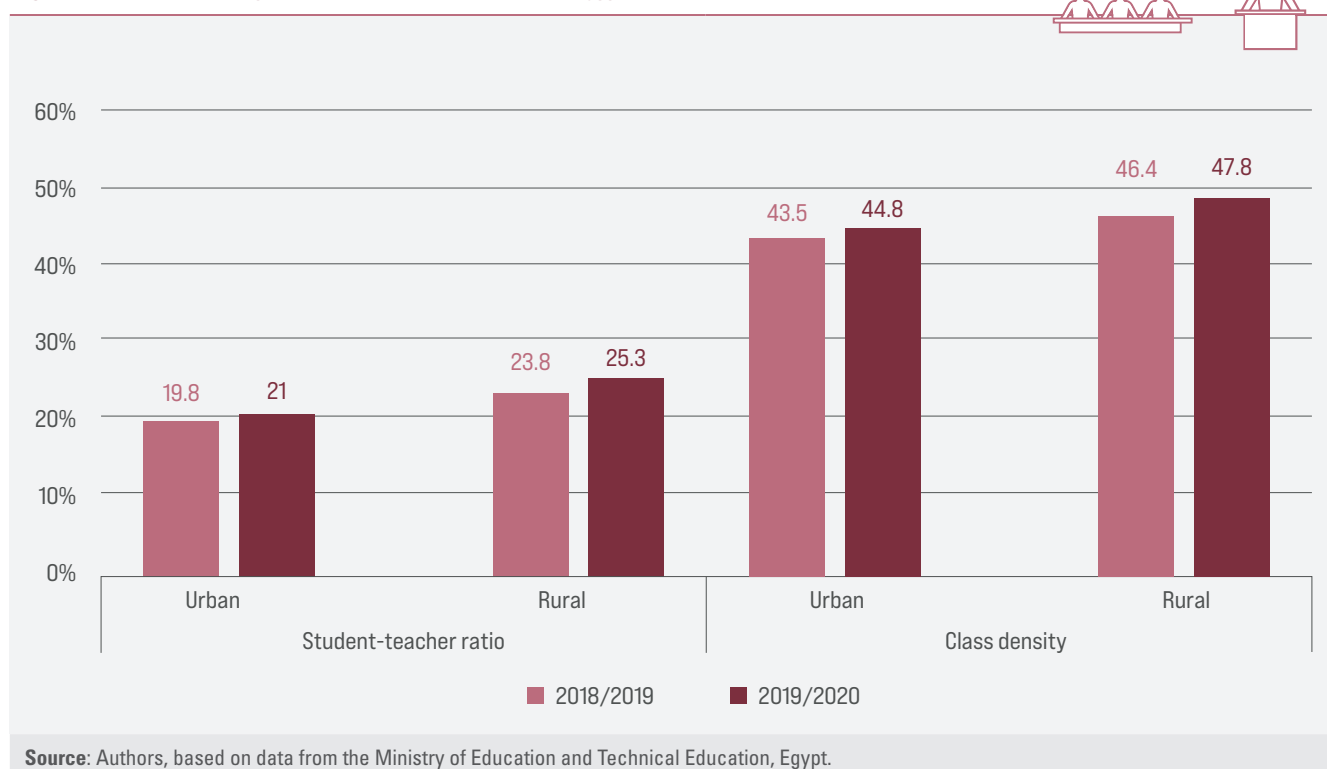
University innovation laboratories will be central to knowledge creation with improved linkages between and within universities. Social innovation laboratories would cater to different local communities and societies, running at local, neighbourhood and urban levels, with the support of NGOs and other societal support groups. Government innovation laboratories will be created at the ministerial level as an alternative vehicle for policymaking by involving a diverse set of key stakeholders participate in the design of public policies. These will include policymakers, civil leaders, practitioners, academics, non-profit organizations and social innovators. Industry innovation laboratories can be located in sectorial chambers or industrial unions with the aim of enhancing cross-sectoral dialogue and fostering new ideas.

## 4. The implications of low-quality primary education

There remains an even more fundamental systemic challenge preventing STI+D reaching its full potential in both society and economy, which is that Egypt faces grave challenges in the quality of primary and preparatory education (i.e. grades 1 to 9).

Home to over 24 million school students, Egypt has the largest school system in the Middle East. While great strides have been made in achieving near universality in enrolment rates, completion rates and gender parity in primary education, the majority of students barely meet the low international benchmarks in reading, mathematics and science. Based on the 2019 Trends in International Mathematics and Science Study, of the 39 countries studied, Egypt ranked thirty second for the mathematics achievements of grade 8 students and thirty seventh for the science achievements of grade 8 students, with over half the students not exceeding the low international benchmark.<sup>36</sup>

**Figure 144.** Class density and student-teacher ratios in Egypt



The monumental strain on resources has also not been kind to the learning environment, especially in public schools, leading to high class densities and high student-teacher ratios (figure 144), as well the underdevelopment of school facilities. The halting of proper upgrades of curricula and teaching methods, coupled with low compensation and capacity development for teachers, is naturally reflected in reliance on old-fashioned teaching methods focused on rote memorization for exams that do not employ critical thinking or practical skills, let alone the skills needed for competing in the modern global economy.

This is clearly a fundamental issue that has grown over the years to become a heavy burden that

Egypt must carry in any STI+D-related activity. This is to a great extent being addressed in the new Education 2.0 reform programme that has been led by the Ministry of Education and Technical Education since 2018. The programme is aimed at reforming examination and assessment methods, developing school curricula, introducing the heavy use of technology in the classroom (which requires major upgrades to schools' digital infrastructure) and improving professional development and capacity-building for teachers. While the impact of such reforms on innovation outputs will unfortunately likely require a generation to be realized, it is a vital and much needed step in the right direction towards activating the potential of STI+D in Egypt.

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## C. Conclusion and policy recommendations

The Government of Egypt faces a unique set of challenges in developing STI+D in the country and providing clear linkages with the national sustainable development strategy in a manner that ensures that no one is left behind. As challenging as it may seem, this leaves room for opportunities and for the potential to make progress as a developing country that has a clear will to achieve inclusive development.

Sustainable development begins with sustainable planning and policymaking. In recent years, Egypt has experienced significant improvement in this area, but there are still many challenges that need to be addressed. A one-government approach is often absent, except for initiatives adopted at the presidential level. This set of initiatives, no more than a handful at the moment, have the full force of the Egyptian Government and para-government agencies behind them, enabling them to make great strides in a very short time. There are many examples of this, such as the "100 million health initiative", which

managed to nearly eliminate the hepatitis C virus in Egypt in just over two years, although the country had been battling the disease for many years. Despite most odds, Egypt is proof that where there is a will there is a way. That is not to say that there is no will to implement STI+D in Egypt, but rather that there should perhaps be greater efforts in this arena to sustain government efforts.

Most of the national efforts mentioned in this chapter follow a basic pattern that highlights the wishes and hopes of the Government, despite the lack of clear mechanisms on financing, enforcement, evaluation, key performance indicators and clearly defined milestones and targets. It is imperative, therefore, that more time is invested in planning and impact analysis, as well as evidence-based policymaking to be able to make best use of the scarce resources.

Enabling a proper STI+D ecosystem would significantly benefit Egypt in two respects:

1

Increasing the efficiency of government services, improving governance and reducing corruption, which improves the inclusivity of government services and better enables them to serve grass-roots communities and include these communities in the development process.

2

Being able to identify and foster talents early and provide them with a tailored education and the means to innovate could allow creative solutions for localized issues to prosper, thereby decreasing the country's dependence on foreign knowledge and reducing the national "brain drain".

While the authors of this chapter may seem to suggest that STI+D ought to become a part of a presidential plan or at least have the highest possible levels of coordination with the country's leadership, the idea is in no way a sustainable one. Empowering national Government and local governorates should always be at the top of the agenda. Nevertheless, leadership from the top could be more effective in cases when greater focus, collaboration and impetus is needed if such a method is only followed until it is phased out by an appropriate body of governance.

A national scientific body might enable clear targets to be set for research and development in collaboration with the private sector and academia and share its results with the technology facilitation mechanism. This would be essential to reaching evidence-based decisions on which technologies to adopt, as science and technology are rarely straightforward and most technologies do not serve certain goals without negatively affecting others. Trade-offs must be made in accordance with policy priorities; however, these trade-

offs must be made by taking the science into consideration, rather than just policies or economics.

While this chapter discusses and elaborates on the National Innovation Network, it is also noteworthy that this is merely a step to be built on towards the solution and not a panacea.

Entrepreneurship is often referred to as the domain that contributes the most to innovation, yet the growing trend for investment is to be able to make money quickly without taking note of the long-term solution. Research and development can therefore end up being kept to a minimum. Following trends in innovation or localizing solutions might be useful, but it will only take Egypt so far and will restrict progress towards homegrown solutions. This will always be the case as long as there is a heavy reliance on venture capital and investment banks to finance SMEs. It is essential to create a strong means of financing research in collaboration with the private sector and science and technology-oriented policymakers. Its goal should be to enable the research and development of long-term solutions that may be less financially beneficial in the short term but will have a greater long-term impact or address strategic issues that may not always appeal to traditional investors.

The ultimate goal should be to mainstream STI+D as an easily accessible enabling tool in the country's various productive domains. While the national strategies mentioned in this chapter present the policy efforts being made to reach this goal to a certain extent, further effort is needed to address systemic constraints that, if removed, would release the organic potential of STI and prevent technological and innovative progress from being dependent on certain entities but rather embed it in the Egyptian economy.

Based on the discussion in this chapter, the following recommendations can be considered in the area of STI+D:



Improve the linkages between national developmental priorities and public and private research and development by offering various incentives to researchers and innovators in general, as well as incentives targeting the country's current priorities. It is also critical to ensure that knowledge creation is linked to knowledge utilization, a key factor in activating the role of STI in FFD, which requires strong engagement with the various stakeholders, particularly in the private sector.



Continue the current path of digital transformation for government services while improving the quality, accessibility and inclusivity of digital infrastructure, pooling resources through public-private partnership projects in digitalization and ensuring good governance and monitoring and evaluation.



Enhance the primary and preparatory education curricula by introducing STI-enabling subjects such as scientific methods, scientific concepts, research methods and basic ICT skills. In general, addressing the quality of primary education is critical to the long-term success of any national STI plans. While the current Education 2.0 plan is a strong first step, adding key STI-enabling school subjects to curricula has the potential to positively impact the country's overall innovative outputs.



Set and activate an overarching national innovation strategy while ensuring its sustainable operationalization by setting measurable targets and enforcement mechanisms. Partnerships should be ensured by engaging relevant stakeholders, particularly the private sector, and local communities. The strategy should also address systemic issues such as the availability of risk financing and how to bridge the digital divide and improve the necessary legal infrastructure.



# Endnotes

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6. Cairo University, n.d.
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# Localization

*by Suzanna Elmassah*

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# 11











While the implementation of the 2030 Agenda occurs primarily at the national level, achievement of the SDGs depends strongly on progress made at the local level.



## Background

The adoption of the 2030 Agenda in 2015 signalled a commitment from world leaders to pursue a more sustainable path towards inclusive and equitable growth. Under the 2030 Agenda, 17 SDGs were formulated to cover a broad range of development issues, tying them to 169 targets and 231 unique indicators.<sup>1</sup>

In its integrated and transformative agenda, the universal nature of the 2030 Agenda requires cross-sectoral collaboration between multiple levels of government. With a strong emphasis on policy coherence, the 2030 Agenda stated that “Governments and public institutions will also work closely on implementation with regional and local authorities, subregional institutions, international institutions, academia, philanthropic organizations, volunteer groups, and others.”<sup>2</sup> It is thus clear that while the implementation of the 2030 Agenda occurs primarily at the national level, achievement of the SDGs depends strongly on progress made at the local level.





The importance of focusing on local progress originated with the MDGs and the Local Agenda 21 (LA21). In the 2008 midterm evaluation of the implementation period of the MDGs, it was indicated that achieving the MDGs required ownership and local accountability and that the gaps in local delivery capacity are a significant factor in determining the success or failure of efforts to achieve the MDGs.<sup>3</sup> The localization roots go back to the United Nations LA21 at the 1992 Earth Summit. LA21<sup>4</sup> was a special mandate that defined the vital role of local authorities and introduced a voluntary process to create local policies and programmes for global sustainable development in the twenty-first century.<sup>5</sup>

Over the years, academics and policymakers have confirmed that centralization is not the right path for development. Its hierarchical and bureaucratic nature failed to produce the planned development of developing countries.<sup>6</sup> Shifting the governance model from a centralized to a localized approach essentially involves adjusting strategies, monitoring and evaluation in the subnational contexts to enable local and regional units to support achievement of the SDGs. It brings the SDGs to the local level and vice versa, ideally being both a top-down and bottom-up process that enhances vertical and horizontal policy coherence

and thereby contributes to the transformative change envisioned in the 2030 Agenda.<sup>7</sup>

From 2000 to 2015, Egypt was committed to the MDGs to eliminate various dimensions of poverty. It succeeded in implementing some MDGs, such as achieving gender equality in primary and secondary education, decreasing the mortality rate of children under five years of age, promoting antenatal care coverage and expanding the proportion of access to sources of drinking water.<sup>8</sup> Nevertheless, efforts were uneven, and Egypt missed several MDG targets. The MDG performance differential between different governorates in Egypt was a major challenge that highlights the importance of subnational strategies and local capacity-building to address local needs. Local governance mechanisms therefore need to be strengthened to avoid bottlenecks in service provision, which frequently occur at this level.

Egypt demonstrated a commitment to localization by signing the LA21 at the Earth Summit in 1992 and adopting its country profile for the LA21 in 2002. This was followed by further commitments towards sustainable development over the years. In 2015, Egypt adopted the Sustainable Development Strategy: Egypt Vision 2030 that identifies relevant SDG targets by 2030. The country has been reasserting its commitment to the SDGs and to monitoring progress by submitting three VNRs (in 2016, 2018 and 2021) that present the national improvements and challenges relating to SDG indicators. By submitting its third VNR in 2021, Egypt has become one of only nine countries to conduct a third review.<sup>9</sup> The commitment to localization is specifically clear in the 2021 VNR, as Egypt dedicated a section to localization and national efforts in that regard.

Like many other developing countries, Egypt is facing challenges in achieving the SDG targets. One of the main challenges is accelerating performance at the local and national levels by securing proper financing to achieve results over

the next decade. The global disruptors are adding more challenges and increasing the need to build more resilient communities. The socioeconomic effect of the COVID-19 pandemic has been noteworthy, as it highlights the importance of local capacity-building efforts to address the significant crisis and the needs of local communities.

This chapter highlights the importance of adopting a localization approach to achieving the SDGs in Egypt and identifies localization accelerators. It begins by examining the role of centralization, decentralization and localization approaches in enabling sustainable development. It then highlights the shift from a trickle-down approach to the bottom-up approach and presents localization as a two-way process between the central and local governments, which are working to complement each other. The chapter then builds on the implementation of localization by introducing “intervention logic,” which is a logical

model that offers a clear understanding of how targeted policy actions are expected to lead to desired outcomes.

Furthermore, this intervention logic is applied to implement localization in the Egyptian context in order to achieve the SDGs at the local governorate level. This is done by examining and analysing government commitment, localized goals and government efforts to allocate resources at the local level and implement actions to achieve the SDGs. The chapter proceeds to analyse the results of such efforts at the local level, focusing on the output indicators for SDG 1. It then utilizes intervention logic to understand the gap between ongoing localization efforts and targets. It identifies the accelerators for localization in Egypt as a way of addressing finance gaps and achieving the SDGs. The chapter follows the participatory approach in identifying localization stakeholders and is focused on SDGs 1, 11 and 17.

## A. Methodology

This chapter focuses on developing the localization approach in order to achieve the SDGs for Egypt by identifying the current process and the targeting gaps at the governorate level. The analysis attempts to assess Egyptian efforts to use localization to achieve the SDGs using intervention logic. It estimates the gap in implementation of localization efforts by examining government efforts in the three phases of the intervention logic, which are defining local targets, deploying local resources and achieving desired effects.

Furthermore, the leading accelerators for the localization process in Egypt are identified, including the output-outcome framework for budgetary allocation at the governorate level as a foundation step to align governmental public spending and development and welfare efforts with the SDGs.

**Figure 145.** A map for localization stakeholders





This analysis applies a mixed-method approach to collect and analyse both primary and secondary data. This approach provides triangulation, complementarity, initiation, development and expansion.<sup>10</sup> The participatory approach was followed in collecting the primary data by including all stakeholders in the analysis. The researchers began by drawing a map for all the localization stakeholders, shown here as figure 145. Semi-structured interview questions were used, which cover different dimensions of the SDGs and challenges at the local level.<sup>11</sup> We followed convenience sampling to select our interviewees.<sup>12</sup>

A poll was created of: (1) key stakeholders who can influence the success of the localization process; (2) primary stakeholders, who are directly affected by SDG-related projects; and (3) secondary stakeholders, who are indirectly interested or influenced by the projects. Eight stakeholders were then chosen, with policymakers, the management team and employees as main internal stakeholders. External stakeholders were also added in the form of academics and specialists who work on the SDGs or focus on

decentralization or localization and represent an essential participant in the process.<sup>13</sup> The private sector is an essential stakeholder in the achievement of the SDGs, through capacity-building, resource provision and corporate social responsibility. Along with the public sector and civil society organizations, there are other essential and contributing stakeholders in the spread of localization, such as citizens (the community itself, represented by the inhabitants of localities), media, political parties, religious institutions and local and international donors.<sup>14</sup> Secondary data include international and national official documents, reports and statistics that are not highly adjusted to change, all of which were collected centrally by the Egyptian Government and its institutions. The research context is taken into consideration, as specific data sources from a time frame ending in February 2021 were reviewed. The Ministry of Planning and Economic Development provided the data validation for the study. “Governorate” is used as the local unit of analysis in our analysis on localization. A governorate is verified by the Constitution and has its own public administrative institutional framework.

## B. Centralization, decentralization and localization: approaches to sustainable development

The end of the MDGs in 2015 marked the beginning of the 2030 Agenda and the creation of the 17 SDGs. The key differences between the SDGs and the MDGs are, first, that the former are universal and apply to all countries, rather than being an exclusive agenda for developing countries. All global actors—Governments, companies, educational institutions, associations and individuals—would work jointly to achieve these goals. Second, the scale and content of the SDGs are more ambitious; they reflect the synergies between the economy, environment and society while paying adequate attention to people, planet, prosperity, peace and partnership. The third, interesting difference lies in the debate on the

proper governance model, whereas centralization versus decentralization may not have helped with the full achievement and effectiveness of the MDGs.

For this reason, in the era of the SDGs, it is essential to move beyond this power trade-off and acknowledge the comparative advantage that both central and local communities can offer. From 2000 to 2015, the MDGs stimulated a global campaign to eliminate various dimensions of poverty. They were mainstreamed into strategies and plans at the national and subnational levels, but efforts were uneven and many countries missed several MDG targets. Many lessons were

learned from countries' experiences. The main lesson is related to the bottlenecks in service provision at the local level, such as in housing, education, infrastructure, water and sanitation, which are clarified in the following sections.

## 1. From a trickle-down approach to a bottom-up approach

The first supporting wave of decentralization was purely administrative; it focused mainly on reorganizing the public sector. "Decentralization [is] the transfer of authority and responsibility from the central Government to subordinate or quasi-independent organizations or the private sector"<sup>15</sup> The latest wave aimed more at promoting democracy at the subnational levels, more civil and female participation in local governance and decentralized delivery of services. The new perspective considered decentralization to be more than just pushing down financial resources to the subnational level; it also includes giving control over these financial resources.

Decentralization is the empowerment of people by the fiscal empowerment of their local governments.<sup>16</sup> This new definition indicated that decentralization is a means to an end and not an end in itself. Ideally, decentralization could result in better service delivery, efficient and fair allocation of scarce resources and the closing of gender and inequality gaps.

Much progress has been made in decentralization processes in many developing countries in recent decades; however, most of these attempts were incomplete and could not empirically serve their targets. Decentralization in the Middle East is seen as a profoundly political process involving many actors at the political, institutional, technical and cultural levels, as well as the consideration of culture and gender-related norms.<sup>17</sup> It inevitably transfers power from central to local government, creating tensions between local autonomy and central standards. That would be unlikely to be accepted in countries with a long history of central planning.<sup>18</sup>

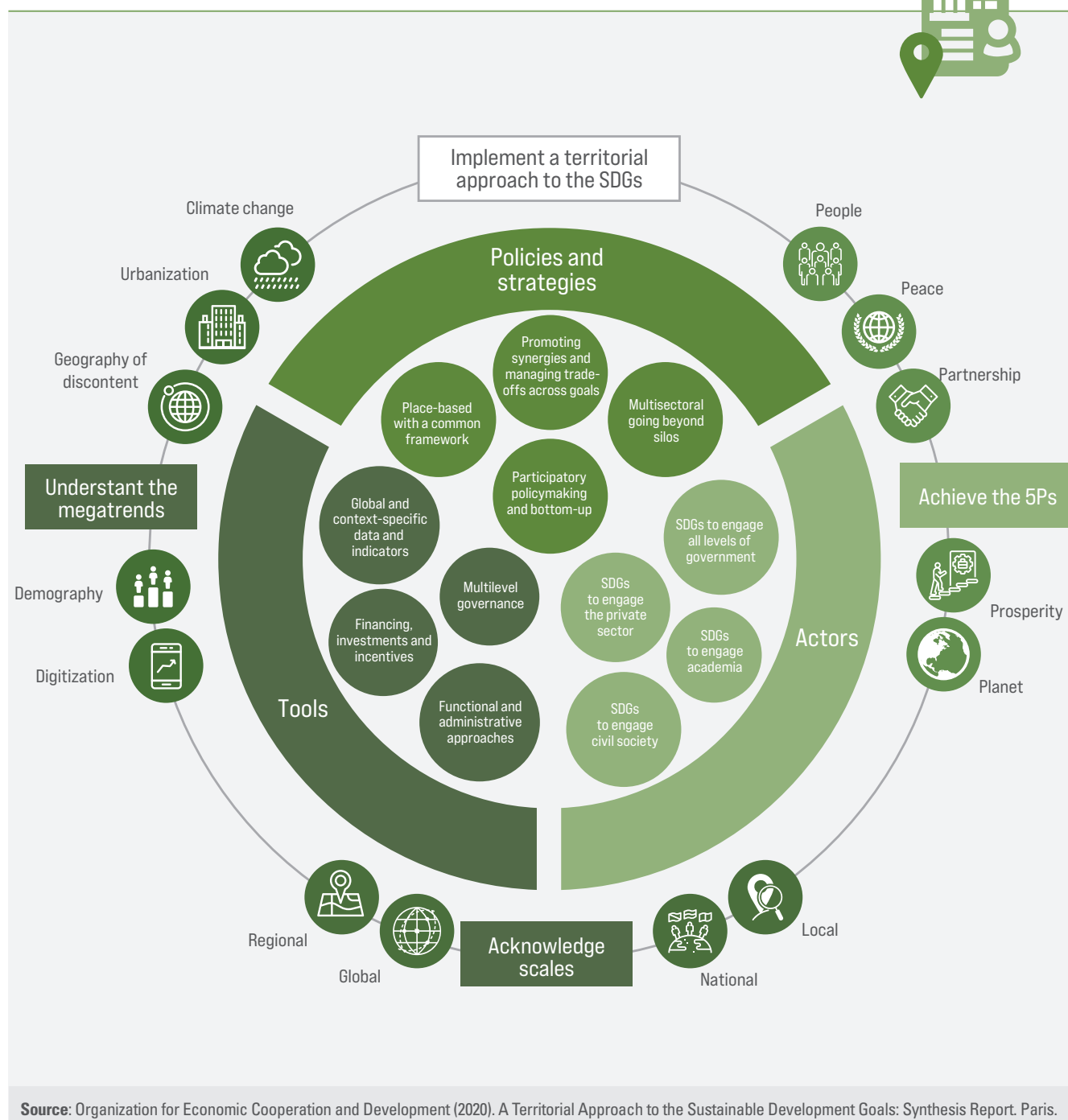
Moreover, the lack of local capacity-building causes local governments to fail when given new responsibilities. The decentralization process creates additional layers of government that produce more costs without changing public sector employment. Under these conditions, the "ideal" form of decentralization is perceived as an unattainable dream for developing countries. Incomplete, distorted decentralization failed to improve the quality of people's lives. Alternatively, localization goes beyond the concept of decentralization, which involves the loss of centralized power, by creating a common two-way process in which central and local governments are able to complement each other.

## 2. Localizing the Sustainable Development Goals: a territorial approach and intervention logic

Targeting sustainable development through localization takes advantage of both centralized and decentralized modes of governance without compromising the benefits of centralization. Localizing the SDGs with the territorial approach (developed by OECD) allows for a place-based policy with a set of coordinated actions designed for a particular local community. This paradigm shifts from a sectoral to a multisectoral context, from a one-size-fits-all to a customized local plan and from a centralized top-down approach to a bottom-up approach.<sup>19</sup>

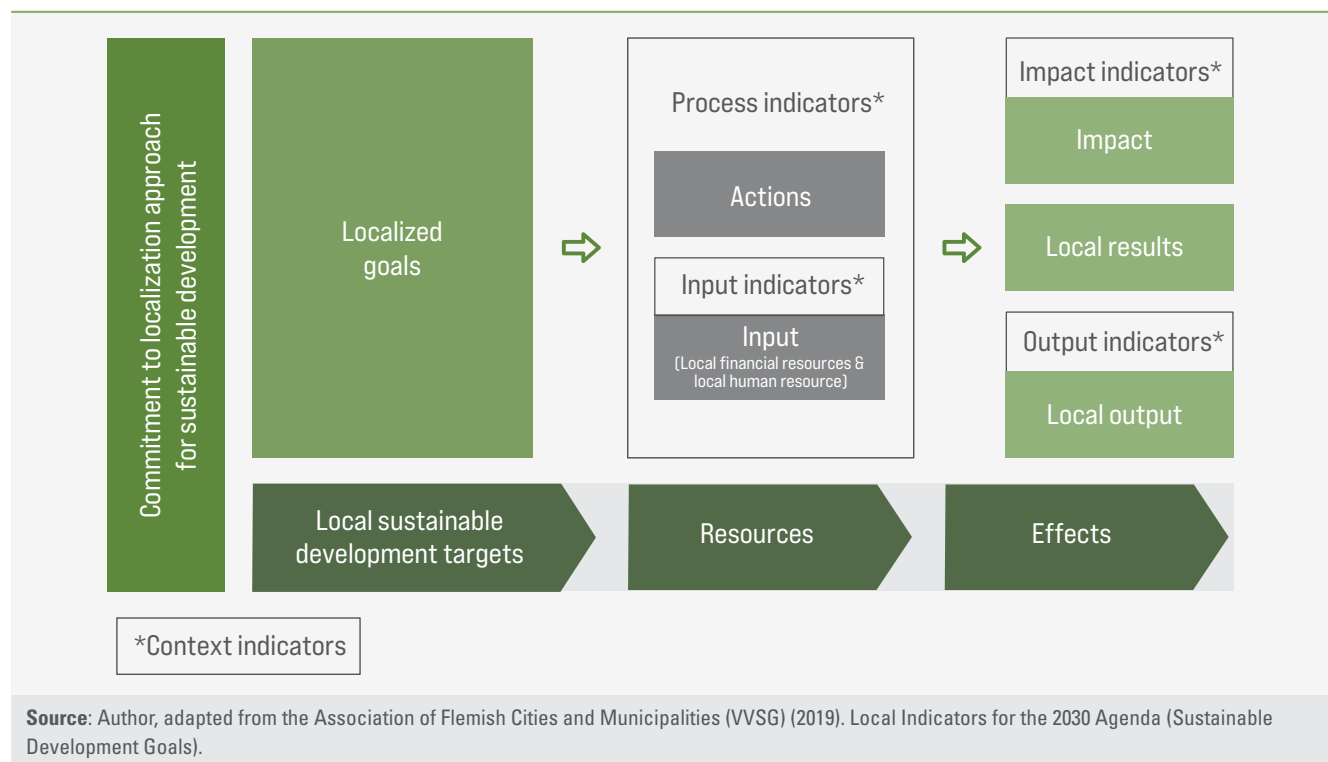
The territorial approach in figure 146 is based on the participatory and bottom-up approaches; it takes into account SDG synergies as critical elements of achieving local SDGs. The framework's shared responsibility allows stakeholder engagement and dialogue. A territorial approach to the SDGs is based on the 2015 United Nations global agenda to end poverty, protect the planet and ensure prosperity for all. This approach makes it possible to learn from one's own experiences and needs through a dynamic feedback loop. It aims to provide tools and opportunities to strengthen multilevel governance and promote a well-integrated policy framework across levels of government.

**Figure 146.** Analytical framework for a territorial approach to the Sustainable Development Goals



The SDGs could be localized through a process of building blocks within the intervention logic. This logic is a representation of a clear understanding of how policy actions lead to desired outcomes and identifies the causal links or relations between the inputs, activities, outputs and longer-term outcomes of any policy intervention. It also

makes it possible to improve the policies that lead to the required change. Intervention logic shows how adding change brought about by policy action at the micro level leads to a desired modification at the macro level. The consequences of this contribute to the strategic goals at the national level.<sup>20</sup>

**Figure 147.** The application of intervention logic to localizing the Sustainable Development Goals

The application of intervention logic to the localization of SDGs is primarily based on the idea that specialization constitutes a complex policy intervention to foster national progress. As seen in figure 147, in the starting phase, each administration has ambitions translated into goals at the local level with local sustainable development targets. The goals are then converted into actions by deploying people and resources. The last phase (i.e. "effects") involves the administration monitoring whether these actions were successful and whether the goals have been achieved. Applying the intervention logic to localizing the SDGs requires each step to be measured by a set of indicators. The indicators are either quantitative or qualitative figures, or a combination of both. They are selected based on relevance to local levels, indicators that are influenced by local policy and availability of data. There are various types of indicators within the intervention logic:<sup>21</sup>

- Context indicators describe the context in which a local administration works. Examples

are poverty figures, employment rates in the municipality and the composition of the population.

- Input indicators provide information about the people and resources used to achieve a specific goal or action.
- Classic input indicators examine the financial resources used for a particular action or goal or the number of employees.
- Process indicators provide information about the organization or the approach of an action or measure.
- Impact indicators measure the impact (of a strategic goal), the result (of an operational goal) or the output (of an action). In other words, the impact is measured at different levels in line with the hierarchy of the multi-year plan: actions and action plans, as well as operational and strategic goals.

Of the three phases addressed by the framework, the resources phase is the core phase instrumental to localization. This phase is mainly concerned with securing local financing and human resources to localize the SDGs

successfully. The framework highlights the importance of having sufficient resources in the localization process, which is measured through

input indicators. Securing resources therefore plays an essential role in localization, as examined in the following section.

## C. Unleashing the Sustainable Development Goals at the local governorate level in Egypt

There have been several attempts at administrative, economic and political reforms in the decentralization process in Egypt over the decades; however, Egyptian Governments have never been successful in completing the ideal form of decentralization that improves the quality of life for local citizens. The 2014 Constitution outlines the country's administrative units (governorates, rural districts and villages) and the legal personality assigned to each of them. Each local unit is to elect a council to ensure oversight over authorities. This council can retract confidence from the local unit's leadership. During 2017 and 2018, the Egyptian Government prepared two draft laws on general planning and local administration to ensure a decentralization trend and presented them to Parliament.<sup>22</sup> Nonetheless, the practical progress on decentralization has always been slow; Egypt ranks just above Cambodia in the Administrative Decentralization Index rankings, at 85.<sup>23</sup>

The challenges of decentralization in Egypt were similar to most developing countries with a long history of central planning. Treisman analysed 166 countries in the mid-1990s to define six conceptions of decentralization.<sup>24</sup> Successful decentralization must be supported by a transparent system for sharing revenue between different levels of government when administrative and fiscal responsibilities are devolved from central to local government. The revenue-sharing system is mainly found in developed countries and does not exist in many developing countries. Most of these organizations are operational, irrespective of their levels of organizational devolution.

Egypt is one of the developing countries with a high degree of centralization and limited institutional and financial capacity at the local level, relying heavily on fund transfers for the functioning of operations. According to the Ministry of Finance, under the budget for the fiscal year 2020/21, local administration was allocated LE 171.6 billion and LE 185.5 billion for the fiscal year 2021/22, accounting for only 10 per cent of the budget over those two fiscal years.<sup>25</sup> The empirical findings by Alam and Alam show that resource-dependent municipalities use the assigned budget mainly to control expenditure and gradually shift towards managerial and planning orientation with the easing of financial constraints.<sup>26</sup>

While there seemed to be little progress in decentralization in Egypt over the years, localization would be the right course of action in view of its non-politicized nature and its particular focus on the local agenda for development to achieve national goals.

In this context, localization process of Egypt will be analysed using intervention logic: (1) the Egyptian Government's commitment to localization, (2) the identification of local SDGs, (3) resources for localizing the SDGs and (4) the effects of localizing the SDGs. This will identify the localization gap, while referring to the challenges that may hinder successful localization, and highlight the accelerators to unleash localization that would boost progress in achieving the SDGs.



## 1. The Egyptian Government's commitment to localization

Egypt has always been at the forefront of international commitments to sustainable development and support for the global mainstreaming of localization. Egypt attended the 1992 Earth Summit in Rio de Janeiro and was one of the 16 Arab states committed to LA21.<sup>27</sup> The latter was a voluntary process aimed at creating local policies and programmes to achieve sustainable development. The process required local governments to consult with the local community, minority groups, businesses and industrial organizations to develop local environmental plans, policies and programmes, among others. Egypt adopted its country profile for LA21 in 2002 to monitor the country's progress and track and record the national actions taken to implement the Agenda. Despite all previous evidence of the Egyptian Government's strong commitment to LA21, local sustainable development has been long led by NGOs and corporate social responsibility projects.

In a similar manner, Egypt has demonstrated its international commitment since the announcement of the 2030 Agenda. It submitted three VNRs in 2016, 2018 and 2021, providing evidence of its adherence, progress and challenges. Egypt submitted its VNR in 2018 on time, alongside eight countries in the MENA Region: Bahrain, Jordan, Lebanon, Morocco, Qatar, Saudi Arabia, Sudan and the United Arab Emirates. The other 12 countries in the MENA Region could not deliver their VNRs as scheduled. The Egyptian Government improved its programmes and projects dedicated to its SDG targets at the central level. The 2018 VNR reflected the country's participatory approach to people and civil society, focusing on the trickle-down impact of SDG 1. In the same VNR, the Government mentioned its localization strategy of creating sustainable development units and working groups in different ministries, and incorporating the localization of the SDGs into

the medium- and long-term strategies of some ministries and entities.<sup>28</sup> This did not reveal any commitments or actions explicitly taken at the local governorate level. That raises concerns about the misconception of localization in the 2018 VNR.

By submitting its third VNR in 2021, Egypt has become one of only nine countries to do so. Given recent government actions and announcements to localize the SDGs, the third VNR has an entire section on the Egyptian Government's localization efforts and aspirations as a component of its policy-enabling environment to achieve the SDGs.

While Egypt has not yet begun to submit any voluntary local reviews, a crucial de facto commitment to the localization process, it has embarked on producing SDG localization reports at the governorate level and producing human development reports on impacts at the subnational level. Local human development indicators would allow further monitoring of the progress and achievement rates towards SDGs at the local level.

Similarly, Egypt has shown a national commitment to localizing the SDGs. In March 2015, Egypt launched the Egypt Vision 2030 as a primary development strategy. It is aimed at developing unified, long-term sustainable development as a base for development plans at the national, local and sectoral levels. The Egypt Vision 2030 touched upon the empowerment of local administrations to achieve institutional and societal governance. This national sustainable development strategy provides great support for localization, facilitating an institutionalized dialogue, technical support and financing for local communities. Nevertheless, the Egypt Vision 2030 also takes into account the planning and identification of SDG targets and indicators to remain at the national central level. It did not include mapping or cost analyses of local plans. The commitment of Egypt to localization can therefore be confirmed (de jure). Strengthening synergies between local and national plans

remain essential to achieving the SDGs. In the coming sections, the three phases of intervention logic are used to evaluate the reality of localization in Egypt (de facto).

## 2. Phase one of intervention logic: the identification of local Sustainable Development Goals

Local targets and monitoring indicators are needed to direct finances and investments to achieving the SDGs at subnational levels. The first attempt in 2018 by Baseera, the Egyptian Center for Public Opinion Research, identified local targets.<sup>29</sup> In 2020, the Ministry of Planning and Economic Development, in partnership with Baseera and the United Nations Population Fund, launched the “localization of the Sustainable Development Goals at the governorate level project.” The project focused on quantifying targets and indicators for each governorate, which helps to develop appropriate plans and priorities to achieve these goals. In the second phase, the project selected five governorates to hold workshops with their officials on planning and follow-up. The workshops familiarize them with the SDGs, indicators and quantitative targets for each governorate. The third phase covered the rest of the governorates. The report identified a set of SDGs indicators and provided the current situation data in the governorate. It estimated the 2030 targets for each governorate. That is the basic step for localizing the SDGs at the governorate level. Each governorate would know what is expected of it for 2030, which helps to develop the appropriate action plans and identify the resources needed.

The report published by the project considered two scenarios when estimating local targets and indicators. The first scenario assumes that all governorates follow the same rate of national-level target change. The second scenario assumes a lower or upper target limit at the governorate level. Any excess in a governorate

is distributed to the other governorates. The indicator limit is determined using the local target achieved for a country with a completed national target equal to the Egyptian national target for 2030.

The second scenario helps to narrow the gap between governorates; however, it raises many concerns about how realistic and accurate the local targets are. There was an inconsistency in the indicators considered and the number of governorates taken into account, even as it does not cover all 17 SDGs owing to limitations in data availability. The upper and lower limits are explained in the methodology on the basis of other countries’ achievements, although they have different contexts and development paths. Tables 1 and 2 of annex 9 show Baseera’s SDG estimates of achievements at the governorate level by 2030. Nevertheless, this can be considered a preliminary attempt at context indicators, which are partially related to the first step of the intervention logic of localization discussed earlier. It is a beginning step that can be revised in the future to reach reliable local goals with a high degree of accuracy and credibility. It is worth noting that two important things are still missing at this stage: ownership of local targets and action plans attached to the targets.

## 3. Phase two of intervention logic: resources to localize the Sustainable Development Goals

This section will continue to follow the intervention logic for localization by identifying the resources used to localize the SDGs in Egypt. The resources include actions taken and inputs mobilized for localization.

### (a) Actions taken towards localization

Several recent actions and initiatives in Egypt to support and serve localization are identified,

focusing on SDG 1. These are Haya Karima, governorate and citizen investment plans and human capital initiatives.

#### (i) The Haya Karima programme

Haya Karima is one of the Government's actions to address localization in line with the previously discussed intervention logic.

The initiative was launched by President Abdel Fattah El-Sisi on 2 January 2019, for the purpose of improving the standard of living and services provided to citizens most in need, especially in villages. By 2021, the initiative was transformed into a fully-fledged national programme for the development of the Egyptian countryside and rural areas. Haya Karima takes an evidence-based policy approach and adopts a participatory approach by including all stakeholders, cooperatively led by the Ministry of Planning and Economic Development (central government) and the Haya Karima Foundation. It works with consolidated efforts between the Government, NGOs and the private sector and makes strides towards addressing the SDGs at the local level, serving as a seed for localization and much-needed efforts to bridge the development gap between rural and urban governorates, while lifting the most impoverished villages out of poverty.

The programme is divided into three phases based on the needs of impoverished villages, according to statistics from CAPMAS. The first phase targeted villages with a poverty rate above 70 per cent, the second stage targeted villages with a poverty rate that ranges between 50 per cent and 70 per cent, and the third phase targets villages with a poverty rate of about 50 per cent. In addition to the poverty rate, the criteria for identifying villages in need includes weak basic services with sewage and water networks, a low rate of education, a high density in school classes, the extent of the need for intensive health services to meet health-care needs and road networks in poor condition.

Haya Karima was recognized by the United Nations Partnership Platform for its sustainable efforts to achieve the SDGs by targeting citizens' needs at the local level. It fulfilled the platform's criteria of being specific and measurable, achievable, resource-based and time-bound, with efforts to localize the SDGs. The initiative has four pillars: (1) improving living standards and investing in human capital, (2) developing infrastructure services (3) raising the quality of human development services and (4) economic development.

#### (ii) New Governorate Plan and Citizen Investment Plan

The Government has developed two plans: the governorate plan, and the citizen investment plan launched in 2020.<sup>30</sup> Both plans represent serious localization efforts. The governorate plan informs each governorate of the gap between its current local SDG level and its local targets, derived from the national target in the VNR. The citizen investment plan highlights the main features of the sustainable development plan for the fiscal year at the national level. Furthermore, it identifies essential economic indicators for each governorate, as reflected by GDP, the growth rate and the unemployment rate. The plan also identifies the governorate's share of public investments, distribution by sector and the number of projects assigned in the fiscal year. Identifying the SDG targets of governorates indicates effective planning that ensures that budgetary allocations reflect the priorities of local communities. The collaboration of stakeholders (e.g. local governments, communities, civil society, businesses and young people) creates better financing opportunities for local communities, unlocking the local potential of the SDGs.

## Box 6: *Haya Karima* – one of the most significant development programmes for poverty eradication in the modern history of Egypt

The programme is primarily concerned with the most impoverished villages and is aimed at eradicating poverty and reducing the development gaps between rural and urban governorates by directing resources at the local level according to local needs.

It covers more than 4,500 villages, 175 centres and 20 governorates, serving around 58 per cent of the population with a total estimated budget of LE 700 billion (approximately \$44.5 billion to achieve the comprehensive development of villages and reduce the rural-urban gap).

The plan for the first phase included 52 centres that include 1,400 villages and 10,000 constituents with LE 260 billion (approximately \$16.5 billion), with the remaining 123 centres to be targeted later. The first phase has already been completed, with approximately LE 103 billion allocated for its implementation, providing health and educational facilities and services, as well as sports and cultural activities, in about 277 villages where the poverty rate exceeds 70 per cent, with a total of 4.5 million beneficiaries. The second phase targets 50 centres nationwide, encompassing 1,381 villages. The remaining villages are expected to be targeted during the following two years.

The scale of efforts linked to the programme aimed at rural Egypt is unprecedented. The programme includes the launch of indicators to measure the quality of life in villages and follows the participatory approach in planning and funding. In support, the Ministry of Planning and Economic Development has recently launched an electronic portal to link statistical indicators to participatory planning for village development after identifying citizens' needs, opinions and priorities. It lists the projects and interventions and further links them to indicators. The programme is to be coupled with improvements to the official capacity of local governments to plan, finance and deliver vital local services for the country in order to be on an accelerated path to achieving the Sustainable Development Goals.

Source: Author.

### (iii) Human capital initiatives

Several initiatives taken by the Government are focused on the development of resources related to human capital. This contributes significantly to localization and is highlighted in the second phase of the intervention approach. The National Training Academy initiative supports administrative personnel across local communities to enhance their performance by giving them customized training based on a competitive selection process. In addition to this programme, for the past four years, the Academy has also offered a one-year programme for young people. Moreover, the Presidential Leadership Program works to include competent individuals in the public and private sector pipelines and raise the efficiency and performance of their workers in the public administrative sector. The Government also

followed up to empower the alumni of this programme locally using various tools and sectors. For example, in 2019, the Egyptian cabinet appointed a group of governor deputies assigned to their home governorates. At a higher level of human capital-related initiatives, the Egyptian Ministry of Planning and Economic Development created a performance system that is aimed at measuring the performance of the State administrative apparatus at the governorate level using qualitative and quantitative key performance indicators on the planning, monitoring and evaluation phases.

### (b) Financial inputs mobilized for localization

Several financial resources have been used to empower localization in Egypt. Central government transfers, government investment in the SDGs at the governorate level (see

chapter 6 and the funding formula), subsidies, grants, social benefits (see chapter 4 on the Takaful and Karama programmes) and Egyptian mega projects.

#### (i) Central government transfers: government budget allocated to local administration

Government budgets are at the core of sustainable development and are the most powerful economic tool the Government has to meet its people's needs. The national SDG performance depends on the budget as even the most well-rounded public policy has a minor impact on the relevant Goal until it is matched with sufficient public resources to ensure its effective implementation.

Government expenditure indicates the extent of (fiscal) decentralization because it is generally measured using the ratio of local revenue to total public revenue and/or the percentage of local expenditure to total public spending. Data indicate that, on average, developed countries have a higher level of decentralization than developing countries.<sup>31</sup> The budget spending of the Egyptian Government can be divided into three main components.

The administrative apparatus consists of 34 ministries and sovereign bodies. There are approximately 161 service bodies of the ministries. The local administration consists of the 27 governorate offices and the service directorates.

According to the Ministry of Finance, the budget for the fiscal year 2020/21 amounted to LE 1.713 trillion, as shown in figure 148. A total of LE 1.327 trillion was allocated to the central Government's administrative body, accounting for 77 per cent of the total budget, and service bodies distributed LE 214.9 billion, or 13 per cent. In contrast, the local administration was allocated LE 171.6 billion, accounting for 10 per cent of this budget.<sup>32</sup>

Putting this in perspective, the subnational government expenditure in OECD countries accounted for 16.2 per cent of GDP and 40.4 per cent of total public spending in 2016. Such expenditure represented 19.2 per cent of GDP and 50.0 per cent of public expenditures.<sup>33</sup> An example of another relatively centralized country is Slovenia, where 23 per cent of total public spending was local government expenditure (municipalities) in 2019 and the rest was central government expenditure.<sup>34</sup> The expenditure of Egypt on local administration is therefore considered to be at the lower end of the spectrum.

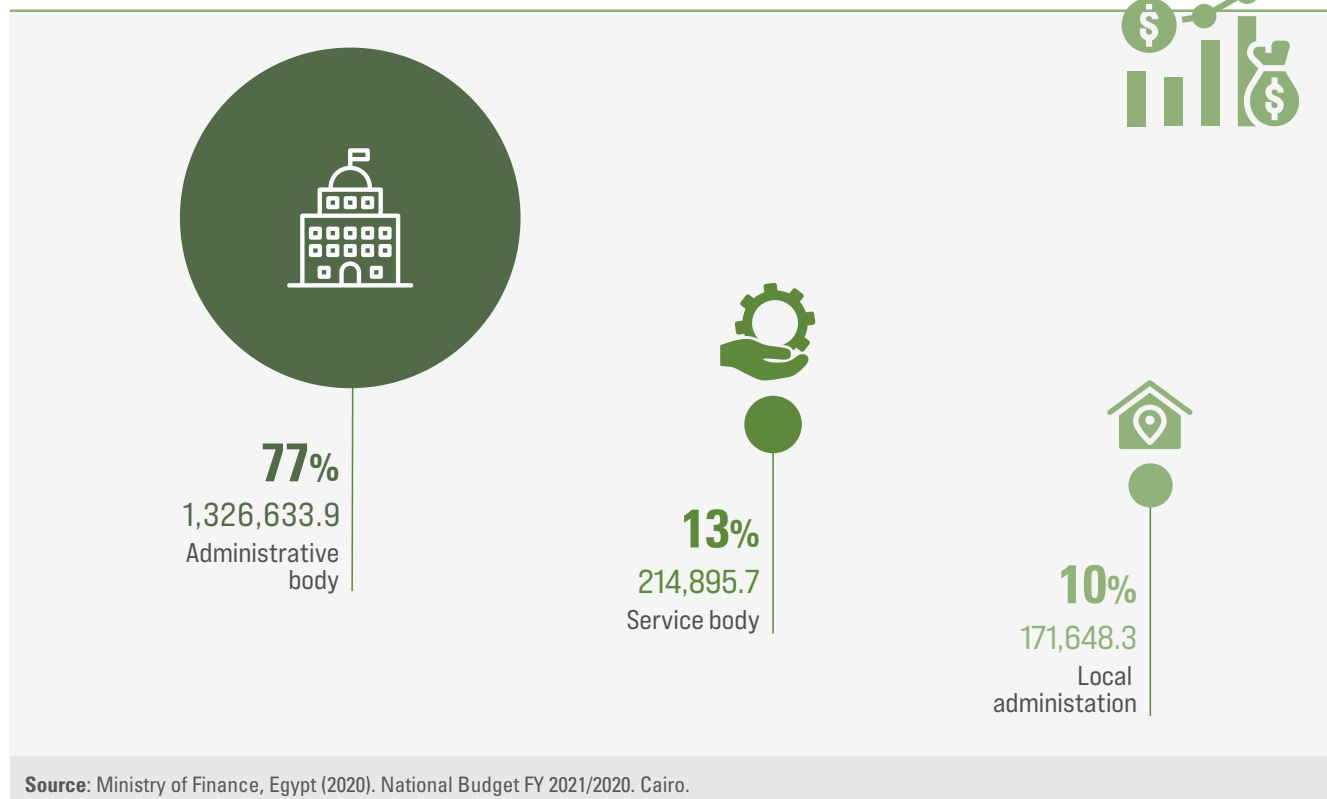
As a result of the country's highly centralized system, data on the local governorate level is relatively scarce. The breakdown of budgetary data at the governorate level is unavailable. The local administration budget (figure 149) shows that a significant portion of the budget per governorate goes to public sector wages, which accounts for 75.3 per cent. The allocated number of local investments for which local governorates are responsible and that could be directed towards improving public services, such as education, health and utilities, which are crucial for achieving SDGs, received less than 13 per cent in the 2020/21 budget.<sup>35</sup>

**A significant portion of the budget per governorate goes to public sector wages, which accounts for**

# 75.3%





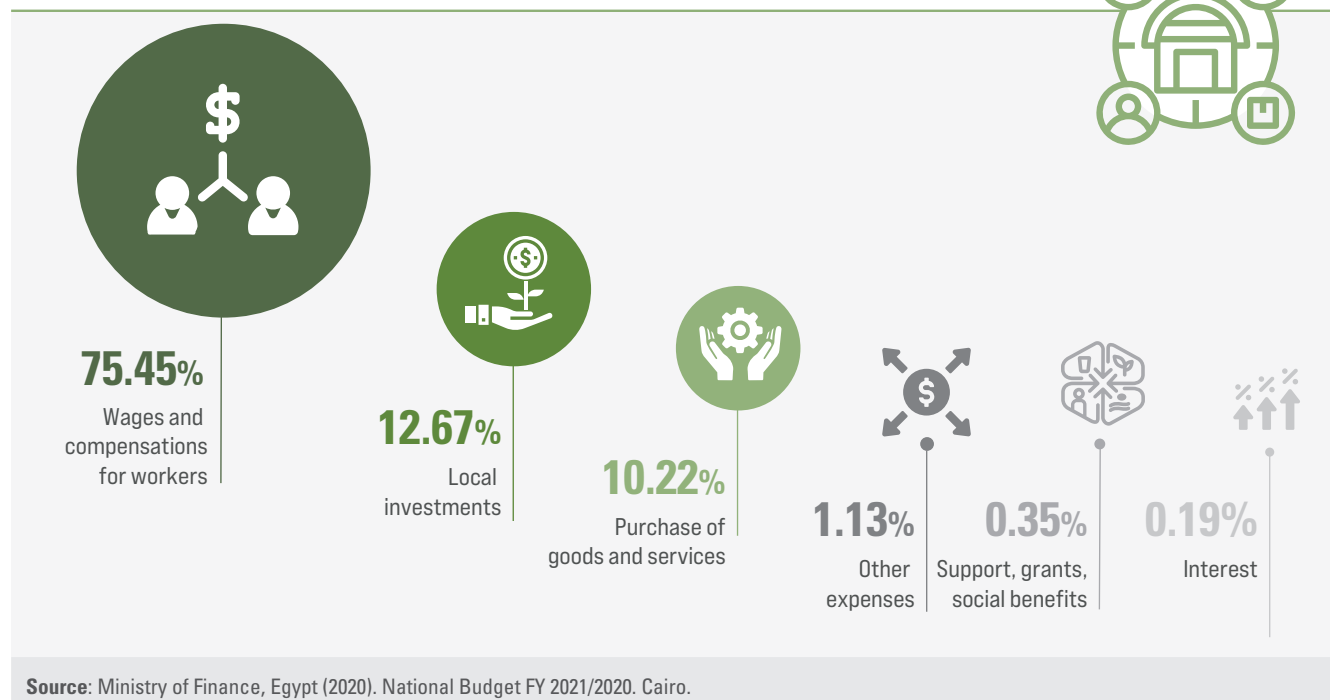
**Figure 148:** Government budget of Egypt (2020/21)

Nevertheless, it is essential to note that, while this public expenditure reflects a level of centralization and the efforts needed to achieve localization, it does not reflect all spending on SDGs at the local level. For instance, a sizeable share of chapter 6 on the administrative body of central government and public service bodies deals with capital projects that support local administration.<sup>36</sup> The allocation of the entire budget to the central government and ministries primarily serves the SDGs as well, albeit at the national rather than governorate level. The entitlements included in the Egyptian Constitution are to enhance the financing of health and education services at all stages and in scientific research, and they support the provision of the financial resources necessary for the process. Article 18 of the Constitution stipulates that the State shall commit to allocating a percentage of government spending to health that is not less than 3 per cent of GNP. Articles 19, 21 and 23 also stipulate the State's commitment to allocating no less than 4 per cent of GNP to education, no less than 2 per cent to higher education and no less

than 1 per cent to scientific research. Given the importance of education and health services, the constitutional entitlements pave the way for the Egyptian Government to expand by increasing allocations in these areas and raising the relevant indicators at the local level.

#### (ii) Government investment in Sustainable Development Goals at the local governorate level

When analysing public spending on the SDGs in Egypt, it is clear that Egypt addresses SDGs through central spending, as only a tiny portion goes to local investments in the distribution of the local administration budget. The degree to which central spending achieves local needs is therefore crucial to achieving the SDGs. There are two key steps to estimating public spending on the SDGs. The first is to identify sectors and forms of public expenditure that can be considered related to the SDGs. The second is to identify relevant sources of data.

**Figure 149:** Distribution of local administration (2020/21)

Looking at the general expenditure in the government budget in Egypt, government spending is divided across six chapters, defined by the Ministry of Finance: (1) wages and compensation of employees; (2) the purchase of goods and services; (3) interest; (4) subsidies, grants and social benefits; (5) other expenditure; and (6) the purchase of non-financial assets (investments). The two chapters that have the most impact on the SDGs are chapter 4 on subsidies, grants and social benefits and chapter 6 on the purchase of non-financial assets (investments). This analysis is therefore focused on chapter 6 in this section and on chapter 4 in the next section.

The total government investment in chapter 6 of the budget reached LE 273 billion in the 2020/21 budget.<sup>37</sup> Figure 150 shows that the two urban governorates that received the largest amount of financing from government investment are Cairo, which received 11 per cent, and Giza, which received 7 per cent of the total amount.

Following the budget system's hierarchical structure, any need or spending request identified at the lowest level must be passed

from the village to the district to the governorate before being included in a budget request. Ultimately, budget ceilings and requests from governorate directorates are determined by the Ministry of Finance and approved by the Cabinet and Parliament as part of the annual budget process.<sup>38</sup> According to Law No. 70/1973 on preparing the plan and following up on its implementation, the Ministry of Planning and Economic Development is the entity in charge of organizing and supporting the economic and social planning process. It is therefore responsible for distributing the budget under chapter 6 at both the governorate and ministerial levels.

According to the Ministry of Planning and Economic Development, chapter 6 investments primarily serve the SDGs under three categories: (1) main infrastructure, (2) human development and (3) regional planning. Accordingly, the Ministry could facilitate localization and provide support for development programmes and plans to achieve the SDGs at the local level identified in the intervention logic. This can occur through the effective and optimal allocation of investment resources in line with local needs and governorate

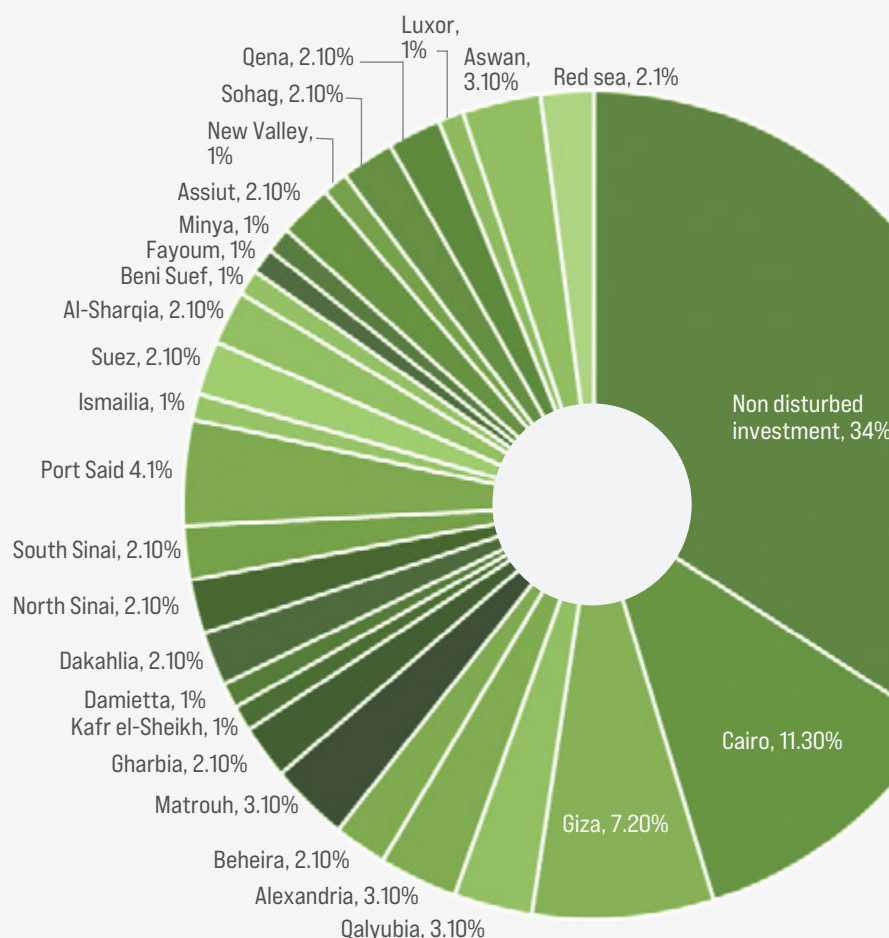
priorities. The requests for investments included in chapter 6 of the budget have long depended primarily on the claims of the governor or minister, negotiation skills and awareness of the governorate's needs and capabilities. This has achieved little in the way of alleviating poverty in impoverished areas and reducing development gaps between governorates.

Given the government commitment to localization, the Ministry has recently been moving to introduce the country's funding formula to ensure that budgetary allocations reflect the priorities of local communities. Within the standards setting committee for the distribution of local development investments, a financing equation was developed to distribute investment in 27 governorates. The

formula ensures that budgetary allocations reflect the priorities of local communities. This formula is a step towards fiscal decentralization, attending to the main feature of the concept: "finances follow functions".<sup>39</sup> The funding formula takes into account several variables determined by the standards setting committee to reflect the development status of the governorate:

- The average share of the governorate in the total treasury investments directed to local development programmes (percentage).<sup>40</sup>
- The share of the governorate's population out of the entire country's population.
- The governorate's poverty rate.
- The governorate's location (border or non-border governorate).

**Figure 150:** Local governorates' share of adjusted government investments (2020/21)



**Source:** Ministry of Planning and Economic Development, Egypt (2020).

Figure 151 shows a considerable change in the amount and distribution of chapter 6 funding for the 27 governorates following the introduction of the funding formula (reflected in the 2020/2021 budget).

### (iii) Subsidies, grants and social benefits

Chapter 4 of the government budget contained allocations for subsidies, grants and social benefits, which accounted for LE 326 billion in the budget for the 2020/21 fiscal year. While information on the distribution of this sum at the governorate level is unpublished, 18 per cent of the amount, or LE 57.9 billion, goes to the Takaful and Karama programmes, which is distributed at the governorate level and forms part of the resources allocated at the local level. The Takaful and Karama conditional and unconditional cash transfer programmes are among the country's most significant human capital development investments, targeting many SDGs, most notably SDG 1. The programme is built on the premise that investing in people through nutrition, health care, quality education, jobs and skills is key to ending extreme poverty and creating more inclusive societies. By analysing the programme's per capita spending at the governorate level,

figure 152 shows that the governorates of Upper Egypt, which suffer from some of the country's highest poverty rates, receive the largest per capita support from the programme.

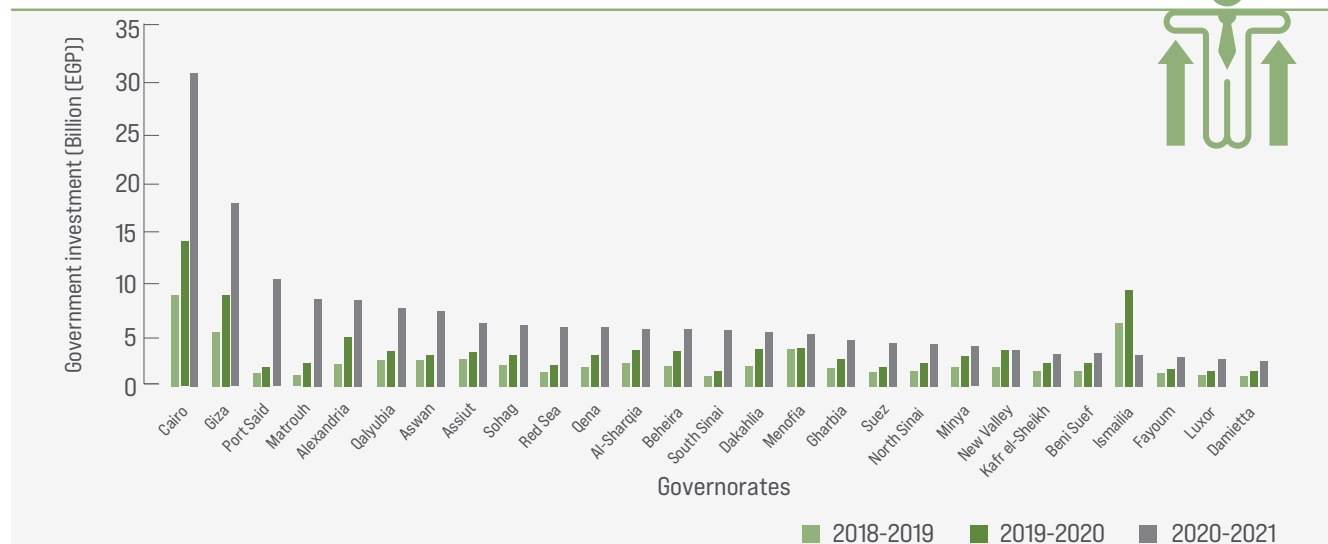
### (iv) Megaprojects to localize the Sustainable Development Goals

The term "megaproject" refers to a project with a greater magnitude of aspiration level, size, actor involvement, implementation time, complexity and impacts. Investment in infrastructure megaprojects creates and sustains employment, uses many domestic inputs relative to imports, improves

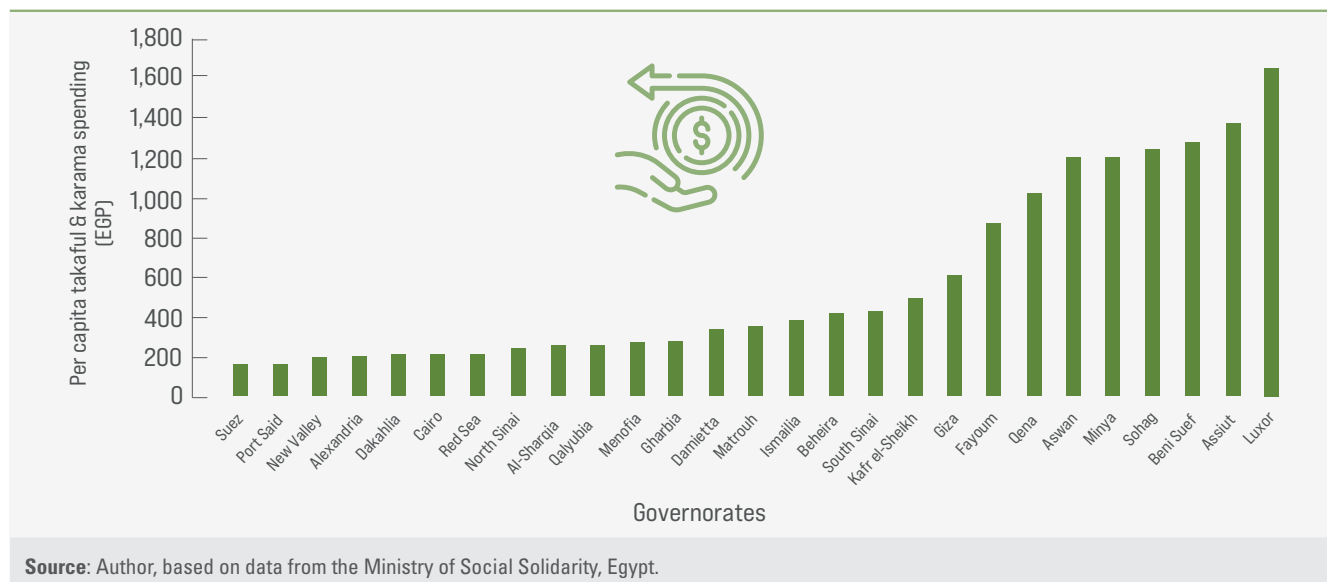


The Ministry has recently been moving to introduce the country's funding formula to ensure that budgetary allocations reflect the priorities of local communities

**Figure 151:** Government distribution of investment under chapter 6 of the budget before and after the funding formula, in billions of Egyptian pounds



Source: Ministry of Planning and Economic Development, Egypt (2020).

**Figure 152:** Per capita allocation of Takaful and Karama cash transfers at the local level

productivity and competitiveness, provides consumers with higher-quality services and improves the environment when using eco-friendly materials. Four “sublimes” induce investment in megaprojects. According to Flyvbjerg, the first sublime is technological, being the excitement engineers and technologists feel in pushing the envelope for what is possible in “longest-tallest-fastest” types of projects.<sup>41</sup> The second is the political sublime, the rapture politicians experience from building monuments to themselves and for their causes, as well as from the visibility this generates with the public and media. The third is the economic sublime, the delight businesspeople and trade unions feel in making lots of money and jobs from megaprojects, including money made for contractors, construction and transport workers, consultants, bankers, investors, landowners, lawyers and developers. The fourth is the aesthetic sublime, the pleasure designers and people who love good design experience from building and using something substantial that is also iconic and beautiful. According to Sankaran and others, megaprojects could be a sustainable development tool if the “sustainable sublime” is introduced.<sup>42</sup> The sustainable sublime would deliver megaprojects aligned with government SDGs targets. In the case where the sustainable sublime is linked to localization, the optimal effect

on accelerating the SDGs is achieved to help meet the targets and provide large-scale benefits.

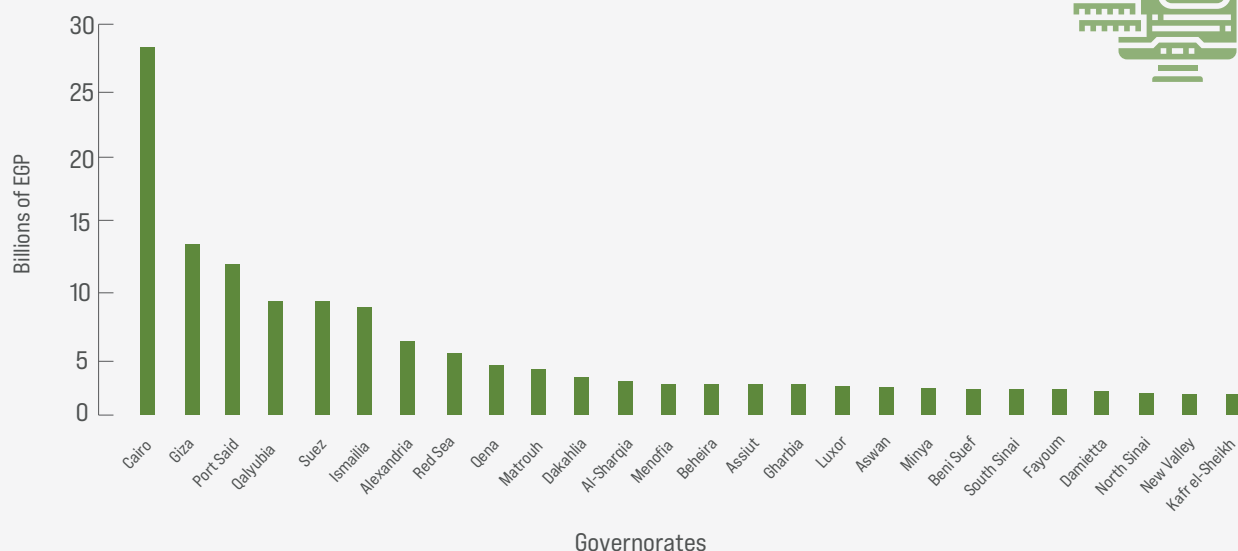
Since 2015, the Government of Egypt has embarked on several national megaprojects that aim to enhance the competitiveness of the economy, create employment opportunities and attract foreign and domestic private investments, while driving growth in critical sectors, including transport and infrastructure, building and construction, tourism, telecommunications, renewable energy and the development of the Suez Canal.

According to the national projects investment plan 2020/21, issued by the Ministry of Planning and Economic Development, Egypt currently has 25 megaprojects underway, with a total budget of LE 163 billion.<sup>43</sup>

The analysis of the megaprojects across governorates is focused on 21 of the 25 megaprojects that are linked to a precise geographical distribution. If no details are available on the share of government benefiting from investment, the investment is distributed equally across the governorates targeted.

Figure 153 shows that investment in megaprojects is unevenly distributed and that some



**Figure 153:** Investment in megaprojects by governorate, in billions of Egyptian pounds, 2020/21

Source: Ministry of Planning and Economic Development, Egypt (2020).

governorates receive higher-value projects than others, with the Greater Cairo area being the primary recipient and Cairo receiving the largest share, amounting to LE 28.4 billion.

From a localization perspective, the location-specific megaprojects capitalizing on the governorates' comparative advantage have the highest spillover effect. Megaprojects in Egypt can therefore be divided into two types. The overarching megaprojects spread over most governorates concern the establishment of the country's infrastructure, such as the national project for social housing and the national road network. The second type concerns location-specific projects, such as fourth-generation cities, local development in Upper Egypt (Sohag and Qena), the civilization museum and Damietta Furniture City, which addresses a somewhat more localized agenda for governorate development. Location-specific projects account for 30 per cent of the total budget of megaprojects and play a prominent role in developing the areas targeted. The megaprojects are focused on specific SDGs, as shown in figure 154. For that reason, introducing the sustainable sublime to the megaprojects would contribute to achieving the SDGs at the local level.

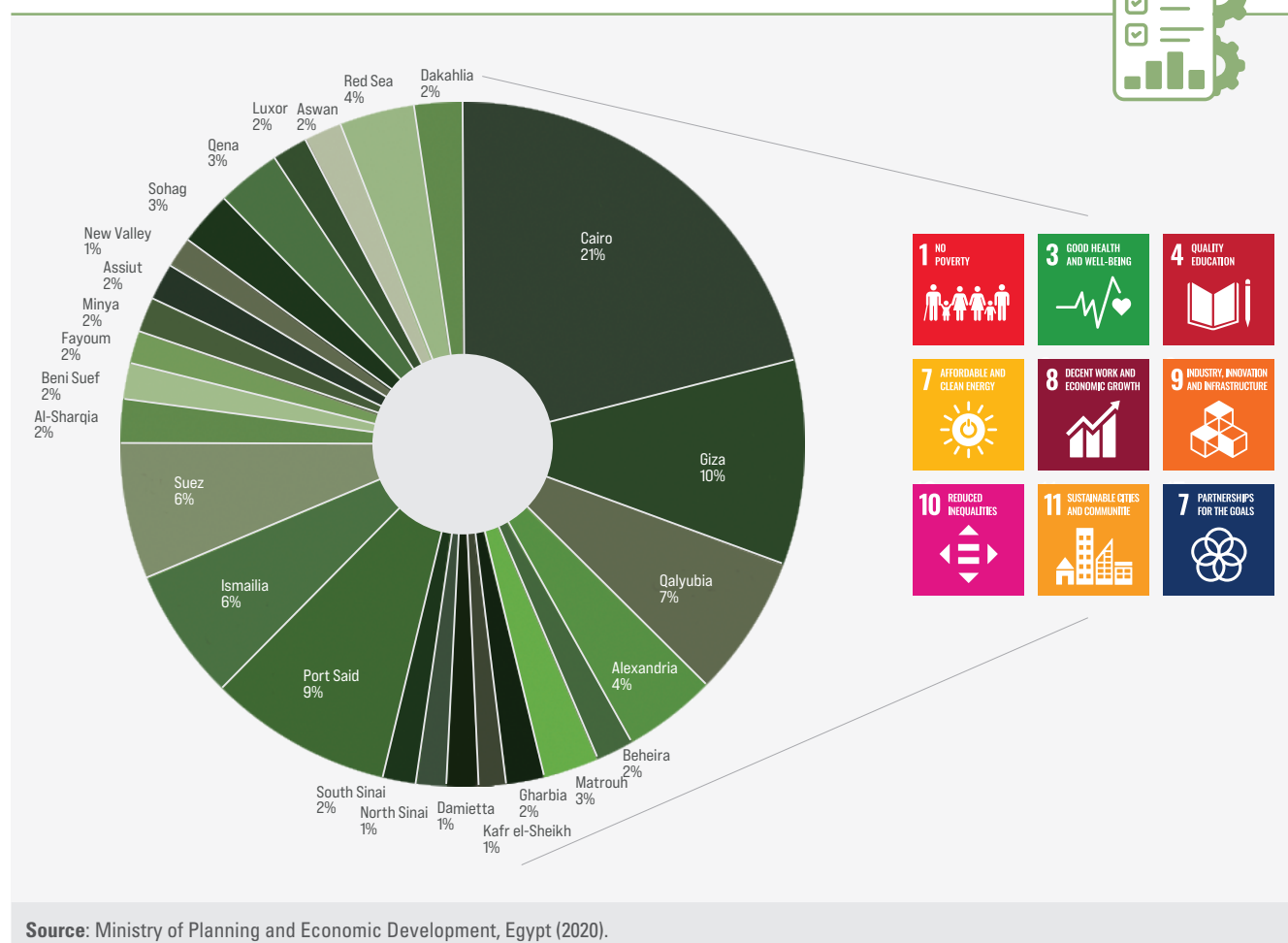
#### 4. Phase three of intervention logic: the effect on Sustainable Development Goals at the local governorate level

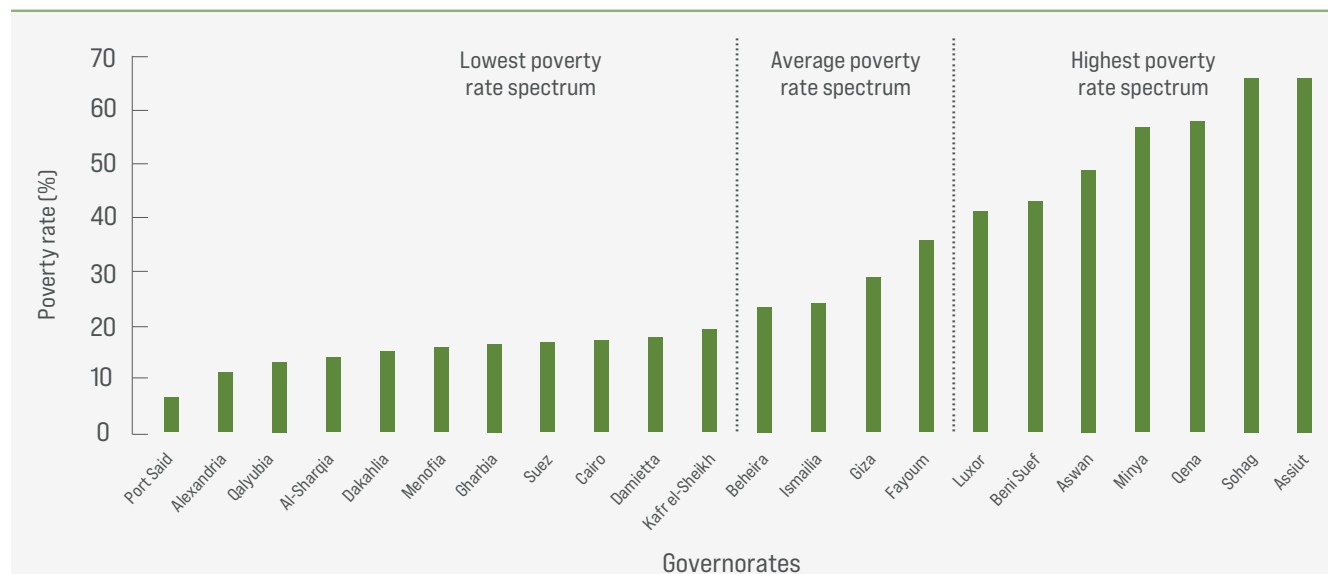
Following the intervention logic, this section examines the current situation of indicators to measure the effect of the previous phases on SDG output at the governorate level. This section is focused on SDG 1, as it is the main focus of current national plans and programmes. Considerable financial resources are currently directed to SDG 1, mainly through the presidential Haya Karima initiative and the Takaful and Karama programmes. It is directly included in the funding formula created to handle government investments in governorates. SDG 1 is measured using twelve indicators worldwide; Egypt reports on two of these indicators, only one of which has a target for 2030. In the 2021 VNR, SDG 1 progress is presented with reference to: (i) the proportion of the population living below the extreme poverty line, (ii) the proportion of the population living below the national poverty line, (iii) the proportion of the population

covered by social protection systems (Takaful and Karama), (iv) the proportion of the population living in households with access to basic services (electricity, clean water and sanitation), and (v) the proportion of total government spending on essential services (health, education and basic services). To analyse the effect of current actions and resources on local indicators, this chapter will focus on performance at the local governorate level of the indicator on the proportion of the population living below the national poverty line.<sup>44</sup> This is the indicator under which Egypt announced its target to reduce poverty by half between 2016 and 2030. The poverty rate can be considered a lagging indicator; it reflects the effectiveness of all leading policies that directly affect the progression of the poverty rate in each governorate.

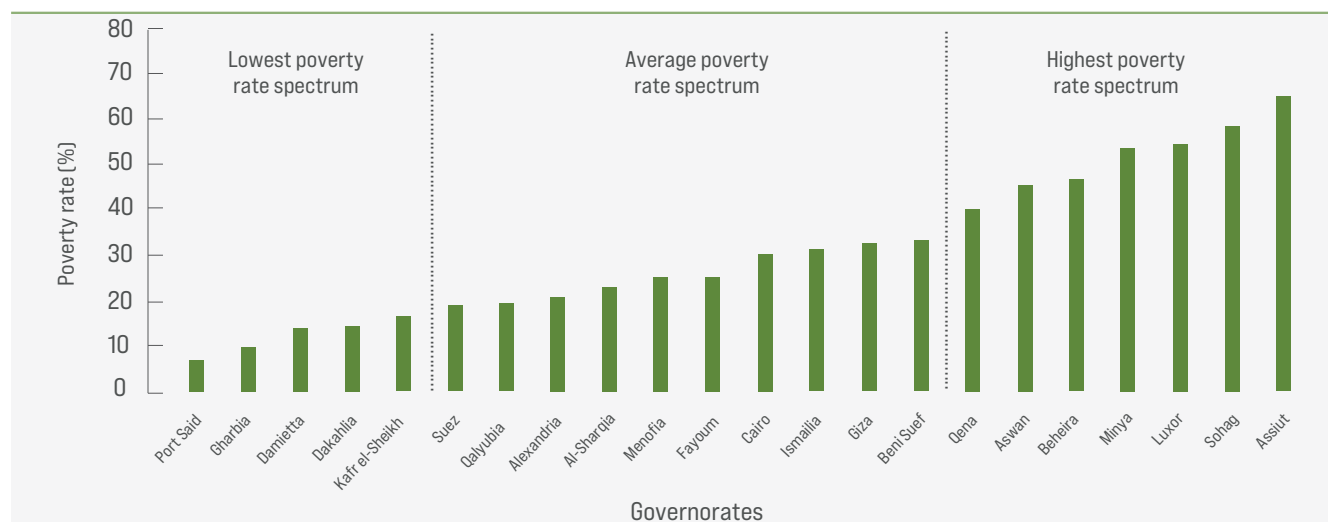
The poverty rates calculated from the Household, Income, Expenditure and Consumption Survey show an increase in the national poverty rate from 27.8 per cent in 2015 to 32.5 per cent in 2017. Figures 152 and 153 show the 2015 and 2017 poverty rates for 22 governorates. Port Said and Assiut witnessed the minimum and maximum poverty rates in both years, respectively. The range of the poverty rate was almost the same across governorates. The poverty rate variance in 2017 (285) was lower than in 2015 (353). Governorates appeared to be more dispersed on the lower poverty spectrum in 2015, while they were more disbursed across the average range in 2017. This indicates an increase in poverty; more governorates moved from the lower to the moderate spectrum. Moreover, the governorates of Upper Egypt remained in the highest poverty spectrum.

**Figure 154: Megaprojects and the Sustainable Development Goals at the governorate level**



**Figure 155:** Goal 1 at the local governorate level – proportion of the population living below the national poverty line (2015/16)

Source: Author, based on data from the Central Agency for Public Mobilization and Statistics, Egypt.

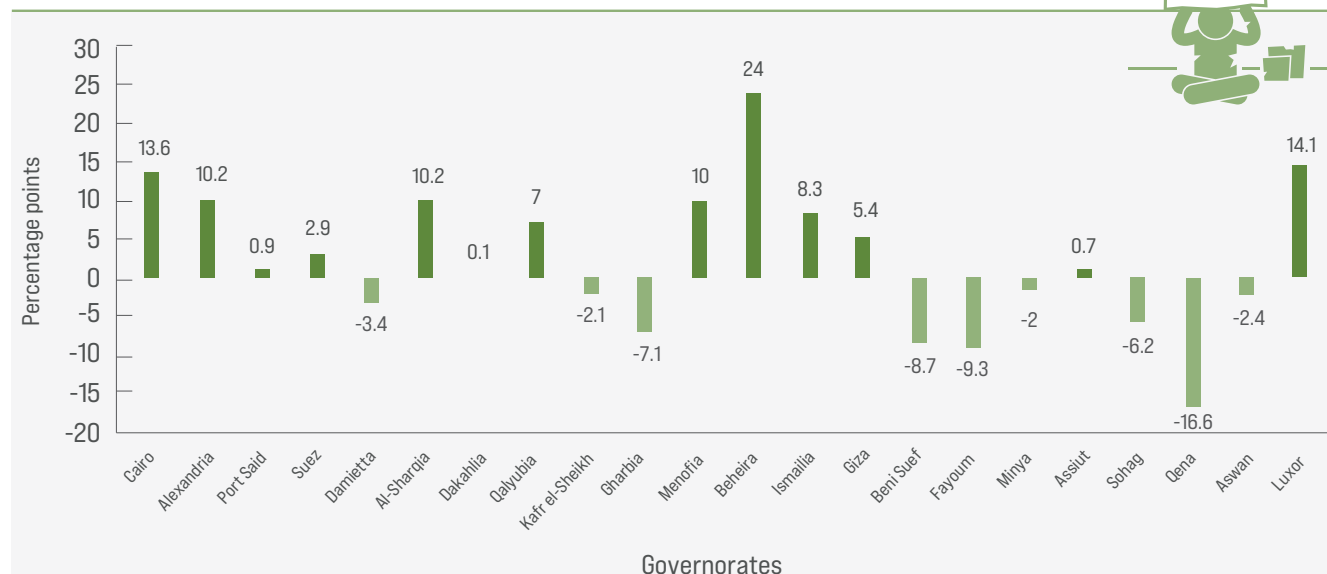
**Figure 156:** Goal 1 at the local governorate level – the proportion of the population living below the national poverty line (2017/18) (percentage)

Source: Author, based on data from the Central Agency for Public Mobilization and Statistics, Egypt.

Figure 157 presents the change in the poverty rate at the local governorate level from 2015 to 2017. Eight governorates improved: Damietta, Kafr el-Sheikh, Gharbia, Beni Suef, Fayoum, Sohag, Qena and Aswan. The most significant improvement appeared in Qena where the poverty rate decreased by 16.6 percentage points. In contrast, the rest of the governorates experienced an increase in the poverty rate. Beheira had the worst increase in poverty rate,

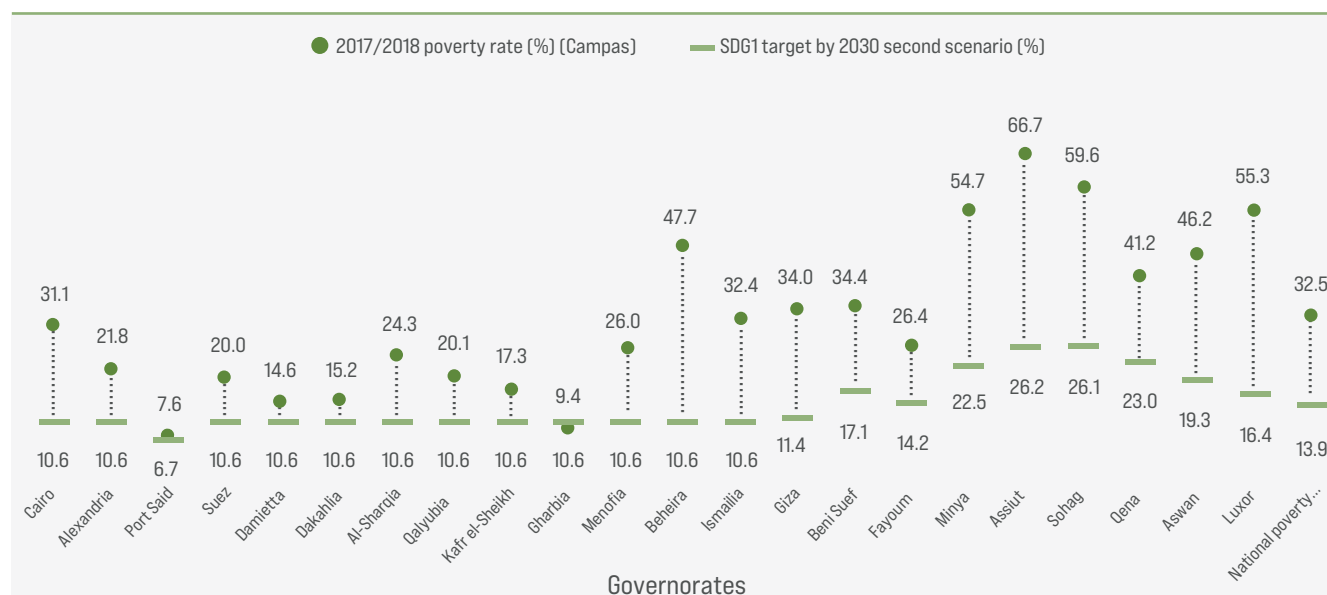
rising by 24 percentage points from 23.7 per cent in 2015 to 47.7 per cent in 2017. Peripheral governorates accounted for a striking 51.5 per cent of the 2017 national poverty rate.<sup>45</sup> The situational change for these governorates remains unclear, however, owing to incomplete data. Comparable data on the poverty rates of peripheral governorates in 2015 and their local SDG targets are missing from the Baseera report estimates as well.

**Figure 157: Change in poverty rate (Goal 1) at the local governorate level, in percentage points, (2015/17)**



Source: Author, based on data from the Central Agency for Public Mobilization and Statistics, Egypt.

**Figure 158: Goal 1 – the calculated gap between the actual 2017 poverty rate and the 2030 target, at the local governorate level**



Source: Author, based on data from the Central Agency for Public Mobilization and Statistics, Egypt.

Government intervention and investment through the funding formula is focused on the governorates with the highest poverty rates. Such an approach could be for two reasons: the target of leaving no one behind and the fact that governorates with high poverty rates generate a higher return on spending, which translates into

a lower national poverty rate, as shown in the case of the governorates of Upper Egypt in particular.

Some high-poverty governorates such as Assiut and Luxor have received high levels of government investment; however, they

also experienced an increase in poverty rates (figure 157). This indicates the importance of interventions targeting poverty, rather than simply financing interventions.

There are fewer than ten years until the end of the 2030 Agenda, and progress at the local level is still critical to achieving national commitments. There were severe gaps between

the Goal 1 governorate targets<sup>46</sup> and the actual 2017 poverty rates at the local level (figure 158). Most governorates, except Gharbia, appear to be far behind in achieving the 2030 target; nine governorates have witnessed an increasing trajectory in the poverty rate even though their poverty rate decreased in 2017. They are Damietta, Kafr el-Sheikh, Gharbia, Beni Suef, Fayoum, Minya, Sohag, Qena and Aswan.

## D. Conclusion and policy recommendations

While government commitment, actions and spending are increasingly directed towards the SDGs, there remains a pressing need to tackle the difference between performances of governorates at the local level. The analysis of localization in Egypt using the intervention logic sheds light on a significant gap between de jure localization and the reality on the ground. The empowerment of governorates requires several well-integrated policies and actions to accelerate local autonomy to achieve national SDG-related ambitions. Generally, localization is more successful when backed by a clear national localization strategy and the empowerment of local governments in terms of their actions, capacities and resources. Empowered communities can have an impact on their communities' priorities and needs through autonomous local planning, budgetary allocations, implementation and monitoring. The capacities and resources of local communities are the most critical dimensions for local development. In all regions around the world, especially in developing countries, the cumulative shortfall of local financing for services and infrastructure constitutes a crucial problem for localizing the SDGs. Empowered local units with ownership of local SDGs, adequate capacities and the allocation of financial resources enable them to accelerate SDG progress to achieve local SDG-related ambitions and further the international commitments of countries. The Egyptian governments have implemented several

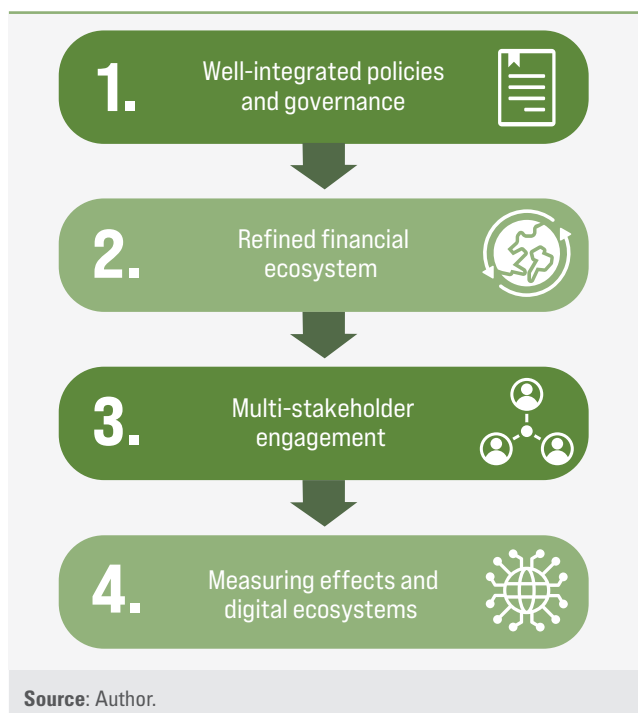
commendable initiatives in collaboration with other stakeholders to provide local areas with the necessary financing and capacities.

While these attempts appear to be scattered in the short term, the Government is moving towards consolidating efforts to direct progress. Nevertheless, integration with the local public administration units that should be held accountable for the entire process of local development is yet to be achieved. It remains challenging and costly for a centralized country such as Egypt to reform local public administration, which has been a reason for the incomplete decentralization attempts.

The Government is currently consolidating its efforts to customize its approach to suit its own unique context and challenges properly. In line with this, an integrated programmatic process (figure 159) that includes four accelerators for localizing the SDGs is recommended. The accelerators are well-integrated policies and governance between government tiers, a refined financial ecosystem, multi-stakeholder engagement and measuring effects and digital ecosystems. These four accelerators are particularly striking in the context of the global and national commitment to leave no one behind in order to ensure inclusive development. They are also applicable in various local communities with different socioeconomic contexts.



**Figure 159.** Accelerators for localizing the Sustainable Development Goals in Egypt



## 1. Well-integrated policies and governance

The 2030 Agenda has acknowledged that whole-of-government and whole-of-society approaches are essential for the achievement of the SDGs. Developing a thorough set of linkages between subnational, national, regional and global governance arrangements is essential to avoid overlap and ensure policy coherence for the effective achievement of the SDGs.

The Egyptian Government has implemented several commendable initiatives, in collaboration with other stakeholders, to provide local areas with the necessary financing and capacities. As previously mentioned, however, these attempts are fragmented and not well-integrated with local public administration units. A well-tailored arrangement for multilevel governance based on the principles of subsidiarity and respect for local autonomy can better facilitate successful localization. Such an approach is crucial to developing the notion of local ownership of the

SDGs. Although adequate resources and means of implementation remain a problem in efforts to accelerate localization.

## 2. Refined financial ecosystem

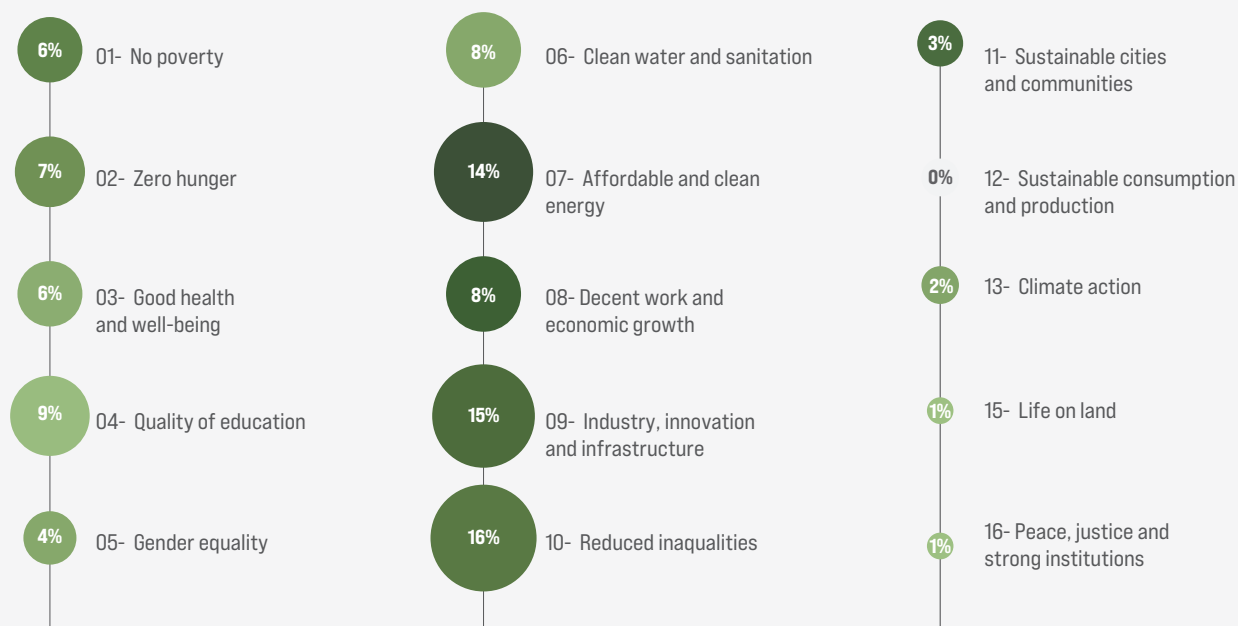
Implementation of the SDGs will cost between \$50 trillion and \$70 trillion over the next ten years (2020–2030).<sup>47</sup> The estimated financial gap is around \$2.5 trillion per year in developing countries.<sup>48</sup> Under the Addis Ababa Action Agenda, United Nations Member States have committed to the effective financial empowerment of local governments in order to achieve the SDGs; however, there is a serious mismatch between the local SDG targets (responsibilities) and the revenues allocated to local governorates, as shown in the previous analysis of Egypt. Localizing the SDGs requires effective planning by local governments to ensure that budgetary allocations reflect the priorities of local communities.

This must take place while identifying and capitalizing on the comparative advantage of each governorate. During the past two years, the Egyptian government has begun to align national financing and planning with local needs to achieve national goals 2030. It is in the process of preparing competitive indicators at the governorate level. India presents a pioneering model for an efficient financial environment that supports the localization of the Sustainable Development Goals.<sup>49</sup> India is a federal union comprised of 28 states and 8 union territories. Every state has crafted its own action plan for coherent achievement of the SDGs, including Haryana State.<sup>50</sup> Haryana is a pioneering example of budget allocation linked to its 16 local SDGs (box 7). The highest budget shares go to Goals 10, 9 and 7, respectively, based on local priorities and in accordance with its national strategy. Haryana's practice provides essential lessons for successful and inclusive SDG implementation strategies that are relevant to the Egyptian governorates at all decision-making levels within society.

### Box 7: Local budgeting for the Sustainable Development Goals in Haryana State, India

Haryana is a State located in northern India that had a population of over 28 million in 2021. The State provides lessons on how to make the SDGs successful, inclusive and local.

In 2017, the Government of Haryana published its Vision 2030, which was aligned with the SDGs. In 19/2018, the State government carried out a detailed assessment of its budgetary allocations towards these goals, as shown in the figure. The state distributed the planned budget to ensure achievement of the SDGs under the existing schemes and further determined the amount provided to certain projects that have been mapped out to achieve specific SDGs.



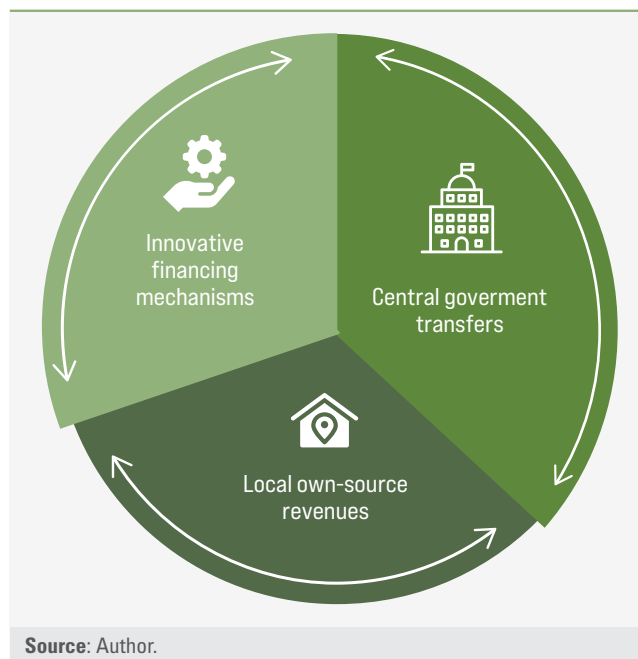
**Source:** Government of Haryana, India (2018). Sustainable Development Goals Budget Allocation 2018–19. Haryana Department of Economic and Statistical Analysis.

Mobilizing financial resources became more pressing with the outbreak of COVID-19. Local governorates became obliged to invest in measures to increase resilience to protect against future shocks. Tremendous efforts are needed to estimate the actual costs of the SDGs and the financial gaps at the governorate level. Furthermore, the Egyptian Government needs to ensure that local communities and governorates receive adequate funding from diversified financing sources to achieve local SDG targets by 2030.

In 2019/20, the Government announced and successfully implemented the new citizen investment plan and the funding formula to improve the structuring of intergovernmental transfers in order to reduce inequalities in the governorates, especially in regard to Goal 1.

The previous analysis showed the changes in the allocation of financial resources in the 2020/21 budget allocation. It is recognized that the scale of investments needed in infrastructure and service provision at the governorate level require the contributions of all stakeholders, in particular the private sector. The next step should be strengthening local own-source revenues and allowing more governorate access to innovative financing mechanisms (figure 160) to fill in the financing gap at the local level.

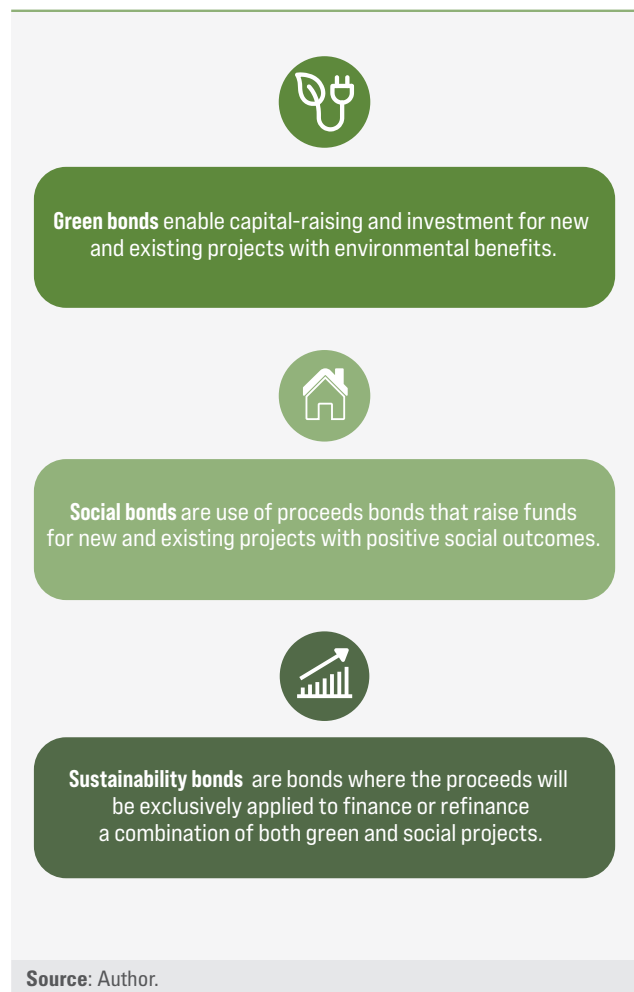
Additional efforts should be taken to capture the value added of local land, which improves the local-land-based financing mechanism and raises local revenue from user charges, such as developers, private individuals and the business sector.

**Figure 160.** Financial resources mobilized at the local level

Local revenues could be enhanced by identifying the local economic sectors that are generating revenue based on the local comparative advantage and develop a tailored local investment plan accordingly. Egypt has recently been working on localizing sustainable development through creating a competitive indicator for governorates to achieve inclusive growth and sustainable and balanced development, as one of the core pillars of the Egypt Vision 2030.

Reshaping the fiscal policy could create an additional source of local finance. The application of incentives and disincentives, such as carbon taxes and optimum pricing strategies, also ensures a fair share of taxation of natural resources.

Furthermore, innovative financing mechanisms are tools for mobilizing public, private and capital market funds to finance local SDGs. These tools include the energy performance contract, municipal development funds, improved access to borrowing, green and SDG bonds and/or sukuk, access to climate funds and blended finance mechanisms.

**Figure 161.** Green, social and sustainable bonds

The cities of Boston and Graz have used the self-financing model under the energy performance contract to improve local energy efficiency and resilience. In India, the Ministry of Housing, Utilities and Urban Communities has established a state-level finance development funding scheme to provide credit enhancement to some local governments to allow them to access bond markets. In Micronesia, an assessment has been conducted to help the country to access and secure climate change and disaster risk financing from external sources. Moreover, national and subnational development banks and development financial institutions could mobilize additional funding for local development. Examples of such funds are found in Bangladesh, Cameroon, Colombia, Morocco and the Philippines.<sup>51</sup>

Many countries have established national green, social and sustainability bond and/or sukuk guidelines and regulations (figure 161) that are mostly aligned with the International Capital Market Association Green Bond Principles.<sup>52</sup>

The city of Malmö issued green bonds in 2017 to finance projects targeting climate change mitigation and adaptation and local environmental protection. In 2020, West Berkshire Council launched the first local government green bond in the United Kingdom to fund local solar panel installations. In 2017, the renewable energy group Tadau Energy issued the first green sukuk to finance its 50MW solar photovoltaic power plant in Malaysia. Indonesia issued green sukuk worth \$1.25 billion in 2018 and \$750 million in 2019 to fund environment-related projects. In 2019 Majid Al Futtaim of the United Arab Emirates raised \$600 million with the region's first corporate green sukuk. It was followed by a 1 billion euros (\$1.12 billion) green sukuk by the Saudi-based Islamic Development Bank to finance renewable energy, green transport and pollution control.

On 11 October 2019, the first sustainability sukuk was issued by Edra Solar to refinance the construction costs of its 50MW solar power plant in Malaysia, which also included a social component, namely land set aside for agricultural use by local farmers. HSBC Amanah Malaysia Berhad issued the first SDG sukuk in September 2018 to finance specific SDGs, namely good health and well-being (SDG 3), quality education (SDG 4), clean water and sanitation (SDG 6), affordable and clean energy (SDG 7), industry, innovation and infrastructure (SDG 9), sustainable cities and communities (SDG 11) and climate action (SDG 13).

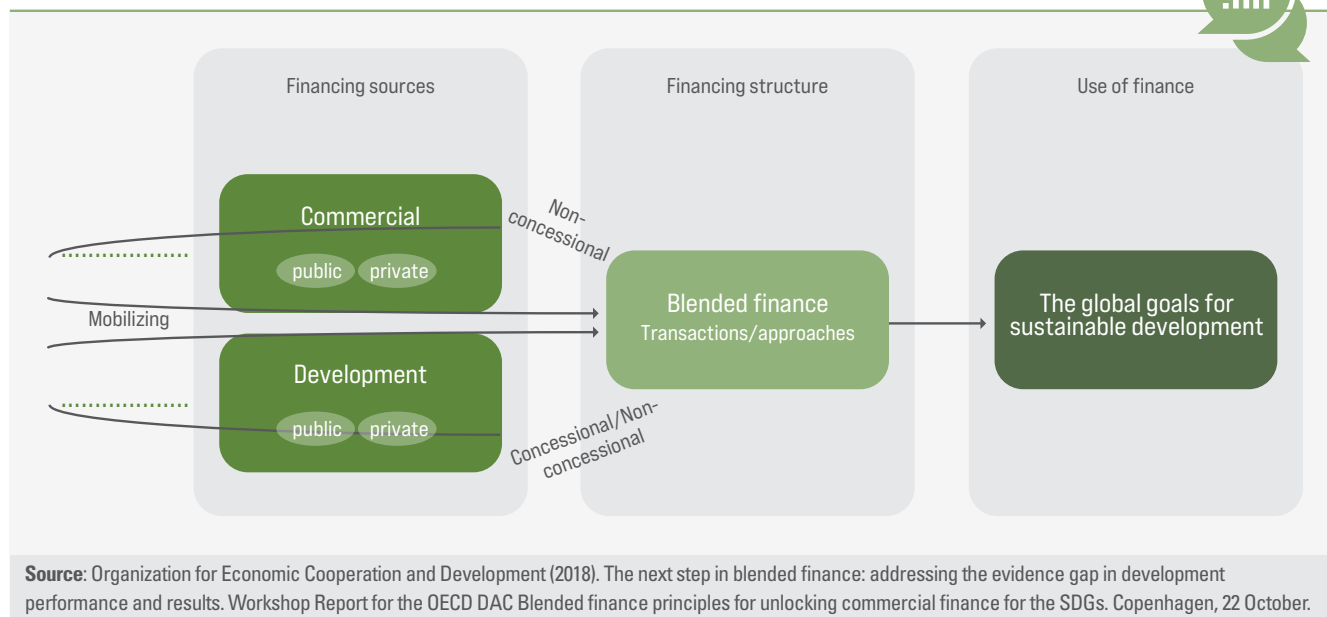
Blended finance is an innovative financing approach that aims to attract commercial capital towards projects that contribute to sustainable development while providing financial returns to investors.

As shown in figure 162, blended finance includes different tools to use public and philanthropic funds to leverage private sector investment. A local currency guarantee is an example of blended finance that is intended to make local currency financing more accessible for investors. Several programmes target local currency financing, including the “local currency lending in sub-Saharan Africa programme” (managed jointly by KfW Group and the African Development Bank) and the African Local Currency Bond Fund (managed by KfW Group).

Digital uprising is transforming blended finance solutions. Energy service companies use digital pay-as-you-go solutions as a new, rapidly growing method of blended finance. In some developing countries, energy service companies became the primary recipients of on-balance-sheet concessional lending, enabling follow-on investment by domestic financial institutions or international impact investors. Innovations in financial services and banking have made it possible to mobilize and channel informal savings into the formal financial system on a large scale. Digital technology can facilitate the reinvestment of savings into long-term local investments to improve local SDGs and well-being.



While government commitment, actions and spending are increasingly directed towards the SDGs, there remains a pressing need to tackle the difference between performances of governorates at the local level.

**Figure 162. Blended finance**

### 3. Multi-stakeholder engagement

According to the intervention logic approach, identifying local targets is a critical step towards localizing the SDGs. Nevertheless, ownership, local accountability and the efforts of local institutions are the primary enablers in being able to successfully play a role in accelerating the 2030 Agenda. Local targets are best owned by relevant stakeholders, who plan and execute a local action plan to achieve the set targets. Promoting local ownership of national strategies is vital. If local and regional governments have a sense of ownership of the SDGs and a role in determining their roles and responsibilities, their involvement in implementation will be greater. Owners will work for and celebrate success. Voluntary local reviews are drivers for transformation and robust processes towards localized sustainable development. Local reporting engages people more directly than national reporting can. It is therefore important to increase joint ownership of the universal development agendas at all levels and increase the availability of localized data for SDG monitoring.

### 4. Measuring effects and digital ecosystems

Measuring the impact of interventions on the SDGs targeted by governorates is crucial for successful localization. The governance model should shift from simple outlay reporting to detailed reporting on the public money spent on various development projects, the delivery of government services and the creation of infrastructure in each fiscal year. Moreover, it would identify the short-term and long-term impacts on the well-being of local citizens. Local governorates would thereby have a better understanding of all government welfare and development activities among all local stakeholders, have an integrated SDG achievement tracker at the local level and provide the central Government with local governorate progress on achievement of the SDGs.

Localization of the SDGs would therefore be enabled through the effective planning of local governments by ensuring that budgetary allocations reflect the priorities of local communities. This could be used further as a cost-benefit analysis tool to rebalance and sharpen the policy portfolio and fiscal assignments.



Table ٣٢. Examples of how government spending leads to output, outcomes and the achievement of the Sustainable Development Goals

| Public spending under various development and welfare schemes  |   |  |
|--|---|--|
| Output   | Outcome   | Relevant SDG                           |
| Workshops conducted for creating awareness on maternal health  | Change in maternal mortality ratio and infant mortality rate                                      | SDG 3: Health and well-being           |
| Skills training courses conducted  | Youth attended and received certification, which led to improved employment                       | SDG 8: Decent work and economic growth |
| Number of trees planted as part of the project to create a green belt in urban areas   | Increase the green cover for improvement in the environment and to check air pollution            | SDG 15: Life on land                   |
| 15 per cent additional subsidy for protected cultivation   | Make diversified farm activity profitable for farmers through sustained and advanced technologies | SDG 2: Zero hunger                     |
| <b>Source:</b> Government of Haryana, India (2020). Budget 2021–22: Output Outcome Framework Report. Haryana Finance Department. |   |  |

Haryana has given another excellent example of citizen-centric governance by introducing the output-outcome framework for its 2020/21 budget.<sup>53</sup> This framework has been adopted by the Government of India and other State governments to acquire greater transparency in financial outlays, targets and development outcomes under different development and welfare schemes. Outputs identify the products, capital goods and services resulting from local government work under various schemes. Outcomes are the progressive development changes that the outputs are likely to produce in the medium to long term. Table 32 explains how government spending leads to output, outcomes and the achievement of the SDGs.

The output-outcome framework has changed Haryana's focus from money to achieving local SDG outcomes. The output-outcome framework report of Haryana State for the 2020/21 fiscal year covered development and welfare schemes from 37 departments, 95 per cent of its total development expenditure. The report was

drafted through a series of interdepartmental sessions to build awareness of the framework and establish targets for departments that are realistic, measurable and synchronized with the planned budget. This report takes a clear step towards linking schemes to SDGs. Every operational development and welfare scheme<sup>54</sup> in the state has been linked to one (or more) SDG to map the contribution of scheme-level outcomes to the achievement of the SDGs. Ultimately, the Government of Haryana intends to use the output-outcome framework in the future for cost-benefit analysis as a dynamic tool for policy portfolio and budgetary allocations.

It is essential for localization to have consistent disaggregated data mapped to the 17 SDGs and their indicators at the governorate level. Efficient local monitoring systems require local and national statistics systems to provide adequate human, technical and financial resources. Efforts are also needed to bring about better collaboration between governorates and national statistics offices

and a search for alternative systems. Systems should be able to produce consistent data related to the SDG targets and indicators. Without these, national reporting processes will lack a clear local perspective. They will tend to

ignore the real needs and aspirations of local people, particularly the most vulnerable, and fail to achieve aims to leave no one behind. Digitization creates the potential for big data sets for indicators at the local level.

## 5. Policy recommendations

Based on the information presented in this chapter, the following policy recommendations can be made:

1

Ensure multi-stakeholder engagement for the ownership of local targets. Relevant stakeholders best own local targets. Promoting local ownership of national strategies is therefore vital. If local and regional governments have a sense of ownership of the SDGs and a role in determining their roles and responsibilities, their involvement in implementation will be greater. Owners will work for and calibrate success. The Egyptian Government embarked on producing governorate-level SDG localization reports and is on the track to produce human development reports at the subnational level. Local human development indicators will allow for monitoring progress and achievement towards the SDGs at the local level. This is a short-term goal.

2

Generate consistent, disaggregated data to map localization to the SDG indicators at the governorate level. Digitization creates a potential for big data sets of indicators at the local level. Efficient local monitoring systems require local and national statistics systems to provide adequate human, technical and financial resources. Simultaneously, efforts must include better collaboration between governorates and national statistics offices and a search for alternative systems that are able to produce consistent data related to the SDGs targets and indicators. Without these, national reporting processes will lack a clear

3

local perspective and will tend to ignore the real needs and aspirations of local people, particularly the most vulnerable. This is a short-term goal.

4

Adopt well-integrated policies and governance. A well-tailored multilevel governance arrangement based on the principles of subsidiarity and respect for local autonomy can better facilitate localization success. Such an approach is crucial to develop the notion of local ownership of the SDGs. This is a medium-term goal.

5

Establish a refined financial ecosystem for localizing the SDGs. Localizing the SDGs requires effective planning from local governments' by ensuring that budgetary allocations reflect local communities' priorities. There is a need to consider allocating the budget in a way that links to the local SDGs. Simultaneously, identify and capitalize on the comparative advantage of each governorate based on the local priorities that align with the national strategy.

5

Ensure that local communities and/or governorates receive adequate funding from diversified financing sources to fulfil the local SDGs targets. The next step should be strengthening the local own-source revenues and allowing more governorate access to innovative financing mechanisms. Reshaping the fiscal policy could create an additional source of local finance. This is a medium-term goal.

6

Measure the impact of interventions on the governorates' SDGs. Citizen-centric governance should be applied by introducing the output-outcome framework for the budget. Such a governance model shifts from simple outlay reporting to a detailed reporting on public money spent on various development projects, delivery of government services, and infrastructure

in each fiscal year. Having an integrated SDG achievement tracker that identifies the short-term and long-term impacts on local citizens' well-being would provide the central Government with information on the progress made by local governorates on the SDGs. This is a short-term goal.



Decentralization in the Middle East is seen as a profoundly political process involving many actors at the political, institutional, technical and cultural levels, as well as the consideration of culture and gender-related norms.



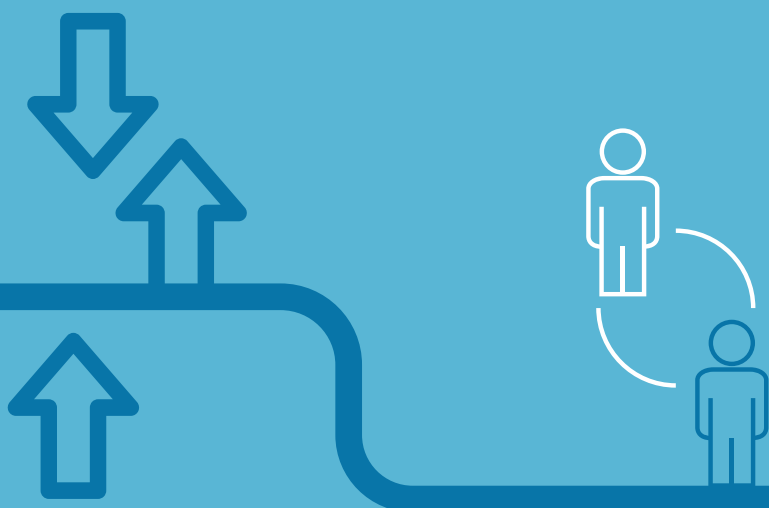
## Endnotes

1. There are 247 indicators listed in the global indicator framework for the Sustainable Development Goals; however, 12 indicators are repeated under two or three different targets.
2. United Nations, General Assembly, 2015, para. 45.
3. Oosterhof, 2018.
4. Adopted by the United Nations during the United Nations Conference on Environment and Development held in Rio de Janeiro in 1992.
5. El Massah, 2016.
6. Wunsch, 1991.
7. Oosterhof, 2018.
8. Baseera, 2018.
9. United Nations, Economic and Social Council, 2021.
10. Greene and others, 1989.
11. Interview questions are presented in annex 8.
12. A list of interviewees is included in the table in annex 8.
13. Information about the stakeholders is presented in annex 8.
14. The interviews were conducted in unique circumstances owing to the spread of COVID-19; all necessary health and safety measures were taken. The researchers ensured that all ethical clearance guidelines were considered in the interview process.
15. Litvack and Seddon, 1999.
16. Bahl and Wallace, 2005.
17. Tosun and Yilmaz, 2008.
18. For example, countries in Eastern Europe and the Middle East.
19. OECD, 2020c.
20. Kleibrink and others, 2016; Gianelle and Kleibrink, 2015.
21. Association of Flemish Cities and Municipalities (VMSG), 2019.
22. Amin, 2020.
23. Ivanyna and Shah, 2014.
24. Treisman, 2002.
25. Ministry of Finance, Egypt, 2020d.
26. Alam and Alam, 2022.
27. The count does not include Djibouti and Comoros.
28. For example, the Strategy for Science and Technology for Sustainable Development 2030, under the Ministry of Higher Education and Scientific Research; the Industry and Trade Development Strategy 2020, under the Ministry of Trade and Industry; Egypt's Education Transformation Programme 2030, under the Ministry of Education and Technical Education; the Integrated Energy Strategy 2035, under the Ministry of Electricity and Renewable Energy; and the Agricultural Sustainable Development Strategy, under the Ministry of Agriculture and Land Reclamation.
29. Baseera, 2018.
30. The plan can be viewed here: <https://mped.gov.eg/CitizenPlan> (in Arabic).
31. Klun, 2006.
32. Ministry of Finance, Egypt, 2020d.
33. OECD, 2018a.
34. Republic of Slovenia Statistical Office, 2018. <https://www.stat.si/StatWeb/en/news/Index/8563>.
35. Ministry of Finance, Egypt, 2020d.
36. As highlighted in chapter 4 on budget design and priorities.
37. Based on data provided by the Ministry of Planning and Economic Development, Egypt, 2020.
38. Amin, 2020. These requests are considered together with budget requests from central ministries and other central administrative units.
39. Boex, 2011.
40. Of the previous three years, at the time of estimating the formula.
41. Flyvbjerg, 2014.
42. Sankaran and others, 2020.
43. According to a document on national megaprojects in 2020/21 by the Ministry of Planning and Economic Development, Egypt.
44. According to CAPMAS, extreme poverty in Egypt is calculated as earning less than LE 8,282 (\$501.03) annually and less than \$1.30 per day. Under the indicator on the proportion of the population below the international poverty line, it is defined as the percentage of the population living on less than \$1.90 per day.
45. Matrouh, South Sinai, North Sinai, New Valley and Red Sea.
46. Baseera's second scenario was used.
47. Riaño and Barchiche, 2020.
48. Runde and others, 2020.
49. International Institute for Sustainable Development, 2020.
50. Haryana is a State in northern India that had a population of over 28 million in 2021.
51. United Cities and Local Governments, 2019.
52. These include the Ministry of Environment in Japan and green bond listing requirements from the Taipei and Johannesburg stock exchanges.
53. Government of Haryana, India, 2020.
54. Central-sponsored scheme, State-sponsored scheme or central-share scheme.

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# International development cooperation

*by Rawda Said Ali*



# 12





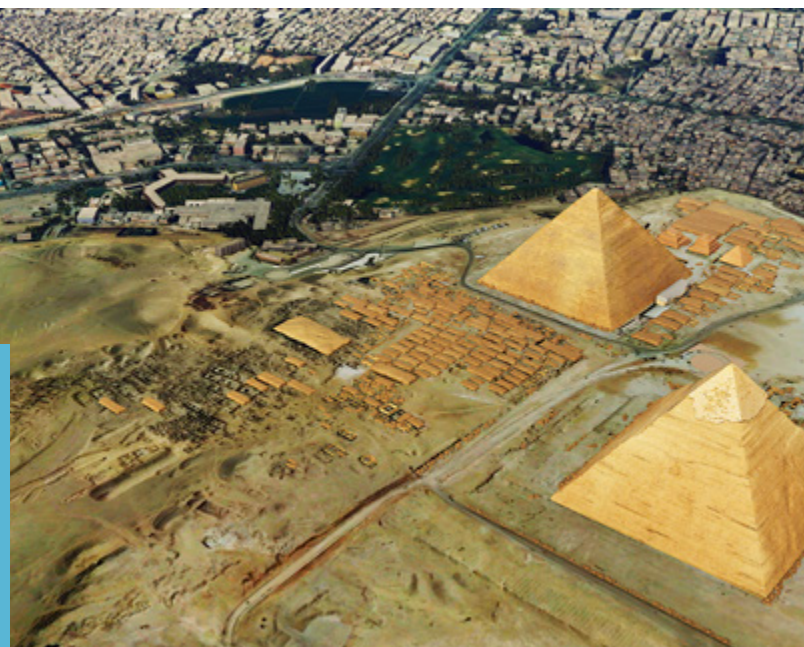






Traditionally, the development cooperation landscape has been dominated by OECD countries, through the Development Assistance Committee.

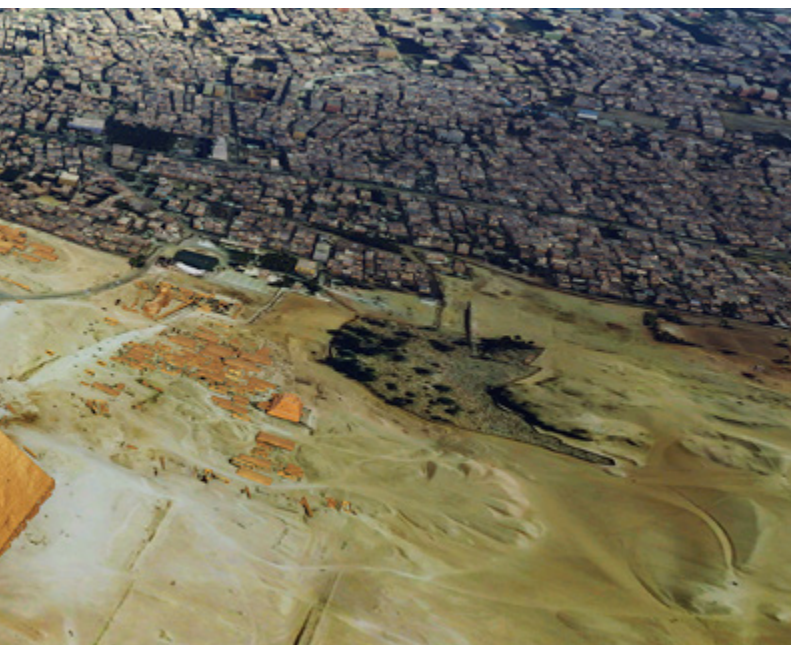
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## Background

The SDGs provide a compelling vision of what is to be achieved, and the FFD process offers an understanding of what this vision requires in order to be realized. Complementing this by addressing how we partner and work together will not only ensure that it is possible to address the magnitude and complexity of development challenges more effectively, but also guarantee that it is done in a faster manner.

In light of the prevalence of COVID-19, OECD estimated that the SDG financing gap in developing countries had widened by 70 per cent, from a gap of \$2.5 trillion pre-COVID-19 to a 4.2 trillion financing gap post-COVID-19 in developing countries.<sup>1</sup> International development cooperation is therefore considered critical in this last decade to take action on the 2030 Agenda, as its tools can contribute to absorbing and recovering from macroeconomic shocks or similar crises that are likely to result in a decrease in external private investment and remittances.



Traditionally, the development cooperation landscape has been dominated by OECD countries, through the Development Assistance Committee. By transforming the development paradigm towards higher productivity, sustainability and private sector-led growth, new development actors have emerged. The current architecture of development cooperation includes

five main actors providing development finance in the form of financial assistance and knowledge: Development Assistance Committee countries, non-Development Assistance Committee countries working through development cooperation, multilateral development partners, the private sector and NGOs.<sup>2</sup>

Boosting partnerships with international development partners offers an opportunity and a platform to encourage the development of joint solutions to shared challenges. Doing this in line with the internationally agreed Effectiveness Principles of the Global Partnership for Effective Development Cooperation—ownership by partner countries, a focus on results, inclusive partnerships and transparency and mutual accountability—will ensure that cooperation will contribute to the central pledge of the 2030 Agenda of leaving no one behind.

In this context, this chapter discusses the role of international development cooperation in Egypt and its different tools in financing and contributing to the SDGs.

## A. Official development assistance

Traditionally, ODA has been almost synonymous with development cooperation. This is because the OECD Development Assistance Committee defines the concept of ODA and the criteria for its expenditure, and because it provides the largest proportion of resources for development assistance. While representing an important source of FFD in developing countries, especially for the least developed countries, the share of ODA has been dwarfed over time compared to other external sources. One reason is attributed to the failure to achieve the United Nations target of devoting 0.7 per cent of GNI of Development Assistance Committee countries to ODA, as set out in the Addis Ababa Action Agenda. In 2018,

total ODA from Development Assistance Committee countries amounted to \$153 billion, which is equivalent to only 0.31 per cent of their combined GNI.<sup>3</sup> For the same year, total ODA to developing countries fell by 4.3 per cent and the amount to the least developed countries fell by 2.2 per cent.

This declining trend in global ODA and the failure by many development partners to meet the target of a commitment of 0.7 per cent of GNI as ODA suggests that, in the current 2030 Agenda framework, ODA volumes are not sufficient to meet the development finance requirements needed to achieve the SDGs or close the financing gap. Nevertheless, strategic deployment of ODA

### Box 8: OECD Development Assistance Committee definition of official development assistance

Official development assistance is defined as those flows to countries and territories on the Committee's list of ODA recipients and to multilateral institutions which are:

- 1 Provided by official agencies, including state and local governments, or by their executive agencies; and
- 2 Concessional in character (i.e. grants and soft loans) and administered with the promotion of the economic development and welfare of developing countries as the main objective.

**Source:** Organization for Economic Cooperation and Development (2021). What is ODA? Available from: <https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/What-is-ODA.pdf>

can leverage additional private-sector inflows and provide policy advice, as well as the support required to achieve the SDGs.

## 1. Landscape of official development assistance in Egypt

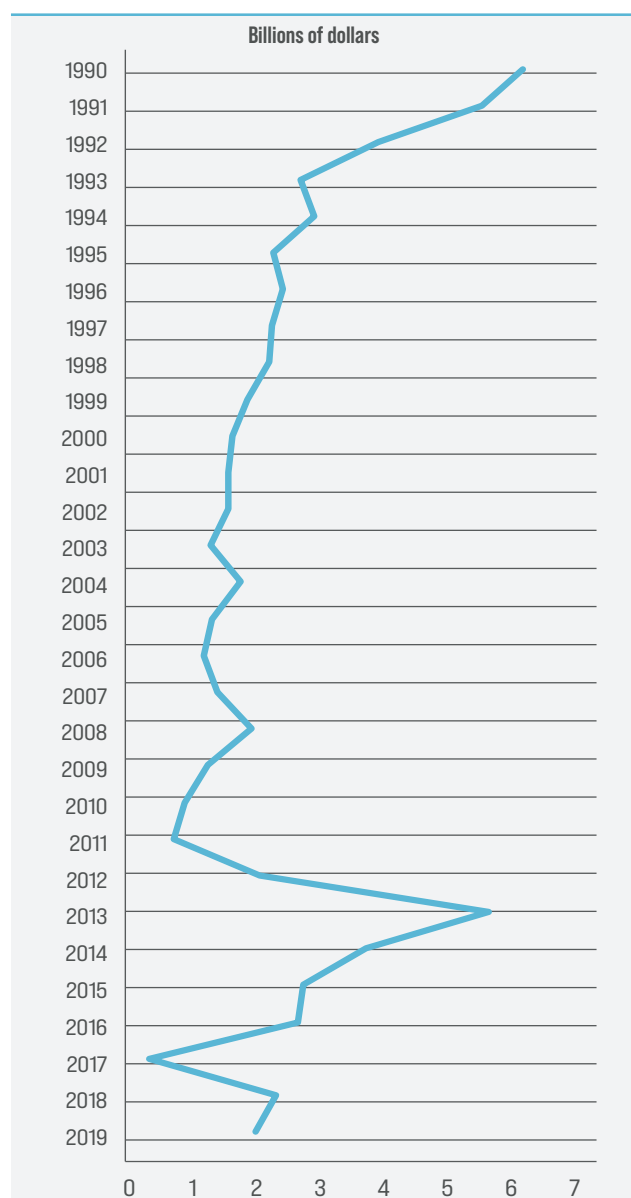
### (a) Official development assistance volumes

In Egypt, there has been a decrease in volumes of ODA since the 1990s, including during the early years of the twenty-first century. This was partly a consequence of the decision of the United States to reduce its foreign assistance to Egypt by 5 per cent annually from 1999 to 2009. In addition, the change in the classification of Egypt from a low-income country to a lower-middle-income country has also contributed to decreasing volumes of ODA. A severe decline followed between 2008 and 2010 and was mostly attributed to the cutbacks in global ODA in general and in the ODA directed to the MENA Region in particular in the aftermath of the financial and Eurozone crises.

Figure 163 shows the net ODA levels in Egypt.<sup>4</sup> The numbers show a notable surge between 2011 and 2014, especially in 2013. This increase can be ascribed to the political instability and the economic downturn that followed the 2011 revolution. It has led to a shift towards non-

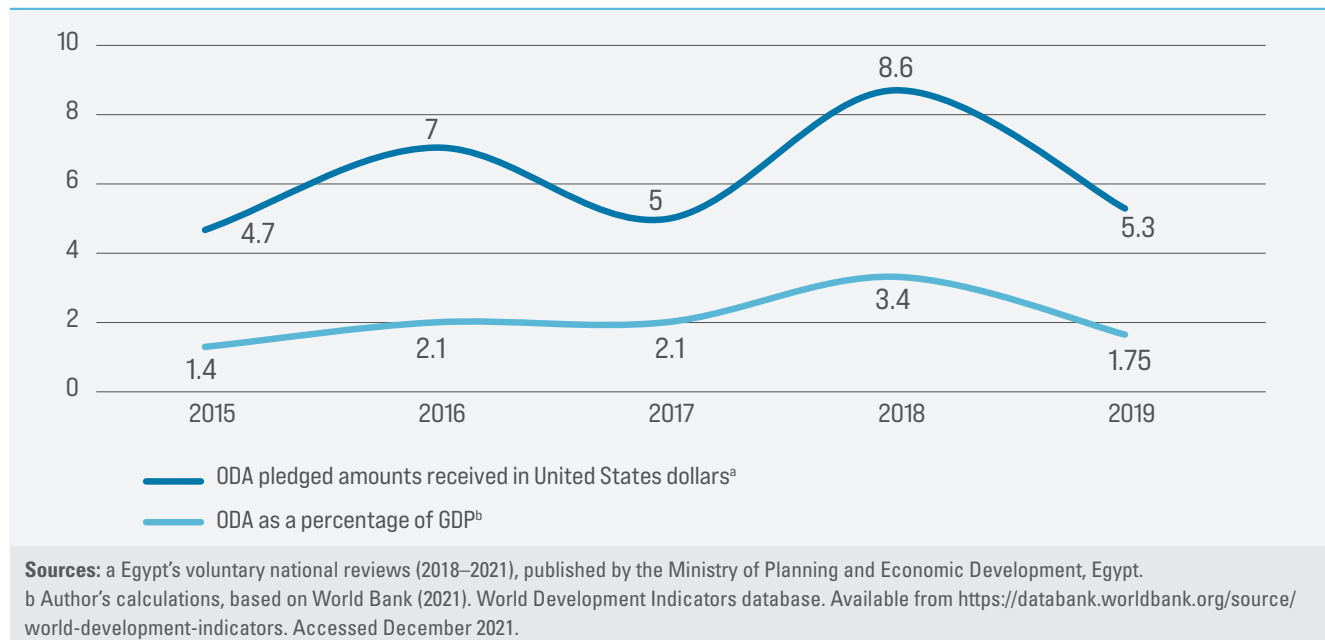
traditional bilateral development partners in the Gulf to bridge the financing gaps. This in turn has increased levels of ODA dependency,<sup>5</sup> as reflected in table 33, where the share of net ODA received from central government expenses jumped from 0.9 per cent in 2010 to 5.9 per cent in 2013 and 3.5 per cent in 2014. This indicates that ODA serves as an important source of development finance at times of vulnerability to socioeconomic setbacks.

**Figure 163.** Net official development assistance received from 1990 to 2019 in current United States dollars



**Source:** World Bank (2021). World Development Indicators database. Available from <https://databank.worldbank.org/source/world-development-indicators>. Accessed December 2021.



**Figure 164.** Official development assistance, total received in United States dollars and as a percentage of gross domestic product**Table 33.** Net official development assistance received, as a percentage of central government expenses

| Year   | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|------|------|------|------|------|------|
| ODA as a percentage of central government expenses | 0.9  | 0.6  | 2.3  | 5.9  | 3.5  | 2.5  |

**Source:** World Bank (2021). World Development Indicators database. Available from <https://databank.worldbank.org/source/world-development-indicators>. Accessed December 2021.

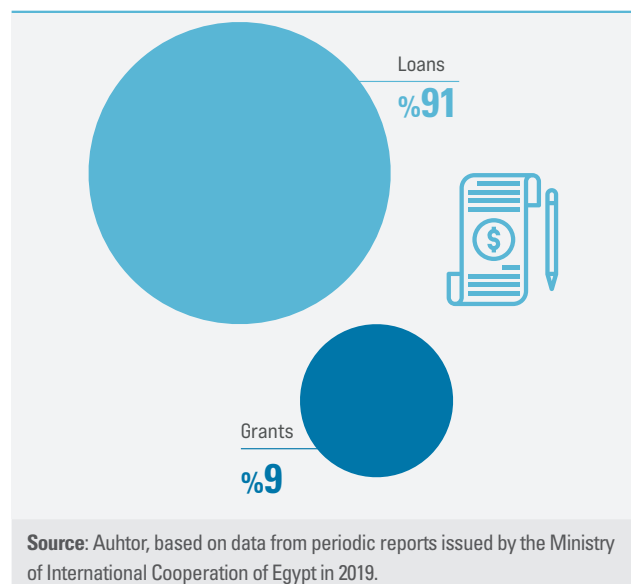
A closer look at the pledged amounts of ODA during the period 2015–2019, as illustrated in figure 164, shows that ODA has been maintained at a steady level of around \$6 billion.

In 2020, pledged ODA totalled \$9.8 billion, with \$6.7 billion directed to sovereign sectors and \$3.2 billion directed at financing to the private sector.<sup>6</sup>

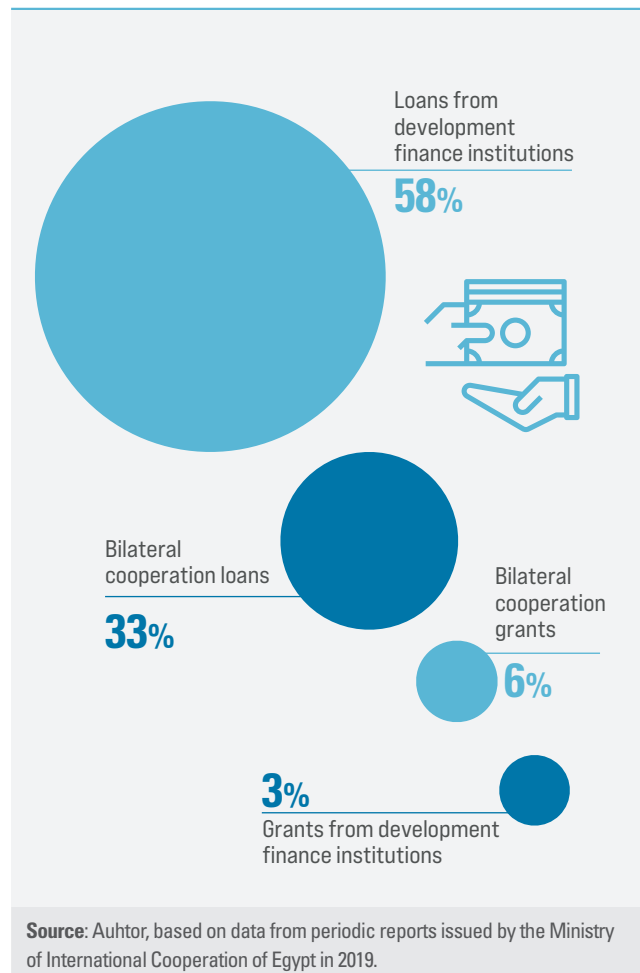
### (b) Official development assistance categories, sources and cooperation trends

Disaggregating the ODA portfolio by category over the period from September 2015 to June 2019 shows that Egypt mainly secured ODA funds in two broad categories: concessional loans and grants. As illustrated in figure 165, trends show a very high share of concessional

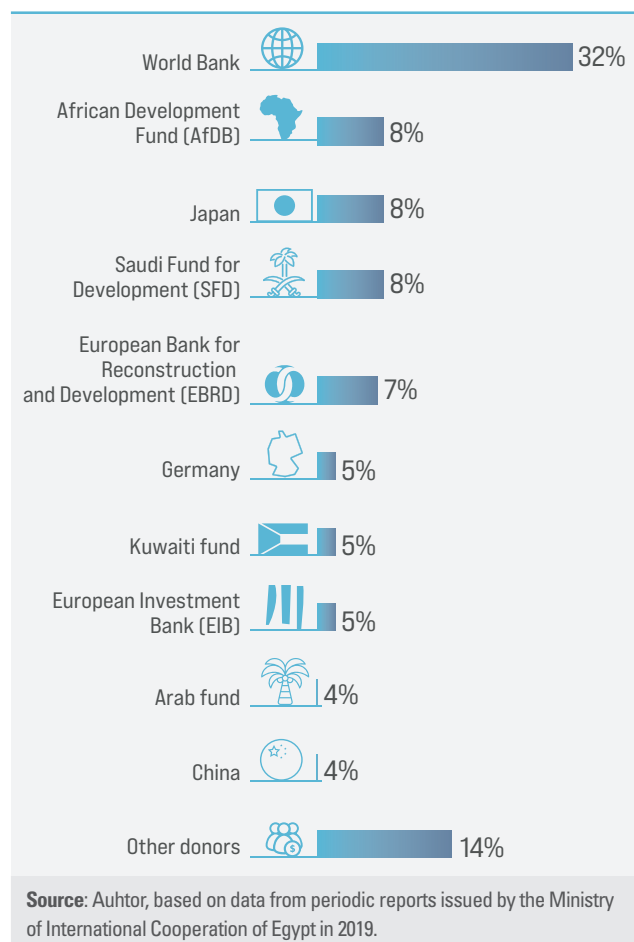
loans compared to grants in the ODA received, which accounted for only 9 per cent of the \$21 billion of the total in signed ODA agreements during the same period. A deeper dive into the disaggregation shows that more than half of these loans came from multilateral agreements signed with development finance institutions, whereas 33 per cent were received from bilateral agreements, as reflected in figure 166.

**Figure 165.** Share of grants and loans (September 2015 to June 2019)



**Figure 166.** Disaggregation by financing source

The development partners of Egypt can be split into two broad categories: multilateral and bilateral development partners. The main multilateral partners include the World Bank, the African Development Bank, the European Union, the European Investment Bank, the European Bank for Reconstruction and Development, the Islamic Development Bank, the Fund for International Development of the Organization of the Petroleum Exporting Countries and the Arab Fund for Economic and Social Development. The bilateral group includes traditional Development Assistance Committee partners, such as Canada, China, Finland, France, Germany, Italy, Japan, the Republic of Korea, Spain, Switzerland and the United States. It also includes the Saudi Fund for Development, the Kuwait Fund for Arab Economic Development and the Khalifa Fund for Enterprise Development.

**Figure 167.** Distribution of official development assistance by top donors (September 2015 to June 2019)

From September 2015 to June 2019, the World Bank topped the list of development partners (both bilateral and multilateral) by the total value of signed ODA agreements, with 32 per cent. It was followed by the African Development Bank, Japan and the Saudi Fund for Development, each with an average share of 8 per cent for the same period, as shown in figure 167.

Delving more into cooperation trends, table 34 lists the main focus sectors and areas with some of the key development partners in Egypt. The electricity and energy sector, for example, appears as a focal area for 10 of the 14 listed partners, and housing and utilities is explicitly mentioned for 7 development partners. The clusters of these focal areas reveal a collective sense of the bilateral and multilateral priorities for Egypt, as will be further clarified in the next section on the disbursement of ODA across different sectors.

**Table 34.** Cooperation trends with development partners

| Development partner  | Focus area for assistance<br>by the top sectors receiving loans and grants  |
|--|---|
| World Bank Group   | Electricity and energy, housing and utilities, social protection, transport, health, education, small and medium-sized enterprises (SMEs) |
| African Development Bank and its agency (African Development Fund)                               | Electricity and energy, housing and utilities, health   |
| European Investment Bank   | Electricity and energy, transport   |
| United States of America - United States Agency for International Development                    | Trade and industry, education, utilities, health  |
| Islamic Development Bank   | Energy, agriculture   |
| European Bank for Reconstruction and Development   | Transport, electricity and energy, housing and utilities  |
| The Fund for International Development of the Organization of the Petroleum Exporting Countries  | Electricity and energy, SMEs, agriculture, irrigation   |
| France – The Government of France and the French Development Agency                              | Transport, electricity and energy, health, housing and utilities  |
| China  | Trade and industry, education, transport  |
| Spain – The Government of Spain and the Spanish Agency for International Development Cooperation | Electricity and energy, antiquities, SMEs, housing and utilities  |
| Germany  | Electricity, utilities, micro enterprises and SMEs, education, environment  |
| European Union   | Energy, education, environment  |
| Italy  | SMEs, environment, trade and industry, education  |

**Source:** Author, based on a review of the websites of the Ministry of International Cooperation of Egypt and its partners, as well as areas of joint cooperation and the portfolio on ongoing projects financed with official development assistance (in number and dollar amount under the different sectors).

Whether cooperation is provided as grants or concessional loans generally depends on the nature of the project being supported and the national development needs identified. Currently, the documents for the medium-term sustainable development plan and the government action programme, for the periods 2018/19 and 2021/22, specify those needs. A specific challenge here is that the two documents list the needs, without much articulation of priority sectors or areas that may need external funds to be mobilized and would benefit more from international cooperation and ODA financing. The absence of a prior clear-cut vision of needful sectors and projects targeted for mobilizing external public resources may hinder efforts to address the financing gap in the most effective manner to allow the delivery of development priorities.

In order to institutionalize the borrowing process, the Prime Minister issued a Decree No. 2003 of 2018, stipulating the formation of a committee for managing the public debt and organizing external borrowing. This committee sets an annual ceiling for external borrowing, receives the financing needs of ministries and national entities, which should be consistent with national objectives, and identifies the financing gap and sources of finance to be provided externally.

The selection of relevant development partners to finance a specific project occurs by means of consultations among the line ministry seeking financing, the Ministry of International Cooperation and the development partner that would be involved in the initiation and planning phase of the project. To ensure the national

ownership and alignment of international development cooperation with national priorities and to identify medium-term cooperation plans, the Ministry of International Cooperation regularly develops national development cooperation strategies with bilateral and multilateral development partners. These strategies are developed in a participatory and inclusive manner, including relevant national stakeholders, i.e. line ministries, national entities, the private sector and NGOs. Consultations are also carried out by the Ministry with other development partners who operate within the same areas of focus in the strategies to ensure synergies among all actors. These national strategies are approved by the Cabinet before they enter into force.

Meanwhile, in 2020, the Ministry of International Cooperation launched multi-stakeholder platforms as part of its new strategy for enhancing development cooperation. These platforms act as an engagement framework for regular and interactive consultations with development partners on sectoral and thematic focus areas for development cooperation. They provide opportunities for transparent and inclusive country-led dialogue to guide development cooperation and ensure alignment with national sectoral priorities by engaging with different development stakeholders including government representatives, development partners, the private sector and civil society.

The launch of multi-stakeholder platforms as an institutional mechanism addressed the previous challenge of consultations between development partners and line ministries being conducted on an individual basis rather than through an integrated mechanism. They also serve to encourage a more focused approach with regards to ODA planning and utilization that is aligned with the broader Egypt Vision 2030 and further guide the government's specific four-year sustainable development plan and action programme. Moreover, they create a more dynamic and results-oriented engagement to enhance collaboration and discussions on sectoral

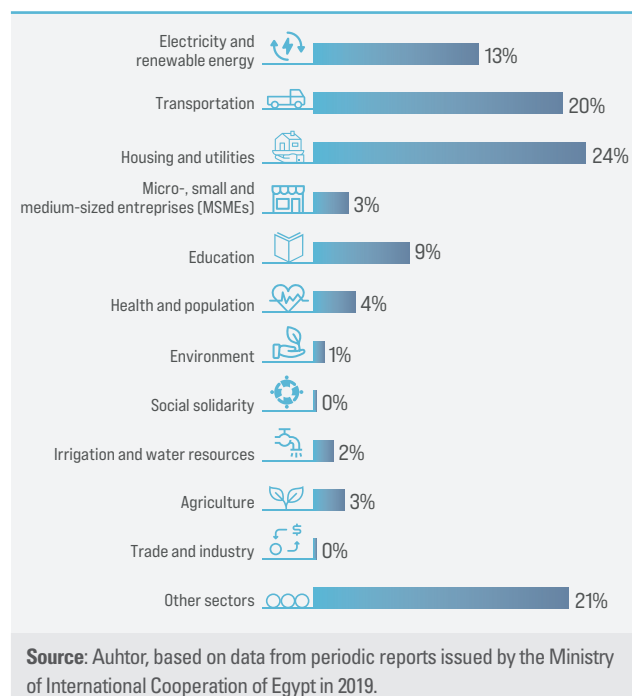
strategies in line with national development objectives, as well as the international overarching 2030 Agenda.

### (c) Official development assistance use and disbursement

Examining the use of ODA in Egypt, reports from the Ministry of International Cooperation revealed that, for the period between September 2015 and June 2019, signed agreements amounted to \$17.405 billion. Of this total, 31 per cent was directed to general budget support, while the remaining 69 per cent financed development projects.

As for the sectoral breakdown of ODA, figure 168 illustrates that economic sectors were top among signed agreements with 24 per cent, 20 per cent and 13 per cent for the utilities, transport and energy sectors, respectively, in the period from September 2015 and June 2019. Important social sectors like education, health and social protection combined account for approximately 13 per cent of the signed agreements.

**Figure 168.** Sectoral breakdown of official development assistance by signed agreements (September 2015 to June 2019)



In June 2020, the portfolio of ongoing development projects, as shown in table 35, included 19 sectors, with a total of 313 development projects. Grant financing for these projects account for only 17 per cent versus 83 per cent from concessional loan financing. This ratio corresponds to the fact that ODA grant share in middle-income countries is usually smaller than in low-income countries. This explains why the majority of grant financing is often channelled into social sectors, as social sector projects do not usually generate enough returns to be self-sustaining. In contrast, economic sectors are more often able to generate their own revenue streams, as well as benefit from other methods of financing (e.g. concessional financing).

As per table 35, economic sectors are receiving larger shares of the total ODA; in particular, allocations to housing and utilities, as well as the energy and transport sectors are equivalent to a share of 61 per cent of the total financing of the ongoing projects portfolio. In contrast, social sectors, particularly the education, health and social protection sectors, receive 15 per cent of the total financing.

**Table 35: Portfolio of ongoing projects by sector share, in billions of dollars (30 June 2020)**

| Sector                       | Value                               |
|------------------------------|-------------------------------------|
| Housing and utilities        | 5.792                               |
| Transport                    | 4.955                               |
| Energy                       | 4.424                               |
| Education                    | 2.145                               |
| Petroleum                    | 1.128                               |
| Irrigation & water resources | 0.952                               |
| Social protection            | 0.902                               |
| Health                       | 0.806                               |
| Supporting MSMEs             | 0.674                               |
| Agriculture                  | 0.557                               |
| Tourism                      | 0.531                               |
| Environment                  | 0.238                               |
| Other sectors                | 1.866                               |
| <b>Total</b>                 | <b>24.971</b>                       |
|                              | <b>Loans 20.734    Grants 4.237</b> |

**Source:** Ministry of International Cooperation, Egypt. (2020). Annual Report 2020: Writing the Future. Cairo.

## 2. Aligning official development assistance for the Sustainable Development Goals

The 2030 Agenda has had a significant impact on the set of national development priorities of many countries, where Egypt was among the earliest to translate the SDGs into a national vision in the form of its Sustainable Development Strategy: Egypt Vision 2030. With the adoption of this national development vision in 2016 and in conjunction with the increasingly complex and diverse development landscape, development cooperation in Egypt started to adjust to new demands to achieve national and global development goals.

Efforts led by the Ministry of International Cooperation, the government authority mandated with overseeing international cooperation in Egypt, began by adopting a new strategy that is focused on three key pillars, as illustrated in box 9. The prioritized pillars include enhancing the effectiveness of development cooperation by ensuring that ODA-funded development projects are aligned with the national objectives stated in Egypt Vision 2030 and that they also contribute to the global SDGs. Consequently, in 2020, the Ministry of International Cooperation carried out an extensive ODA-SDG mapping exercise as a mechanism for analysing the contribution of development cooperation to the SDGs. The mapping is aimed at identifying the alignment of current effective ODA-financed projects with the SDGs at a granular level to assess the extent to which development cooperation funds in Egypt contribute to the realization of the 2030 Agenda.

In this context, the exercise applied two mapping methodologies: a general sectoral mapping methodology and a more detailed project-focused mapping methodology.<sup>7</sup> Both methodologies enhanced understanding of the interlinkages and connections between ODA-financed projects and the SDGs. While sectoral mapping was able to link sectors that benefit from ODA finances for a limited number of SDGs at the national level, the project

mapping approach was more comprehensive in highlighting several thematic SDGs that may cut across different sectors. Thematic goals include Goal 1 on poverty, Goal 5 on gender equality and Goal 10 on reduced inequalities, which are often integrated into project activities but are hard to tie to particular sectors.

**Box 9: Pillars of the strategy of the Ministry of International Cooperation**

- 1** Multi-stakeholder platforms for effective cooperation
- 2** ODA-SDG mapping framework to identify targets and ensure the optimal contribution of development cooperation to the SDGs
- 3** Global partnerships narrative to push forward towards the achievement of the SDGs and resilient recovery with:
  - People at the core
  - Projects in action
  - Purpose as the driver

**Source:** Ministry of International Cooperation, Egypt (2020). Annual report 2020: Writing the future. Cairo.

By December 2020, the project mapping exercise showed an alignment between the existing portfolio of 377 projects, worth \$25.662 billion for both sovereign and private sector projects,



The current architecture of development cooperation includes Development Assistance Committee countries, non-Development Assistance Committee countries working through development cooperation, multilateral development partners, the private sector and NGOs.

and the 17 SDGs, as illustrated in figure 169. These projects are implemented with various development partners and cover nearly 20 economic, social and environmental sectors, where over 50 per cent of the ODA allocation is directed towards regions falling behind in order to combat multidimensional poverty.<sup>8</sup>



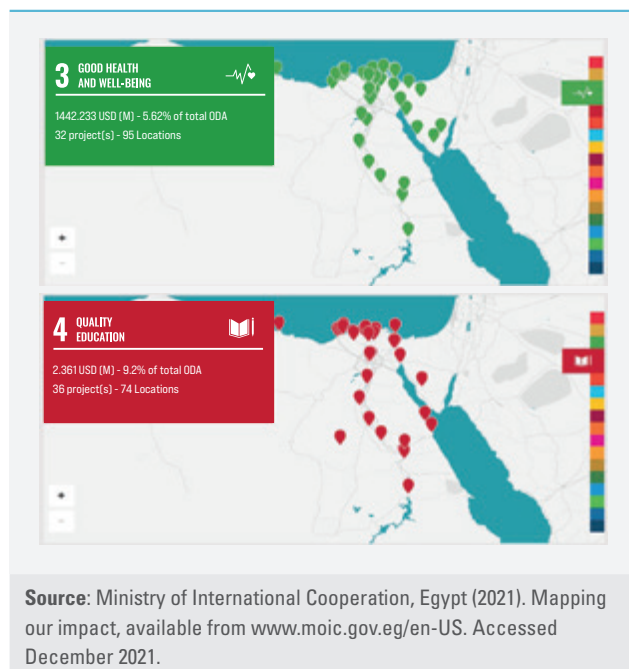


**Figure 169: ODA-SDG mapping, December 2020**

|  | Projects | USD (M) | of Total ODA |
|--|----------|---------|--------------|
| <b>1 NO POVERTY</b>                                | 20       | 1,328   | 5.17%        |
| <b>2 ZERO HUNGER</b>                               | 17       | 486     | 1.89%        |
| <b>3 GOOD HEALTH AND WELL-BEING</b>                | 36       | 1,443   | 5.62%        |
| <b>4 QUALITY EDUCATION</b>                         | 36       | 2,361   | 9.2%         |
| <b>5 GENDER EQUALITY</b>                           | 13       | 82      | 0.32%        |
| <b>6 CLEAN WATER AND SANITATION</b>                | 43       | 4,999   | 19.4%        |
| <b>7 AFFORDABLE AND CLEAN ENERGY</b>               | 34       | 5,950   | 23.2%        |
| <b>8 DECENT WORK AND ECONOMIC GROWTH</b>           | 42       | 1,075   | 4.2%         |
| <b>9 INDUSTRIES, INNOVATION AND INFRASTRUCTURE</b> | 36       | 5,737   | 22.3%        |
| <b>10 REDUCED INEQUALITIES</b>                     | 5        | 16      | 0.06%        |
| <b>11 SUSTAINABLE CITIES AND COMMUNITIES</b>       | 30       | 1,497   | 5.83%        |
| <b>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</b>   | 8        | 45.8    | 0.17%        |
| <b>13 CLIMATE ACTION</b>                           | 11       | 365     | 1.42%        |
| <b>14 LIFE BELOW WATER</b>                         | 1        | 0.027   | 0.0001%      |
| <b>15 LIFE ON LAND</b>                             | 8        | 15      | 0.006%       |
| <b>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</b>   | 32       | 240     | 0.9%         |
| <b>17 PARTNERSHIPS FOR THE GOALS</b>               | 5        | 19.7    | 0.076%       |

**Source:** Ministry of International Cooperation, Egypt. (2020). Annual Report 2020: Writing the Future. Cairo.

**Note:** Projects funded with official development assistance broken down under each Goal by number of projects, allocated dollar amount and its percentage of total official development assistance.

**Figure 170: Interactive ODA-SDG mapping**

Based on that exercise, an interactive map (figure 170) was launched in 2020, reflecting the distribution of ODA per SDG with specific project details and geographical locations across Egypt. Collectively, Goal 6 on clean water and sanitation, Goal 7 on affordable and clean energy and Goal 9 on industries, innovation and infrastructure received 62 per cent of the ODA financing. Goals on education (Goal 4) and health (Goal 3) came in fourth and sixth place, with 36 projects for each and a percentage of the total ODA equivalent to 9.2 per cent (\$ 2.3 billion) and 5.62 per cent (\$ 1.4 billion) respectively, as illustrated in the figure 170.

Breaking down ODA by SDG is considered a significant shift in ODA reporting, as it serves as a mechanism and monitoring tool to track the contribution of ODA to the achievement of the SDGs in Egypt. On the one hand, it strengthens communication and coordination with development partners since their reporting is linked to the SDGs, which in turn eases the allocation of more ODA funds by focusing on specific SDGs that are important to certain donors. On the other hand, it allows the Government to be informed of underfinanced areas in order to further guide and improve the future allocation decisions

for ODA and other concessional finance in a way that can accelerate the implementation of the ambitious 2030 Agenda.

Nevertheless, in quantity and nature, ODA alone is not sufficient to reach the levels of financing needed to achieve the SDGs. In light of this fact, the role and future of ODA is changing. There is a need to measure and leverage its development impact as a critical source for FFD. This requires further efforts and additional mechanisms, beyond the mere identification of the financial allocations directed to each of the SDGs, which is provided by the mapping exercise.

At the forefront of these efforts is a push for more use of ODA for catalytic purposes in order to maximize FFD. The use of ODA to catalyse private financing and mobilize additional resources in alignment with national and global development priorities has become a growing trend in development cooperation that can deliver more than just capital to contribute to the SDGs. In addition, private sector actors working together with the public sector on projects such as the “Benban solar power project”, discussed in box 11, will leverage strengths from each sector in ways that can solve persistent development challenges. It is in this context that the Ministry of International Cooperation collaborated with different development partners, as will be discussed in section C, to carry out an in-depth study and map private sector financing to SDGs. These collaborations were aimed at emphasizing the positive role the private sector can play in the development process and enhancing its engagement in advancing the 2030 Agenda.



In quantity and nature,  
ODA alone is not sufficient  
to reach the levels of  
financing needed to achieve  
the SDGs.

Assessing the external development finance landscape is also necessary to map the overall external finance contributions to the SDGs in Egypt and to further identify the extent to which other development financing flows beyond ODA can be accessed and mobilized. Such assessments will inform the INFF, discussed in chapter 3, and enhance the national development cooperation policy. In this regard, the Ministries of Planning and Economic Development, Finance, International Cooperation and Social Solidarity and the National Council of Women are cooperating with UNDP to carry out a DFA for Egypt. The assessment is expected to present a comprehensive review of the development finance landscape and an analysis for international and external investment and ODA pertaining to national strategy goals and the SDGs, with a special focus on social protection. Another area that requires attention relates to enhancing the quality of the aid coordination and management system, as part of the overall development cooperation in Egypt, which will be discussed in section F.

## B. Private sector engagement in development cooperation

The 2030 Agenda, the Paris Agreement and the Addis Ababa Action Agenda all recognize and call for a strengthened relationship with the private sector to leverage technical

expertise and bridge the investment gap between resources, which go far beyond what government budgets, tax revenues and ODA can provide.

## 1. Private sector engagement and financing development needs

Private sector engagement is fundamental to supporting and financing development needs in order to meet the 2030 Agenda, where multilateral development banks play an imperative role by leveraging their resources to attract the participation of private sector stakeholders.

Private sector engagement refers to initiatives taken by financial development institutions to mobilize financing from the private sector, either through the involvement of the private sector in the implementation and execution of the development project or through the use of funding provided by private financial institutions, which is known as blended financing.

The working group of the Donor Committee for Enterprise Development on private sector engagement has identified these two specific strategies for private sector engagement. The first is engaging with primarily large and international companies on equal terms to enhance the impact of their core business on the SDGs, for example, through the joint development and financing of SDG-oriented business models or dialogue platforms on responsible business practices. In contrast, other approaches involving active private sector participation focus more on local business or local business associations and government agencies, primarily to generate inclusive and sustainable economic opportunities. The second is engaging with the financial sector to mobilize private finance for development, for example, through blended finance instruments.

Blended finance is a tool for scaling up the financial flows geared towards development projects that are financed by international development organizations, including multilateral development banks and development finance institutions. It is a mechanism that can increase the impact of ODA flows by crowding in private sector investments. By mobilizing private

investments, the impact of the development projects is maximized and the value of the contribution of ODA is clearly reflected in the achievement of the SDGs.

The use of blended finance as a tool has grown since the adoption of the Addis Ababa Action Agenda. This type of funding is most relevant for unlocking investments that the private sector would not have made on its own in support of national sustainable development priorities by providing a degree of concessionality through de-risking, public-private partnerships and credit guarantees that make investing in development projects attractive to the business sector.

It is estimated that \$1.1 billion in concessional finance mobilized about \$6 billion between 2012 and 2018 to reach a total of \$48.8 billion; however, only 5.6 per cent of the total financing was allocated to social sectors, while more than 55 per cent was injected in energy and banking sectors that are usually commercially profitable.<sup>9</sup>

The use of ODA as a tool to mobilize private investments is critical, as the flow of ODA to low- and middle-income countries has been experiencing a decreasing trend since 2003. As such, it is key to explore the possibilities of increasing the effectiveness of blended finance by identifying relevant policies that make it more valuable in financing development by increasing its interest in supporting social sectors to end poverty and reduce inequalities. Nevertheless, to achieve this objective, private sector investors will need better information on opportunities and assurance that these opportunities present acceptable returns and risks.

For blended finance to work effectively, a common policy framework and guidance are essential. In line with the principles put forward in the Addis Ababa Action Agenda, the OECD Blended Finance Principles for Unlocking Commercial Finance for the Sustainable Development Goals, stated in box 10, is a policy tool for all providers of development finance, including governments,

development cooperation agencies, charities and other stakeholders. These Principles serve as a call to action to deliver optimal blended finance and to seize the opportunities that it brings for all. OECD is further using these Principles to inform key partners, such as the United Nations, the European Union and the World Economic Forum, on how to make progress with blended finance best practices, including at forums such as the G20 and Group of 7.<sup>10</sup>



#### **Box 10: OECD Development Assistance Committee blended finance principles for unlocking commercial finance for the Sustainable Development Goals**

##### **Principle 1: Anchor blended finance use to a development rationale**

All development finance interventions, including blended finance activities, are based on the mandate of development finance providers to support developing countries in achieving social, economic and environmentally sustainable development.

##### **Principle 2: Design blended finance to increase the mobilization of commercial finance**

Development finance in blended finance should facilitate the unlocking of commercial finance to optimize total financing directed towards development outcomes.

##### **Principle 3: Tailor blended finance to local context**

Development finance should be deployed to ensure that blended finance supports local development needs, priorities and capacities in a way that is consistent with, and where possible contributes to, local financial market development.

##### **Principle 4: Focus on effective partnering for blended finance**

Blended finance works if both development and financial objectives can be achieved, with appropriate allocation and sharing of risk between parties, whether commercial or developmental. Development finance should leverage the complementary motivation of commercial actors, while not compromising on the prevailing standards for development finance deployment.

##### **Principle 5: Monitor blended finance for transparency and results**

To ensure accountability on the appropriate use and value for money of development finance, blended finance operations should be monitored on the basis of clear results frameworks, measuring, reporting on and communicating on financial flows, commercial returns as well as development results.

**Source:** Organization for Economic Cooperation and Development (2018). OECD DAC blended finance principles for unlocking commercial finance for the Sustainable Development Goals. Paris.



## 2. Private sector engagement in Egypt

The private sector plays an imperative role in the economy of Egypt, providing the largest share of aggregate production (72.4 per cent of GDP for the 2019/20 financial year) and employment (74 per cent of total employment).<sup>11</sup> Egypt Vision 2030 envisages a key role for the private sector in realizing national sustainable development priorities and contributing to the necessary funding.

In 2018, the Ministry of International Cooperation partnered with OECD to conduct an important case-study on private sector engagement in development in Egypt using ODA flows, as part of OECD efforts to set international guiding principles for private sector engagement.<sup>12</sup> The study examined a total of 277 PSE projects in Egypt. Projects were drawn from the websites of development partners and those provided by the Egyptian government. These include those financed bilaterally by providers from OECD countries and multilateral development banks, which together accounted for almost 80 per cent of ODA in the country.<sup>13</sup> In addition, projects with the top five United Nations institutions operating in Egypt, as well as those with Brazil, China, India, the Russian Federation, South Africa and other key Southern partners were also included. The findings showed that:

**1** Private sector engagement through development cooperation largely comes from multilateral development finance institutions, followed by bilateral (Development Assistance Committee) donors and their implementing agencies.

**2** Large domestic private sector actors are the most prominent partners in reviewed private sector engagement projects (62 per cent of projects), followed by large transnational companies (39 per cent). Domestic MSMEs accounted for only roughly 8 per cent.

**3** For 77 per cent of projects examined, private sector partners are recipients of finance (47.3 per cent of projects overall, including debt financing). Following this role, they act as an implementing partner (31 per cent), financier (or resource provider, 25 per cent) or an on-lender to MSMEs (20 per cent).

**4** Finance represents the most common modality for private sector engagement in Egypt, where blended financing is used for about 42 per cent of the implemented projects. Capacity development was the next most prominent modality of engagement at 15.4 per cent (42 projects), followed by technical assistance (9.2 per cent, 25 projects), policy dialogue (2.9 per cent, 8 projects), knowledge-sharing (1.1 per cent, 3 projects) and research (1.1 per cent, 3 projects). In this context, 49 projects (17 per cent) included more than one modality.

**5** Sectors of focus in private sector engagement through development cooperation are finance, energy, manufacturing and agriculture, accounting for 32 per cent, 14 per cent, 13 per cent and 8 per cent of projects, respectively.

The findings of the study were limited to the involvement of the private sector in ODA projects with an average budget of \$50 million. Those projects were concentrated in the financial sector, as the majority of ODA flows are utilized through the banking sector to expand credit lines for financing MSMEs. Engagement across projects therefore tends to place MSMEs as a beneficiary of private sector engagement projects rather than an active partner.

While supporting the MSME sector is crucial for its contribution to job creation, especially for young people and women, there are still significant gaps in support for social services sectors. In addition, there is still a need for more private sector



engagement in order to increase its contribution to knowledge transfer and capacity-building.

It is worth noting that the Ministry of International Cooperation shared these findings with all relevant stakeholders in a participatory workshop to enact the recommendations of the study. Within this context, the Ministry also organized specialized workshops to discuss various ways of improving private sector engagement in development, especially by promoting the public-private partnership scheme, transforming the corporate social responsibility of companies in sustainable development activities and attracting investments in remote and underserved areas to catalyse development.<sup>12</sup>

To further assess the impact of private sector engagement in development, the Ministry of International Cooperation and the International Finance Corporation carried out a joint exercise to map the latter's private sector financing for the SDGs. This mapping provided evidence that ODA contributions in leveraging private sector engagement can advance the 2030 Agenda and accelerate achievement of the SDGs.<sup>13</sup>

### (a) Challenges to private sector engagement

SDGs do not yet appear to be a strong driving factor for private sector actors, aggravating the reasons why private sector engagement is still undersized globally and in Egypt, especially in addressing social needs. A major challenge is the lack of shared interests and aligned objectives, where business interests are not always the same as those of the most marginalized. Companies are interested in working on areas related to their core activities or the areas in which they operate. This is partly because of the absence of a proper needs assessment on the communities lagging behind, limited data on different economic activities and limited local government capacity to address private sector needs. Similarly, the private sector is often viewed as a funder and an implementer by

development partners and the Government, rather than as a stakeholder and a source of expertise.

In an effort to address these problems, identify common interests and promote shared values that form a solid basis for cooperation, the Government launched several initiatives. One was the unveiling of a government portal for an integrated investment map in 2018.<sup>14</sup> The map covers potential investment opportunities in all industrial sectors nationwide and compiles projects of different types and sizes, including free zones, technology-dedicated efforts, manufacturing complexes, national megaprojects and SMEs. Furthermore, the Ministry of International Cooperation launched national multi-stakeholder platforms (mentioned previously) as a vehicle that provides regular and structured public-private dialogues to encourage private sector engagement in development within the various sectors. Through these platforms, the Ministry invites line ministries to present their reforms and achievements, promote the existing potential investment opportunities listed on the map, discuss their strategies going forward and highlight priority areas for potential cooperation with development partners and the private sector. Participants then discuss the necessary details and the actions required to maximize collaboration and optimize outcomes. The Ministry then follows up afterwards with more specialized technical workshops to enhance the visibility of potential areas of cooperation and relevant development partners for each area.





These organized multi-stakeholder platforms are expected to strengthen partnerships to achieve better results by opening the door for regular, interactive and participatory consultations with all stakeholders.

Another longstanding challenge relates to regulations and heavy bureaucracy, where lengthy procedures tend to complicate agreements or decisions on private sector engagement in the public domain and slow down the actual implementation of projects when agreements are concluded. Added to which, social enterprises and corporate foundations that target socioeconomic needs tend to fall outside the existing legal and regulatory frameworks, making it hard to exploit their contributions to sustainable development. Encouraging more private sector engagement in projects aimed at the social sectors in particular and their related challenges is possible through the provision of incentives and further legal and regulatory reforms.

In this regard, the Government has adopted a first wave of regulatory reforms to address some of these impediments and to promote investments and engage the private sector in SDG-related projects, as comprehensively discussed in chapter 6. Continued efforts are still ongoing, such as the recent amendment No. 153 of 2021 to the provisions of Law No. 67 of 2010, regulating private sector participation in infrastructure projects, services and public utilities. The amendments provide further facilitation for

establishing public-private partnership schemes, give the private sector the opportunity to initiate and propose partnership projects, as well as cut red tape by shortening some procedures.

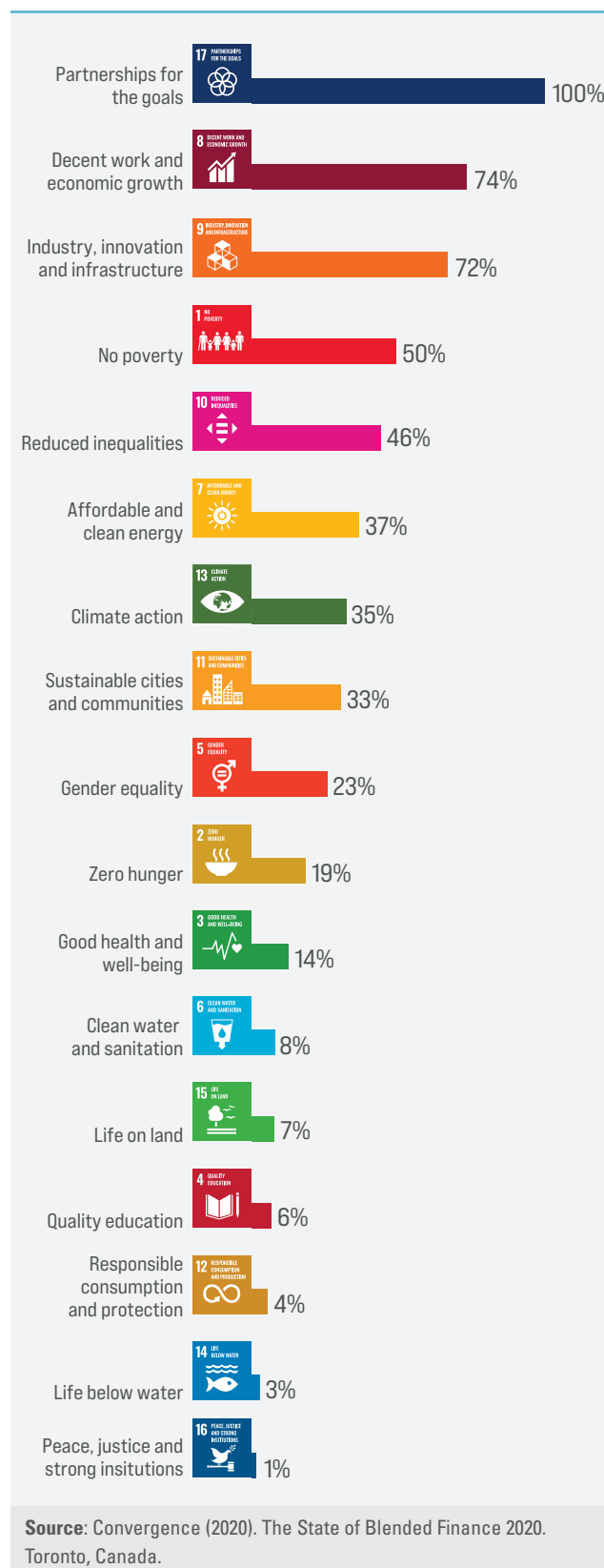
Other challenges in private sector engagement relate to the nature and time frame of the monitoring, evaluation and reporting of results for development projects. Although businesses around the world are making greater efforts to realize the SDGs by achieving sustainability themselves or by applying inclusive business models, as clarified in chapter 6, reporting requirements tend to be a challenge when engaging with development partners. Private sector actors have different ways of assessing performance and rely on different accountability mechanisms. They tend to focus more on financial returns and want to be able to report on results through quarterly reports rather than adopting a longer-term perspective. The internal monitoring systems of private firms are designed primarily to track financial performance and risk management; they rarely track development effectiveness and outcomes. In contrast, development outcomes take time, and the evaluation of projects happens at the level of impact. This requires a high level of detail on end-users and socioeconomic data, frequent reporting, the integration of a broad spectrum of activities into a common assessment system and the monitoring of missions that sometimes take time away from meeting the main objectives of private businesses.<sup>15</sup>

## (b) Blended finance and role of global finance

In development cooperation, multilateral development banks and development finance institutions play an imperative role in providing direct financing, helping to catalyse additional public and private resources and engaging the private sector more effectively for sustainable development. This is in addition to providing policy advice and technical assistance that are needed to improve the investment climate and build domestic capacities.

Currently, multilateral development banks and development finance institutions are leading the way in the arrangement and structuring of blended finance solutions that could provide the significant financing support needed by unlocking private and philanthropic capital for development. Blended finance fully aligns with SDG 17 on partnerships for the SDGs, particularly target 17.3 to mobilize additional financial resources for developing countries from multiple sources. As illustrated in figure 171, the latest analysis, conducted for the period 2014–2019, on the alignment between the practice of blended finance and the SDGs shows that blended finance has been mostly aligned to the subset of investable SDGs. This includes SDG 8 on decent work and economic growth and SDG 9 on industry, innovation and infrastructure, whereas it is less aligned with the SDGs on health and education (SDGs 3 and 4). It is therefore very important to consider where the use of blended finance is mostly fruitful and to focus it appropriately on the sectors where it can achieve maximum development impact.

**Figure 171: Alignment between blended finance transactions and the Sustainable Development Goals (2014–2019)**



Comparing the trends in the use of blended finance between 2010 and 2012 and between 2016 and 2018 shows a significant increase in the proportion of blended finance transactions aligned to SDG 10 on reduced inequalities, rising from 25 per cent to 52 per cent.<sup>16</sup> Blended finance has also been demonstrated to be a useful development tool for climate- and environment-related SDGs. This includes SDG 13 on climate action; SDG 7 on affordable and clean energy, which increased from 27 per cent in the period 2010–2012 to 37 per cent in the period 2016–2018; and SDG 11 on sustainable cities, which has risen from 22 per cent to 28 per cent for the same time period. For the same periods, data show a steady focus on SDG 1 on poverty and Goal 8 on decent work and economic growth.

Egypt has had a successful experience in maximizing financing for development through joint financing by multilateral development banks. The “renewable energy feed-in tariff programme” and the “Benban solar park project”, explained in box 11, are examples of a blended finance structure that supported the development of the renewable energy sector in the country. This project exemplifies an effective development cooperation with multilateral companies and engagement with the private sector, showing how these partnerships can drive sustainable economic growth. In the last decade for action, continuing to build and expand similar cooperation partnerships across different sectors would be fundamental to maximizing FFD and accelerating the achievement of the national and international SDGs.

#### **Box 11: Example of a blended finance structure supporting the development of renewable energy projects** **The Egyptian Renewable Energy Sector**

Following the blended finance principles of OECD and the World Bank Maximizing Finance for Development approach, the Egyptian Government worked with the World Bank to develop a national strategy, prioritizing energy sustainability and private sector investment.

The International Finance Corporation led an international consortium that has provided 653\$ million in financing for the construction of 13 solar power plants in the Benban solar park in 2017. The consortium includes the African Development Bank, the Asian Infrastructure Investment Bank, the World Bank Group (including the International Bank for Reconstruction and Development, the International Finance Corporation and the Multilateral Investment Guarantee Agency), the Arab Bank of Bahrain, the CDC Group of the United Kingdom, Europe Arab Bank, Green for Growth Fund, Finnfund, the Industrial and Commercial Bank of China and the Development Bank of Austria. Implementation of this project was carried out in cooperation with 45 different private companies.

The European Bank for Reconstruction and Development played a leading role in developing the contractual framework for the “feed-in tariff programme”, which helped to unlock investments from international renewable energy developers and development institutions. Using a blended finance structure, the Bank and the Global Climate Fund supported Egypt’s feed-in tariff scheme through the use of grants and concessional finance for technical assistance and to blend them into the debt capital structure for renewable energy. Through these two components, cooperation with the Bank and the Fund presented a comprehensive technical assistance programme to enhance renewable energy integration, policies and planning. It also scaled up investments to support the development and construction of renewable energy projects totalling 1\$ billion by blending their financing to leverage debt financing from international and development financial institutions, and, at a later stage, from commercial banks and private sector investments. This cooperation demonstrates an effective attribution between official development assistance financing for projects and public-private partnership projects.

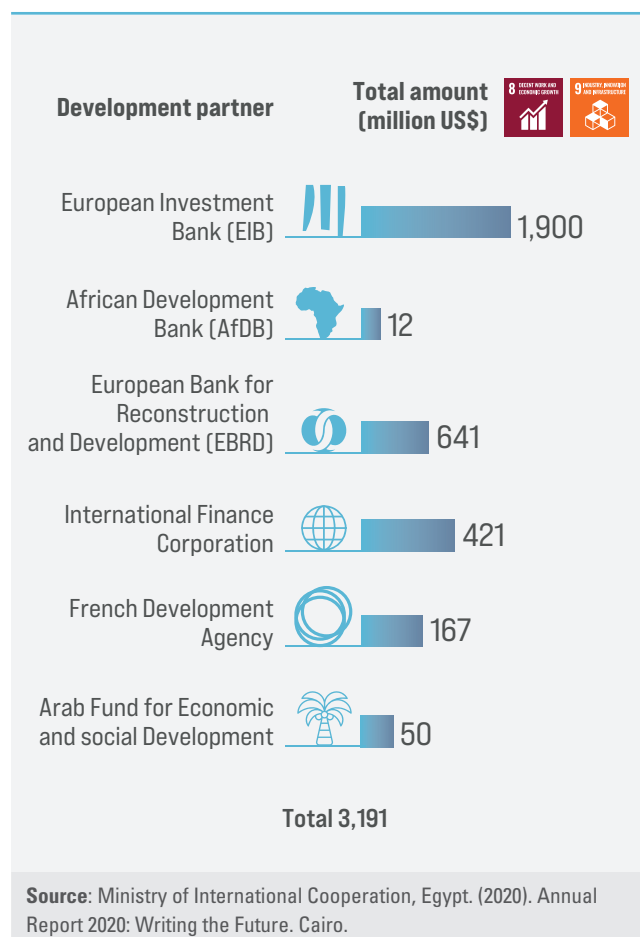
**Source:** Organization for Economic Cooperation and Development (2020). OECD DAC Blended Finance Principle 4: Focus on effective partnering for blended finance. Revised Note following public consultation. Paris.



### (c) Increased emphasis on private sector engagement after COVID-19

With the outbreak of COVID-19, the Government of Egypt placed more emphasis on private sector engagement to mitigate the pandemic's adverse economic impacts by facilitating business continuity and ensuring support for existing projects. The increased emphasis on private sector engagement is clearly reflected in the finance directed to the private sector from the total signed agreements for development financing in 2020, worth \$9.891 billion.<sup>17</sup> While \$6.7 billion has been secured for financing sovereign projects, almost \$3.191 billion is dedicated to private sector development, accounting for one third of the total amount. These funds are directed to support private sector development for projects targeting SDG 8 and SDG 9, as shown in figure 172.

**Figure 172: Total official development assistance directed to financing private sector development**



Government determination and efforts to scale up and sustain the increased private sector engagement is further informed by a diagnostic report, issued by the International Finance Corporation in December 2020 on the country's private sector, addressing sectoral challenges and opportunities for private sector-led economic development, investment and job-creating growth. The report reveals that ICT, agriculture and health are key sectors in Egypt that present promising opportunities for cooperation and productive private sector engagement to address a number of gaps in the economic and social infrastructure.

There is a critical opportunity to leverage the ICT sector and use it as the gateway for a digital economy by focusing on developing digital infrastructure and innovative solutions to health care, transport and learning. The agriculture and agribusiness sector is another key sector that contributes to the country's GDP (11.4 per cent), employment (21.3 per cent) and exports (15 per cent of merchandise exports).<sup>18</sup> Opportunities lie in promoting agribusiness and private sector investment in agriculture through projects that target the strengthening of supply chains, enhancement of export capacities and improvements in the adoption of food standards. Health is also a key sector, where the private sector has been steadily growing and where private investment can foster partnerships for innovation, especially with the increased burdens on the health-care system in light of the pandemic.

Recognizing the significance of the private sector in the coming period, the Ministry of International Cooperation announced private sector engagement as the key theme for development cooperation in 2021 to promote development financing to expand private sector engagement, with a focus on green projects and sustainable growth. In this respect, and within the framework of the multi-stakeholder platforms, the Ministry organized a number of participatory workshops in various sectors, all of which were intended to provide institutionalized and regular public-private dialogue to encourage private sector



engagement in development within targeted sectors.<sup>19</sup> The workshops were focused on different areas relating to the health sector, public enterprises and private sector engagement in development, rural and agricultural development, transport and closing the gender gap accelerator. Furthermore, a global digital campaign, entitled “game changers”, was also launched by the Ministry in March 2021 to demonstrate the value of public-private partnerships and moving towards a greener economy.

The Government should continue to increase these efforts in order to reach common understandings and raise awareness of the role of the private sector in achieving transformative changes and a positive social impact through job creation, digitization and sustainability. It should

also continue its collaboration with multilateral development banks and development finance institutions to extend their blended financing instruments in order to tap into the local capital market and boost economic inclusion. The recently launched national multi-stakeholder platforms present an opportunity to identify current and future areas for cooperation with development partners and the private sector. Such platforms also provide an opportunity to optimize and scale up corporate sustainability efforts that contribute to the broader multi-stakeholder efforts to achieve the SDGs. Hosting these regular dialogues for partnerships and coordinated action should continue to be organized by theme (geography, sector and/or issue) to enable a more focused and effective engagement on the part of the private sector and other stakeholders.

## C. South-South cooperation

South-South cooperation has emerged as an important modality of development cooperation among countries of the South, allowing them to engage with each other and share their knowledge, skills, expertise and resources in specific areas to meet their national development challenges through concerted efforts. There is growing recognition for partnerships for South-South cooperation, and boosting it through triangular cooperation mechanisms can play a significant role in achieving the 2030 Agenda and contributing to the implementation of the SDGs.

Egypt is a model in the region by being one of the most long-standing and pivotal providers of South-South cooperation, even as it continues to be a recipient of ODA. Given the lack of data on South-South inflows to Egypt, it is estimated that its level is significantly lower in comparison to other FFD flows. This section therefore mainly focuses on the country’s role as a provider rather than a recipient and highlights its role in Africa in sharing knowledge and strengthening capacities that are crucial to the advancement of the SDGs.

### Box 12: South-South and triangular cooperation

There is no formal or common definition of South-South cooperation. The term refers to a broad framework of collaboration among countries of the South in the political, economic, social, cultural, environmental and technical domains. South-South cooperation involves two or more developing countries and is largely built on broad-based partnerships, solidarity and mutual interest.

Triangular cooperation is collaboration in which traditional donor countries and multilateral organizations facilitate South-South initiatives through the provision of funding, training and management, as well as other forms of support.

**Source:** Author, based on information from the United Nations Office for South-South Cooperation.

As a provider of South-South cooperation, Egypt specializes in sharing its knowledge and good practices with other developing countries through its technical cooperation agency: the Egyptian Agency of Partnership for Development.<sup>20</sup> The Agency operates under the auspices of the Ministry of Foreign Affairs and currently works with 52 African countries with a focus on establishing

partnerships that support the efforts of these countries to effectively implement Agenda 2063 and the 2030 Agenda. Through the Agency, the current engagement of Egypt in South-South cooperation can be classified under four main areas: designing and delivering capacity-building programmes, deploying experts, offering scholarships and providing humanitarian assistance in the form of medical, logistical, food and financial aid.

Egypt delivers the capacity-building programmes in cooperation with specialized national institutions and international partners.<sup>21</sup> These programmes cover the areas of diplomacy, judiciary, women's empowerment, health, agriculture and education, in addition to other innovative areas of emerging importance to African countries, including those related to renewable energy, ICT, food security and peace and security. Since 2014, Egypt has trained approximately 12,000 trainees and dispatched over 62 Egyptian experts to exchange knowledge and share good practices in different domains with 21 African and Commonwealth countries. It also provided 157 financial aid packages to different countries.<sup>22</sup> In the establishment of its partnerships and programmes, the Agency prioritizes Goal 2 on hunger, SDG 3 on health, SDG 5 on gender equality and Goal 16 on peace, justice and strong institutions.

The Agency also coordinates an Egyptian governmental fund dedicated to Nile Basin countries. The Egyptian initiative for development in Nile Basin countries provides funding to implement developmental projects in several fields, such as power generation and the construction of solar power plants. The initiative is also focused on water resource management projects, such as rain harvesting and dredging wells, as well as health-care projects, which include establishing fully-equipped, specialized hospitals and mobile clinics to deploy medical services in remote areas in various African countries.

Financing for South-South cooperation initiatives comes partially from the Government of Egypt, which allocates an independent annual budget to the Agency. In addition, the Agency successfully



The use of ODA to catalyse private financing and mobilize additional resources in alignment with national and global development priorities has become a growing trend in development cooperation that can deliver more than just capital to contribute to the SDGs.

uses the cost-sharing mechanism through bilateral cooperation with the relevant African beneficiary country. Other resources are mobilized through triangular cooperation partnerships, where the Agency has tripartite collaborations with several development banks and international organizations, which contribute significantly to supplying African countries with the expertise needed in selected fields. Examples of cooperation partnerships in this vein include one with the Japan International Cooperation Agency, where 12 capacity-building programmes have been implemented yearly since 2014, targeting 21 sub-Saharan African countries.<sup>23</sup> Fields and topics varied between agriculture, fisheries resource management, animal health, post-harvest management and irrigation techniques. Another cooperation partnership is with the Islamic Development Bank, which is focused on jointly organizing capacity-building programmes for African officials and providing experts in vital fields such as health, education and infrastructure. Such triangular cooperation programmes are enabling the transfer of knowledge to sometimes isolated communities and thereby providing them with the means to kick-start their sustainable development process.

## COVID-19 response efforts through South-South cooperation activities

Egypt holds the vice-chair position of the African Union COVID-19 Response Fund, which was established in March 2020 with the aim of strengthening the continental response to COVID-19 and mitigating its socioeconomic and humanitarian impact on African populations. Within this framework, Egypt has contributed by sending medical aid worth \$4 million to 30 African countries to support their efforts to contain the challenges resulting from the spread of the pandemic.<sup>24</sup>

More than ever before, the role of South-South and triangular cooperation is vital to the recovery of developing countries, as it promotes learning from action-oriented policies and measures used to handle social, economic and environmental responses to the COVID-19 crisis from across the region. Although it brings opportunities for development, a number of challenges to South-South Cooperation remain to be addressed.

One such challenge pertains to the measurement and evaluation of South-South cooperation, stemming mainly from its nature, where the value of technical assistance, knowledge-sharing and capacity-building activities are difficult to quantify. Cooperation with the United Nations and other development partners is needed to develop

methodologies for measurement and to enhance the methods for data collection, reporting and results management to capture the contribution of South-South cooperation to the SDGs. Similarly, there is a need for an integrated information system that can capture all South-South cooperation actions and activities (tracking recipient and provider countries). This is necessary to enable the generation of quantitative and qualitative data that track, measure and assess the impact of South-South cooperation and knowledge exchange, as well as the return on investment from this type of cooperation in a transparent, regular and timely manner.

Another interconnected challenge is to strengthen the human capacities working in that domain. Interviewees from the Ministry of Foreign Affairs expressed the need for a staff of professionals, dedicated exclusively to the coordination and monitoring of South-South cooperation activities, as well as access to robust statistics.<sup>25</sup> They also stressed the need for an integrated information system to ensure transparency in South-South cooperation decisions and projects and allow a more active and targeted pursuit of cooperation opportunities. Addressing these challenges will guide and inform the Government on how to leverage South-South cooperation partnerships to scale up and make better use of development financing to develop productive capacities and make progress towards the attainment of the SDGs.

## D. Illicit financial flows

Tackling the illicit financial flows or capital movements that take place across borders for the purposes of concealing illegal activities and evading taxes has never been as high on the political agenda as it is today.<sup>26</sup> Illicit financial flows constitute a major challenge for most countries, especially developing countries, as they have a negative impact on domestic resource mobilization, divert resources from efficient use in major social sectors and undermine sustainable

### Box 13: Illicit financial flows in the SDGs



#### Target 16.4

By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime.



#### Indicator 16.4.1

Total value of inward and outward illicit financial flows (in current United States dollars)

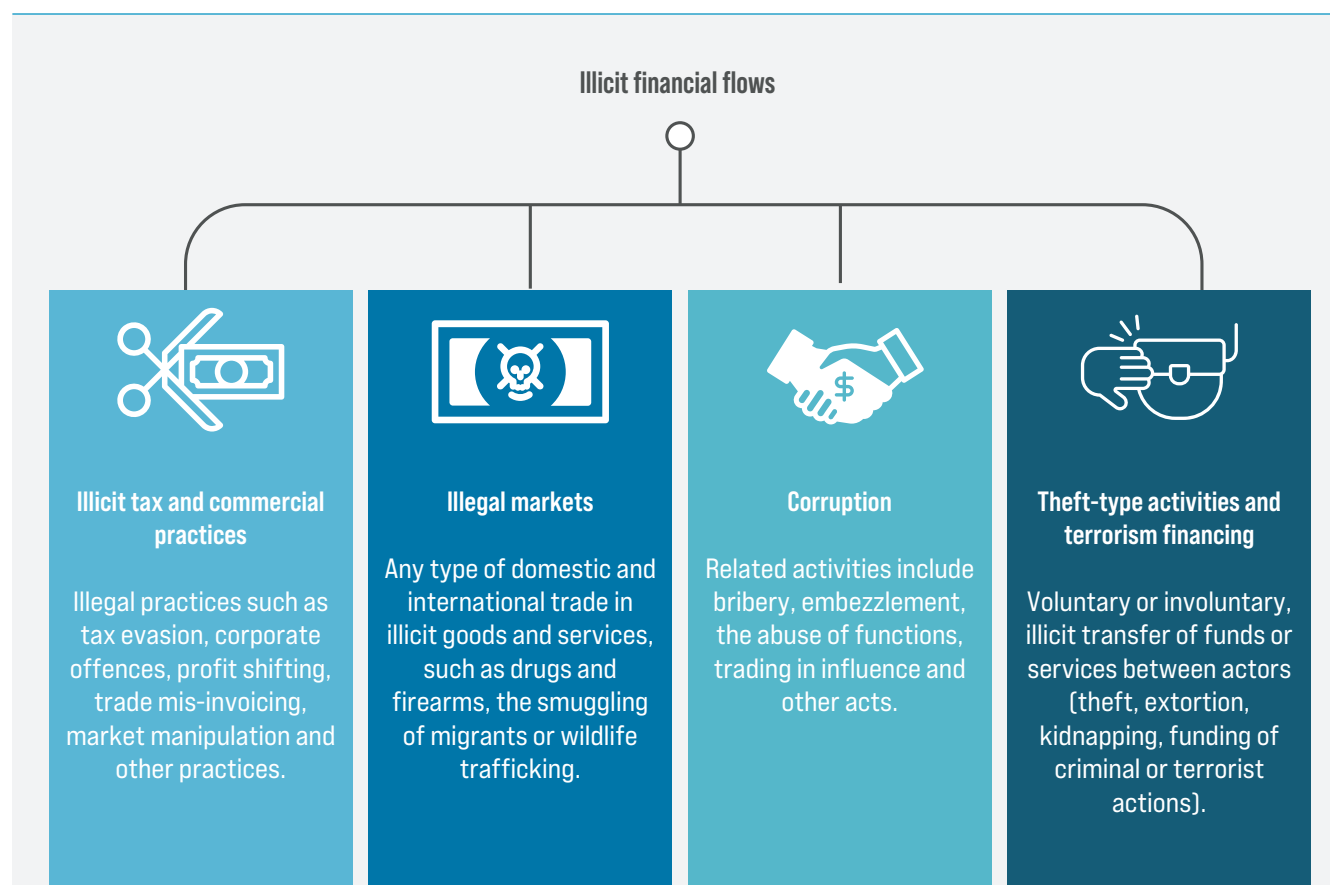
economic growth in developing economies. Given the direct linkage of illicit financial flows to the domestic resource mobilization process and the corrosive role they play, it is imperative to address this issue within the context of FFD. This is especially urgent in this last decade for action, where an increased focus on curbing illicit financial flows can provide potential sources of capital to invest in SDG processes and responses to sudden crises such as the COVID-19 pandemic.

## 1. Definition, conduits and volume estimates

The definition of illicit financial flows has varied over the past decade, influencing the scope and magnitude of what can be measured. However, in

2020, the United Nations Office on Drugs and Crime (UNODC) and UNCTAD, the joint custodians of SDG indicator 16.4.1 on illicit financial flows, developed a conceptual framework for further work on illicit financial flows. The framework offered a statistical definition of the term and delineated a scope for its measurement. Accordingly, illicit financial flows are defined as financial flows that are illicit in origin, transfer or use; that reflect an exchange of value; and that cross country borders. Moreover, the UNCTAD-UNODC task force on the statistical measurement of illicit financial flows designated four categories as main sources that lead to illicit financial flows in their framework. As illustrated in figure 173, these include tax-related and commercial illicit financial flows; illegal markets; corruption-related activities; and exploitation-type activities as well as theft and terrorism financing.

**Figure 173:** Categories of illicit financial flows



**Source:** Author, based on information from the United Nations Conference on Trade and Development and the United Nations Office on Drugs and Crime (2020). Conceptual Framework for The Statistical Measurement of Illicit Financial Flows. Vienna.

In Africa, illicit outflows are estimated at \$88.6 billion per year.<sup>27</sup> Losses caused by tax evasion are projected to total between \$40 billion and \$80 billion every year.<sup>28</sup> Similarly trade mis-invoicing costs Africa between \$30 billion and \$52 billion annually.<sup>29</sup> Curbing these annual amounts could cover half of the SDG financing gap in Africa.

According to a number of studies and reports, Egypt stands out among African countries in the magnitude of illicit financial flows, especially those related to tax and commerce.<sup>30</sup> Nevertheless, it is hard to give a precise figure for the overall size of illicit financial flows that captures all proceeds arising from different sources in view of the multiplicity of channels and institutions involved. In this regard, it is worth mentioning that the UNCTAD-UNODC methodological guidelines to measure tax-related and commercial illicit financial flows, released in May 2021, will be pilot tested in Egypt for the statistical measurement of illicit financial flows, potentially providing a better data basis for decision-making processes. A launch workshop with national experts and stakeholders from institutions and agencies in Egypt was organized in early September 2021 to introduce the concepts and definition of illicit financial flows, along with the methodologies and guidelines for measuring them. The workshop also presented practical examples and good practices from previous pilot

activities and discussed the forthcoming plan of work to implement activities and tools.

## 2. Major sources for illicit financial flows in Egypt

Tax-related and trade-related illicit financial flows are major sources of illicit outflows in Egypt, including the proceeds of tax evasion, the misrepresentation of tax records, and misreporting and mis-invoicing associated with trade activities. Egypt has been increasing its international tax collaboration to stop the drain on resources and tax revenues arising from deficiencies in the international tax framework that create opportunities for tax base erosion and profit shifting.

### (a) Tax-related illicit financial flows

Tax revenue in Egypt represented an average of 77 per cent of the total country's revenue between the fiscal years 2017/18 and 2019/20.<sup>31</sup> Increasing tax revenue is therefore the main means of reducing the country's budget deficit. International cooperation on tax issues improves the Government's ability to protect its tax base and enhances its domestic resource mobilization capacity, thereby enabling it to finance its budget and further respond to sustainable development priorities.

Base erosion and profit shifting and their consequences of tax evasion, double taxation and shifting profits are among the complex tax issues that pose major global and national challenges that require broad collaboration between countries. The global average revenue losses from corporate income tax are estimated to be up to 10 per cent of global corporate income tax revenues every year (\$240 billion). In Egypt, tax avoidance and evasion are similarly responsible for significant tax revenue leakages, which, as a percentage of tax revenues, are estimated to be higher than the global estimate in view of the greater reliance on corporate income tax

#### Illicit outflows

**\$88.6**

billion per year

#### Losses caused by tax evasion

**\$40 & \$80**

billion every year

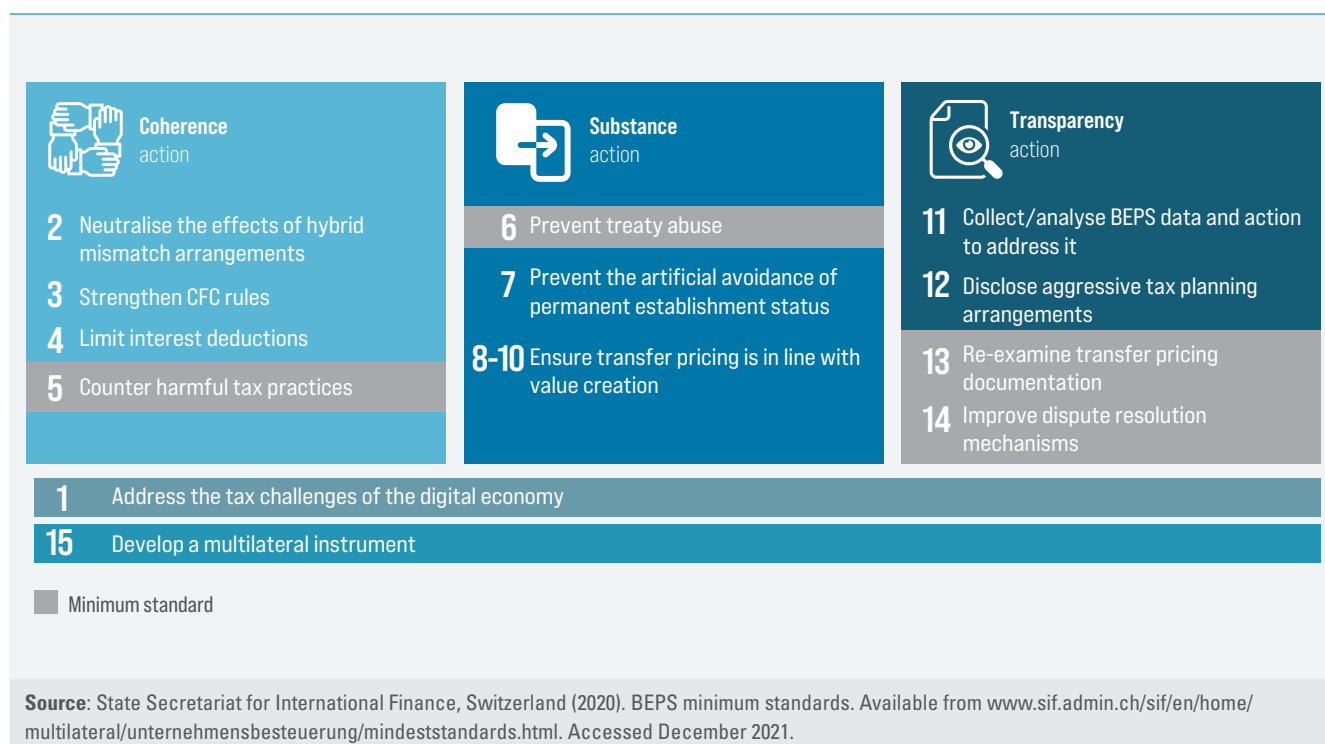


revenues in developing countries. Reasons for such losses are largely attributed to loopholes in national tax legislation, the exploitation of double tax agreements or mismatches in tax rules between countries and limited country enforcement resources. This is in addition to other methods that involve shifting profits to countries that assess little or no tax on capital gains or other sources of income.<sup>32</sup>

In this respect, the Government of Egypt has made significant cooperation efforts to combat tax-related illicit flows. First, the Government implemented the base erosion and profit shifting minimum standards. Egypt has been an active member of the Inclusive Framework on base erosion and profit shifting since 2016. The Framework brings together 139 countries and jurisdictions to collaborate on the implementation of 15 actions to tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax environment. Over the past five years, Egypt has demonstrated its pledge to implement the base erosion and profit shifting measures and the four minimum standards, as illustrated in figure 174.

In the same regard, Egypt was one of the first countries to sign the multilateral instrument on base erosion and profit shifting with member countries in 2017 and deposited the ratification instrument in September 2020, with 54 covered agreements and 38 matched agreements to date. The multilateral instrument allows its signatories to efficiently update their relevant tax treaties to incorporate measures to eliminate double taxation and prevent abuse of tax treaties without the need to renegotiate every treaty. The more matched agreements there are, the more gains and efficiencies are made for Egypt. Furthermore, the Egyptian Tax Authority issued updated transfer pricing guidelines in 2018 and a practical manual on country-by-country reporting in 2019, in compliance with the four minimum standards of actions on base erosion and profit shifting, as illustrated in figure 174. These country-by-country reports enhance transparency for tax administrations and provide them with adequate information to enable analysis of the behaviour of multinationals for tax-risk assessment purposes.

**Figure 174: Base erosion and profit shifting - 15 measures**



Second, the effective exchange of information among countries is necessary to combat international tax offences and will provide significant assistance to Egypt in deterring tax evasion. In 2016, Egypt joined the Global Forum on Transparency and Exchange of Information for Tax Purposes, which supports its members in tackling offshore tax evasion by monitoring, reviewing and assisting jurisdictions in implementing the relevant international standards. As a member of the Global Forum, Egypt chose to implement two internationally recognized transparency tax standards. The first is the exchange of information on request, which requires a tax authority to provide information to another tax authority that is required for more investigation and enforcement of its tax laws. Information of this type includes ownership information for all relevant legal entities and arrangements (legal and beneficial ownership), accounting records and banking information. The second standard concerns the automatic exchange of financial accounting information, which entails the reporting of the financial account information of non-residents by the financial institution to their tax authorities. The tax authorities then automatically exchange the reported information with the tax authorities of the account holders' country of residence under the globally agreed Common Reporting Standard.

Since 2017, Egypt has engaged in a pilot project with the Global Forum secretariat and the United Kingdom to implement the obligations and processes for the exchange of information. Through a comprehensive mentoring and training programme (the "induction programme"), technical assistance has been provided on a number of topics, including how to improve the effectiveness of exchange of information on request (via an exchange-of-information unit and an exchange-of-information manual and its legal framework). This is in addition to assistance for joining, signing and ratifying the Convention on Mutual Administrative Assistance in Tax Matters, which will enable Egypt to access and obtain tax-related information from nearly 130 jurisdictions

across many countries. It is also worth noting that Egypt will be assessed for its compliance with the exchange of information on request in the first quarter of 2022, as per the Global Forum's peer-review schedule for African countries. Nevertheless, Egypt has not yet set a date for the first automatic exchange of information.

Third, beneficial ownership transparency is considered a key requirement of international tax transparency and an essential policy tool in countries to fight financial crimes and reduce illicit financial flows. In most illicit practices and cases, there is a difference between the legal owner and the beneficial owner of an asset, land or bank account. It is therefore critical for national authorities to have available information on beneficial ownership for all legal entities and arrangements to ensure that they are able to carry out proper investigations relating to tax evasion, financial crimes or asset recovery cases.



In a commendable step that complies with the required standards of the Financial Action Task Force to implement measures that ensure the availability of beneficial ownership information to national authorities, Egypt approved a related legislation in March 2020.<sup>33</sup> The ministerial decree introduced establishes a mandatory disclosure of ultimate beneficial ownership from any entity doing business in Egypt.<sup>34</sup> In addition, according to the amendments introduced by the decree, ultimate beneficial ownership information has now become available in the public domain. It is worth noting that further guidelines for implementing this legislation are still required, as the decree does not specify or provide a definition for the following legal terms: “beneficial owner”, “ownership”, “control” and/or “legal interest”.

To sustain the progress made in complying with international standards and meeting different commitments, several challenges need to be addressed; some of these are legal or political, while others are administrative and institutional. For example, accessing information on the accounts of bank clients, whether companies or individuals, for tax purposes is restricted by the banking legislative framework, as the current legislation, Law No. 194 of 2020 on banking, adheres to bank secrecy obligations for customer accounts. Accordingly, it is not permitted to disclose any bank information for the aim of reducing tax evasion or complying with the exchange of information obligations under double tax treaties or other international agreements to which Egypt is a party. Exceptions to the confidentiality obligation apply if there is written permission from the customer or their legal representative, or in the presence of a court order or permission during a lawsuit, arbitral proceedings or upon request from the public prosecutor.

While bank secrecy provisions create an obligation to banks and serve as a privilege afforded to the bank customer that their information will be legally protected from third parties, confidential clauses must not be seen as being absolute. This is especially true in cases where individuals misuse or exploit

these laws to hide their ill-gotten wealth and/or evade taxes. In this regard, it may be useful for the relevant national authorities to enter into bilateral agreements that waive banking secrecy for dubious accounts and allow the information needed to be obtained under certain strict conditions or with evidence from banks and financial institutions. Addressing the bank secrecy challenge also opens the door for more effective international tax cooperation in terms of joining and signing important multilateral conventions such as the Convention on Mutual Administrative Assistance in Tax Matters.

Other obstacles to meeting the exchange of information standards and various related commitments concern implementation capacity and resources. The effectiveness of efforts to meet obligations and apply the measures needed to tackle tax evasion is influenced by the quality of implementation. On the one hand, it is necessary enhance the capacity of institutions, namely the Egyptian Tax Authority and the Ministry of Finance. This is to ensure the presence of adequate ICT infrastructure, technological processes and computer software that allow for effective data handling and are able to meet the requirements concerning information confidentiality and safety. On the other hand, it is also very important to improve the capacity of human resources to conduct international tax audits and tax analyses.

## (b) Trade-related illicit financial flows

Commercial practices are considered a dominant source of illicit outflows for developing countries. The term “trade mis-invoicing” refers to the illegal practices used by traders to reduce or evade income taxes, VAT or customs duties through the intentional submission of invoices that misrepresent the price, quantity or quality of goods. According to UNCTAD, trade mis-invoicing costs Africa between \$30 billion and \$52 billion annually. It is presumed that revenue losses from trade mis-invoicing are likely to be equivalent to

those attributed to tax evasion and profit shifting by multinational corporations. Given the magnitude of the problem, the latest report of the High-level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda called for trade mis-invoicing to be considered a separate policy problem with separate solutions to other forms of tax evasion.

In a study on illicit financial flows in developing countries during the period 2004–2013, trade mis-invoicing in Egypt was estimated to contribute to the loss of nearly \$25 billion for the same period. In another comprehensive case study on the level of trade mis-invoicing, the potential tax revenue losses to the Egyptian Government in 2016 alone were estimated to be almost \$1.6 billion.<sup>35</sup> This amount is equivalent to 4.1 per cent of the value of the total government revenue collections in the same year. Of the \$1.6 billion total estimated lost potential revenue, export mis-invoicing accounted for nearly \$404 million, while the other \$1.2 billion was the result of import mis-invoicing.

Egypt introduced a new customs law in November 2020 to reform the Egyptian tax and customs system, address fraudulent trade practices and ensure proper implementation and oversight of the financial systems, imports and exports. Law No. 207/2020 is the current regulatory framework addressing trade mis-invoicing.

The new law, replacing the previous five-decade old customs laws (No. 66/1963 and No. 186/1986), seeks to facilitate international trade between Egypt and other countries by simplifying and streamlining customs procedures and digitizing mechanisms for customs clearance and fee collection. In addition, the law applies strict measures to combat customs evasion through different provisions that stipulate more severe penalties on customs violations or customs smuggling than had previously been the case.<sup>36</sup> The penalties stipulated include the confiscation of goods subject to the offence, minimum and maximum fines for customs offences, as well as jail sentences in some cases.

The law was followed by a draft law on customs, executive regulations and a Decree No. 38 of 2021 on pre-shipment registration procedures (i.e. advanced cargo information) using a single window electronic system. Besides seeking the facilitation of procedures, these legislative steps lead to the expansion of the use of digital technologies and, in turn, generate better documentation and increased exchanges of information and data. These unprecedented legislative developments must therefore be coupled with continuous support for institutional and human capacity-building to enhance monitoring and evaluation capacities and tools, which are essential to curbing illicit flows. Since customs authorities are responsible for monitoring and evaluating the accuracy of export and import prices and quantities, further strengthening of administrative capacities in specific areas is much needed. This includes areas related to the detection and investigation of potential over- or underinvoicing of commodities entering and exiting the country by enabling the rapid processing of large data sets, which can assist in the detection of illicit transactions.

### 3. The way forward: policy and institutional coherence in countering illicit financial flows

Despite growing awareness of the risks of illicit financial flows and increased international cooperation to curb them, it is still challenging at the national level to tackle the problem effectively in a comprehensive manner that would enable significant lump sums of money to be linked to SDG financing. This may be because of the multiplicity of types and sources of illicit financial flows, in addition to the range of different institutions involved, where each is dealing with a particular form of illicit financial flows separately, without coordination.

Addressing the challenge of FFD more effectively at the national level, especially in the last decade



for action, may call for a more innovative and coordinated approach to tackling illicit financial flows. One that would take advantage of the economies of scale to capture all forms and channels of illicit flows, which necessitates better coordination on both the policy and administrative framework levels to promote financial integrity and address existing gaps. The High-level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda states in its 2021 report: “[i]t is no longer good enough to talk about—or even create—standalone institutions to promote progress on specific aspects of financial integrity, such as an apex anti-corruption body”. In this respect, the Panel recommends that “Governments should create robust and coordinated national governance mechanisms that efficiently reinforce financial integrity for sustainable development and publish national reviews evaluating their performance.”<sup>37</sup>

Within this context, and to build on the national steps taken to address the different aspects and types of illicit flows, the Government should promote policy and institutional coherence in relation to countering illicit financial flows in order to overcome any policy conflicts and obstacles in inter-agency coordination. This requires the

establishment of a functional mechanism with the membership of all State institutions involved to lead a focused effort on this issue and encourage collaboration. Efforts may be concentrated on several aspects. The first is measuring the real magnitude of illicit outflows in the case of Egypt, capturing the full image and encompassing all sources and channels. Efforts should also prioritize gathering, revising and harmonizing all legislative provisions that address illicit financial flows in reference to the different aspects and pinpoint any conflicting or problematic articles that prevent significant progress in this area. Another aspect is to ensure that the different institutions involved do not have overlapping mandates or responsibilities and, most importantly, identify how they can act as connected links in a chain of measures, establishing patterns of responsibility, authority and accountability that do not fragment or overlap.

Such efforts would serve as a coherent approach to exploit synergies where they exist and remove overlapping or competing mandates. They also pave the way for the streamlined and coordinated reporting that is central to linking illicit financial flows to broader development planning frameworks, specifically the INFF, and ensuring that it is coherent with medium-term revenue strategies that would greatly contribute to national priorities.





## E. Quality, impact and effectiveness of development cooperation

The impact and effectiveness of development cooperation are often affected by the quality of planning, coordination and implementation arrangements among both the national and international counterparts. This comes with the modernization of the dynamics of development cooperation and the enhancement of the management capacities of the institutional structures involved. The COVID-19 pandemic has further emphasized the urgency of delivering development cooperation in a better and more effective manner in order to support economies and minimize the negative spillovers of similar crises.

### 1. Enhancing national planning for development finance

Most Governments have made progress by establishing robust national sustainable development strategies and plans that lay out the priorities that still need to be financed. However, these national strategies do not often provide details as to how they will be financed and implemented. To this end, the INFF is considered a tool that better links financing to development strategies to strengthen national planning processes and ownership and to better align development interventions with national objectives and the SDGs. The establishment of such frameworks is also usually associated with shifts in national planning mechanisms and coordination structures to facilitate more diverse sources of financing and a multiplicity of partners working together to enhance the effectiveness of development cooperation.

In this context, Egypt is pursuing several efforts. Establishing an INFF, as discussed in chapter 3, will ensure that the costing of objectives in the Egypt Vision 2030 and SDG targets, the assessment of the current financing landscape and associated financing gaps are all available and integrated within public and private financing policies. Such

processes will also broaden the awareness of and generate dialogues around SDG-aligned development financing priorities, support decision makers and build understanding and momentum for required reforms and new policies.

In addition, in regard to FFD, Egypt signed a cooperation protocol with the United Nations Joint Sustainable Development Goal Fund in March 2021. The protocol signed is for a draft strategy for financing the SDGs in the country, placing special emphasis on the key sectors of education, health, social protection, water, sanitation and transport. This cooperation will assist the Government in evaluating the current situation to determine the cost of achieving the national development goals outlined in Egypt Vision 2030 and will be implemented in collaboration with United Nations agencies in Egypt.



**South-South cooperation has emerged as an important modality of development cooperation among countries of the South, allowing them to engage with each other and share their knowledge, skills, expertise and resources in specific areas to meet their national development challenges through concerted efforts.**

These efforts can benefit from adopting a national development cooperation policy as a broader framework that guides the advance planning and mobilization of all external financing resources (ODA and other external resources). Such a framework will help to align international development cooperation with the national priorities within the country's INFF. It will also provide clarification on the division of responsibilities between all stakeholders involved at the national level and thereby improve the communication and coordination between them, which will contribute to the improved delivery of development cooperation.

## 2. Coordinating with development partners

With the outbreak of the pandemic, Egypt has prioritized reinforcement of the coordination between national and international counterparts to further enhance the effectiveness of development efforts by all actors. This is reflected in the creation and launch of the multi-stakeholder platforms in 2020 as a country-led engagement framework for international cooperation.

These organized multi-stakeholder platforms are expected to strengthen partnerships to achieve better results by opening the door for regular, interactive and participatory consultations with all stakeholders, including the Government, development partners, the private sector and civil society. They also serve as a coordinating mechanism that enables the identification of financing priorities and objectives across sectors while allowing for increased synergies among development partners.

## 3. Monitoring and reporting on development cooperation

Monitoring and reporting are key to the quality and effectiveness of development cooperation. Not only do they allow tracking progress

against national and international development cooperation commitments, but they also provide information for review processes and inform dialogue among stakeholders. Strengthening monitoring and reporting mechanisms at the country level helps to provide an evidence base to improve results and presents an opportunity for knowledge-sharing and mutual learning with other countries.

Realizing the importance of monitoring, Egypt has been participating in OECD monitoring reports on development cooperation effectiveness. The Ministry of International Cooperation participated in the first monitoring report on the Paris Declaration on Aid Effectiveness: Ownership, Harmonisation, Alignment, Results and Mutual Accountability in 2005; it also continued to monitor its own performance in the two most recent monitoring rounds of the Global Partnership for Effective Development Cooperation in 2016 and 2018. The Monitoring Framework collects data on ten indicators that review progress on the four internationally agreed principles of effective development cooperation. The results are then compared to the data collected by Development Assistance Committee countries and a comparative matrix is produced of the performance of all countries involved in the monitoring process.

According to the results of the latest survey of the Global Partnership for Effective Development Cooperation in 2018, and as published in the annual report of the Ministry of International Cooperation in 2020, Egypt has shown progress in all four principles of effective development cooperation, recording higher levels of effectiveness in comparison to other middle-income countries.<sup>38</sup> In assessing country ownership of development cooperation objectives, Egypt scored 95 per cent, compared to an average of 87 per cent in other countries. Development partners who contributed in the monitoring round affirmed that all Egyptian ministries clearly communicated the national development objectives, which are guided by the

Egypt Vision 2030, and that the implementation and disbursement of ODA in the short and medium terms are executed as planned for the majority of projects. Second, regarding the focus of results, development partners affirmed that they rely on national results frameworks for 93 per cent of their activities in Egypt, compared to an average of 80 per cent in other countries.

For inclusive partnerships, the monitoring round identified the need for a more in-depth approach to mechanisms to engage the private sector and civil society in development cooperation. This led to the collaboration of the Ministry of International Cooperation with OECD in the case study on engaging the private sector in development to set international guiding principles in that connection. Lastly, in assessing transparency and mutual accountability, it was reported that 70 per cent of information on development cooperation, including access to signed agreements, project implementation documents, data on financial allocation and disbursement rates, as well as monitoring and evaluation reports, is publicly available. The missing data were attributed in large part to cooperation mechanisms with non-Development Assistance Committee countries that follow different patterns in their planning, financial allocations and implementation. Examples include cooperation with Gulf countries and China, which require a more adaptive mechanism to account for different modalities of cooperation.

In addition to establishing the systems needed to create an environment conducive to national development, including the monitoring measures of the Global Partnership for Effective Development Cooperation, Egypt implemented parallel efforts to follow up on and monitor development cooperation projects and activities to assess their progress towards achieving the SDGs. In 2020, the Ministry of International Cooperation restructured its monitoring and evaluation department with the aim of institutionalizing a strong system for regular monitoring, transparency and accountability with

the beneficiary line ministries and implementing institutions. Accordingly, ODA-financed projects within each sector are regularly monitored, and updated reports are shared on a quarterly basis with the Egyptian Cabinet to ensure that any challenges or bottlenecks encountered are resolved during implementation. According to the Ministry, this system has contributed to the drop in the percentage of projects that experienced problems to only 1 per cent as at June 2021, compared to 28 per cent in earlier periods.

These reforms, including the reporting of ODA in terms of financial contribution to the SDGs, are valuable for tracking progress towards achieving development priorities and determining the effectiveness of development cooperation, as well as providing information on existing finance gaps. Not only is this essential, but it is also important to capture other types of development cooperation in Egypt and track their contributions, results and impact.

In that respect, it is suggested that Egypt would benefit more from expanding the monitoring framework to go beyond ODA and integrate other development cooperation interventions. This can be done by complementing the existing tools and channels for monitoring and review rather than setting up new ones. Enhancing the information and data systems for broader development cooperation will make it possible to capture the contribution of other forms of finances that are channelled into development cooperation but are not counted. This includes climate financing and funds injected in South-South and triangular cooperation projects, in addition to other flows that contribute to the achievement of the SDGs. An integrated monitoring system will also support the public governance and accountability mechanism of development cooperation. The system should be responsive to the demand for data disaggregation and must ensure the quality and timeliness of data collection to inform the decision-making process, ease tracking progress and measure the impact.

This step should be coupled with the development of national capacities in terms of quantity and quality. Strengthening the capacity of the key staff involved in the monitoring and evaluation activities of different development projects is pivotal to assessing the quality, impact and effectiveness of development cooperation.

Technical training on the development of methodologies for data collection and the improvement of data generation at the local level in particular, in addition to the interpretation and analysis of data are crucial to enable proper monitoring and reporting within the country's national results framework.

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## F. Conclusion and policy recommendations

In line with SDG17, on strengthening the means of implementation and revitalizing the global partnership for sustainable development that calls for partnerships between different actors and across various sectors, this chapter discussed international development cooperation, including its role in FFD. Different cooperation tools have been examined as external finance channels and as powerful catalysts and levers for domestic resource mobilization, allowing for acceleration of the achievement of the SDGs in Egypt. In addition, the role of Egypt as a provider of South-South cooperation in Africa, through knowledge-sharing and the strengthening of capacities crucial to the advancement of the SDGs, was highlighted.

The subsequent points summarize the main concluding remarks of the chapter and are followed by recommendations for the way forward.

Although ODA continues to be part of financing for progress towards sustainable development, the volumes of it in Egypt diminish its relative importance in comparison to other sources of external finance. Nevertheless, its use can be optimized by directing it towards providing targeted support for certain SDGs or areas that are underfinanced and shifting towards a more catalytic role to mobilize other sources of development finance that are important to achieving the SDGs.

Private sector engagement is fundamental to supporting and financing development needs.

In Egypt, private sector engagement through development cooperation can be further strengthened and extended to fill the significant gaps in social sectors and address social challenges. With the Government having announced private sector engagement as a key theme for development cooperation in 2021, there is an opportunity to create a national policy framework through an inclusive and participatory process.

Blended concessional finance is one of the important tools that can help to close the large investment gap in Egypt, where multilateral development banks and development finance institutions play a crucial role in using concessional resources for blended finance transactions to mobilize the necessary resources. Egypt already has successful experience in maximizing FFD through joint financing from multilateral development banks in the energy sector and should build on it to replicate this experience in other priority sectors and projects. Partnerships with multilateral development banks and international financial institutions should also focus on providing direct financing and on catalysing additional public and private resources, as well as on providing the policy advice and technical assistance components required to improve the investment climate and build domestic capacities.

The role of South-South and triangular cooperation is becoming increasingly important to the recovery of developing countries from

COVID-19 as it promotes learning from action-oriented policies and measures used to address social, economic and environmental responses to the pandemic from across the region. Focusing on tracking, measuring, assessing and documenting its added value and its impact on sustainable development could further guide and inform the Government on how to leverage South-South partnerships to scale up and make better use of development finance, develop productive capacities and make progress towards attaining the SDGs.

Combating illicit financial flows is becoming more urgent as a result of the pandemic. Continued cooperation on the national and international fronts can play a vital role in enabling the use of higher levels of domestic resources to finance sustainable development. Improving inter-institutional coordination and strengthening national enforcement capacities to investigate suspicious transactions, as well as international information sharing and tax cooperation, contribute to greater efficiency and effectiveness in curbing illicit financial flows.

The coordination and effectiveness of development cooperation must continue to be strengthened at all levels, from politically agreed priorities and a balanced combination of development cooperation modalities to integrated and coordinated programming at the country level. The continuous enhancement and upgrading of coordination mechanisms and tools is also required with regards to planning and management, the information technology and data systems used and the capacities of different institutions and human resources involved in monitoring and reporting activities. This will in turn contribute to improving the transparency and effectiveness of cooperation by maintaining a focus on reporting, results and sustainable impact.

In light of the abovementioned conclusions, two sets of recommended policy actions are proposed. The first set is strategy oriented, involving a set of structural policies and strategies

that would act as an overarching framework within which development cooperation would operate to improve policy coherence in order to achieve the Egypt Vision 2030 and the SDGs. The second set is specific and action oriented, focusing on the operational level, in particular on the process and the delivery of results. In doing so, it involves coordination between different national entities in mobilizing funds and communicating with development partners to deal with any institutional dispersion. It is also concerned with the management of delivery in terms of maintaining a focused approach towards results by emphasizing follow-up, monitoring and evaluation, in addition to scaling up institutional and human capacities. Both sets of policy recommendations are oriented towards operationalizing and achieving the four core principles of global effective development cooperation: ownership by partner countries, a focus on results, inclusive partnerships and transparency and mutual accountability.

## 1. Strategy-oriented recommendations

1

Adopt a more comprehensive national development cooperation policy. A comprehensive and overarching legal framework that covers a broader scope of external financing resources, including ODA, can better support the INFF discussed in chapter 3 and will act as an enabler that increases the coherence and effectiveness of development cooperation in Egypt. The policy should: (i) be closely linked to national and global sustainable development goals; (ii) stress the critical set of external resources that international development cooperation encompasses to support the realization of the SDGs (this includes financial transfers, capacity support and policy advice with primary development impact, all of which can fill resource gaps and provide targeted support to realize national development



efforts and contribute to international ones); and (iii) reflect the clear roles and responsibilities of a wide range of actors in development cooperation. This includes governmental actors at the national and subnational levels, bilateral and multilateral development partners, the private sector, civil society and charities.

2

Adopt a national ODA strategy. The ODA coordination and management system in Egypt can be strengthened with the adoption of a legal framework, reflected in a national ODA strategy. The strategy can be formulated in the medium term to be part of a larger overarching framework for the national development cooperation policy suggested above. It should be focused on the purpose of ODA, declaring the goals, priority sectors and priority geographic zones for intervention that would optimize its use, thereby maximizing the development impact of ODA and contributing to achieving national priorities. In this way, the strategy will serve as a compass, pointing towards what needs to be done, where and in which areas. In turn, it can serve as a tool to better understand the role that development cooperation and concessional finance can play compared to other sources of finance. It will therefore guide the Government with regard to decisions on the allocation of ODA and support it in managing the competing sectoral interests. The strategy will also guide development partners by indicating national objectives and increasing alignment with them. Moreover, it will increase the efficiency of the ODA system by ensuring that development cooperation resources are better allocated with the development priorities defined in the national strategy and plans and respond to the SDGs. Lastly, adopting a clear national ODA

strategy will enhance national capacity in the medium-term predictability of development cooperation indicators, improving the country's ranking in the principle of country ownership.

3

Formulate a national policy framework for private sector engagement through development cooperation and beyond. Developing such a policy framework will contribute to building more inclusive partnerships and increasing country ownership through greater participation by local stakeholders. This process should be aimed at clearly outlining the objectives of private sector engagement, benefits to different stakeholders, opportunities for engagement and conditions of engagement (such as monitoring, evaluation and results reporting). The organized multi-stakeholder platforms focused on private sector engagement should be used as a medium to reach this policy framework and as a starting point for this process.

## 2. Action-oriented recommendations

1

Extend the regulatory frameworks to comprise and promote private sector engagement in social sectors. This step will stimulate and increase financing for innovative business models, such as social enterprise models that target socioeconomic needs. The Government must provide incentives for the private sector to move from economic investments to impact investments generating social, environmental and financial returns. This may include presenting fiscal and non-fiscal incentives (endorsements, labelling, training and information) to help businesses and private sector front runners to target development challenges in specific sectors and regions that lag behind

with an explicit focus on the poor and the most vulnerable.

2

Create a road map for blended finance that is linked to the INFF. As mentioned earlier, the Government of Egypt is currently conducting a DFA to map and analyse FFD flows and their associated policy and institutional frameworks. In that regard, and in cooperation with different development partners, the Government can spearhead an exercise to evaluate the potential of adopting blended finance for different priority development sectors and projects with financing challenges. It is important to measure the cost of blending compared to other financing structures and to identify the most appropriate instrument that addresses the existing challenge and helps to achieve the desired impact. The evaluation should be based on the sustainability of the underlying programme or intervention, the potential for increased efficiency by engaging the private sector and the interest of private sector partners. Adopting a strategy will allow the Government to use blended finance in a strategic and systematic way that helps to close the financing gap, stimulates innovation in high-impact sectors and fosters the development of the domestic market.

3

Adopt a strategic blended capital approach at the level of MSMEs. In relation to the previous recommendation, it is important to adopt an appropriate approach for the stage of maturity and capital needs of enterprises that perform social activities in the public interest. For example, early-stage capital is required for innovative businesses and projects, which may be able to attract commercial financing in the medium to long term but

require highly concessional capital in the short term. Such early-stage organizations can be provided with grant funding, while entities that are in a growth stage should be considered for investment capital. Adopting a strategic blended capital approach will ensure that dormant account funds are used efficiently and private capital is directed towards sustainable development.

4

Form a dedicated and functional mechanism to support efforts to tackle illicit financial flows in a more coordinated manner and reinforce financial integrity for sustainable development. Such a mechanism is desired to effectively coordinate between all national bodies involved in curbing illicit flows and to promote policy coherence by overcoming any existing conflicts in relevant policies. The mechanism can take the form of a high-level committee that is mission-driven, time-bounded and reports directly to the President to guarantee the inter-agency collaboration that is needed to improve financial transparency mechanisms and communicate progress to the public.

5

Address challenges in the national regulatory frameworks, enforcement mechanisms and capacities to effectively curbing illicit financial flows. It would be useful to reconsider the repeal of banking secrecy for tax administration purposes and the effective exchange of information. On the one hand, it would enable the competent authorities to combat tax evasion, money-laundering and other financial fraudulent activities. On the other hand, it would establish a framework for complying with international standards on the exchange of information. Nevertheless, implementing this

## 6

step should be coupled with strict safeguards that protect against the political misuse of any such provision by government bureaucrats and against breaking the public trust in banks, which would have a negative impact on the economy. Any amendments must ensure that information will only be used for the intended purposes and specific cases clearly stated in the law. It is also key to continue to provide ongoing support to effectively implement the tax and customs services reform and to upgrade their digital technology infrastructure and tools to enhance their administration and implementation capacities in order to effectively detect and deter illicit transactions.

Strengthen the management of information on development cooperation. Using an advanced and integrated information system for managing ODA and similar data flows (including South-South cooperation and climate financing) is key to ensure the availability and timeliness of accurate statistics on development cooperation projects. The system is also expected to enhance coordination between the ministries involved in development cooperation to ease monitoring and maintain a results-focused approach. Improving the monitoring system in place will help to overcome the challenges of limited reporting and disaggregation of information on the allocation and use of ODA at the national and subnational levels, which will consequently better inform and guide policy interventions to ensure that no one is left behind. It will further increase the accessibility, transparency

and reliability of public information, as well as operate as an accountability tool that enables the national Government and various development partners to make improved, informed decisions based on emerging evidence.

## 7

Invest in the development of human capacities to scale up private sector engagement and knowledge-sharing. The national experience of Egypt, as well as other international experiences, shows that institutional and human capacity-building go hand in hand. This suggests that the mapping of existing finance needs and resources must be accompanied by efforts to address the human capacity gaps at the national and local levels. Capacity-building to scale up private sector engagement and knowledge-sharing are two areas that must be targeted as a matter of priority. Increasing the quantity and quality of private sector engagement for sustainable development requires ensuring that the appropriate skill sets are available for work with the private sector throughout the project development process. Investment in the recruitment and technical training of staff able to prepare projects properly, with experience across a range of financial instruments, is therefore crucial. Moreover, the fact that concessional blended finance is relatively new calls for a focus on building capacities in documentation and knowledge-sharing with regards to: (i) the structures and approaches that worked in Egypt; (ii) the projects and sectors in which those structures and approaches were deployed; and (iii) why they did or did not work, elaborating on the enabling conditions for replication of such efforts.

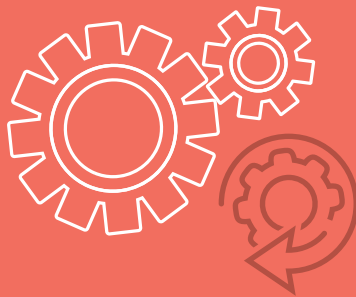
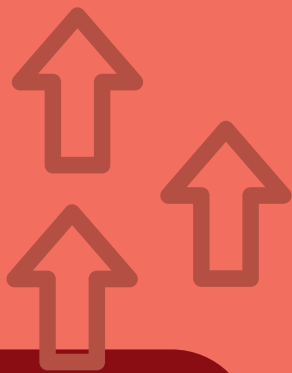
# Endnotes

1. OECD, 2020d.
2. “Non-Development Assistance Committee countries” are classified as European countries with established development policies that adhere to the Committee’s guidelines, Arab donor countries that do not align with the Committee’s standards or South-South development cooperation partners. “Multilateral development partners” refers to multilateral development banks and development finance institutions.
3. United Nations, Inter-agency Task Force on Financing for Development, 2020.
4. According to the World Bank, net ODA consists of disbursements of loans made on concessional terms (net of repayments of principal) as well as grants by official agencies of the members of the Development Assistance Committee, multilateral institutions and non-Development Assistance Committee countries. The analysis may show a different trend when total ODA disbursement is considered rather than net ODA.
5. According to OECD-Development Assistance Committee, the ratio of aid to central government expense provides a measure of recipient country’s dependency on aid. More information can be found at <https://data.worldbank.org/indicator/DT.ODA.ODAT.XP.ZS?end=2019&locations=EG&start=1990&view=chart>.
6. Ministry of International Cooperation, Egypt, 2020.
7. Information on the mapping methodology can be found at: [www.moic.gov.eg/en-US/Sectors/Index?na=110](http://www.moic.gov.eg/en-US/Sectors/Index?na=110). The mapping process is updated regularly each quarter, as new projects begin and others are completed.
8. Ministry of International Cooperation, Egypt, 2021.
9. United Nations, Inter-agency Task Force on Financing for Development, 2020. Social infrastructure and services, accounting for 5.6 per cent, are aggregated as follows: water supply and sanitation, 2.1 per cent; health and population and reproductive health, 1.8 per cent; other social infrastructure and services, 0.7 per cent; government and civil society, 0.5 per cent; and education, 0.4 per cent.
10. OECD, 2018b.
11. Central Bank of Egypt, 2021; Morsy, 2017.
12. For more information on the multi-stakeholder platform, see [www.moic.gov.eg/en-US/Search/Index?searchText=MSP](http://www.moic.gov.eg/en-US/Search/Index?searchText=MSP).
13. More information on the joint exercise between the Ministry of International Cooperation and the International Finance Corporation can be found in the article “Greening Egypt’s economy and what it means for the MEA Region”. Available from [www.fdiintelligence.com/article/79361](http://www.fdiintelligence.com/article/79361).
14. The map can be found at [www.investinegypt.gov.eg/English/Pages/explore.aspx?map=true](http://www.investinegypt.gov.eg/English/Pages/explore.aspx?map=true).
15. Global Partnership for Effective Development Cooperation, 2018a.
16. Convergence, 2019. Convergence is the global network for blended finance. It generates blended finance data, intelligence and deal flow to increase private sector investment in developing countries and sustainable development.
17. Ministry of International Cooperation, Egypt, 2020.
18. International Finance Corporation, 2020b. GDP, employment and export percentages are for 2019.
19. For more information on the multi-stakeholder platform, see [www.moic.gov.eg/en-US/Search/Index?searchText=MSP](http://www.moic.gov.eg/en-US/Search/Index?searchText=MSP).
20. The Egyptian Agency of Partnership for Development is the national body mandated with boosting Egypt’s South-South and triangular cooperation efforts. It was established in 2014 as a merger of two long-standing specialized funds for technical cooperation with other regions, namely the Egyptian Fund for Technical Cooperation with Africa and the Egyptian Fund for Technical Cooperation with the Commonwealth, Islamic European States and Newly Independent States. The Agency is administered by a Secretary General who is appointed by the Foreign Minister.
21. Egyptian Agency of Partnership for Development, 2021.
22. According to an interview in March 2021 with a senior official at the Ministry of Foreign Affairs.
23. South-South Galaxy is an online tool launched by the United Nations Office for South-South Cooperation as a global knowledge-sharing and partnership-brokering platform for South-South and triangular cooperation to promote and scale up best practices for the benefit of developing countries.
24. Egypt Today, 2021.
25. The author conducted interviews with senior officials at the Ministry of Foreign Affairs and the Egyptian Agency of Partnership for Development who are responsible for South-South and triangular cooperation.
26. Illicit financial flows and international collaboration to reduce them are usually addressed as part of overall efforts to enhance the domestic resource mobilization and taxation systems. However, since domestic resource mobilization is not addressed in a specific chapter in this report, illicit financial flows, with a focus on their tax- and trade-related conduits, are discussed under international development cooperation.
27. UNCTAD, 2020b.
28. OECD, 2021.
29. UNCTAD, 2020b.
30. Important studies and reports include the Report of the High Level Panel on Illicit Financial Flows from Africa “Illicit Financial Flows: Track it, Stop it, Get it”, issued by the United Nations Economic Commission for Africa in 2014. The report estimated the cumulative illicit financial flows for Egypt between 1970 and 2008 to be \$105.2 billion, equivalent to a 14.7 per cent share of Africa’s total illicit financial flows. In addition, the 2013 joint report by the African Development Bank and the Global Financial Integrity “Illicit Financial Flows and the Problem of Net Resource Transfers from Africa: 1980–2009” noted that Egypt ranked third in Africa (after Nigeria and South Africa) in the exportation of illicit capital over the time period. It also dominated the ranking of North African illicit outflows, followed by Algeria and Libya.
31. Author’s calculations, based on the final accounts of the State budget of Egypt for the fiscal years 2017/18 and 2019/20, published by the Ministry of Finance, Egypt.
32. Other sources of income include royalties on intellectual property.
33. The Financial Action Task Force is an intergovernmental organization that promotes policies to combat money-laundering and terrorist financing.
34. Decree No. 41 of 2020 introduced amendments to Law No. 34/1976 on the executive regulations of the law on the commercial register.
35. Global Financial Integrity, 2019.
36. The new law identifies the various types of customs violations (such as unjustified decreases or increases in imported goods and the provision of incorrect valuations of goods for import and export) and customs smuggling (such as providing false or fabricated documents or invoices). Smuggling is defined as the illegal entry of goods into the Egyptian customs territory.
37. United Nations, High-level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda, 2021, p. X and p. 39.
38. Global Partnership for Effective Development Cooperation (2018b); Ministry of International Cooperation, Egypt, 2020.

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# A way forward

*by Dahlia El- Hawary and Miral Shehata*



13











Within a framework of effective partnerships and good governance, economic empowerment will facilitate better progress in reducing extreme poverty and enhancing inclusion.

## Background

Over the past few years, the world has witnessed a paradigm shift in the way economies have been operating; they are moving towards a new business model based on ensuring sustainability by mainstreaming environmental, social and governance considerations in core policies, strategies and operations. This structural transformation has been ignited by the 2030 Agenda, which was formally adopted by world leaders in 2015. It provides the blueprint for transitioning to more inclusive, green and resilient economies through the achievement of 17 SDGs across three main pillars of sustainability: economic, social and environmental. It also emphasizes a universal goal to leave no one behind.

In 2016, Egypt embarked on an ambitious economic reform that targets the achievement of the SDGs, which are integrated into its national policy framework, and underlines its commitment to the 2030 Agenda. Nevertheless, financing the SDGs presents a key challenge, not only for Egypt but for the world. Both developed and developing economies face a significant SDG-related investment gap that has





further widened during the COVID-19 pandemic. This report is the first national report on FFD for Egypt, the Arab region and the world. It may be considered a stepping stone to producing future reports that support policy discussions on mobilizing national resources. This is in addition to guiding the policy dialogue on assessing financing options and prioritizing various investment alternatives with a view to achieving national development goals through key policy recommendations.

The report discusses the main areas of action outlined in the Addis Ababa Action

(AAA) Agenda as well as emerging issues highlighted in the United Nations Global Financing for Development Reports. This report could be developed on an annual basis, not only for updating purposes but also for assessing progress made towards financing the achievement of SDGs in light of emerging developments, whether at the global, regional or national level. It could also address new challenges associated with tapping into funding sources. Further analysis at the subnational level, using granular and more disaggregated data, would be crucial to reinforcing SDG localization efforts and would provide additional insight to the analysis to guide the direction of future policies.

This chapter begins by examining the global landscape for financing the 2030 Agenda, highlighting the dimensions of the SDGs, the financing gap and the global financing framework, as well as the factors needed to accelerate progress. This is followed by a discussion of the sustainable development path for Egypt, focusing on the most important issues to address, milestones to highlight and the role enablers should be encouraged to play in order to “build forward better”. The chapter concludes with a number of policy recommendations to accelerate the transition to a more inclusive, green and resilient economy.

## A. Dimensions of the Sustainable Development Goals

The 17 closely interlinked SDGs can be grouped into six categories (figure 175). Within a framework of effective partnerships and good governance, economic empowerment will facilitate better progress in reducing extreme poverty and enhancing inclusion, as per Goals 1 and 10 at the top of the categorization. In other words, adequate investment in infrastructure, innovation and industrialization would not only accelerate the achievement of all interlinked SDGs but would also effectively target poverty and exclusion, since

it would improve access to affordable and clean energy, as well as water and sanitation; generate decent employment; and promote the role of sustainable consumption, production patterns and cities. Simply put, it is not possible to raise social equity without sufficient investment in human capital, resilience and infrastructure. China serves as an example in that respect, as it announced an end to poverty in 2020 through large investments that generated employment opportunities and led to higher growth.<sup>1</sup>

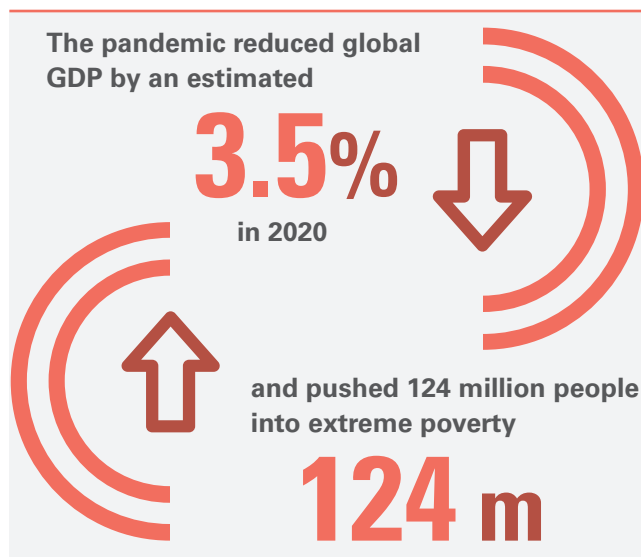
**Figure 175.** Dimensions of the Sustainable Development Goals

## 1. Our Common Agenda

In the 2021 report of the United Nations Secretary-General, *Our Common Agenda*,<sup>2</sup> Mr. António Guterres emphasizes the importance of capitalizing on the opportunity to accelerate achievement of the SDGs, as the COVID-19 outbreak has placed the world at an inflection point at which an urgent choice must be made between a breakdown or breakthrough to a greener, better and safer future. Specifically, the former option could be the result of adopting a business-as-usual scenario, while the latter could be achieved by proactively addressing interlinked challenges and shared vulnerabilities through global solidarity and collective action.

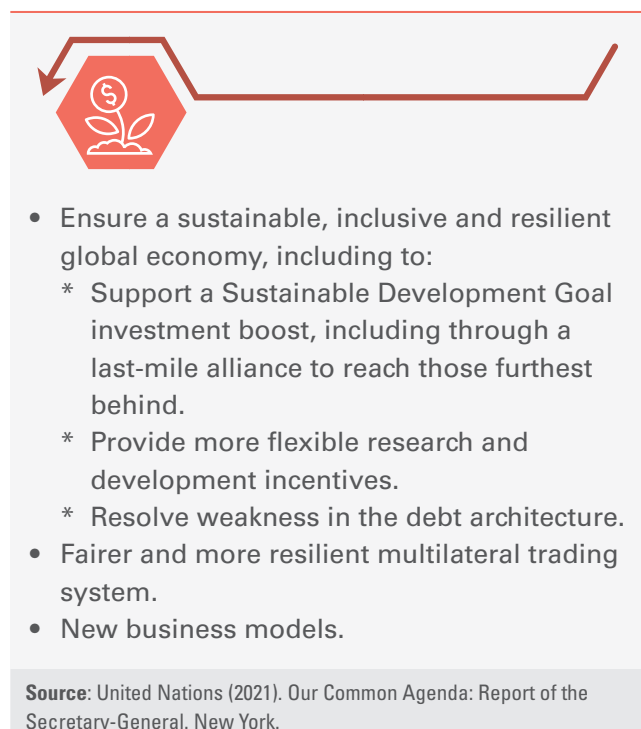
These current challenges include ensuing health threats, deepening poverty, rising inequalities and fiscal pressures that have derailed or even reversed recent, hard-earned development gains. For example, the pandemic reduced global GDP by an estimated 3.5 per cent in 2020, pushed 124 million people into extreme poverty,

increased the number of people without access to adequate food to one in three and increased child mortality by approximately 4.5 per cent. Our Common Agenda, described as an action agenda, calls for accelerating the implementation of existing agreements that are all well-aligned with the SDGs through key proposals across 12 commitments, as per figure 176.



**Figure 176.** The twelve commitments in Our Common Agenda

Figure 177 focuses on the ninth commitment to ensure the sustainable financing necessary to support the achievement of the SDGs, including through a last-mile alliance to reach those furthest behind. This area is most relevant to this report.

**Figure 177.** Ensuring sustainable financing

## 2. Achievement and acceleration of the Sustainable Development Goals and building forward better

The current crisis highlights the urgency of addressing the root causes of existing vulnerabilities in order to allow economies, particularly emerging and developing economies, to build forward better. This could be achieved by reconciling short-term, immediate responses to the pandemic with medium- to long-term development plans, tackling institutional rigidities and weaknesses as well as removing barriers that have long inhibited full structural transformation towards sustainability. This requires the adoption of a holistic, multidimensional approach to SDG achievement and financing, rather than a sequential, sector-by-sector approach, in order to better capitalize on the synergies between well-integrated SDGs.

In that respect, it is worth noting that achieving sustainability is much broader than addressing climate change, the focus of Goal 13. Despite



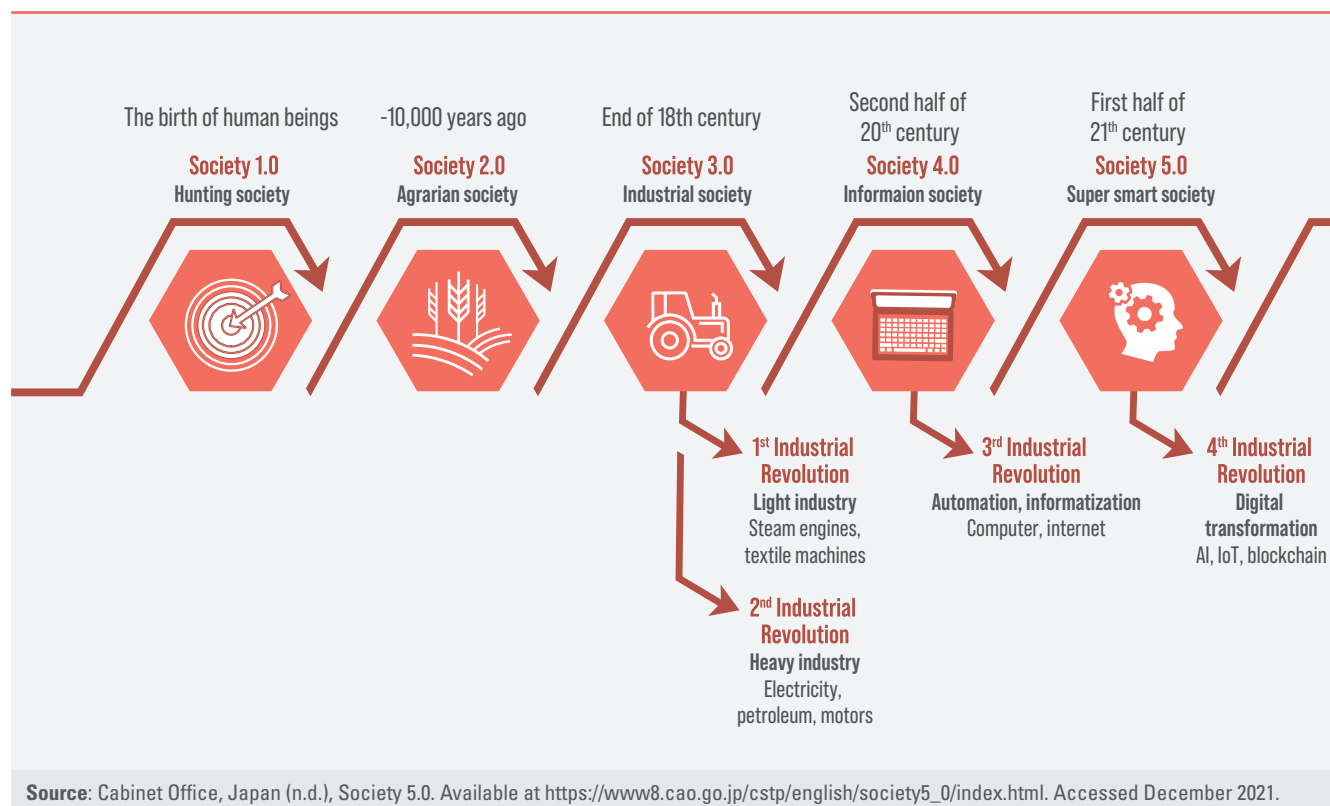
the benefits associated with climate change mitigation, such as improving access to clean and affordable energy and water and sanitation, it would be costly to focus solely on addressing climate-related risks, biodiversity losses and environmental preservation at the expense of investing in human and economic development and strengthening governance and partnerships.

This is because such narrow approach would deprioritize goals; such as, ending extreme poverty, eliminating hunger, ensuring good health and wellbeing, ensuring quality education and enhancing gender equality and would divert funding resources away from investing in them.<sup>3</sup> This would ultimately lead to the emergence of a two-tier system, one of which on a fast track on the implementation of SDG 13, while the second one would be on a much slower path to achieving the remaining SDGs, thus reducing the possibility of capturing co-benefits across SDGs, and ultimately slowing down the transition to green, more inclusive and resilient economy.<sup>4</sup>

In the pandemic era, the developed world has increased investment in “smart and green” growth that relies heavily on accelerated digitization, innovation and environment-friendly technologies. To that end, developed countries allocated significant investments through public spending recovery packages, amounting to over 10 per cent of GDP, to ensure a speedy, green and inclusive recovery, taking advantage of low-interest rates.<sup>5</sup>

Technological advancement is expected to dramatically alter many aspects of society by changing public administration, industrial structure, employment, health care and fintech services, among others. The concept of “Society 5.0” was developed by Japan in 2016 in its fifth Science and Technology Basic Plan as a future society to which the country should aspire. It represents the fifth form of societal development to which humankind has evolved since beginning with a hunting society (Society 1.0) (figure 178).

**Figure 178. Society 1.0 to Society 5.0**



Society 5.0 refers to a technology-based and human-centered society, described as the “super smart” or “creative” society, in which economic advancement is balanced with the resolution of social challenges by incorporating new technologies and innovations such as artificial intelligence, robots and big data into all industries and social activities, as well as integrating cyberspace with physical space.<sup>6</sup> While it is argued that achieving Society 5.0 would contribute to achieving the SDGs, it would undoubtedly have significant implications with regard to labour markets, types of jobs and the skills needed to meet society’s changing needs.

In order to ensure sustainability, a comprehensive approach to achieving the SDGs must be adopted. This requires significant investment in human capital, infrastructure and resilience.<sup>7</sup> The acceleration of the SDGs depends to a great extent on the presence of three important factors: reliable data, adequate financing and the effective implementation of well-aligned development policies, strategies and programmes.<sup>8</sup>

With regard to reliable data, the availability of accurate, well-disaggregated, good-quality, comparable and timely data is essential, not only to enable policymakers to better understand and manage crises but also to design well-informed policy actions to achieve the SDGs, monitor progress and identify trends and challenges. To that end, developing economies must address outdated information infrastructures and invest in data systems that enable both Governments and investors to allocate investments based on data-driven decisions.

With regard to adequate financing, sustainable financing has been crucial for achieving a sustainable, inclusive and resilient global economy. Based on estimates from PricewaterhouseCoopers, global financial assets have reached their highest value since before the global financial crisis era, with the value of global assets under management reaching over \$110 trillion. It is worth noting, however, that only 20 per cent of these assets are available



The acceleration of the SDGs depends to a great extent on the presence of three important factors: reliable data, adequate financing and the effective implementation of well-aligned development policies, strategies and programmes.

in the developing world, which has 80 per cent of the world’s population. This underlines the abundance of financial assets and their asymmetric distribution, as well as the challenge of channelling these financial flows from the developed world towards investments in the SDGs in developing economies.<sup>9</sup>

With regard to the implementation of smart, green policies, the following four main areas have been suggested by UNDP and the Frederick S. Pardee Center for International Futures.<sup>10</sup> First, the green economy entails rebalancing nature, climate and the economy by designing and de-risking nature-based solutions and enhancing sustainable consumption and production patterns while promoting public-private partnerships and aligning the financial system with a green transition. Second, digitization requires increasing investment in digital transformation through higher spending on research and development and the innovations necessary to improve access to digital services such as online schooling, telemedicine and remote working.<sup>11</sup> Third, governance involves establishing a new social contract to promote cohesion, stability and gender equality while protecting human rights and enhancing the rule of law. Lastly, social protection entails developing systems that can weather shocks and reduce inequalities.

## B. The Sustainable Development Goal financing gap

To achieve the SDGs, the 2030 Agenda emphasizes the need for the adoption of INFFs. These frameworks are also instrumental to the implementation of the 2015 Paris Agreement on Climate Change, which calls for a global transition to a low-carbon and climate-resilient future. In the pre-COVID-19 era, the global financing gap was estimated to be between \$5 trillion and \$7 trillion annually. The financing shortfall for the developing world was estimated at \$2.5 trillion on an annual basis until 2030.<sup>12</sup> In addition, the SDG financing gap for the Arab region has been estimated to be a minimum of approximately \$230 billion per year.<sup>13</sup>

According to the OECD Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet,



developing economies are currently facing a widening SDG financing gap. It is expected to increase by 70 per cent over the COVID-19 era, from \$2.5 trillion to an estimated \$4.2 trillion. This growing gap reflects a drop of \$700 billion in external private finance and a gap of \$1 trillion in public spending on COVID-19 recovery measures.<sup>14</sup>

## C. The global financing framework for the Sustainable Development Goals

The 2015 AAA Agenda provides the global framework for development financing, namely, for guiding the implementation of the 2030 Agenda. To that end, it elaborates on various issues related to better and more efficient resource mobilization, including domestic public resources, domestic and international private business and finance, international development cooperation, international trade, debt and debt sustainability, STI and capacity-building.

The AAA Agenda also highlights the importance of data, monitoring and follow-up to support the 2030 Agenda by enabling well-informed decision-making; improving the policymaking process; and supporting better tracking, monitoring and review of the progress made. This framework has been

further discussed in subsequent United Nations Financing for Sustainable Development Reports, issued on an annual basis since 2016. These reports are dedicated to examining issues related to improving resource mobilization in light of new challenges and emerging risks concerning the main areas of action under the AAA Agenda.

The Financing for Sustainable Development Reports for 2020 and 2021 have focused on the urgency of staying on track and bridging the financing gap through better resource mobilization in order to deliver on the SDGs by 2030. This is despite the challenges posed by the global recession, increased debt vulnerabilities, fiscal pressures, health threats and rising inequalities triggered by the COVID-19

pandemic and other issues. In this respect, the Secretary-General has warned that slow action, or a lack thereof, may result in a lost decade for development.<sup>15</sup>

The mobilization of sustainable finance can be supported by the rapid growth in digital technologies, a key trend highlighted in the Financing for Sustainable Development Report 2020. It is also important to prioritize inclusion by reducing the digital gap between various segments of society and to address regulatory challenges associated with rapid digitization, such as increased market concentration by bigger platforms. In addition, there is a need to improve social protection systems and pursue labour-enhancing development programmes,

since technological advancements may disrupt labour markets by creating new jobs while destroying others.

The 2021 Report highlights the opportunity to rebuild better while supporting the recovery process by tackling the root causes of existing vulnerabilities; addressing weaknesses in institutional and policy frameworks; and scaling up investment in human capital, social protection, resilient infrastructure and technology. The Report's thematic chapters, aligned with the main areas of action under the AAA Agenda, also underline the importance of securing financing for investments in sustainability, risk reduction and resilience-building in a world where risks are closely interlinked.

## D. The sustainable development path for Egypt

Egypt has been committed to the achievement of the SDGs and, on average, is 68.6 per cent of the way to the best possible outcomes, ranked eighty second among 165 countries.<sup>16</sup> A key step in the path towards the SDGs is to identify national development priorities in light of the country's initial conditions and constraints. The highest priorities under the national development agenda are Goal 1 on ending poverty and Goal 10 on reducing inequalities.<sup>17</sup> According to the latest available data, the proportion of individuals below the national poverty line decreased for the first time in 20 years to reach 29.7 per cent in 2019/20. Similarly, the proportion of the population living in extreme poverty, less than \$1.90 per day, dropped from 6.2 per cent to 4.5 per cent from 2018 to 2020.<sup>18</sup> Nevertheless, reducing inequalities has remained a challenge as a result of persistent regional disparities and high-income gaps between the top and bottom 10 per cent of income strata.<sup>19</sup>

Maintaining progress on poverty reduction, closing inequality gaps and alleviating the adverse effects of the pandemic on the poor and most vulnerable

requires a strong, resilient and well-designed social protection system.<sup>20</sup> When properly planned, social protection programmes improve access to essential services and contribute to breaking the cycle of poverty. Evidence shows that a household

The Egypt Vision **2030**

launched in **2016**  
demonstrates the country's  
commitment to the

**2030** Agenda,

the achievement of the SDGs,

the Paris Agreement

and the **2063** African Agenda

with at least one member receiving a Takaful or Karama cash transfer is less likely to slip from vulnerability to poverty. A strong social protection system must be fiscally sustainable. Financing the path to the SDGs requires harnessing diverse funding sources in a way that ensures both efficiency and coordination.

National sustainable development strategies must be complemented by financing frameworks. An INFF provides a useful approach to building a financing strategy that aligns different funding sources with the SDGs and national development objectives.<sup>21</sup> The first (and increasingly important) source of financing is domestic public finance.<sup>22</sup> Sound fiscal policies, as well as the mobilization and effective use of domestic tax and non-tax resources, are fundamental in the pursuit of sustainable development. These national channels must usually be complemented by international public finance, through both concessional and non-concessional financing resources.<sup>23</sup> In most cases, financing the country's development agenda further requires resorting to borrowing that must be based on a prudent debt management strategy to ensure the sustainability of the debt (Chapter 8 discusses the country's debt profile, management and sustainability issues).

The business sector is a key partner throughout the sustainable development path because of its

innovative capacity and ability to create jobs and conditions in which people can fulfil their potential if provided with the right incentives.<sup>24</sup> It is also instrumental in closing the SDG investment gap, which has been further exacerbated as a result of the COVID-19 pandemic. A well-functioning business sector should be backed by a supportive financial sector that can efficiently channel the necessary funds to the achievement of the SDGs.<sup>25</sup> To this end, policy and regulatory frameworks should better align financing with development goals and work to ensure balanced financial inclusion.

In accordance with the global FFD framework, trade is regarded as an engine for inclusive economic growth and poverty reduction.<sup>26</sup> Another important enabler in FFD is STI+D.<sup>27</sup> The COVID-19 pandemic has emphasized the importance of these areas in building resilient societies and reducing the likelihood and adverse impact of shocks.

Successful implementation of the SDGs at the national level depends to a great extent on progress made at the local level. Egypt has recently focused on localization as a founding pillar for the achievement of its development agenda. The Haya Karima initiative is the most notable in this regard.<sup>28</sup> This approach is complemented by strengthening long-term local strategic planning and adopting evidence-based policies, which are considered a prerequisite for policy effectiveness and coherence. Accordingly, high-quality disaggregated data and strong data systems are essential for developing well-functioning monitoring and evaluation systems to guarantee progress towards the country's development aspirations while making the most efficient use of various financing sources.<sup>29</sup>

The Egypt Vision 2030, launched in 2016, demonstrates the country's commitment to the 2030 Agenda, the achievement of the SDGs, the Paris Agreement and the 2063 African Agenda. It is mainly based on the development of medium and long term strategies; such as, the Strategy for Science and Technology for Sustainable Development (2030), Information and Communications Technology 2030 Strategy: Digital Egypt,<sup>30</sup> Egypt's Education



**Haya Karima considered the largest project to localize the SDGs in the world, taking advantage of the interlinkages between the SDGs and changing the landscape for sustainable development at the local level.**



Transformation Program (2030), Egypt's Integrated Sustainable Energy Strategy (2035), the National Strategy for Medium, Small and Micro Enterprises and Entrepreneurship and the Egyptian Family Development National Plan (2021–2023), among others.<sup>31</sup> The Vision, which is currently being updated, aims to establish a well-diversified, competitive and knowledge-based economy that is characterized by social justice, prosperity and balanced growth. It also aims to achieve sustainable inclusive growth along the three dimensions of sustainable development: economic, social and environmental. The updated version places human development at the core of its priorities while promoting equity, accessibility, adaptation and resilience, as well as ensuring sustainability. These represent the overarching framework for the achievement of national objectives and strategic goals.

The remainder of this chapter highlights some of the milestones Egypt has reached on its sustainable development path. It discusses some of the most important issues to be addressed and the role of enablers, which should be reinforced during the transition. These include the Haya Karima initiative, the economic reform programme, digital transformation, the national framework for sustainable financing for the SDGs, climate finance, export orientation, foreign direct investment and private sector engagement.

## 1. Haya Karima

The Presidential initiative, Haya Karima meaning “decent life”, represents a milestone in the country's progress towards improving the lives of the poor, particularly by targeting the poorest villages in Upper Egypt and other marginalized rural areas. It is considered the largest project to localize the SDGs in the world, taking advantage of the interlinkages between the SDGs and changing the landscape for sustainable development at the local level. It also reflects the national commitment to leave no one behind. A participatory approach was adopted during the stages to identify needs, design, plan and implement the initiative, the



**Haya Karima represents a milestone in the country's progress towards improving the lives of the poor, particularly by targeting the poorest villages in Upper Egypt and other marginalized rural areas.**

total cost of which is estimated at approximately \$32 billion. The initiative is being implemented in multiple phases; it began in 2019 and is set to be completed by 2024.<sup>32</sup>

Haya Karima aims to improve the quality of life in rural Egypt, targeting approximately 5,000 of the poorest villages representing over 50 per cent of the population. It seeks to address development gaps at the governorate level; improve access to basic services such as water, electricity, sanitation and gas; create decent employment opportunities; improve health and education services; revamp the infrastructure; and empower rural women.<sup>33</sup> In that respect, the initiative has been an accelerator across a number of SDGs, such as Goal 1 on poverty, Goal 3 on health, Goal 4 on education, Goal 5 on gender equality, Goal 6 on clean water and sanitation, Goal 7 on affordable and clean energy, Goal 8 on decent work and economic growth and Goal 10 on inequality.

## 2. Economic reform programme and structural transformation in Egypt

The 2016 economic reform programme, supported by the IMF Extended Fund Facility, aimed to restore macroeconomic stability; correct fiscal, monetary and exchange rate imbalances while promoting

growth and protecting the most vulnerable. This has played a key role in stabilizing the economy and enabling it to better withstand the adverse impacts of the COVID-19 crisis. Egypt has been one of a few emerging economies, and the only Arab country, to achieve a positive real growth rate of 3.57 per cent in 2019/20, in spite of slowing down progress with reform measures. According to the latest projections from the Ministry of Planning and Economic Development, real GDP is expected to grow by 3.3 per cent in 2020/21 and rebound to 5.6 per cent in 2021/22. Following the successful implementation of the first phase of reforms, the second phase was launched in 2021. The national structural adjustment programme aims to stimulate the supply side of the economy and ultimately achieve well-balanced, green and inclusive growth.<sup>34</sup>

Targeting a deeper structural transformation of the economy presents key challenges, particularly during times of crisis, as it seeks to address persistent structural imbalances that have created long-standing weaknesses in the real economy, particularly at the sectoral and market levels. In this respect, it should be noted that maintaining macroeconomic stability is a prerequisite for successful transformation. The premature withdrawal of support recovery packages should be avoided, not only to ensure protection for the less privileged but also to stimulate the economy during recession and trigger a positive supply response. The latter is at the core of the national structural adjustment programme. Furthermore, striking the right balance between ensuring debt sustainability and creating fiscal space for investment is crucial throughout the process of mobilizing resources to finance the SDGs.

Development challenges have been persistent and may even be increasing in the wake of the pandemic, despite the progress Egypt has made in scaling up its social protection schemes and safety nets, enhancing access to basic services, improving some education and health services and providing better housing by revitalizing some informal settlements in urban areas. These challenges have been largely attributed to the

rapidly increasing population, growing informal sector, water scarcity, geopolitical tensions, unsustainable consumption and production patterns, environmental risks and internal migration to urban cities. This is in addition to persistent inequalities, such as stagnating regional and gender disparities.

To support the implementation of its structural transformation agenda to address its main development challenges, Egypt recently signed a memorandum of understanding with OECD to launch a three-year comprehensive programme. This is an example of effective partnerships with development partners to implement the Egypt Vision 2030, which is well aligned with the 2030 Agenda and the Agenda 2063.

The Country Programme aims to implement 35 projects across five thematic pillars in Egypt while enhancing competitiveness and ensuring better integration into the global market. This is in addition to mainstreaming gender equality, focusing on the inclusion of women and youth in the economy and supporting the formalization of SMEs.

The first pillar focuses on inclusive and sustainable economic growth. It aims to address key bottlenecks to raising productivity growth, promoting competition and developing financial markets.

The second pillar focuses on innovation and digital transformation. This targets projects that intersect with education policy and human capital development to better take advantage of the digital transformation and promote innovation.

The third pillar focuses on governance and anti-corruption efforts. It addresses a series of priority issues associated with administrative reforms, e-government, better legislation and regulation, stronger institutions and the rule of law.

The fourth pillar focuses on statistics. It aims to improve the availability and governance of data on economic activity, private sector performance, gender, population, environment

and trade, among others, in order to enable evidence-based policymaking.

The fifth pillar focuses on sustainable development. It aims to strengthen frameworks governing the achievement of the SDGs, as well as promote green growth, clean energy and quality infrastructure investments.

The COVID-19 crisis has underlined the importance of adopting a risk-informed development approach to planning, budgeting, policy design and implementation. This has become imperative to raising national readiness for preventing crises, reducing risks and building resilience across all sectors in order to avoid any setbacks in the reform's trajectory. In particular, Egypt must mobilize financial flows and promote responsible investment in crisis prevention, adaptation, risk reduction and resilience-building. It should also mainstream environmental, social and governance considerations to ensure sustainability.

Despite the additional pressure from the pandemic, the current crisis may be seen as an opportunity that should not be missed for Egypt to build forward better. The country can take advantage of this opportunity by strengthening its reform efforts in terms of stabilization and structural adjustment, further aligning national priorities with sustainability and ensuring that environmental, social and governance considerations are integrated into the national policy framework while emphasizing the importance of building resilience. To that end, the recovery process, reform programme and transitory path must all be mutually reinforcing. In other words, they should be coherent, consistent and well-coordinated.

### 3. Digital transformation

Globally, the pandemic has underpinned the important role of digitization in guaranteeing the continuity of business across a number of vital sectors such as finance and trade, as well as

payment through fintech services, e-commerce and e-payments. In addition, social media platforms helped to keep people connected at a time of social distancing.

Nevertheless, digitization has given rise to governance and equity concerns associated with the ensuing legal and regulatory risks, such as cybersecurity issues, as well as concerns about the future of the workforce and labour market. According to The Future of Jobs Report 2020, published by the World Economic Forum, fast digitization and automation are expected to displace about 85 million workers within the next five years while creating 97 million new jobs.<sup>35</sup> In addition, the digital divide will cause disparities between those who can access digital services and those who cannot as a result of income, geographic and literacy considerations, among others.

The ICT sector in Egypt has been growing at an average rate of 16 per cent over the past few years. Egypt ranks seventy second in the 2020 Global Knowledge Index and seventy fourth in ITU ICT Development Index, moving up 10 and 4 places, respectively, compared to 2019. As a catalyst to the fourth industrial revolution, the role of the ICT sector can be leveraged to establish a knowledge-based digital economy that is competitive, agile and innovative by accelerating digital transformation and targeting impact investments across various sectors, such as health care, agriculture, education, industry, financial services, tourism, media and entrepreneurship.<sup>36</sup>

This requires investment in the establishment of an ecosystem with enabling digital infrastructure, highly-skilled human capital, proper regulatory framework as well as sound governance system.<sup>37</sup> The ICT sector has been one of three main sectors selected to anchor structural transformation in Egypt, along with the agricultural and manufacturing sectors. These have been selected owing to a number of factors, including their high growth potential, strong backward and forward linkages, strong potential to generate value

added, their international competitive advantage and their ability to generate jobs.<sup>38</sup>

In 2020, over \$1 billion has been secured to accelerate the digital transformation of Egypt.<sup>39</sup> This is because digital transformation has been envisioned to play a significant role as a major enabler for implementing the aspired structural transformation of the economy, as an integral component for supporting “Haya Karima” initiative, and as a major cornerstone to the implementation of the SDGs. For instance, information technology and digitization can create decent employment opportunities by supporting MSMEs and formalize informal establishments by improving the business environment in Egypt. This can be achieved by raising the efficiency of government services; it can reduce red tape, time and transaction costs, and thus combat corruption and improve transparency and accountability.

Digitization can also reinforce good governance by strengthening monitoring and evaluation systems across all programmes and schemes implemented at the national and subnational levels, such as social protection, family planning and health and education services. This is in addition to its role in enhancing data accessibility, the dissemination of information and knowledge-sharing.

Accelerated digitization can also play an important role in reinforcing efforts to localize the SDGs by enabling Governments to better tailor sustainable development strategies at the local level using e-government and big data. Establishing the digital network architecture has become necessary to enable policymakers to plan effectively and reflect the priorities of local communities in budgetary allocations. It is also essential to monitoring trends and evaluating progress while addressing gaps. This requires adequate investment in information, data, data systems, digital transformation and digital skills to improve human and institutional competencies.

Nevertheless, the ensuing digital divide presents key challenge as it gives rise to new types of inequality that are compounded with existing ones related to geographic, income and gender factors. Egypt faces a divide between urban and rural regions as well as between men and women. For example, 73.9 per cent of urban households own computers, compared to only 55.8 per cent in rural areas. In addition, 61.5 per cent of men aged 15–74 years uses the Internet, whereas the proportion is only 53 per cent for women.<sup>40</sup> Such disparities could have serious repercussions not only in terms of financial inclusion but also access to opportunities in general, thus worsening inequalities and widening existing gaps.

## 4. National financing framework for the Sustainable Development Goals

As in most emerging and developing economies, the financing gap presents an eminent challenge to the implementation of the national sustainable development strategy, the achievement of the SDGs and the implementation of the 2015 Paris Agreement. This has been the case given the limited domestic public resources, rising debt stock, low savings rates and reduced fiscal space. These challenges have been further exacerbated by the COVID-19 crisis, adding pressures to an already constrained budget, as a stimulus package amounting to 2 per cent of GDP has been implemented to stimulate the economy and protect the most vulnerable groups, who have been deeply impacted by the pandemic.

To address these challenges, Egypt has been working on the development of a national sustainable financing framework to guide and strengthen its resource mobilization process for financial flows, whether public or private; bilateral or multilateral; or domestic, regional or international. These are necessary for funding its structural transformation towards a more inclusive, green and resilient economy. To that

end, Egypt has signed a Joint Programme on SDG Financing and established an INFF in order to estimate the cost of achieving the SDGs, identify resources and address financing gaps while examining innovative financing tools.

The Joint Programme addresses four main areas: SDG costing by sector, mapping main financing flows with the SDGs, budgeting and developing the SDG financing strategy.

The main sectors covered by this programme are education, health, social protection, water and sanitation, and transport, with special attention paid to mainstreaming gender equality across all sectors.

The 2018 World Bank report Sustainable Development Goal Diagnostics: The Case of Egypt discusses options available to expand the resource mobilization base to guide the policy dialogue on the national FFD strategy. In doing so, it highlights areas for creating fiscal space for pro-growth spending on the SDGs and emphasizes the need to shift from consumption to investment spending as well as to reduce public expenditures on interest payments and subsidies while raising additional revenues through higher taxes and ODA flows. It also shows that accelerating progress on the SDGs requires not only an increase in public spending but also an efficient allocation of resources within carefully prioritized and well-sequenced policy areas.<sup>41</sup>

## 5. Sustainable finance and climate finance

Mobilizing resources to finance the country's sustainable development path has become imperative, not only to meet the rising aspirations of its vibrant youth and the increasing demands of its growing population but also to build resilience to environmental, social and economic shocks. This is in addition to addressing climate-related risks and their detrimental impact on water availability

and food and energy security. These include elevated heat, air pollution, sea level rise, ground water contamination, freshwater deficiency, increased soil desalinization and precipitation changes affecting the Nile Delta and northern coastline. These have had adverse impacts on a number of vital productive sectors, such as agriculture, leading to water scarcity, beach erosion, coral reef loss, reduced crop yields and quality, livestock losses as well as heightened food insecurity.<sup>42</sup>

In its intended nationally determined contributions submitted to the United Nations Framework Convention on Climate Change in 2015, Egypt highlighted its national plans to promote resilience, address climate change impact through adaptation and reduce its greenhouse gas emissions through mitigation. It also noted that climate change adaptation and mitigation actions would require a total estimated cost of about \$73 billion over the 2020–2030 period. It also emphasized the importance of mobilizing international financial support and technical assistance for technology transfer and capacity-building for the implementation of its intended nationally determined contributions.<sup>43</sup>

Efforts have been made to raise the readiness of the financial, banking and non-banking sectors to scale up sustainable finance in Egypt and to promote the integration of environmental, social and governance considerations in its core business model while safeguarding its stability and resilience. The CBE and the Financial Regulatory Authority established guiding principles and frameworks for increasing sustainable finance flows towards socially responsible and environmentally friendly investments. To that end, financial inclusion and digital transformation have been awarded special attention in order to improve access to finance by increasing outreach in rural and remote areas, promoting financial literacy and developing new services and products that



better cater to the needs of the unbanked, particularly women and youth.<sup>44</sup>

To address its SDG investment gap, Egypt has resorted to innovative financing instruments and has become the first country in the Arab region to issue its green sovereign bonds in 2020. These were issued to finance national sustainable development needs, funding eco-friendly and green projects in clean transport, renewable energy, energy efficiency, pollution control and reduction, sustainable water and sanitation, wastewater management and climate change adaptation. The size of the country's first issuance of green sovereign bonds reached \$750 million for a five-year maturity.<sup>45</sup> To tap into new funding sources, Egypt plans on issuing compliant sovereign bonds (sukuk) in 2022.

Addressing barriers to promoting sustainable finance and climate finance has become instrumental in securing the resources needed to finance the aspired transition. These barriers include, but are not limited to, the absence of a supportive regulatory framework where no explicit climate-related financial regulations have been enacted. Furthermore, environmental, social and governance principles have been developed as a reference guidance framework to be adopted on a voluntary basis by finance providers and investors and not as a mandatory requirement for accessing finance or for reporting and disclosure. Given the lack of strict enforcement of sustainability rules and requirements, addressing environmental and social risks, may reduce financing institutions' incentives to comply with sustainability guidelines to better withstand competition from their more lenient non-complying market rivals.<sup>46</sup>

This is in addition to the absence of a supportive system to incentivize financing the transition to a more inclusive, green and resilient economy. In particular, no explicit incentives have been offered to financial

institutions to promote their participation in greening the sector and scaling up sustainable finance practices. This could be achieved through a number of measures, such as preferential rates and credit allocation policies, which have been implemented in countries like Bangladesh and India. A lack of awareness of the merits of sustainable development in general, and sustainable finance in particular, may have caused unsustainable patterns to persist on the part of consumers, producers and investors and may have limited the flow of scarce financial resources towards more socially responsible and green investment ventures.

In addition, the absence of quality data as well as well-developed, commonly accepted metrics, classification standards, definitions and methodologies have limited stakeholders' ability to efficiently adjust to business-related risks and opportunities. This acts as a barrier to scaling up sustainable finance in general, and climate finance in particular, in Egypt and the region as a whole. The gradual adoption of sustainable and climate finance taxonomy is instrumental to enable financial sector governance bodies, finance providers and private investors to better understand sustainability and climate-related issues, better respond to market needs and adequately capitalize on emerging opportunities. In that respect, Arab countries can collaborate to tailor the regional sustainable financial taxonomy to be better adapted to the region's sustainable development financing needs.

**The CBE and the Financial Regulatory Authority established guiding principles and frameworks for increasing sustainable finance flows towards socially responsible and environmentally friendly investments.**



## 6. Export orientation

Export orientation has been considered one of the main pillars for the implementation of a successful industrial policy for sustainable development, along with localization, digitization, finance and investment. Export promotion could be considered an enabler of SDG acceleration owing to its positive impact on a number of factors. These include generating employment opportunities, particularly for MSMEs through backward and forward linkages with larger firms; stimulating investment in research and development and innovation; upgrading technology; speeding up know-how transfer; and improving integration into global value chains, thus igniting market competition and ultimately raising efficiency gains.

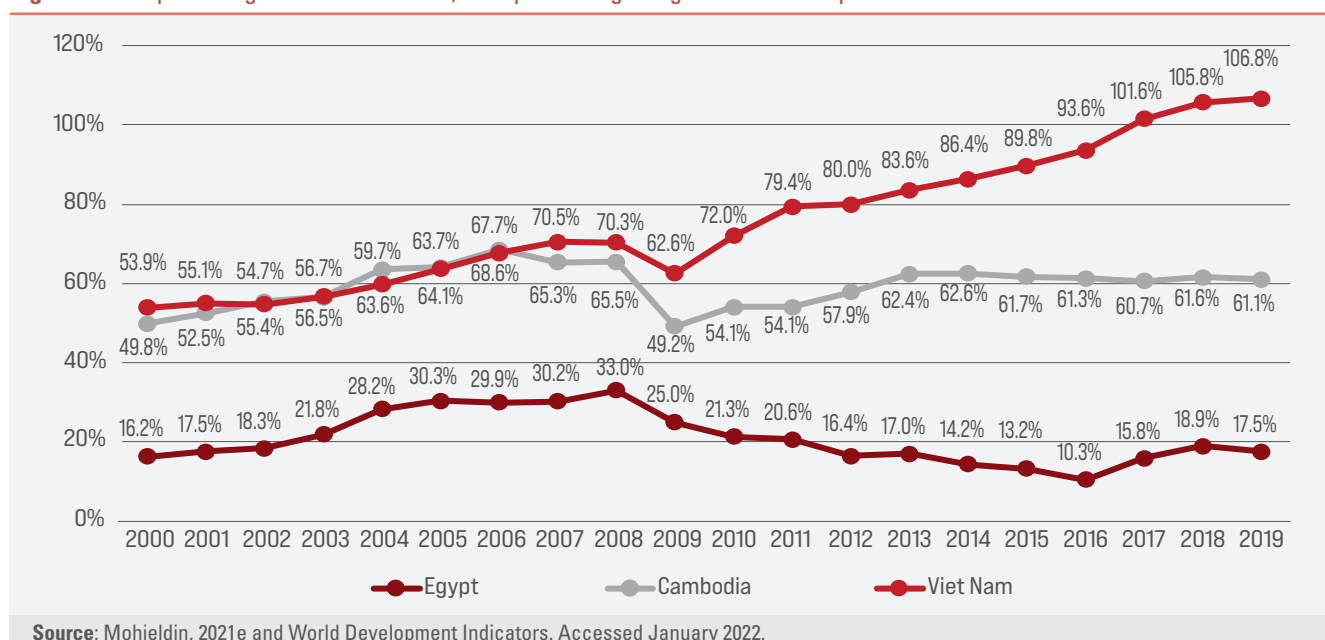
The performance of Egypt in exports and imports has been low compared to peer countries such as Cambodia and Viet Nam. In particular, the exports of goods and services-to-GDP ratio for Egypt averaged less than 17 per cent over the 2009–2019 period, while that of Cambodia averaged about 60 per cent and that of Viet Nam over 84 per cent during same period (figure 179).<sup>47</sup>

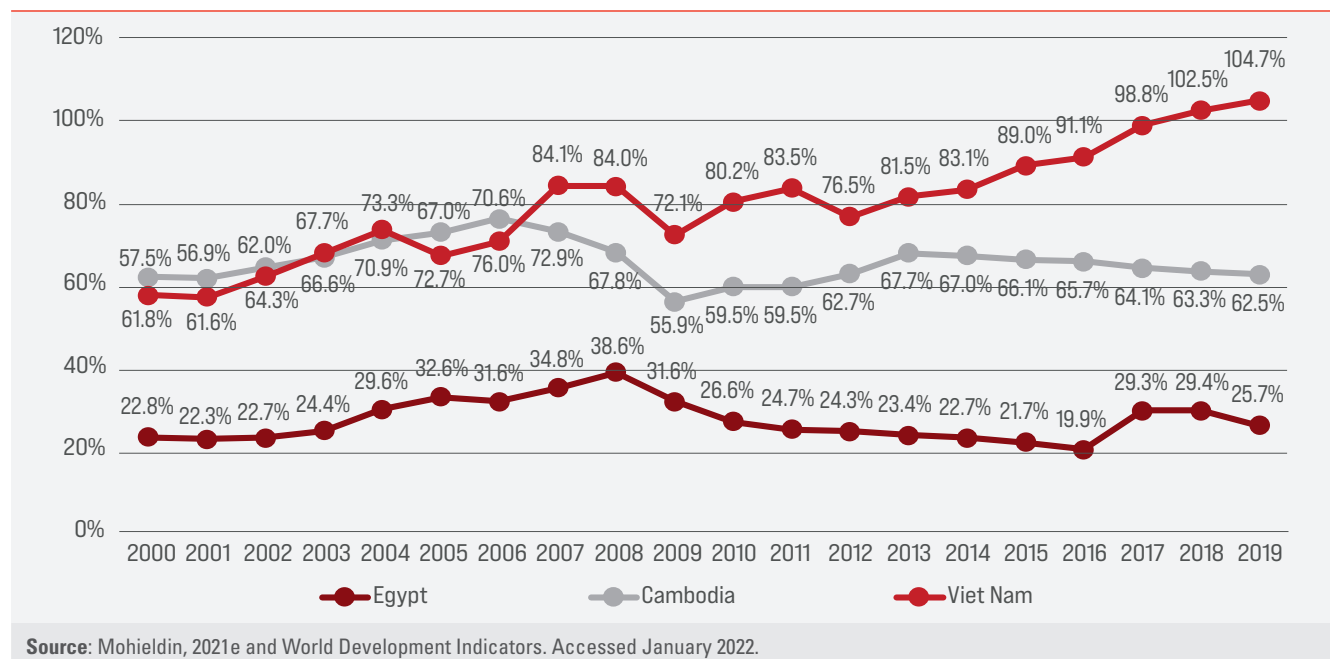
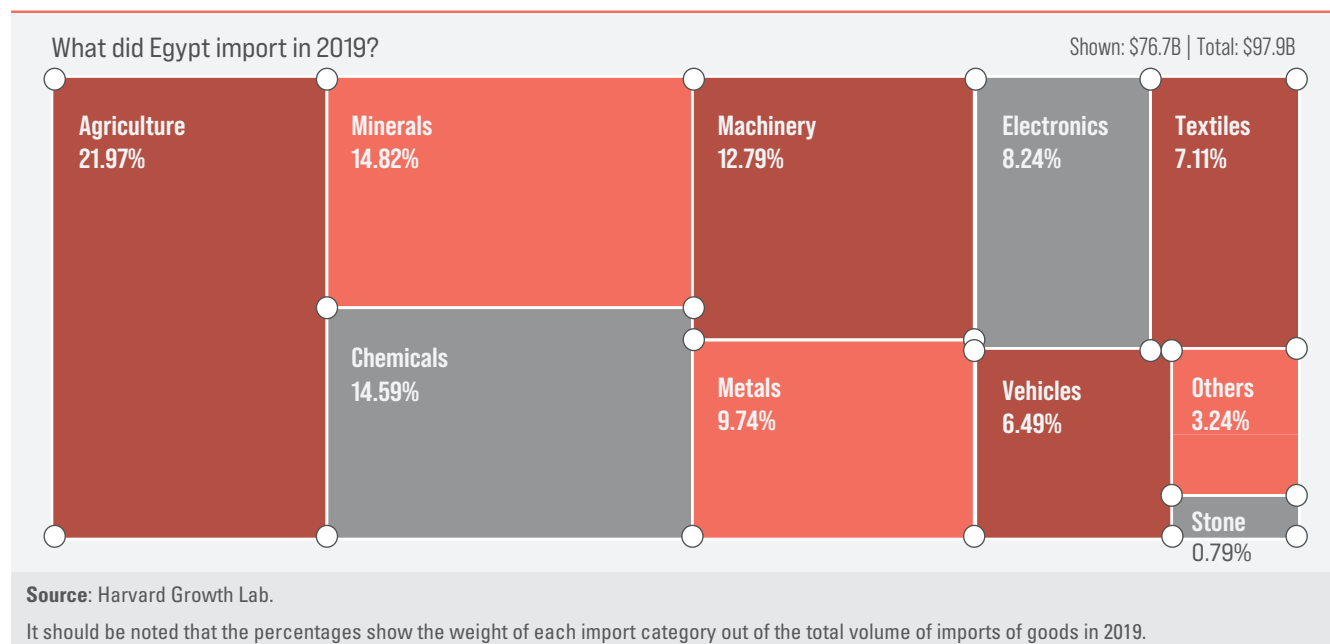
As for imports of goods and services, the ratio of imports-to-GDP for Egypt averaged 25.4 per cent, compared to 63.1 per cent and 87.5 per cent for Cambodia and Viet Nam, respectively, over the same period (figure 180).

Figure 181 reflects the composition of Egyptian imports in 2019, with machinery representing only 12.79 per cent out of the total imports of goods. The majority of imports were raw materials and intermediate goods.

The export composition for Egypt has shown bias towards traditional products and raw materials, reducing potential gains associated with exporting higher value-added products.<sup>48</sup> In that respect, it is important to strengthen the link between the trade policy and other policies to improve the variety and complexity of exports and their contribution to GDP. Adopting economy-wide or horizontal policies broadly applied across a country rather than targeting individual sectors can foster export diversification and complexity. Enhancing the policy framework related to education, labour, governance, institutions, infrastructure, technological readiness and open trade has become instrumental for diversifying exports, raising their complexity and boosting their value added and contribution to GDP.<sup>49</sup>

**Figure 179.** Exports of goods and services, as a percentage of gross domestic product



**Figure 180.** Imports of goods and services, as a percentage of gross domestic product**Figure 181.** Imports to Egypt (2019)

Strong policy frameworks are also important to enhance geographic proximity to trade partners and to effectively shorten distances by promoting connectivity between countries through better transport systems, effective logistics and lighter trade barriers, as well as by fostering the adoption of technology through educational exchange

programmes and investing in ICT to support the digital economy. This is particularly relevant in the case of intra-Arab trade, the average of which in the last five years has been hovering around 12 per cent of total trade flows of Arab States.<sup>50</sup> Such reforms would foster export diversification and complexity for Egypt, which would be a step in

the right direction to progress on the ambitious plan to increase exports to \$100 billion.

## 7. Foreign direct investment

Export promotion should be complemented with a harmonized vision for attracting greenfield FDI, the benefits of which include generating capital flows, creating jobs, bringing in innovative technology, improving skills, enhancing productivity and strengthening the host country's participation in global value chains. Nevertheless, these benefits do not automatically materialize, as they require the presence of targeted measures to attract, retain and maximize FDI-related gains. The first and most important measure for FDI promotion is the development of a high-level government strategy, which should be translated into a mandate, plans and policies to attract FDI. These should focus on seeking out long-term investments and providing the right mix of incentives to reinforce FDI linkages with local firms. These incentives should also emphasize investment in skill development and technology transfer and ultimately encourage greater local value added.<sup>51</sup>

The FDI promotion strategy should be based on a robust national-subnational framework that realizes the relative capacities of the different local regions within the country. Such a framework will ensure seamless service to potential investors, particularly on issues related to location selection and establishment. This is especially relevant to the Egyptian context where FDI is highly concentrated, with the top 5 governorates accounting for 90 per cent of FDI and the remaining bottom 22 governorates sharing only 10 per cent, suggesting the existence of untapped potentials.<sup>52</sup> Related policies and incentives should adopt a strong investor-centric orientation along with the participation of the private sector.

The FDI strategy should also welcome all types of greenfield investment while reaping the maximum benefits of different categories, which can be summarized as follows:

- FDI seeking natural resources and extractives: For this type, it is crucial to ensure that investments are adequately integrated in the bigger economic system. Policies should seek to attract inclusive FDI in the extractive sector that foster a number of linkages with the host economy to contribute to job creation. This should also encourage an increase in local value added to foster downstream economic development, with the opportunity to develop manufacturing capacity.

- FDI tapping into the market size of Egypt, targeting consumption goods and services: For this category, it is essential to incentivize investors to depend on local intermediate products and increase their impact on employment, as well as adhere to environmental, social and governance rules. Estimates show that while multinational enterprises constitute a significant source of revenue for local suppliers, there is a room for their affiliates to represent a larger market for Egyptian suppliers, especially when compared to Indonesia or Jordan.

- FDI entailing high technology and research and development components: Egypt should work on attracting more FDI with higher research and development, technology and innovation that can best promote exports. These have the most significant local value added and the most positive spillovers on the host economies.

## 8. Private sector engagement

The central role of the private sector in financing the SDGs in Egypt has been unquestionable, not only to mobilize scarce resources but also to enhance technical know-how and technology transfer generally associated with private investment. To that end, market barriers to raising private sector engagement in socially responsible and environment-friendly projects should be addressed by developing a pipeline of bankable investment opportunities. This pool of projects should be based on national needs

and priorities that are properly identified and regularly updated during the national planning and budgeting stages.

In that respect, aligning private incentives with public interests is crucial. This can be achieved through financial engineering mechanisms, such as blended finance, and well-structured public-private partnership schemes that can ensure an appropriate level of risk-sharing between public and private sectors. This can ultimately raise the share of private investment in projects with low commercial readiness where the transaction costs are large and the value at risk is high while market returns may be uncertain. While Egypt has been successful in raising private sector engagement in the renewable energy and energy efficiency sectors, special attention should be paid to crowding private investment into adaptation and resilience-building projects that may have a public good nature with a long payback period and a perceived lack of profitable investment opportunities. This is in addition to the importance of raising private sector engagement in social sectors such as health and education, considered priorities under the national development agenda.

Over the past few years, public investment has been steadily increasing as the State has worked proactively to stimulate the economy and act as catalyst for the implementation of responsible investments nationwide. This includes

building resilient infrastructure across Egypt, establishing new sustainable cities (e.g. the New Administrative Capital and Alamein City) and developing new housing communities for the less advantageous segments of the society.

The rising share of the State in economic activity may unintentionally be limiting private sector participation. This may be the result of confusion associated with the role of the State as investor in addition to its role as regulator, enforcing market discipline and addresses market failures. Clear communication of the role of the State as an enabler, which is especially pertinent at a time of crisis and economic recession, may be instrumental in creating certainty and eliminating any confusion about the importance of the private sector as a key partner in financing and achieving the SDGs.

Additionally, there may be a need for a clear business engagement model that is based on a simple, well-defined “traffic light” system, where signals can be used to categorize investments into three different areas. The green area contains projects for full private sector engagement under effective market regulations. The red area comprises sectors that are restricted due to certain considerations, such as those related to national security. The orange areas include domains that require consultations and specific partnerships between the State and the business sector.

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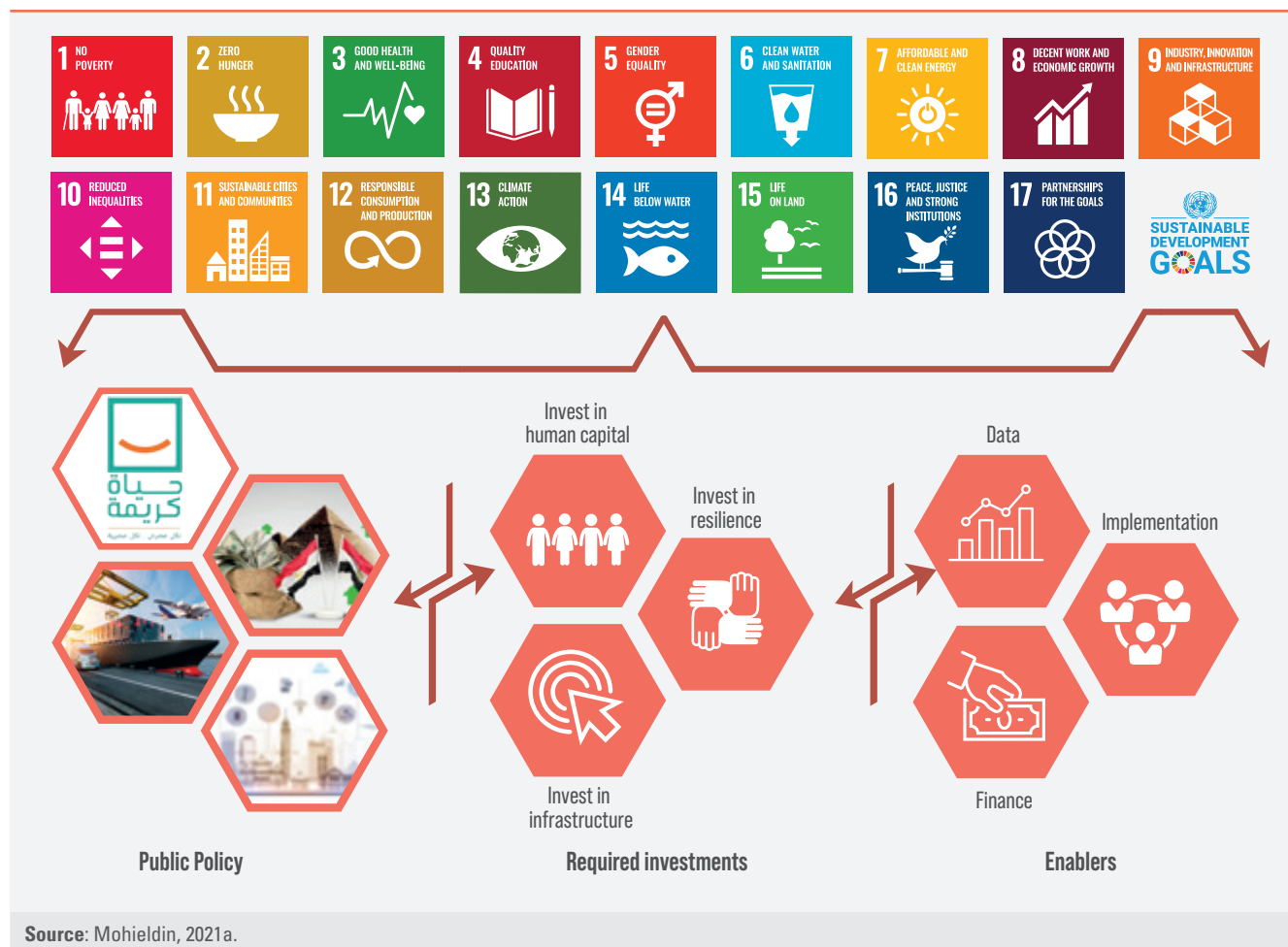
## E. Conclusion and policy recommendations

The success of Egypt in achieving its national development objectives depends to a great extent on a number of factors, which include adopting a comprehensive, coherent and well-integrated policy framework; securing the necessary resources; targeting priority goals with positive spillovers and strong interlinkages with the SDGs; and engaging all stakeholders. As noted previously, the importance of investing

in human capital, infrastructure and resilience cannot be more emphasized. It depends to a great extent on the availability of three crucial factors: reliable data and evidence, adequate finance and the effective implementation of development strategies, policies and projects. These factors would ensure the sustainability of Egyptian development projects and their capacity to respond to new realities, as per figure 182.



**Figure 182.** Integrated, comprehensive policy framework



The report proposes a number of recommendations in each of the areas discussed, as follows:

## No poverty, reduced inequalities and social protection:

### A. Goal 1: No poverty and Goal 10: Reduced Inequality:

- Ensure equal access to health, quality education, technology and economic opportunities for all.
- Address gender inequality by ensuring that women have equal access to economic opportunities and sustainable sources of income, especially in rural areas.

- Reduce spatial inequality by ensuring adequate investment in social and physical infrastructure of rural and urban areas in all governorates.
- Ensure diversification by increasing investment in manufacturing, agribusiness and infrastructure.

### B. Social protection system:

- Expand social safety net programmes horizontally and vertically by both adding new beneficiaries and increasing the benefit size (using inflation indexing), while also revising the programmes' targeting methods.
- Develop a clear communication strategy for social protection response.

- Improve the technical and administrative capacities of front-line social workers and enhance investment in ICT resources.
- Improve outreach by compiling a comprehensive database for informal workers using the unified national registry and connecting it to the civil registry.
- Mainstream social protection into the broader policy context, applying an integrated approach to enhance response to crises and risks.
- Implement national social protection extension strategies based on an appropriate mix of tax-financed and contribution-financed transfers.
- Expedite the roll-out of the universal health insurance system to guarantee universal health coverage.

## Integrated national financing framework and public financial flows:

### A. Integrated national financing framework:

- Maintain current efforts on the first and second building blocks of the INFF: assessment and diagnostics and the financing strategy while closing the cycle by activating its third and fourth blocks: monitoring and review as well as governance and coordination.
- Ensure coherence across public and private financing policies and promote collaboration among financing actors.
- Reprioritize spending towards development goals (education, health care and physical and digital infrastructure), while ensuring the adoption of a comprehensive public-private partnership approach to crowd in private investment.

- Continue the recent path of fiscal consolidation and reduce reliance on foreign borrowing and volatile external inflows to address the twin deficit dynamic of government budget and the current account.
- Leverage and provide data for other sources of funding, such as climate financing, South-South cooperation and philanthropy.

### B. Fiscal policies and public domestic resources:

- Reform the public financial management system. On the expenditure side, strengthen programme- and performance-based budgeting and introduce a medium-term expenditure framework.
- Invest in a tax administration system in terms of transparency, efficiency, collection effort, enforcement and compliance while strategically identifying the optimal tax mix based on national economic and social structures as well as national political priorities.
- Strengthen the role of fiscal policy in achieving environmentally sustainable development objectives.
- Promote the shift towards a more fiscally decentralized system to ensure smooth SDG delivery at both the local and national levels.
- Update the budget accountability concept to include the impact of government spending on achieving the SDGs.

### C. External public flows:

- Consolidate efforts through the adoption of a National Development Cooperation Policy framework that covers a broader scope of external finance resources: official development assistance (ODA) and beyond, to better support the INFF, increase the coherence and effectiveness of development cooperation, and identify

clear roles and responsibilities for all relevant stakeholders.

- Optimize the use of ODA flows for catalytic purposes as an effective tool to leverage private investments and maximize FFD.
- Create a roadmap for Blended Finance highlighting national priority development sectors and projects that can benefit from this financing modality.
- Form a dedicated mechanism to support tackling illicit financial flows in a more coordinated manner and reinforce financial integrity for sustainable development.
- Enhance technical assistance, capacity development and knowledge transfer associated with development cooperation.
- Strengthen the development cooperation coordination and information management through using advanced information technology and data systems for managing ODA and alike-flows.

#### D. Public debt management:

- Ensure a declining trajectory for public debt, both domestic and foreign, as a ratio of GDP as well as for debt service as a ratio of exports of goods and services.
- Within prudent limits, prioritize domestic currency borrowing for lines of finance that do not have foreign returns.
- Increase the tradability and liquidity of debt instruments and strengthen Egyptian financial markets to fund SDGs spending gaps.
- Develop prudent measures and strengthen the institutional framework to govern new types of innovative financing instruments, such as sovereign green bonds, Islamic sukuk and climate/SDG debt swaps.
- Strengthen fiscal risk management and enhance fiscal and debt rules to promote debt transparency, accountability and reporting.

## Business and financial sectors:

### A. Business sector:

- Translate the national planning framework into quantifiable metrics to identify gaps and required investments, highlighting the potential for private investment through information sharing.
- Enhance complementarities and reduce divergence among sectoral strategies and identify joint investment priorities to maximize the development impact.
- Develop business facilitation and promotion strategies that target priority sectors, with a focus on proactive SDG investment.
- Create a national platform to engage with the private sector on the issues of sustainability and green economy while focusing on sectoral and geographic potentials.
- Realize the potential of public-private partnership through a new approach based on international best practices and revise institutional responsibilities, governance and coordination among the public entities and enhance the investment promotion approach of the public-private partnership framework.
- Adopt a clear business engagement model with the private sector based on well-defined “traffic light” signal- system:
  - Areas for full private sector engagement under effective regulations (green).
  - Areas for possible partnerships with the State (orange).
  - Clearly restricted areas for operations (red).
- Align the mandate of existing zones: economic, investment, free and industrial with development goals, at the national, governorate and sectoral levels, while reinforcing export promotion, private sector engagement, foreign direct investment, and integration into global value chains.

- Ensure that investment and production are green and smart, supported by digitalization, innovation, and effective logistics.
- Enhance the integration of environmental, social and governance considerations into the business sector's core strategies and operations through effective regulations and incentives, and showcase some of the good examples of firms' compliance in the context of the preparation for COP27.

## B. Financial sector

- Develop a comprehensive policy for financial development to support funding Vision 2030 ambitions and the required growth strategy. This is critical to complete the requirement for development finance which is normally based on effective regulations, competitive market and adequate policy framework.
- Promote the role of the financial sector in funding socially responsible and environment friendly investment by:
  - Providing incentives for incorporating environmental, social and governance considerations into their activities.
  - Ensuring financial sector's compliance with new rules related to sustainability, as informed by the Task Force on Climate-related Financial Disclosures.
- Introduce regulatory reforms, especially those related to licensing to promote the participation of non-bank financial providers while improving areas of financial services such as insurance and leasing based on international standards.
- Continue to invest in innovative ecosystems to support Fintech services as well as entrepreneurs in emerging sectors.
- Set a strategy to increase access to the Internet while promoting branchless banks, mobile banking and other emerging technologies to ensure "no one is left behind".

## Trade:

- Develop and implement an Export strategy with concrete measures to achieve the USD 100 billion target of exports of goods, while capitalizing on competitive advantage and geographic proximity.
- Diversify Exports and raise their complexity and GDP contribution by enhancing policies related to education, labor, governance, institutions, infrastructure, technological readiness and open trade.
- Promote trade with regional partners, including Arab, African and European countries.
- Tap on new markets by promoting connectivity through better transportation systems, effective logistics, easing trade barriers, fostering the adoption of technology and investing in information communication technology to support digitalization.
- Provide Institutional support for export finance, advancing credit and improving guarantees, to support export promotion.
- Provide special incentives to foreign direct investment which fosters innovation, research and development, technology transfer and higher value addition to reinforce export orientation.
- Increase domestic and foreign investment in the manufacturing and priority sectors, to better integrate into Global Value Chains.

## Science, technology, innovation and digitalization (STI+D):

- Adopt an overarching national innovation strategy that ensures sustainable operationalization by setting measurable targets and enforcement mechanisms, engages relevant stakeholders and addresses systemic issues.
- Improve the linkages between national development priorities and public and private research and development.

- Enhance the primary and preparatory education curricula through introducing Science, Technology and Innovation-enabling subjects; such as, scientific thinking, research methods, artificial intelligence and information technology skills.
- Secure the required investments in digital infrastructure in partnership with the business sector to leverage national digital transformation objectives.
- Continue the current path of digital transformation for government services while improving the quality, accessibility and inclusiveness of the digital ecosystem.
- Strengthen the regulatory framework to address emerging risks associated with digitalization, such as, cyber security.

### Data and data systems:

- Develop capacities to manage data collection and data streaming processes.
- Ensure greater integration of SDGs indicators into the periodic surveys.
- Create binding benchmarks for SDG data updating frequency and level of disaggregation, including data at the governorate level.
- Enhance SDGs' data disclosure in a timely, transparent, and accessible manner.
- Establish an inclusive well- integrated database on SDGs.
- Develop initiatives to use Big Data to monitor and evaluate the impact of development projects.
- Adopt legislative reforms that contribute to strengthened governance, particularly laws on freedom of information and data security.

### Localization

- Capitalize on the investments of the Haya Karima initiative by enhancing the governorates productivity and relative competitiveness to guarantee that the newly developed rural Egypt becomes a major contributor to production, job creation, and the export orientation of the economy.
- Ensure multi-stakeholder engagement for the ownership of development goals and targets, following the participatory approach adopted by Haya Karima initiative.
- Produce consistent, mapped, disaggregated data on the SDG indicators at the governorate level.
- Develop well-integrated policies and governance frameworks based on the principles of local autonomy.
- Adopt a refined financial ecosystem for localizing the SDGs by ensuring adequate budgetary allocations and strengthening local revenue mobilization capacity.
- Measure the impact of interventions on SDGs at the governorate level.





## Endnotes

1. Mohieldin, 2021c. This information is based on an interview with Mahmoud Mohieldin, the United Nations Secretary General Special Envoy on Financing the 2030 Agenda and Executive Director, International Monetary Fund
2. United Nations, 2021.
3. Mohieldin, 2021c, “Climate action”, “life below water” and “life on land”, the 13th, 14th and 15th SDGs, form multidimensional action plan for the preservation of environmental health and diversity in accordance with provisions of the 2015 Paris Agreement.
4. Mohieldin and Shehata, 2021.
5. Mohieldin, 2021d.
6. Cabinet Office, Japan, n.d.
7. In his recently published book, *The Resilient Society*, Economist Markus Brunnermeier underlines the importance of building resilience to enhance countries’ ability to better withstand shocks, such as pandemics and economic crises. He argues that the best way to protect economic and social institutions is to invest in resilience-building and the associated mechanisms to bounce back.
8. Mohieldin and Shehata, 2021.
9. PricewaterhouseCoopers, 2020.
10. Mohieldin and Shehata, 2021.
11. These services were used during the pandemic but were not widely available, owing to the divide in access to the Internet, particularly in developing countries. Estimates show that 86 per cent of children in primary education did not have access to online schooling in countries with a low human development ranking, relative to only 20 per cent in high-ranking countries.
12. United Nations Environment Programme and World Bank, 2017.
13. United Nations, Inter-agency Task Force on Financing for Development, 2020 and 2021.
14. Mohieldin and Shehata, 2021.
15. United Nations, Inter-agency Task Force on Financing for Development, 2020 and 2021.
16. Sachs and others, 2021.
17. Chapter 1 discusses the state of the SDGs in Egypt and focuses on progress made towards Goals 1 and 10.
18. Ministry of Planning and Economic Development, Egypt, 2021a.
19. For instance, household income grew by 16 per cent in urban areas, compared to 13 per cent in rural areas between 2017/18 and 2019/20. Similarly, household spending increased more in urban areas than in rural areas during the same period (Ministry of Planning and Economic Development, Egypt, 2021a).
20. Chapter 5 discusses social protection schemes and safety nets.
21. Chapter 3 discusses the development of an INFF.
22. Chapter 4 examines the budget structure, process and priorities.
23. Chapter 12 presents issues associated with the international development cooperation framework in Egypt and its channels, partnerships and effectiveness.
24. Mohieldin and Shehata, 2021. Chapter 6 discusses the role of the business sector in Egypt.
25. Chapter 7 elaborates on the role of the financial sector.
26. Chapter 9 addresses trade in Egypt and its potential as an engine for growth and sustainable development.
27. Chapter 10 presents a discussion of the national landscape for STI+D.
28. Chapter 11 discusses SDG localization efforts in Egypt.
29. Chapter 2 elaborates on the importance of investment in data and data systems.
30. Kamel, 2021.
31. Ministry of Planning and Economic Development, 2018 and 2021.
32. Ministry of Planning and Economic Development, Egypt, 2021a.
33. UNDP and the Ministry of Planning and Economic Development, Egypt, 2021.
34. Ministry of Planning and Economic Development, Egypt, 2021a.
35. World Economic Forum, 2020.
36. Kamel, 2021.
37. Ibid.
37. Ministry of Planning and Economic Development, Egypt, 2021a.
38. Kamel, 2021.
39. Ministry of Planning and Economic Development, Egypt, 2021a.
40. Amin-Salem and others, 2018; Gable and others, 2015. This work has been based on the 2015 World Bank report *Trajectories for Sustainable Development Goals: Framework and Country Applications*, which highlights the various challenges associated with SDG achievement, data availability and the scarcity of financial resources at the country level. It also uses an integrated financing framework to enable policymakers to better evaluate policy options and spending priorities across the various SDGs while addressing a number of issues. These include the feasible set of development targets to be achieved by 2030, fiscal resource mobilization to achieve the ambitious SDGs and policy areas to be considered to accelerate progress on achieving the SDGs.
41. According to the United Nations Environment Programme and World Bank (2017): “A sustainable financial system is stable and creates, values and transacts financial assets in ways that shape real wealth to serve the long- term needs of a sustainable and inclusive economy along all dimensions relevant to achieving those needs including: economic, social and environmental issues”. As for climate finance, it is a subset of sustainable finance for which there is no single definition and refers to financial resources mobilized to fund actions to mitigate and adapt to the impacts of climate change.

42. Egypt, 2015.
43. CBE, 2020c; Financial Regulatory Authority, Egypt, 2018.
44. Ministry of Finance, Egypt, 2020a.
45. El-Hawary, 2021.
46. Mohieldin, 2021e.
47. Over 29 per cent of Egyptian exports of goods are mineral fuels, oils and waxes, as of 2019.
48. Salinas, 2021. This is based on recent research by the IMF.
49. Number constructed based on the numbers for top trade partner contributions to Arab States' trade for the period 2015–2019, according to the Joint Arab Economic Report published by the Arab Monetary Fund.
50. ILO, 2014; Phillips and others, 2021.
51. OECD, 2020a; Phillips and others, 2021.





# Annexes

## Annex 1: Sustainable Development Goal indicators selected to monitor progress

| Target      | Indicator | Description   | Value in 2015 | Latest value | Latest available year |
|-------------|-----------|---|---------------|--------------|-----------------------|
| <b>SDG6</b> |           |   |               |              |                       |
| 6.2         | 6.2.1     | Proportion of population with basic handwashing facilities on premises, all areas (percentage)              | 88.344        | 89.827       | 2017                  |
| 6.2         | 6.2.1     | Proportion of population using safely managed sanitation services, all areas (percentage)                   | 59.592        | 60.741       | 2017                  |
| 6.4         | 6.4.1     | Water Use Efficiency (United States dollars per cubic meter)  | 4.35          | 4.58         | 2018                  |
| 6.4         | 6.4.2     | Level of water stress: freshwater withdrawal as a proportion of available freshwater resources (percentage) | 110.56        | 116.94       | 2018                  |
| 6.6         | 6.6.1     | Lakes and rivers permanent water area (percentage of total land area)                                       | 0.6446        | 0.6549       | 2018                  |
| <b>SDG7</b> |           |   |               |              |                       |
| 7.1         | 7.1.1     | Proportion of population with access to electricity, by urban/rural (percentage)                            | 99            | 100          | 2019                  |
| 7.1         | 7.1.2     | Proportion of population with primary reliance on clean fuels and technology (percentage)                   | >95           | >95          | 2019                  |
| 7.2         | 7.2.1     | Renewable energy share in the total final energy consumption (percentage)                                   | 5.116         | 4.7444       | 2018                  |
| 7.3         | 7.3.1     | Energy intensity level of primary energy (megajoules per constant 2017 purchasing power parity GDP)         | 3.46          | 3.58         | 2018                  |
| 7.b         | 7.b.1     | Installed renewable electricity-generating capacity (watts per capita)                                      | 40.163        | 59.492       | 2019                  |
| <b>SDG9</b> |           |   |               |              |                       |
| 9.2         | 9.2.1     | Manufacturing value added per capita (constant 2015 United States dollars)                                  | 573.9         | 594.7        | 2020                  |



| Target       | Indicator | Description   | Value in 2015 | Latest value | Latest available year |
|--------------|-----------|---|---------------|--------------|-----------------------|
| 9.2          | 9.2.1     | Manufacturing value added (constant 2015 United States dollars) as a proportion of GDP (percentage)                         | 16.68         | 15.31        | 2020                  |
| 9.2          | 9.2.2     | Manufacturing employment as a proportion of total employment (percentage)   | 11.2          | 12.5         | 2018                  |
| 9.4          | 9.4.1     | Carbon dioxide emissions from fuel combustion (millions of tonnes)  | 203.281       | 223.577      | 2018                  |
| 9.4          | 9.4.1     | Carbon dioxide emissions per unit of manufacturing value added (kilogrammes of CO2 per constant 2015 United States dollars) | 0.61          | 0.719        | 2018                  |
| 9.4          | 9.4.1     | Carbon dioxide emissions per unit of GDP (kilogrammes of CO2 per constant 2017 United States dollars)                       | 0.20803       | 0.19985      | 2018                  |
| 9.5          | 9.5.1     | Research and development expenditure as a proportion of GDP (percentage)  | 0.71858       | 0.72388      | 2018                  |
| 9.5          | 9.5.2     | Researchers (in full-time equivalent) per million inhabitants (per 1,000,000 population)                                    | 672.941       | 686.717      | 2018                  |
| 9.b          | 9.b.1     | Proportion of medium and high-tech industry value added in total value added (percentage)                                   | 18.49         | 20.94        | 2018                  |
| 9.c          | 9.c.1     | Proportion of population covered by at least a 2G mobile network (percentage)   | 99.80         | 99.83        | 2019                  |
| 9.c          | 9.c.1     | Proportion of population covered by at least a 3G mobile network (percentage)   | 97.80         | 99.12        | 2019                  |
| 9.c          | 9.c.1     | Proportion of population covered by at least a 4G mobile network (percentage)   | 0.00          | 95.10        | 2019                  |
| <b>SDG11</b> |           |   |               |              |                       |
| 11.1         | 11.1.1    | Proportion of urban population living in slums (percentage)   | 6.6 (1)       | 5.2          | 2018                  |
| 11.5         | 11.5.1    | Number of people affected by disasters (number)   | 20,328        | 18,572       | 2018                  |
| 11.5         | 11.5.1    | Number of deaths due to disaster (number)   | 6,481         | 3,162        | 2018                  |
| 11.5         | 11.5.1    | Number of deaths and missing persons attributed to disasters (per 100,000 population)                                       | 7.28547       | 3.22321      | 2018                  |
| 11.5         | 11.5.1    | Number of injured or ill people attributed to disasters (number)  | 20,328        | 18,511       | 2018                  |
| 11.5         | 11.5.2    | Direct economic loss attributed to disasters (current United States dollars)  | 36,028,896    | 4,554,186    | 2018                  |



| Target       | Indicator | Description   | Value in 2015 | Latest value | Latest available year |
|--------------|-----------|---|---------------|--------------|-----------------------|
| 11.5         | 11.5.2    | Number of injured or ill people attributed to disasters (number)  | 0.00011       | 0.00002      | 2018                  |
| 11.5         | 11.5.2    | Direct agriculture loss attributed to disasters (current United States dollars)   | 10,897,833    | 758,869      | 2018                  |
| 11.5         | 11.5.2    | Direct economic loss in the housing sector attributed to disasters (current United States dollars)  | 1,537,165     | 794,653      | 2018                  |
| 11.5         | 11.5.2    | Direct economic loss resulting from damaged or destroyed critical infrastructure attributed to disasters (current United States dollars)                                | 25,131,063    | 3,000,664    | 2018                  |
| 11.b         | 11.b.2    | Proportion of local governments that adopt and implement local disaster risk reduction strategies in line with national disaster risk reduction strategies (percentage) | 25.92593      | 66.66667     | 2018                  |
| <b>SDG12</b> |           |   |               |              |                       |
| 12.4         | 12.4.1    | Parties meeting their commitments and obligations in transmitting information as required by Montreal Protocol on hazardous waste, and other chemicals (percentage)     | 100.00        | 100.00       | 2020                  |
| 12.a         | 12.a.1    | Installed renewable electricity-generating capacity (watts per capita)  | 40.163        | 59.492       | 2019                  |
| 12.c         | 12.c.1    | Fossil-fuel subsidies (consumption and production) as a proportion of total GDP (percentage)  | 3.85          | 4.12446      | 2019                  |
| <b>SDG13</b> |           |   |               |              |                       |
| 13.1         | 13.1.2    | Score of adoption and implementation of national disaster risk reduction strategies in line with the Sendai Framework   | 0.6           | 0.7          | 2018                  |
| 13.1         | 13.1.3    | Proportion of local governments that adopt and implement local disaster risk reduction strategies in line with national disaster risk reduction strategies (percentage) | 25.92593      | NA           | 2018                  |
| <b>SDG14</b> |           |   |               |              |                       |
| 14.5         | 14.5.1    | Average proportion of Marine Key Biodiversity Areas (KBAs) covered by protected areas (percentage)  | 43.00711      | 43.00711     | 2019                  |
| <b>SDG15</b> |           |   |               |              |                       |
| 15.1         | 15.1.1    | Forest area as a proportion of total land area (percentage)   | 4.86E-02      | 4.52E-02     | 2020                  |

| Target   | Indicator | Description   | Value in 2015 | Latest value | Latest available year |
|--|-----------|---|---------------|--------------|-----------------------|
| 15.1   | 15.1.2    | Average proportion of Freshwater Key Biodiversity Areas (KBAs) covered by protected areas (percentage)  | 28.48893      | 28.48893     | 2019                  |
| 15.1   | 15.1.2    | Average proportion of Terrestrial Key Biodiversity Areas (KBAs) covered by protected areas (percentage) | 39.40603      | 39.40603     | 2019                  |
| 15.2   | 15.2.1    | Above-ground biomass stock in forest (tonnes per hectare)   | 120           | 120          | 2020                  |
| <b>SDG16</b>   |           |   |               |              |                       |
| 16.2   | 16.2.2    | Detected victims of human trafficking, all ages and both sexes  | 72            | 38           | 2017                  |
| <b>SDG17</b>   |           |   |               |              |                       |
| 17.3   | 17.3.2    | Volume of remittances (in United States dollars) as a proportion of total GDP (percentage)              | 5.508         | 10.170       | 2018                  |
| 17.3   | 17.3.1    | Foreign direct investment (FDI) inflows (millions of US dollars)  | 6,925.2       | 6,797.6      | 2018                  |
| 17.4   | 17.4.1    | Debt service as a proportion of exports of goods and services (percentage)                              | 9.43583       | 14.010       | 2018                  |
| 17.8   | 17.8.1    | Internet users per 100 inhabitants  | 37.82         | 57.28        | 2019                  |
| <b>Source:</b> United Nations Statistics Division (2021). SDG Global Database. Available from <a href="https://unstats.un.org/sdgs/indicators/database/">https://unstats.un.org/sdgs/indicators/database/</a> . Accessed April 2021. |           |   |               |              |                       |

## Annex 2: The availability of data on the Sustainable Development Goals in official national sources

| SDG           | No.   | Indicator   | Egypt Voluntary National Review <sup>a</sup> |                         |                            | CAPMAS National Statistical Report |             |                | Egypt SDG Observatory |             |                |
|---------------|-------|---|--|-------------------------|----------------------------|------------------------------------|-------------|----------------|-----------------------|-------------|----------------|
|               |       |   | Availability 2018   2021                     | Latest year 2018   2021 | Disaggregation 2018   2021 | Availability                       | Latest year | Disaggregation | Availability          | Latest year | Disaggregation |
| 1. No poverty | 1.1.1 | Proportion of the population living below the international poverty line by sex, age, employment status and geographic location (urban/rural) | Yes   Yes                                    | 2015   2020             |                            | Yes                                | 2015        |                |                       |             |                |



| SDG            | No.   | Indicator  | Egypt Voluntary National Review <sup>a</sup> |                            |                               | CAPMAS National Statistical Report |                |                | Egypt SDG Observatory |                |                |
|----------------|-------|--|--|----------------------------|-------------------------------|------------------------------------|----------------|----------------|-----------------------|----------------|----------------|
|                |       |  | Availability<br>2018   2021                  | Latest year<br>2018   2021 | Disaggregation<br>2018   2021 | Availability                       | Latest<br>year | Disaggregation | Availability          | Latest<br>year | Disaggregation |
| 1. No poverty  | 1.5.2 | Direct economic loss attributed to disasters in relation to global gross domestic product (GDP)  |  |                            |                               |                                    |                |                |                       |                |                |
|                | 1.5.3 | Number of countries that adopt and implement national disaster risk reduction strategies in line with the Sendai Framework for Disaster Risk Reduction 2015–2030 |  |                            |                               | Yes                                |                |                |                       |                |                |
|                | 1.5.4 | Proportion of local governments that adopt and implement local disaster risk reduction strategies in line with national disaster risk reduction strategies       |  |                            |                               | Yes                                |                |                |                       |                |                |
|                | 1.a.1 | Total official development assistance grants from all donors that focus on poverty reduction as a share of the recipient country's gross national income         |  |                            |                               | Yes                                | 2018           |                | Yes                   | 2016           |                |
|                | 1.a.2 | Proportion of total government spending on essential services (education, health and social protection)  | No   Yes                                     | -   2020                   |                               | Yes                                | 2018           | Rural/urban    | Yes                   | 2014           |                |
|                | 1.b.1 | Pro-poor public social spending  |  |                            |                               |                                    |                |                |                       |                |                |
| 2. Zero hunger | 2.1.1 | Prevalence of undernourishment   |  |                            |                               | Yes                                | 2015           | Rural/urban    |                       |                |                |
|                | 2.1.2 | Prevalence of moderate or severe food insecurity in the population, based on the Food Insecurity Experience Scale (FIES)   | No   Yes                                     | -   2020                   |                               | Yes                                | 2015           | Rural/urban    |                       |                |                |

| SDG            | No.   | Indicator  | Egypt Voluntary National Review <sup>a</sup> |                         |                            | CAPMAS National Statistical Report |             |                | Egypt SDG Observatory |             |                  |
|----------------|-------|--|--|-------------------------|----------------------------|------------------------------------|-------------|----------------|-----------------------|-------------|------------------|
|                |       |  | Availability 2018   2021                     | Latest year 2018   2021 | Disaggregation 2018   2021 | Availability                       | Latest year | Disaggregation | Availability          | Latest year | Disaggregation   |
| 2. Zero hunger | 2.2.1 | Prevalence of stunting (height for age <-2 standard deviation from the median of the World Health Organization (WHO) Child Growth Standards) among children under 5 years of age                     | Yes   Yes                                    | 2014   2018             |                            | Yes                                | 2015        | Rural/urban    | Yes                   | 2014        | Rural/urban +sex |
|                | 2.2.2 | Prevalence of malnutrition (weight for height >+2 or <-2 standard deviation from the median of the WHO Child Growth Standards) among children under 5 years of age, by type (wasting and overweight) | No   Yes                                     | -   2018                |                            | Yes                                | 2015        |                | Yes                   | 2014        | Rural/urban +sex |
|                | 2.2.3 | Prevalence of anaemia in women aged 15 to 49 years, by pregnancy status (percentage)   | No   Yes                                     | -   2018                |                            |                                    |             |                |                       |             |                  |
|                | 2.3.1 | Volume of production per labour unit by classes of farming/pastoral/forestry enterprise size   | Yes   Yes                                    | 2015   2018             |                            | Yes                                | 2017        |                | Yes                   | 2015        |                  |
|                | 2.3.2 | Average income of small-scale food producers, by sex and indigenous status   |  |                         |                            |                                    |             |                |                       |             |                  |
|                | 2.4.1 | Proportion of agricultural area under productive and sustainable agriculture   |  |                         |                            | Yes                                | 2017        |                | Yes                   | 2014        |                  |
|                | 2.5.1 | Number of plant and animal genetic resources for food and agriculture secured in either medium- or long-term conservation facilities   |  |                         |                            | Yes                                | 2017        |                |                       |             |                  |
|                | 2.5.2 | Proportion of local breeds classified as being at risk of extinction   |  |                         |                            | Yes                                | 2017        |                | Yes                   | 2016        |                  |





| SDG                           | No.   | Indicator   | Egypt Voluntary National Review <sup>a</sup> |                            |                               | CAPMAS National Statistical Report |                |                | Egypt SDG Observatory |                |                |
|-------------------------------|-------|---|--|----------------------------|-------------------------------|------------------------------------|----------------|----------------|-----------------------|----------------|----------------|
|                               |       |   | Availability<br>2018   2021                  | Latest year<br>2018   2021 | Disaggregation<br>2018   2021 | Availability                       | Latest<br>year | Disaggregation | Availability          | Latest<br>year | Disaggregation |
| 3. Good health and well-being | 3.4.1 | Mortality rate attributed to cardiovascular disease, cancer, diabetes or chronic respiratory disease                                      |  |                            |                               | Yes                                | 2017           |                | Yes                   | 2016           |                |
|                               | 3.4.2 | Suicide mortality rate  | Yes   No                                     | 2015   -                   |                               | Yes                                | 2017           |                |                       |                |                |
|                               | 3.5.1 | Coverage of treatment interventions (pharmacological, psychosocial and rehabilitation and aftercare services) for substance use disorders |  |                            |                               |                                    |                |                |                       |                |                |
|                               | 3.5.2 | Alcohol per capita consumption (aged 15 years and older) within a calendar year in litres of pure alcohol                                 |  |                            |                               |                                    |                |                |                       |                |                |
|                               | 3.6.1 | Death rate due to road traffic injuries   | Yes   Yes                                    | 2016   2019                |                               | Yes                                | 2018           |                | Yes                   | 2015           |                |
|                               | 3.7.1 | Proportion of women of reproductive age (aged 15–49 years) who have their need for family planning satisfied with modern methods          |  |                            |                               | Yes                                | 2014           |                | Yes                   | 2014           | Rural/urban    |
|                               | 3.7.2 | Adolescent birth rate (aged 10–14 years; aged 15–19 years) per 1,000 women in that age group  |  |                            |                               | Yes                                | 2014           |                |                       |                |                |
|                               | 3.8.1 | Coverage of essential health services   | No   Yes                                     | -   2019                   |                               |                                    |                |                |                       |                |                |









| SDG                | No.   | Indicator  | Egypt Voluntary National Review <sup>a</sup> |                            |                               | CAPMAS National Statistical Report |                |                | Egypt SDG Observatory |                |                |
|--------------------|-------|--|--|----------------------------|-------------------------------|------------------------------------|----------------|----------------|-----------------------|----------------|----------------|
|                    |       |  | Availability<br>2018   2021                  | Latest year<br>2018   2021 | Disaggregation<br>2018   2021 | Availability                       | Latest<br>year | Disaggregation | Availability          | Latest<br>year | Disaggregation |
| 5. Gender equality | 5.2.1 | Proportion of ever-partnered women and girls aged 15 years and older subjected to physical, sexual or psychological violence by a current or former intimate partner in the previous 12 months, by form of violence and by age |  |                            |                               | Yes                                | 2018           | Age            | Yes                   | 2015           | Age            |
|                    | 5.2.2 | Proportion of women and girls aged 15 years and older subjected to sexual violence by persons other than an intimate partner in the previous 12 months, by age and place of occurrence   |  |                            |                               | Yes                                | 2015           | Age            |                       |                |                |
|                    | 5.3.1 | Proportion of women aged 20–24 years who were married or in a union before age 15 and before age 18  |  |                            |                               | Yes                                | 2015           | Age            | Yes                   | 2014           |                |
|                    | 5.3.2 | Proportion of girls and women aged 15–49 years who have undergone female genital mutilation/ cutting, by age   | Yes   No                                     | 2015   -                   |                               | Yes                                | 2018           | Age            | Yes                   | 2014           | Age            |
|                    | 5.4.1 | Proportion of time spent on unpaid domestic and care work, by sex, age and location  |  |                            |                               | Yes                                | 2015           | Sex            |                       |                |                |
|                    | 5.5.1 | Proportion of seats held by women in (a) national parliaments  | Yes   Yes                                    | 2017   2019                |                               | Yes                                | 2015           |                | Yes                   | 2015           |                |
|                    | 5.5.1 | Proportion of seats held by women in (b) local governments   | Yes   Yes                                    | 2017   2021                |                               | Yes                                | 2015           |                | Yes                   | 2015           |                |
|                    | 5.5.2 | Proportion of women in managerial positions  | Yes   No                                     | 2018   -                   | In ministerial positions      | Yes                                | 2017           | Sex            |                       |                |                |

| SDG                           | No.   | Indicator   | Egypt Voluntary National Review <sup>a</sup> |                            |                               | CAPMAS National Statistical Report |             |                      | Egypt SDG Observatory |             |                |
|-------------------------------|-------|---|--|----------------------------|-------------------------------|------------------------------------|-------------|----------------------|-----------------------|-------------|----------------|
|                               |       |   | Availability<br>2018   2021                  | Latest year<br>2018   2021 | Disaggregation<br>2018   2021 | Availability                       | Latest year | Disaggregation       | Availability          | Latest year | Disaggregation |
| 5. Gender equality            | 5.6.1 | Proportion of women aged 15–49 years who make their own informed decisions regarding sexual relations, contraceptive use and reproductive health care   |  |                            |                               | Yes                                | 2014        |                      |                       |             |                |
|                               | 5.6.2 | Number of countries with laws and regulations that guarantee full and equal access to women and men aged 15 years and older to sexual and reproductive health care, information and education                 |  |                            |                               |                                    |             |                      |                       |             |                |
|                               | 5.a.1 | (a) Proportion of total agricultural population with ownership or secure rights over agricultural land, by sex; and (b) share of women among owners or rights-bearers of agricultural land, by type of tenure |  |                            |                               | Yes                                | 2010        | Sex                  | Yes                   | 2010        | Sex            |
|                               | 5.a.2 | Proportion of countries where the legal framework (including customary law) guarantees women's equal rights to land ownership and/or control  |  |                            |                               | Yes                                | -           |                      |                       |             |                |
|                               | 5.b.1 | Proportion of individuals who own a mobile telephone, by sex  |  |                            |                               | Yes                                | 2018        | Rural/urban +Sex+Age | Yes                   | 2017        | Sex            |
|                               | 5.c.1 | Proportion of countries with systems to track and make public allocations for gender equality and women's empowerment   | Yes   Yes                                    | 2017   2020                | Global Gender Gap Ranking     |                                    |             |                      |                       |             |                |
| 6. Clean water and sanitation | 6.1.1 | Proportion of population using safely managed drinking water services   | No   Yes                                     | -   2020                   |                               | Yes                                | 2017        | Rural/urban          |                       |             |                |



| SDG                                | No.   | Indicator   | Egypt Voluntary National Review <sup>a</sup> |                            |                               | CAPMAS National Statistical Report |             |                | Egypt SDG Observatory |             |                |
|------------------------------------|-------|---|--|----------------------------|-------------------------------|------------------------------------|-------------|----------------|-----------------------|-------------|----------------|
|                                    |       |   | Availability<br>2018   2021                  | Latest year<br>2018   2021 | Disaggregation<br>2018   2021 | Availability                       | Latest year | Disaggregation | Availability          | Latest year | Disaggregation |
| 6. Clean water and sanitation      | 6.b.1 | Proportion of local administrative units with established and operational policies and procedures for participation of local communities in water and sanitation management |  |                            |                               |                                    |             |                |                       |             |                |
|                                    |       |   |  |                            |                               |                                    |             |                |                       |             |                |
| 7. Affordable and clean energy     | 7.1.1 | Proportion of population with access to electricity   | Yes   Yes                                    | 2016   2019                |                               | Yes                                | 2017        |                |                       |             |                |
|                                    | 7.1.2 | Proportion of population with primary reliance on clean fuels and technology  |  |                            |                               | Yes                                | 2017        |                |                       |             |                |
|                                    | 7.2.1 | Renewable energy share in the total final energy consumption  | Yes   Yes                                    | 2016   2019                |                               | Yes                                | 2017        |                | Yes                   | 2016        |                |
|                                    | 7.3.1 | Energy intensity measured in terms of primary energy and GDP  | Yes   No                                     | 2017   -                   |                               | Yes                                | 2017        |                |                       |             |                |
|                                    | 7.a.1 | International financial flows to developing countries in support of clean energy research and development and renewable energy production, including in hybrid systems      | Yes   No                                     | 2017   -                   |                               | Yes                                | 2018        |                |                       |             |                |
|                                    | 7.b.1 | Installed renewable energy-generating capacity in developing countries (in watts per capita)  |  |                            |                               |                                    |             |                |                       |             |                |
| 8. Decent work and economic growth | 8.1.1 | Annual growth rate of real GDP per capita   | Yes   Yes                                    | 2017   2020                |                               | Yes                                | 2017        |                | Yes                   | 2016        |                |
|                                    | 8.2.1 | Annual growth rate of real GDP per employed person  |  |                            |                               | Yes                                | 2017        |                |                       |             |                |





| SDG  | No.    | Indicator  | Egypt Voluntary National Review <sup>a</sup> |                            |                               | CAPMAS National Statistical Report |             |                | Egypt SDG Observatory |             |                |
|--|--------|--|--|----------------------------|-------------------------------|------------------------------------|-------------|----------------|-----------------------|-------------|----------------|
|  |        |  | Availability<br>2018   2021                  | Latest year<br>2018   2021 | Disaggregation<br>2018   2021 | Availability                       | Latest year | Disaggregation | Availability          | Latest year | Disaggregation |
| 8. Decent work and economic growth         | 8.9.1  | Tourism direct GDP as a proportion of total GDP and in growth rate   | Yes   Yes                                    | 2016   2020                |                               | Yes                                | 2017        |                | Yes                   | 2016        |                |
|  | 8.10.1 | (a) Number of commercial bank branches per 100,000 adults and (b) number of automated teller machines (ATMs) per 100,000 adults                          | Yes   No                                     | 2015   -                   |                               | Yes                                | 2018        |                |                       |             |                |
|  | 8.10.2 | Proportion of adults (15 years and older) with an account at a bank or other financial institution or with a mobile-money-service provider               |  |                            |                               |                                    |             |                |                       |             |                |
|  | 8.a.1  | Aid for Trade commitments and disbursements  |  |                            |                               |                                    |             |                |                       |             |                |
|  | 8.b.1  | Existence of a developed and operationalized national strategy for youth employment, as a distinct strategy or as part of a national employment strategy |  |                            |                               |                                    |             |                |                       |             |                |
| 9. Industry, innovation and infrastructure | 9.1.1  | Proportion of the rural population who live within 2 km of an all-season road  |  |                            |                               |                                    |             |                |                       |             |                |
|  | 9.1.2  | Passenger and freight volumes, by mode of transport  |  |                            |                               | Yes                                | 2016        |                | Yes                   | 2017        |                |
|  | 9.2.1  | Manufacturing value added as a proportion of GDP and per capita  | Yes   Yes                                    | 2017   2020                |                               | Yes                                | 2017        |                |                       |             |                |
|  | 9.2.2  | Manufacturing employment as a proportion of total employment   | Yes   No                                     | 2017   -                   |                               | Yes                                | 2017        |                | Yes                   | 2015        |                |

| SDG  | No.    | Indicator  | Egypt Voluntary National Review <sup>a</sup> |                            |                               | CAPMAS National Statistical Report |             |                | Egypt SDG Observatory |             |                |
|--|--------|--|--|----------------------------|-------------------------------|------------------------------------|-------------|----------------|-----------------------|-------------|----------------|
|  |        |  | Availability<br>2018   2021                  | Latest year<br>2018   2021 | Disaggregation<br>2018   2021 | Availability                       | Latest year | Disaggregation | Availability          | Latest year | Disaggregation |
| 9. Industry, innovation and infrastructure | 9.3.1  | Proportion of small-scale industries in total industry value added   | No   Yes                                     | -   2020                   |                               | Yes                                | 2013        |                | Yes                   | 2013        |                |
|  | 9.3.2  | Proportion of small-scale industries with a loan or line of credit   |  |                            |                               |                                    |             |                |                       |             |                |
|  | 9.4.1  | CO2 emission per unit of value added   | Yes   No                                     | 2014   -                   |                               | Yes                                | 2017        |                | Yes                   | 2005        |                |
|  | 9.5.1  | Research and development expenditure as a proportion of GDP  | Yes   No                                     | 2018   -                   |                               | Yes                                | 2017        |                |                       |             |                |
|  | 9.5.2  | Researchers (in full-time equivalent) per million inhabitants  | No   Yes                                     | -   2018                   |                               |                                    |             |                |                       |             |                |
|  | 9.a.1  | Total official international support (official development assistance plus other official flows) to infrastructure                 |  |                            |                               | Yes                                | 2018        |                |                       |             |                |
|  | 9.b.1  | Proportion of medium and high-tech industry value added in total value added   | No   Yes                                     | -   2019                   |                               |                                    |             |                |                       |             |                |
|  | 9.c.1  | Proportion of population covered by a mobile network, by technology  |  |                            |                               | Yes                                | 2017        |                |                       |             |                |
| 10. Reduced inequalities                   | 10.1.1 | Growth rates of household expenditure or income per capita among the bottom 40 per cent of the population and the total population | No   Yes                                     | -   2020                   |                               |                                    |             |                |                       |             |                |
|  | 10.2.1 | Proportion of people living below 50 per cent of median income, by sex, age and persons with disabilities                          | No   Yes                                     | -   2020                   | Rural/urban                   |                                    |             |                |                       |             |                |

| SDG                      | No.    | Indicator  | Egypt Voluntary National Review <sup>a</sup> |                            |                               | CAPMAS National Statistical Report |                |                | Egypt SDG Observatory |                |                |
|--------------------------|--------|--|--|----------------------------|-------------------------------|------------------------------------|----------------|----------------|-----------------------|----------------|----------------|
|                          |        |  | Availability<br>2018   2021                  | Latest year<br>2018   2021 | Disaggregation<br>2018   2021 | Availability                       | Latest<br>year | Disaggregation | Availability          | Latest<br>year | Disaggregation |
| 10. Reduced inequalities | 10.3.1 | Proportion of population reporting having personally felt discriminated against or harassed in the previous 12 months on the basis of a ground of discrimination prohibited under international human rights law |  |                            |                               |                                    |                |                |                       |                |                |
|                          | 10.4.1 | Labour share of GDP  |  |                            |                               |                                    |                |                |                       |                |                |
|                          | 10.4.2 | Redistributive impact of fiscal policy   |  |                            |                               |                                    |                |                |                       |                |                |
|                          | 10.5.1 | Financial Soundness Indicators   |  |                            |                               |                                    |                |                |                       |                |                |
|                          | 10.6.1 | Proportion of members and voting rights of developing countries in international organizations   |  |                            |                               | Yes                                | -              |                |                       |                |                |
|                          | 10.7.1 | Recruitment cost borne by employee as a proportion of monthly income earned in country of destination  |  |                            |                               |                                    |                |                |                       |                |                |
|                          | 10.7.2 | Number of countries with migration policies that facilitate orderly, safe, regular and responsible migration and mobility of people  |  |                            |                               | Yes                                | -              |                |                       |                |                |
|                          | 10.7.3 | Number of people who died or disappeared in the process of migration towards an international destination  |  |                            |                               |                                    |                |                |                       |                |                |
|                          | 10.7.4 | Proportion of the population who are refugees, by country of origin  |  |                            |                               |                                    |                |                |                       |                |                |
|                          | 10.a.1 | Proportion of tariff lines applied to imports from least developed countries and developing countries with zero-tariff   |  |                            |                               | Yes                                | 2017           |                |                       |                |                |

| SDG                                    | No.    | Indicator   | Egypt Voluntary National Review <sup>a</sup> |                            |                               | CAPMAS National Statistical Report |                |                | Egypt SDG Observatory |                |                |
|--|--------|---|--|----------------------------|-------------------------------|------------------------------------|----------------|----------------|-----------------------|----------------|----------------|
|  |        |   | Availability<br>2018   2021                  | Latest year<br>2018   2021 | Disaggregation<br>2018   2021 | Availability                       | Latest<br>year | Disaggregation | Availability          | Latest<br>year | Disaggregation |
| 10. Reduced inequalities               | 10.b.1 | Total resource flows for development, by recipient and donor countries and type of flow (e.g. official development assistance, foreign direct investment and other flows)   |  |                            |                               | Yes                                | 2018           |                | Yes                   | -              |                |
|  | 10.c.1 | Remittance costs as a proportion of the amount remitted   |  |                            |                               |                                    |                |                |                       |                |                |
| 11. Sustainable cities and communities | 11.1.1 | Proportion of urban population living in slums, informal settlements or inadequate housing  | Yes   Yes                                    | 2017   2019                |                               |                                    |                |                |                       |                |                |
|  | 11.2.1 | Proportion of population that has convenient access to public transport, by sex, age and persons with disabilities  | No   Yes                                     | -   2020                   |                               |                                    |                |                |                       |                |                |
|  | 11.3.1 | Ratio of land consumption rate to population growth rate  | Yes   No                                     | 2018   -                   |                               |                                    |                |                |                       |                |                |
|  | 11.3.2 | Proportion of cities with a direct participation structure of civil society in urban planning and management that operate regularly and democratically  | Yes   No                                     | 2017   -                   |                               |                                    |                |                |                       |                |                |
|  | 11.4.1 | Total per capita expenditure on the preservation, protection and conservation of all cultural and natural heritage, by source of funding (public, private), type of heritage (cultural, natural) and level of government (national, regional, and local/ municipal) | No   Yes                                     | -   2020                   |                               |                                    |                |                |                       |                |                |

| SDG                                    | No.    | Indicator   | Egypt Voluntary National Review <sup>a</sup> |                            |                               | CAPMAS National Statistical Report |             |                | Egypt SDG Observatory |             |                |
|--|--------|---|--|----------------------------|-------------------------------|------------------------------------|-------------|----------------|-----------------------|-------------|----------------|
|  |        |   | Availability<br>2018   2021                  | Latest year<br>2018   2021 | Disaggregation<br>2018   2021 | Availability                       | Latest year | Disaggregation | Availability          | Latest year | Disaggregation |
| 11. Sustainable cities and communities | 11.5.1 | Number of deaths, missing persons and directly affected persons attributed to disasters per 100,000 population  |  |                            |                               |                                    |             |                |                       |             |                |
|  | 11.5.2 | Direct economic loss in relation to global GDP, damage to critical infrastructure and number of disruptions to basic services, attributed to disasters  |  |                            |                               |                                    |             |                |                       |             |                |
|  | 11.6.1 | Proportion of municipal solid waste collected and managed in controlled facilities out of total municipal waste generated, by cities  |  |                            |                               |                                    |             |                |                       |             |                |
|  | 11.6.2 | Annual mean levels of fine particulate matter (e.g. PM2.5 and PM10) in cities (population weighted)   | No   Yes                                     | -   2019                   |                               | Yes                                | 2016        |                | Yes                   | 2015        | Governorate    |
|  | 11.7.1 | Average share of the built-up area of cities that is open space for public use for all, by sex, age and persons with disabilities   |  |                            |                               |                                    |             |                |                       |             |                |
|  | 11.7.2 | Proportion of persons victim of physical or sexual harassment, by sex, age, disability status and place of occurrence, in the previous 12 months  |  |                            |                               |                                    |             |                |                       |             |                |
|  | 11.a.1 | Number of countries that have national urban policies or regional development plans that (a) respond to population dynamics; (b) ensure balanced territorial development; and (c) increase local fiscal space |  |                            |                               |                                    |             |                |                       |             |                |
|  | 11.b.1 | Number of countries that adopt and implement national disaster risk reduction strategies in line with the Sendai Framework for Disaster Risk Reduction 2015–2030  |  |                            |                               | Yes                                | -           |                |                       |             |                |





| SDG  | No.    | Indicator   | Egypt Voluntary National Review <sup>a</sup> |                            |                               | CAPMAS National Statistical Report |             |                | Egypt SDG Observatory |             |                |
|--|--------|---|--|----------------------------|-------------------------------|------------------------------------|-------------|----------------|-----------------------|-------------|----------------|
|  |        |   | Availability<br>2018   2021                  | Latest year<br>2018   2021 | Disaggregation<br>2018   2021 | Availability                       | Latest year | Disaggregation | Availability          | Latest year | Disaggregation |
| 12. Responsible consumption and production | 12.5.1 | National recycling rate, tons of material recycled  |  |                            |                               |                                    |             |                |                       |             |                |
|  | 12.6.1 | Number of companies publishing sustainability reports   |  |                            |                               |                                    |             |                |                       |             |                |
|  | 12.7.1 | Degree of sustainable public procurement policies and action plan implementation  |  |                            |                               |                                    |             |                |                       |             |                |
|  | 12.8.1 | Extent to which (i) global citizenship education and (ii) education for sustainable development are mainstreamed in (a) national education policies; (b) curricula; (c) teacher education; and (d) student assessment |  |                            |                               |                                    |             |                |                       |             |                |
|  | 12.a.1 | Installed renewable energy-generating capacity in developing countries (in watts per capita)  |  |                            |                               |                                    |             |                |                       |             |                |
|  | 12.b.1 | Implementation of standard accounting tools to monitor the economic and environmental aspects of tourism sustainability   |  |                            |                               |                                    |             |                |                       |             |                |
|  | 12.c.1 | Amount of fossil-fuel subsidies per unit of GDP (production and consumption)i   | Yes   No                                     | 2017   -                   |                               |                                    |             |                |                       |             |                |
| 13. Climate action                         | 13.1.1 | Number of deaths, missing persons and directly affected persons attributed to disasters per 100,000 population  | Yes   No                                     | 2017   -                   |                               |                                    |             |                |                       |             |                |



| SDG                  | No.    | Indicator   | Egypt Voluntary National Review <sup>a</sup> |                            |                               | CAPMAS National Statistical Report |                |                | Egypt SDG Observatory |                |                |
|----------------------|--------|---|--|----------------------------|-------------------------------|------------------------------------|----------------|----------------|-----------------------|----------------|----------------|
|                      |        |   | Availability<br>2018   2021                  | Latest year<br>2018   2021 | Disaggregation<br>2018   2021 | Availability                       | Latest<br>year | Disaggregation | Availability          | Latest<br>year | Disaggregation |
| 13. Climate action   | 13.b.1 | Number of least developed countries and small island developing States with nationally determined contributions, long-term strategies, national adaptation plans, strategies as reported in adaptation communications and national communications |  |                            |                               |                                    |                |                |                       |                |                |
|                      |        |   |  |                            |                               |                                    |                |                |                       |                |                |
| 14. Life below water | 14.1.1 | (a) Index of coastal eutrophication; and (b) plastic debris density   |  |                            |                               |                                    |                |                |                       |                |                |
|                      | 14.2.1 | Number of countries using ecosystem-based approaches to managing marine areas   |  |                            |                               |                                    |                |                |                       |                |                |
|                      | 14.3.1 | Average marine acidity (pH) measured at agreed suite of representative sampling stations  |  |                            |                               |                                    |                |                |                       |                |                |
|                      | 14.4.1 | Proportion of fish stocks within biologically sustainable levels  | Yes   No                                     | 2015   -                   |                               | Yes                                | 2017           |                | Yes                   | 2015           |                |
|                      | 14.5.1 | Coverage of protected areas in relation to marine areas   |  |                            |                               | Yes                                | 2014           |                | Yes                   | 2014           |                |
|                      | 14.6.1 | Degree of implementation of international instruments aiming to combat illegal, unreported and unregulated fishing  |  |                            |                               |                                    |                |                |                       |                |                |
|                      | 14.7.1 | Sustainable fisheries as a proportion of GDP in small island developing States, least developed countries and all countries   |  |                            |                               | Yes                                | 2013           |                |                       |                |                |







| SDG  | No.    | Indicator  | Egypt Voluntary National Review <sup>a</sup> |                            |                               | CAPMAS National Statistical Report |                |                | Egypt SDG Observatory |                |                |
|--|--------|--|--|----------------------------|-------------------------------|------------------------------------|----------------|----------------|-----------------------|----------------|----------------|
|  |        |  | Availability<br>2018   2021                  | Latest year<br>2018   2021 | Disaggregation<br>2018   2021 | Availability                       | Latest<br>year | Disaggregation | Availability          | Latest<br>year | Disaggregation |
| 15. Life on land                           | 15.a.1 | (a) Official development assistance on conservation and sustainable use of biodiversity; and (b) revenue generated and finance mobilized from biodiversity-relevant economic instruments |  |                            |                               | Yes                                | 2016           |                |                       |                |                |
|  | 15.b.1 | (a) Official development assistance on conservation and sustainable use of biodiversity; and (b) revenue generated and finance mobilized from biodiversity-relevant economic instruments |  |                            |                               | Yes                                | 2016           |                |                       |                |                |
|  | 15.c.1 | Proportion of traded wildlife that was poached or illicitly trafficked   |  |                            |                               |                                    |                |                |                       |                |                |
| 16. Peace, justice and strong institutions | 16.1.1 | Number of victims of intentional homicide per 100,000 population, by sex and age   |  |                            |                               | Yes                                | 2017           |                |                       |                |                |
|  | 16.1.2 | Conflict-related deaths per 100,000 population, by sex, age and cause  |  |                            |                               |                                    |                |                |                       |                |                |
|  | 16.1.3 | Proportion of population subjected to (a) physical violence, (b) psychological violence and (c) sexual violence in the previous 12 months  |  |                            |                               |                                    |                |                |                       |                |                |
|  | 16.1.4 | Proportion of population that feel safe walking alone around the area they live  |  |                            |                               |                                    |                |                |                       |                |                |
|  | 16.2.1 | Proportion of children aged 1–17 years who experienced any physical punishment and/or psychological aggression by caregivers in the past month   |  |                            |                               | Yes                                | 2014           |                |                       |                |                |





| SDG  | No.    | Indicator   | Egypt Voluntary National Review <sup>a</sup> |                            |                               | CAPMAS National Statistical Report |                |                | Egypt SDG Observatory |                |                |
|--|--------|---|--|----------------------------|-------------------------------|------------------------------------|----------------|----------------|-----------------------|----------------|----------------|
|  |        |   | Availability<br>2018   2021                  | Latest year<br>2018   2021 | Disaggregation<br>2018   2021 | Availability                       | Latest<br>year | Disaggregation | Availability          | Latest<br>year | Disaggregation |
| 16. Peace, justice and strong institutions | 16.102 | Number of countries that adopt and implement constitutional, statutory and/or policy guarantees for public access to information  |  |                            |                               |                                    |                |                |                       |                |                |
|  | 16.a.1 | Existence of independent national human rights institutions in compliance with the Paris Principles   |  |                            |                               |                                    |                |                |                       |                |                |
|  | 16.b.1 | Proportion of population reporting having personally felt discriminated against or harassed in the previous 12 months on the basis of a ground of discrimination prohibited under international human rights law                      |  |                            |                               |                                    |                |                |                       |                |                |
| 17. Partnerships for the Goals             | 17.1.1 | Total government revenue as a proportion of GDP, by source  | No   Yes                                     | -   2020                   |                               | Yes                                | 2017           |                | Yes                   | 2015           |                |
|  | 17.1.2 | Proportion of domestic budget funded by domestic taxes  | No   Yes                                     | -   2020                   |                               | Yes                                | 2018           |                |                       |                |                |
|  | 17.2.1 | Net official development assistance, total and to least developed countries, as a proportion of the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee donors' gross national income (GNI) | No   Yes                                     | -   2020                   |                               |                                    |                |                |                       |                |                |
|  | 17.3.1 | Foreign direct investment, official development assistance and South-South cooperation as a proportion of gross national income   | No   Yes                                     | -   2020                   |                               |                                    |                |                |                       |                |                |



| SDG                            | No.     | Indicator  | Egypt Voluntary National Review <sup>a</sup> |                            |                               | CAPMAS National Statistical Report |                |                | Egypt SDG Observatory |                |                |
|--------------------------------|---------|--|--|----------------------------|-------------------------------|------------------------------------|----------------|----------------|-----------------------|----------------|----------------|
|                                |         |  | Availability<br>2018   2021                  | Latest year<br>2018   2021 | Disaggregation<br>2018   2021 | Availability                       | Latest<br>year | Disaggregation | Availability          | Latest<br>year | Disaggregation |
| 17. Partnerships for the Goals | 17.3.2  | Volume of remittances (in United States dollars) as a proportion of total GDP  | No   Yes                                     | -   2020                   |                               |                                    |                |                |                       |                |                |
|                                | 17.4.1  | Debt service as a proportion of exports of goods and services  |  |                            |                               | Yes                                | 2017           |                |                       |                |                |
|                                | 17.5.1  | Number of countries that adopt and implement investment promotion regimes for developing countries, including the least developed countries                  |  |                            |                               |                                    |                |                |                       |                |                |
|                                | 17.6.1  | Fixed Internet broadband subscriptions per 100 inhabitants, by speed   | No   Yes                                     | -   2018                   |                               | Yes                                | 2017           |                | Yes                   | 2015           |                |
|                                | 17.7.1  | Total amount of funding for developing countries to promote the development, transfer, dissemination and diffusion of environmentally sound technologies     |  |                            |                               |                                    |                |                |                       |                |                |
|                                | 17.8.1  | Proportion of individuals using the Internet   |  |                            |                               | Yes                                | 2018           |                | Yes                   | 2017           | Sex            |
|                                | 17.9.1  | Dollar value of financial and technical assistance (including through North-South, South South and triangular cooperation) committed to developing countries |  |                            |                               |                                    |                |                |                       |                |                |
|                                | 17.10.1 | Worldwide weighted tariff-average  |  |                            |                               | Yes                                | 2018           |                |                       |                |                |



| SDG   | No.    | Indicator   | Egypt Voluntary National Review <sup>a</sup> |                            |                               | CAPMAS National Statistical Report |                |                | Egypt SDG Observatory |                |                |
|---|--------|---|--|----------------------------|-------------------------------|------------------------------------|----------------|----------------|-----------------------|----------------|----------------|
|   |        |   | Availability<br>2018   2021                  | Latest year<br>2018   2021 | Disaggregation<br>2018   2021 | Availability                       | Latest<br>year | Disaggregation | Availability          | Latest<br>year | Disaggregation |
| 17. Partnerships for the Goals  | 17.182 | Number of countries that have national statistical legislation that complies with the Fundamental Principles of Official Statistics   |  |                            |                               | Yes                                | -              |                |                       |                |                |
|   | 17.183 | Number of countries with a national statistical plan that is fully funded and under implementation, by source of funding  |  |                            |                               | Yes                                | -              |                |                       |                |                |
|   | 17.191 | Dollar value of all resources made available to strengthen statistical capacity in developing countries   |  |                            |                               |                                    |                |                |                       |                |                |
|   | 17.192 | Proportion of countries that (a) have conducted at least one population and housing census in the last 10 years; and (b) have achieved 100 per cent birth registration and 80 per cent death registration |  |                            |                               | Yes                                | -              |                |                       |                |                |
| TOTAL   |        |   | 39   45 (non-representative)                 |                            |                               | 116                                |                |                | 53                    |                |                |
| a Information was added from the 2018 and 2021 VNRs of Egypt in October 2020 and August 2021, respectively. |        |   |  |                            |                               |                                    |                |                |                       |                |                |
| Note: First produced in October 2020, updated in August 2021.   |        |   |  |                            |                               |                                    |                |                |                       |                |                |

## Annex 3: Principal component analysis

### Goal 1: No poverty

|     | Principal components |                     |                                |
|-----|----------------------|---------------------|--------------------------------|
|     | Eigenvalue           | Variance percentage | Cumulative variance percentage |
| PC1 | 4.113845045          | 68.56408409         | 68.56408409                    |
| PC2 | 0.987115982          | 16.45193303         | 85.01601712                    |
| PC3 | 0.548366895          | 9.13944825          | 94.15546537                    |
| PC4 | 0.175314038          | 2.921900627         | 97.077366                      |
| PC5 | 0.162101042          | 2.701684028         | 99.77905003                    |
| PC6 | 0.013256998          | 0.220949974         | 100                            |

| Principal component loadings   |              |              |              |
|--|--------------|--------------|--------------|
| Indicator  | PC1          | PC2          | PC3          |
| Proportion of population living below the national poverty line (percentage)                             | 0.467791821  | -0.29921032  | 0.007005158  |
| Proportion of population using basic drinking water services, by location (percentage)                   | 0.454589734  | 0.166893969  | -0.091869565 |
| Direct economic loss attributed to disasters relative to GDP (percentage)                                | -0.286746598 | -0.774475024 | 0.227476136  |
| Proportion of population below international poverty line (percentage)                                   | -0.366018107 | -0.175578707 | -0.862708695 |
| Official development assistance grants for poverty reduction, by recipient countries (percentage of GNI) | -0.402307852 | 0.499689453  | 0.04215558   |
| Number of directly affected persons attributed to disasters per 100,000 population (number)              | -0.443254455 | 0.047860137  | 0.440138766  |

## Goal 2: Zero hunger

|     | Principal components |                     |                                |
|-----|----------------------|---------------------|--------------------------------|
|     | Eigenvalue           | Variance percentage | Cumulative variance percentage |
| PC1 | 5.24468              | 74.924              | 74.924                         |
| PC2 | 1.512219             | 21.60313            | 96.52713                       |
| PC3 | 0.21035              | 3.004994            | 99.53212                       |
| PC4 | 0.02297              | 0.328147            | 99.86027                       |
| PC5 | 0.006159             | 0.087988            | 99.94826                       |
| PC6 | 0.003307             | 0.047248            | 99.99551                       |
| PC7 | 0.000315             | 0.004494            | 100                            |

| Principal component loadings   |          |          |          |
|--|----------|----------|----------|
| Indicator  | PC1      | PC2      | PC3      |
| Agriculture orientation index for government expenditures  | -0.42586 | 0.010283 | -0.41746 |
| Prevalence of moderate or severe food insecurity in the adult population (percentage)  | 0.400455 | 0.314863 | 0.01687  |
| Prevalence of undernourishment (percentage)  | -0.3599  | 0.354171 | 0.786576 |
| Proportion of children moderately or severely overweight (percentage)  | 0.421089 | 0.209009 | 0.068825 |
| Proportion of children moderately or severely stunted (percentage)   | 0.368285 | 0.436132 | 0.005227 |
| Proportion of children moderately or severely wasted (percentage)  | 0.416415 | -0.23916 | -0.05794 |
| Total official flows (disbursements) for agriculture, by recipient countries (millions of constant 2018 United States dollars) | 0.205911 | -0.69586 | 0.445668 |

## Goal 3: Good health and well-being

|      | Principal components |                     |                                |
|------|----------------------|---------------------|--------------------------------|
|      | Eigenvalue           | Variance percentage | Cumulative variance percentage |
| PC1  | 7.395004             | 73.95004            | 73.95004                       |
| PC2  | 1.502311             | 15.02311            | 88.97315                       |
| PC3  | 0.663322             | 6.633219            | 95.60637                       |
| PC4  | 0.246596             | 2.465961            | 98.07233                       |
| PC5  | 0.137629             | 1.376295            | 99.44862                       |
| PC6  | 0.045428             | 0.454284            | 99.90291                       |
| PC7  | 0.005412             | 0.054123            | 99.95703                       |
| PC8  | 0.003299             | 0.032989            | 99.99002                       |
| PC9  | 0.000989             | 0.009895            | 99.99991                       |
| PC10 | 8.56E-06             | 8.56E-05            | 100                            |

| Principal component loadings  |          |          |          |
|---|----------|----------|----------|
| Indicator   | PC1      | PC2      | PC3      |
| Number of new HIV infections per 1,000 uninfected population, by sex and age (per 1,000 uninfected population)  | 0.341476 | 0.033731 | -0.05359 |
| Health worker density, by type of occupation (per 10,000 population)  | 0.124176 | 0.720207 | 0.107867 |
| Total official development assistance to medical research and basic health sectors, gross disbursement by recipient countries (millions of constant 2018 United States dollars) | -0.18443 | 0.615758 | 0.336319 |
| Proportion of the target population with access to measles-containing-vaccine second-dose (MCV2) (percentage)   | -0.28376 | 0.182449 | -0.70879 |
| Proportion of the target population with access to 3 doses of diphtheria-tetanus-pertussis (DTP3) (percentage)  | -0.31953 | 0.19575  | -0.48922 |
| Maternal mortality ratio  | -0.35572 | -0.12667 | 0.166602 |
| Under-five mortality rate, by sex (deaths per 1,000 live births)  | -0.36095 | -0.06733 | 0.169412 |
| Tuberculosis incidence (per 100,000 population)   | -0.36172 | -0.0574  | 0.171244 |
| Infant mortality rate (deaths per 1,000 live births)  | -0.3618  | -0.0645  | 0.164639 |
| Neonatal mortality rate (deaths per 1,000 live births)  | -0.36439 | -0.03696 | 0.133344 |



## Goal 4: Quality education

|     | Principal components |                     |                                |
|-----|----------------------|---------------------|--------------------------------|
|     | Eigenvalue           | Variance percentage | Cumulative variance percentage |
| PC1 | 3.81268              | 95.31701            | 95.31701                       |
| PC2 | 0.146983             | 3.674565            | 98.99158                       |
| PC3 | 0.025193             | 0.629834            | 99.62141                       |
| PC4 | 0.015144             | 0.378589            | 100                            |

| Principal component loadings  |          |          |          |
|---|----------|----------|----------|
| Indicator   | PC1      | PC2      | PC3      |
| Gender parity index for participation rate in organized learning (one year before the official primary entry age) (ratio) | 0.508878 | -0.06894 | 0.287768 |
| Total official flows for scholarships, by recipient countries (millions of constant 2018 United States dollars)           | 0.506892 | 0.116405 | -0.8541  |
| Participation rate in organized learning (one year before the official primary entry age), by sex (percentage)            | 0.493117 | 0.674203 | 0.386886 |
| Participation rate in formal and non-formal education and training, by sex (percentage)                                   | 0.490856 | -0.72605 | 0.195001 |

## Goal 8: Decent work and economic growth

|     | Principal components |                     |                                |
|-----|----------------------|---------------------|--------------------------------|
|     | Eigenvalue           | Variance percentage | Cumulative variance percentage |
| PC1 | 4.712993             | 58.91241            | 58.91241                       |
| PC2 | 1.568485             | 19.60607            | 78.51847                       |
| PC3 | 0.686675             | 8.583443            | 87.10192                       |
| PC4 | 0.470847             | 5.885584            | 92.9875                        |
| PC5 | 0.281352             | 3.516897            | 96.5044                        |
| PC6 | 0.159188             | 1.989845            | 98.49424                       |
| PC7 | 0.086124             | 1.076553            | 99.5708                        |
| PC8 | 0.034336             | 0.429205            | 100                            |

| Principal component loadings  |          |          |          |
|---|----------|----------|----------|
| Indicator   | PC1      | PC2      | PC3      |
| Number of commercial bank branches per 100,000 adults   | 0.476691 | -0.1259  | -0.10612 |
| Total official flows (disbursement) for Aid for Trade, by recipient countries (millions of constant 2018 United States dollars) | 0.467462 | 0.134125 | 0.152337 |
| Unemployment rate, by sex and age (percentage)  | 0.454679 | 0.024293 | 0.082538 |
| Domestic material consumption per capita, by type of raw material (tons)  | 0.414773 | -0.33671 | 0.247054 |
| Total official flows (commitments) for Aid for Trade, by recipient countries (millions of constant 2018 United States dollars)  | 0.380343 | 0.260693 | 0.003592 |
| Annual growth rate of real GDP per employed person (percentage)   | 0.101426 | -0.62384 | -0.70838 |
| Annual growth rate of real GDP per capita (percentage)  | -0.14327 | -0.62854 | 0.629179 |

## Annex 4: Corporate social responsibility and impact investing to achieve the Sustainable Development Goals

### Corporate social responsibility

A review of the literature suggests that the SDGs can be used efficiently as an underlying framework to guide corporate social responsibility by aligning development targets with the business-specific activities. Such a practice also provides a common agenda around which Governments, businesses and civil society can rally. Furthermore, the SDGs fully acknowledge the complexity, trade-offs and systemic nature of sustainable development issues. The challenge for strategic corporate social responsibility management is therefore to strike an appropriate balance between short-term benefits and a long-term vision for sustainability, which should be aligned with national development objectives as defined by the SDG framework.

The business sector across the globe is taking a larger share of economic value added for economies around the world. As it flourishes, businesses are increasingly considering the impact of their activities on societies and their role in contributing to sustainable economic development. Sustainable business models are gradually becoming mainstream; long-term business success depends on the ability to respond effectively to the well-being of people and the planet.

The United Nations Global Compact initiative was launched in 2000 to encourage businesses around the world to adopt and implement policies and processes that support sustainable development. Its ten principles represent the fundamental values that should be embedded in daily strategies and operations to help build

resilient and sustainable businesses. The initiative builds on the Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development and the United Nations Convention against Corruption. It is currently the largest corporate sustainability initiative in the world; it encompasses over 10,000 companies and 3,000 non-business signatories based in over 160 countries, as well as 68 local networks. The initiative provides guidance, training, tools and support to enable businesses of all sizes and from all sectors to achieve their sustainability objectives by promoting good business practices.

The Compact's annual reports show that companies commit to its principles as a way to contribute to the achievement of the SDGs.<sup>1</sup> They reported that impediments to scaling up their contributions are largely related to the difficulties they encounter in extending those principles along the supply chain worldwide. This is mainly attributed to the lack of resources for SMEs. Approximately 90 per cent of the companies surveyed reported that they have internal policies on all ten principles of the Global Compact, while 81 per cent are taking action on the SDGs. Nevertheless, only 26 per cent of companies assess their risks against the principles and 18 per cent assess their impact. On the economic, social and governance policy level, 94 per cent of companies had policies for environmental conservation, 92 per cent had policies regarding labour, 91 per cent had policies on human rights and only 88 per cent had policies on combating fraud.

The table shows the change in the rankings of the SDGs in terms of action taken by companies. Goals 12 and 13 had a significant uptake in 2020, and Goal 8 remained the most important goal for companies. The 2019 and 2020 surveys reflect the low impact that businesses have on reducing

inequalities and providing social infrastructure. Currently, many businesses are fighting for their survival, and a looming global recession is forcing companies and Governments to focus on the short term, which is a reality that cannot be ignored.

### SDGs ranked in terms of action taken by companies

| Goal  | Percentage of companies |      |
|---|-------------------------|------|
|   | 2019                    | 2020 |
| Goal 8: Decent work and economic growth         | 66                      | 65 ▼ |
| Goal 5: Gender equity                           | 61                      | 53 ▼ |
| Goal 3: Good health and well-being              | 60                      | 55 ▼ |
| Goal 12: Responsible consumption and production | 50                      | 54 ▲ |
| Goal 13: Climate action                         | 48                      | 54 ▲ |
| Goal 9: Industry, innovation and infrastructure | 48                      | 49 ▲ |
| Goal 4: Quality education                       | 47                      | 38 ▼ |
| Goal 7: Affordable and clean energy             | 40                      | 40 = |
| Goal 17: Partnerships for the Goals             | 39                      | 42 ▲ |
| Goal 10: Reduced inequalities                   | 39                      | 33 ▼ |
| Goal 11: Sustainable cities and communities     | 34                      | 34 = |
| Goal 6: Clean water and sanitation              | 32                      | 28 ▼ |
| Goal 16: Peace, justice and strong institutions | 28                      | 24 ▼ |
| Goal 1: No poverty                              | 25                      | 22 ▼ |
| Goal 2: Zero hunger                             | 20                      | 18 ▼ |
| Goal 14: Life below water                       | 13                      | 13 = |

**Source:** Authors, compiled from the United Nations Global Compact annual reports.

The 2020 Global Compact annual survey provides a blueprint for businesses across all sectors to ramp up efforts to create a new normal in terms of sustainability. While 84 per cent of Global Compact business participants take some form of action on the SDGs, goal setting and impacts are not ambitious enough. Only 39 per cent of businesses are setting goals that are sufficiently ambitious, science based and aligned with societal needs, and only 46 per cent have aligned the SDGs with their core business.<sup>ii</sup>

Businesses across the globe are exerting more effort towards realizing development goals, either by achieving sustainability themselves, employing

inclusive business models or participating with Governments in the construction and implementation of development projects. It should be noted that consumers are becoming more aware of sustainability issues and are forming new groups to pressure multinational corporations to increase compliance with sustainability requirements.

The principles for the Global Compact, along with guidelines from the International Chamber of Commerce, offer a myriad of possible actions for incorporating economic, social and governance criteria into business practices and provide a basis to support the role of the business sector in achieving the SDGs.

## International Chamber of Commerce guidelines for business contributions to the Sustainable Development Goals

In 1991, the International Chamber of Commerce launched its first Business Charter for Sustainable Development, providing the first global business position on sustainable development. The Charter was subsequently updated in 2000 and 2015, with the latest version reflecting the new approach to sustainable development and its economic, societal and environmental dimensions in order to help companies contribute to the achievement of the SDGs. The guidelines are as follows:

- 1. Sustainable development as a business priority:** recognize the business contribution to sustainable development as a key priority and an enabler for long-term business success; build the necessary awareness and understanding amongst its employees, shareholders, customers and other stakeholders; clarify and integrate sustainability into its strategies, leadership principles, operations, activities and investments according to each business' individually relevant context; and govern its business with integrity, develop best practices in any relevant area of work and promote ethical conduct, including fighting corruption.
- 2. Inclusive economic growth and development:** promote business practices that contribute to economic growth in the direction of sustainable development; encourage efficient and cost-effective policies and approaches that promote entrepreneurship and empower and enable the establishment and start-up of businesses; and ultimately contribute to the concept of decoupling economic activity from adverse environmental impacts, including new approaches to incorporate externalities in economic terms.
- 3. Environmental responsibility and management:** recognize and assess environmental impacts associated with business activities; implement an effective environmental management system to minimize actual and potential adverse environmental impacts; and maximize resource efficiency of all natural resources, particularly water, energy and soil.
- 4. Responsibility towards people and societies:** recognize the importance of people—both employees and external stakeholders—as critical to the success of any business; foster skill development for the workforce; respect and follow human rights guidelines; and understand and define societal impact of the business and to set priorities according to its specific circumstances.
- 5. Products and services:** develop products that provide good value for the customer, are safe in their intended use, are compliant with applicable laws and regulations and minimize adverse environmental and/or societal impacts; endeavour to maximize the economic, societal and environmental benefits of the products by considering the whole product life-cycle; and innovate with and through customers and suppliers to identify hidden opportunities—from research and development to sustainable products—and avoid unintended consequences.
- 6. Value-chain approach:** promote and facilitate the awareness of these sustainable development principles across the value-chain, that is, the business' suppliers, customers, agents, distributors, service providers and other relevant partners; collaborate with all actors in the value-chain for responsible behaviour across the entire product or service life cycle; and promote the mutual recognition of relevant corporate responsibility codes and supplier guidelines.
- 7. Transparency, communications and reporting:** set goals and select the appropriate metrics to track implementation of business objectives and assessed risks and opportunities; and report and communicate progress through the most relevant channel(s) relative to the size, scope, sector and geography of the business and in accordance with its available resources as appropriate.
- 8. Collaboration and partnerships for continuous improvement:** foster innovative collaborations for shared value creation, such as engagements and alliances with other businesses, academia, governments or consumers to deliver jobs, innovative business models and solutions; and engage with employees, shareholders and other stakeholders through regular dialogue and communication in order to engender trust between the business and its various stakeholders.

**Source:** International Chamber of Commerce (2015). Business Charter for Sustainable Development: Business Contributions to the UN Sustainable Development Goals (September).

## Impact investing

Impact investing is an important recent source of financing development. It can be defined as allocating funds through private equity, debt and fixed-income securities to companies and projects that are projected to yield social and environmental benefits as well as financial returns. Impact investments are typically concentrated in the basic needs sector, in areas such as housing, energy, health, agriculture and microfinance. The Global Impact Investing Network, a leading non-profit organization dedicated to increasing the scale and effectiveness of impact investing, estimates that the sector's assets under management amounted to \$715 billion by the end of 2019. Nearly 59 per cent of impact investing assets are invested in emerging markets and developing economies, with sub-Saharan Africa commanding the largest share of assets directed towards emerging markets, at 21 per cent. This is double the level of investment in 2016.

There are several challenges facing the impact investing industry that limit its expansion in Africa and in developing countries. Technical challenges include difficulty sourcing viable investments that meet both financial and social/environmental objectives as a result of the limited capacity of sustainable social enterprises, limited innovative fund and deal structures, difficulty exiting investments and poor and inconsistent impact measurement practices. Structural challenges include limited capital supply across the risk-return spectrum,

poor linkages between sustainable social enterprises and investors, a lack of innovation networks, an unclear regulatory environment and the poor visibility and credibility of sustainable social enterprises in the absence of a sustainable social enterprise label.

Despite those challenges, the impact investing industry is gaining momentum and has grown significantly over the years. It is expected to form a significant source of financing for development projects aligned with the SDGs. Governments have increasingly developed policies and frameworks to facilitate impact investing, ensuring that the practice is streamlined in investment frameworks. This also includes facilitating environmental, social and governance investing, which allows impact investors to fulfil their mission to contribute to local development initiatives.

Impact management and measurement is still a nascent science. The body of knowledge continues to evolve and is discussed globally among specialized research institutions and practitioners. The Impact Management Project, one of the most prominent initiatives to broaden knowledge in the field, has developed a matrix for profiling impact classes that group investment products with similar impact characteristics. The figure shows the way in which the impact classes bring together the impact performance, or goals, of the assets in which investments are made and the strategies that investors use to contribute to that impact.





## Impact investing profiling

| IMPACT GOALS                                    |   |   |  |   |
|---|---|---|--|---|
| WHAT<br>HOW MUCH<br>WHO<br>CONTRIBUTION<br>RISK | Avoid harm  | Benefit stakeholders  | Contribute to solutions  |   |
|   | Important negative outcomes   | Important positive outcomes   | Specific important positive outcome(s) AND   |   |
|   | Marginal and for few  | Various   | Deep, and/or for many and/or long term AND   |   |
|   | Underserved   | Various   | Underserved  |   |
|   | Likely same or better   | Likely same or better   | Likely better  |   |
|   | Various   | Various   | Various  |   |
| + INVESTOR'S CONTRIBUTION                       | Signal that impact matters<br>+ Engage actively<br>+ Grow new/undersupplied capital markets<br>+ Provide flexible capital | E.g. Ethical bond fund  | E.g. Positively-screened / best-in-class ESG fund  | E.g. Sovereign-backed bonds (secondary market) funding vaccine delivery to underserved people or renewable energy projects                                    |
|   | Signal that impact matters<br>+ Engage actively<br>+ Grow new/undersupplied capital markets<br>+ Provide flexible capital | E.g. Shareholder activist fund  | E.g. Positively-screened / best-in-class ESG fund using deep shareholder engagement to improve performance | E.g. Public or private equity fund selecting and engaging with businesses that have a significant effect on education and health for underserved people       |
|   | Signal that impact matters<br>+ Engage actively<br>+ Grow new/undersupplied capital markets<br>+ Provide flexible capital | E.g. Anchor investment in a negatively-screened real estate fund in a frontier market | E.g. Positively-screened infrastructure fund in a frontier market  | E.g. Bond fund anchoring primary issuances by businesses that have a significant effect on environmental sustainability, access to clean water and sanitation |
|   | Signal that impact matters<br>+ Engage actively<br>+ Grow new/undersupplied capital markets<br>+ Provide flexible capital |   | E.g. Positively-screened private equity fund making anchor investments in frontier markets                 | E.g. Private equity fund making anchor investments in businesses that have a significant effect on income and employment for unserved people                  |
|   | Signal that impact matters<br>+ Engage actively<br>+ Grow new/undersupplied capital markets<br>+ Provide flexible capital |   |  | E.g. Below-market charity bonds, or an unsecured debt fund focused on businesses that have a significant effect on employment for underserved people          |
|   | Signal that impact matters<br>+ Engage actively<br>+ Grow new/undersupplied capital markets<br>+ Provide flexible capital |   |  | E.g. Patient VC fund providing anchor investment and active engagement to businesses that have a significant effect on energy access for underserved people   |
| FINANCIAL GOALS                                 |   |   |  |   |
| Competative risk-adjusted financial returns     |   |   |  |   |

Source: Impact Management Project and PGGM, 2020.

## Annex 5: Debt sustainability analysis of assumptions under Sustainable Development Goal scenarios versus baseline assumptions – technical notes

1. Defining the debt equation: The debt/GDP equation used in the IMF debt sustainability analysis framework must first be defined. This format is used because it deconstructs the

primary balance and separates the impact of the exchange rate. As highlighted in the text, the definition of debt used in the analysis is general government debt.

2. Debt dynamics (change in debt-to-GDP ratio) equation:

$$d_{t+1} - d_t = \left( \frac{1}{1 + g_{t+1}} \right) * \left( d_t * \left[ r_{t+1}^d \frac{d_t^d}{d_t} + r_{t+1}^f \frac{d_t^f}{d_t} \right] - d_t^* g_{t+1} + d_t^f * \xi_{t+1} * (1 + r_{t+1}^f) \right) - (pb_{t+1} + o_{t+1} + res_{t+1}) \quad (11)^s$$

Contribution of the effective interest rate

Contribution of real GDP growth

Contribution of the exchange rate

Contribution of primary balance and other factors

$d_{t+1}$ : stock of total debt divided by repayment capacity (nominal GDP in local currency in period  $t + 1$ ) at the end of period  $t + 1$

$d_t$ : stock of total debt divided by repayment capacity (nominal GDP in local currency in period  $t$ ) at the end of period  $t$

$\rho_{t+1} = (1 + g_{t+1})(1 + \pi_{t+1})$

$i_{t+1}$ : effective nominal interest rate (weighted average) in period  $t + 1$

$\pi_{t+1}$ : domestic inflation (as measured by the change in the GDP deflator) in period  $t + 1$

$g_{t+1}$ : real growth rate of the economy in period  $t + 1$

$1 + \varepsilon_{t+1} = e_{t+1}/e_t$

$i_{t+1}^f$ : effective foreign nominal interest rate (weighted average) in period  $t + 1$

$d_t^f$ : stock of foreign debt divided by repayment capacity (nominal GDP in local currency in period  $t$ ) at the end of period  $t$

$pb_{t+1}$ : the primary balance in local currency in period  $t + 1$  divided by repayment capacity (nominal GDP in local currency in period  $t + 1$ )

$o_{t+1}$ : other debt-creating flows in period  $t + 1$  divided by repayment capacity (nominal GDP in local currency in period  $t + 1$ )

$res_{t+1}$ : residuals divided by repayment capacity (nominal GDP in local currency in period  $t + 1$ )

3. To examine debt sustainability under the assumption of the commitment of Egypt to achieve the SDGs, this report relies on official data provided by the Egyptian authorities, as well as some projections and forecasts

presented in IMF Article IV reports for Egypt. The debt sustainability analysis adopted for Egypt was published in August 2020, following the country's request for a stand-by agreement to counter the impact of the COVID-19 pandemic.

4. Alternative calculations for the debt sustainability gap – the European Union method: The European Commission Debt Sustainability Monitor identifies the medium-term sustainability gap indicator “S1”, which is composed of three subcomponents. The first is the initial budgetary position, which includes (a) the gap to the debt-stabilizing primary balance (showing the additional adjustment

required in the primary balance to stabilize debt at its current level) and (b) the cost of delaying adjustments (showing the additional adjustment required as a result of the gradual improvement in the primary balance).<sup>iii</sup> The second component is the debt requirement to reach 60 per cent of GDP/target debt ratio. The third component covers the ageing costs until 2034/the target time frame.<sup>iv</sup>

## Annex 6: Estimated additional annual public spending in Egypt to achieve the Sustainable Development Goals by 2030 (as a percentage of gross domestic product) – different methodologies

| Study  | Egypt's estimated additional annual public spending to achieve the SDGs by 2030 (percentage of GDP) | Method of calculation  |
|--|---|--|
| <b>Kharas and (2019) McArthur</b>                  | 19.3  | Calculated for Egypt, based on the benchmark for low-middle-income countries.<br><br>The value for Egypt is calculated by multiplying the additional spending per capita for low-middle-income countries by the population of Egypt, then dividing the resulting figure by the current GDP (in dollars) of Egypt. (Data on the population, GDP and income category are obtained from the World Bank Database: <a href="https://data.worldbank.org/?locations=XN-EGC">https://data.worldbank.org/?locations=XN-EGC</a> ).   |
| <b>Gaspar and (2019) others</b>                    | 8–15  | The paper specifies a benchmark of 8 per cent of GDP for emerging markets with an average per capita income of \$4,200 in 2016 and 15 per cent of GDP for low-income countries. On average, other resource-rich emerging market and advanced economies will require additional spending (private and public) of approximately 4 per cent of GDP (or less) to achieve the SDGs by 2030.<br><br>The paper uses an input-outcome approach and assumes that outcomes are a function of a specific mix of key inputs and relevant unit costs derived from median values calculated for well-performing countries in the SDG Index, and then controlling for country-specific factors. |
| <b>United Nations Development Programme (2019)</b> | 2   | Calculated for Egypt, based on a scenario that assumes that public spending on health and education will increase to 5 per cent and 2.8 per cent of GDP, respectively (compared to the respective 2015 levels of 3.7 per cent and 2.1 per cent of GDP), and that spending on infrastructure will stabilize at the 2015 level of 3.04 per cent of GDP.  |
| <b>Schmidt-Traub (2015)</b>                        | 8.5–8.9   | Incremental investment needs calculated as a percentage of the GDP of the lower-middle-income country group (at market exchange rates and public-private partnerships).  |

**Note:** Egypt is classified as a lower-middle income country under the World Bank country classification and as an emerging market country under the IMF country classification. The definition of spending and SDG sectors, as well as the reference years, vary across the studies reviewed; however, there is a high degree of harmonization among the definitions and scope of the selected studies in this table.

## Annex 7: Sustainable Development Goal scenario assumptions compared to baseline scenario assumptions

|  | Baseline scenario assumptions (average annual change during the period 2020–2030) | SDG scenario assumptions (average annual change during the period 2020–2030) | Notes  |
|--|---|--|--|
| <b>A- Primary balance</b>                            |   |  |  |
| <b>Revenues</b>                                      | 0.15  | 0.15 + additional 5 per cent of annual GDP                                   | <ul style="list-style-type: none"> <li>IMF baseline projections assume an average increase in revenues by 15 per cent until 2024/25. Here the baseline assumptions are extended to 2030.</li> <li>For SDGs the employed assumption is that, to achieve the SDGs, revenues need to be approximately 5 per cent of GDP above the baseline growth.</li> </ul> |
| <b>Expenditures</b>                                  | 0.1636  | 0.182<br>(0.1636+0.018)  | <ul style="list-style-type: none"> <li>Assumption of an annual increase of 19.3 per cent above the baseline, that is, an annual increase of approximately 1.8 per cent.</li> </ul>   |
| <b>Interest payments</b>                             | 0.2013  | 0.2013   | <ul style="list-style-type: none"> <li>The baseline is calculated assuming the continuation of IMF debt sustainability analysis baseline forecasts (average 2020–2025). Assumption of no extra borrowing compared to baseline.</li> </ul>  |
| <b>Cash deficit (revenues minus expenditures)</b>    | 0.2114  | -0.0566  | <ul style="list-style-type: none"> <li>Calculated based on the above.</li> </ul>   |
| <b>Overall deficit</b>                               | 0.20425   | 0.26085  | <ul style="list-style-type: none"> <li>Calculated based on the above.</li> </ul>   |
| <b>Primary deficit</b>                               | 0.1453  | 0.05955  | <ul style="list-style-type: none"> <li>Calculated based on the above.</li> </ul>   |
| <b>GDP</b>   | 0.19025   | 0.19025  | <ul style="list-style-type: none"> <li>Assuming the continuation of IMF debt sustainability analysis baseline forecasts (average 2020–2025).</li> </ul>  |
| <b>B- Public debt</b>                                |   |  |  |
| <b>Nominal gross public debt (percentage of GDP)</b> | -0.002000   | Baseline + SDG financing gap   | <ul style="list-style-type: none"> <li>Baseline assumes the continuation of IMF debt sustainability analysis projections to 2030. The SDG scenario is calculated by calibrating this with the adjusted primary balance changes and the SDG financing gap.</li> </ul>   |
| Source: Author's calculations.                       |   |  |  |

## Annex 8: Interview template and list of stakeholders interviewed

**Introduction:** The researcher briefly explains the goal of the research to the interviewee

3. Briefly introduce the project.
4. Introduce the chapter and the team.
5. Sign data confidentiality agreement.
6. Ask the interviewee: "Could you please introduce yourself: name, position and affiliated entity?"

**The interview questions:** The researcher is free to reformulate any question based on the interviewee's background, but they must all be asked.

1. Centralization: How do you see the situation of centralization in Egypt? How did it help/hinder development in Egypt?
2. Decentralization: How do you see the decentralization policy in Egypt? What was its aim? Did it help the development target? What were the pros and cons of the Egyptian experience?
3. Go deeper into the understanding of the localization: Did you hear about the localization approach? What do you know about it? How do you define it?
4. Understanding the difference between localization and decentralization: Do you think there are conceptual and empirical differences between decentralization and localization in the achievement of the development targets at the subnational level and nationwide? Do you think the two approaches are different or similar to government financing/budgeting?
5. Development (realities versus aspirations): Could you please describe your vision for development in Egypt?/What do you

know about the country's current road map for localization and access to the current situation?/Ask about the three main SDGs – perspective on the current situation and on the potential situation on a scale from 1 to 5 (5 = +ve).

6. Top-down versus bottom-up planning/ approach: How can Egypt promote its plans for economic development at the local level? How can Egypt achieve economic growth on the sublocal level? Development – for whom/how/Could you please identify the role of the state in the economy and the financial development on the sublocal level? Developmentalism by the State (big project) versus a participative approach with the population and civil society? Local development? Challenges? Potential/ opportunities? –The rule of the private sector? The researcher can ask about specific areas that were mentioned in the VNR and in final reports on Upper Egypt, the political empowerment of women, advancement in access to technology, family planning and avoiding violence and harmful practices (e.g. education and health). These areas were mentioned in several reports as priorities and areas for cohesive intervention in Egypt's rapid path to localization.
7. Data and digitization: As a researcher/ consultant/specialized/government employee, how do you access data on local communities? Is it an easy or difficult process? Why? What is missing? Suggestions? What are the main challenges from your point of view and are there solutions for regular data access by different stakeholders?



**Identification map of stakeholders**

| # | Stakeholders   | Suggested interviewee   |
|---|--|---|
| 1 | Experts/government representatives/German Agency for International Cooperation | Dr. Khalil Shaath: Governor Advisor (Integrated expert) in Cairo Governorate from the German Agency for International Cooperation   |
| 2 | Government representatives   | 1.Engineer Mohamed Abdel Azim: Head of the National Centre for Spatial Data Infrastructure – Ministry of Planning and Economic Development<br>2.Dr. Ahmed Helmy: National Centre for Spatial Data Infrastructure – Ministry of Planning and Economic Development<br>3.Neveen Osama: General Director of Technical Affairs - Central Agency for Public Mobilization and Statistics |
| 3 | National experts   | Dr. Khaled Zakariya Amin: Faculty of Economics and Political Sciences   |
| 4 | International organization: Danish-Egyptian Dialogue Initiative                | Rana Gaber: Project Manager of “ambassadors for dialogue Egypt programme” - Danish-Egyptian Dialogue Initiative   |
| 5 | Egyptian NGO: Haya Karima/Misr El Kheir Foundation                             | Aya Omar and Ohoud Wafi - Founders of Haya Karima Foundation  |
| 6 | Private sector/corporate social responsibility                                 | Ahmed Amgad, corporate social responsibility Vodafone Egypt (carried out virtually)   |

## Annex 9: Statistics on Internet use and poverty rate, by governorate

**Table 1.** Rate of Internet use among the population aged 4 years and older in 2017 and 2030 target (under both scenarios)

| Governorate    | Rate of Internet use 4+ 2017 (3) (percentage) | Target for 2030 under the first scenario (percentage) | Target for 2020 under the second scenario (percentage) | Target for 2025 under the second scenario (percentage) | Target for 2030 under the second scenario (percentage) |
|----------------|---|---|--|--|--|
| Cairo          | 49.0  | 82.9  | 55.6   | 66.7   | 77.8   |
| Alexandria     | 43.8  | 74.1  | 51.0   | 63.1   | 75.2   |
| Port Said      | 51.1  | 86.4  | 57.3   | 67.5   | 77.8   |
| Suez           | 45.2  | 76.4  | 52.7   | 65.3   | 77.8   |
| Damietta       | 38.6  | 65.3  | 45.0   | 55.6   | 66.2   |
| Dakhlia        | 30.6  | 51.7  | 35.7   | 44.1   | 52.5   |
| Al-Sharqia     | 26.7  | 45.1  | 31.1   | 38.4   | 45.7   |
| Qalyubia       | 33.0  | 55.9  | 38.5   | 65.3   | 77.8   |
| Kafr el-Sheikh | 25.2  | 42.7  | 29.4   | 36.3   | 43.3   |
| Gharbia        | 32.1  | 54.3  | 37.4   | 46.3   | 55.1   |
| Menofia        | 27.8  | 46.9  | 32.4   | 40.0   | 47.6   |
| Beheira        | 18.6  | 31.4  | 21.6   | 26.7   | 31.8   |
| Ismailia       | 33.5  | 56.7  | 39.0   | 48.3   | 57.5   |
| Giza           | 33.4  | 56.4  | 38.9   | 48.0   | 57.2   |
| Beni Suef      | 18.4  | 31.1  | 21.4   | 26.5   | 31.6   |
| Fayoum         | 18.4  | 31.1  | 21.4   | 26.5   | 31.6   |
| Minya          | 16.3  | 27.6  | 19.0   | 23.5   | 28.0   |
| Assiut         | 19.1  | 32.3  | 22.3   | 27.5   | 32.8   |
| Sohag          | 20.0  | 33.9  | 23.3   | 28.9   | 34.4   |
| Qena           | 22.4  | 37.9  | 26.1   | 32.2   | 38.4   |
| Aswan          | 28.8  | 48.7  | 33.6   | 41.5   | 49.5   |
| Luxor          | 25.1  | 42.4  | 29.2   | 36.1   | 43.0   |
| Red Sea        | 41.0  | 69.3  | 47.8   | 59.0   | 70.3   |
| New Valley     | 30.0  | 50.7  | 35.0   | 43.2   | 51.5   |
| Matrouh        | 14.2  | 24.1  | 16.6   | 20.5   | 24.4   |
| North Sinai    | 12.4  | 21.0  | 14.5   | 17.9   | 21.3   |
| South Sinai    | 24.0  | 40.5  | 27.9   | 34.5   | 41.1   |
| Total          | 28.9  | 50.0  | 34.3   | 42.2   | 50.0   |

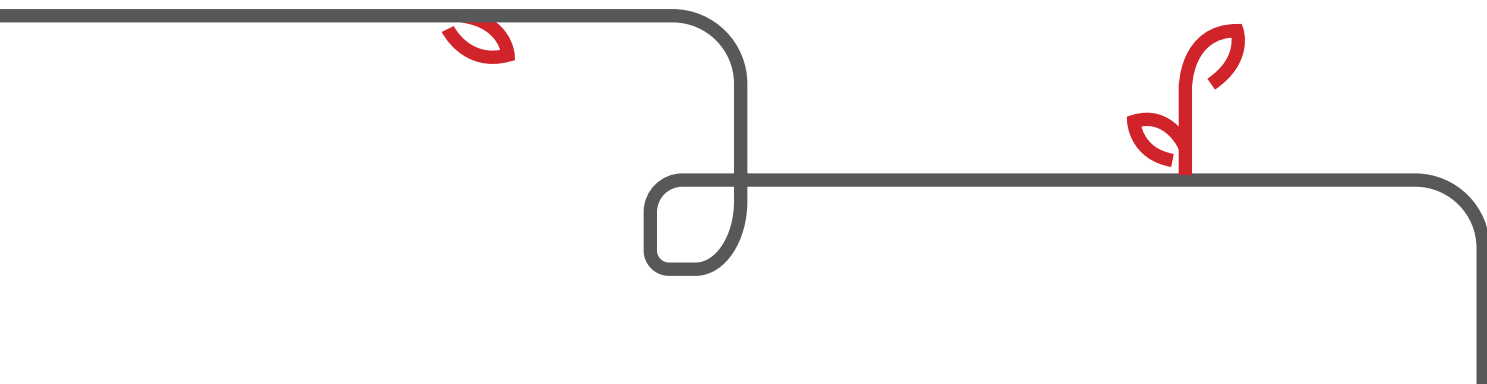
**Table 2.** Poverty rate in 2015 and 2030 target rates (under both scenarios)

| Governorate    | Population rates below poverty line (1) 2015 (percentage) | Target for 2030 under the first scenario (percentage) | Target for 2020 under the second scenario (percentage) | Target for 2025 under the second scenario (percentage) | Target for 2030 under the second scenario (percentage) |
|----------------|---|---|--|--|--|
| Cairo          | 17.5  | 8.75  | 15.3   | 13.1   | 10.9   |
| Alexandria     | 11.6  | 5.8   | 11.4   | 11.1   | 10.9   |
| Port Said      | 6.7   | 3.35  | 6.7  | 6.7  | 6.7  |
| Suez           | 17.1  | 8.55  | 15.0   | 13.0   | 10.9   |
| Damietta       | 18.0  | 9.0   | 15.6   | 13.3   | 10.9   |
| Dakhlia        | 15.1  | 7.55  | 13.7   | 12.3   | 10.9   |
| Al-Sharqia     | 14.1  | 7.05  | 13.0   | 12.0   | 10.9   |
| Qalyubia       | 13.1  | 6.55  | 12.4   | 11.6   | 10.9   |
| Kafr el-Sheikh | 19.4  | 9.7   | 16.6   | 13.7   | 10.9   |
| Gharbia        | 16.5  | 8.25  | 14.6   | 12.8   | 10.9   |
| Menofia        | 16.0  | 8.0   | 14.3   | 12.6   | 10.9   |
| Beheira        | 23.7  | 11.85   | 19.4   | 15.2   | 10.9   |
| Ismailia       | 24.1  | 12.05   | 19.7   | 15.3   | 10.9   |
| Giza           | 28.6  | 14.3  | 22.8   | 16.9   | 11.1   |
| Beni Suef      | 43.1  | 21.55   | 34.3   | 25.5   | 16.7   |
| Fayoum         | 35.7  | 17.85   | 28.4   | 21.1   | 13.8   |
| Minya          | 56.7  | 28.35   | 45.1   | 33.6   | 22.0   |
| Assiut         | 66.0  | 33.0  | 52.5   | 39.1   | 25.6   |
| Sohag          | 65.8  | 32.9  | 52.4   | 38.9   | 25.5   |
| Qena           | 57.8  | 28.9  | 46.0   | 34.2   | 22.4   |
| Aswan          | 48.6  | 24.3  | 38.7   | 28.7   | 18.8   |
| Luxor          | 41.2  | 20.6  | 32.8   | 24.4   | 16.0   |
| Total          | 27.8  | 13.9  | 23.2   | 18.5   | 13.9   |



## Endnotes

- i. Data for the 2019 progress report are from the annual survey of Global Compact participants, featuring 1,584 respondents representing 40 industries and 107 countries. Data for the 2020 report were derived from historical reports from 2010 to 2019, in addition to new questions added to the 2020 survey. Respondents in 2020 represented 5 per cent of the signatories. Global Compact participants also provided structured interviews and case studies.
- ii. United Nations Global Compact, 2020.
- iii. Instead of/compared to an immediate adjustment. Immediate adjustment, in a year, may not be viable or desirable.
- iv. European Commission, 2020.



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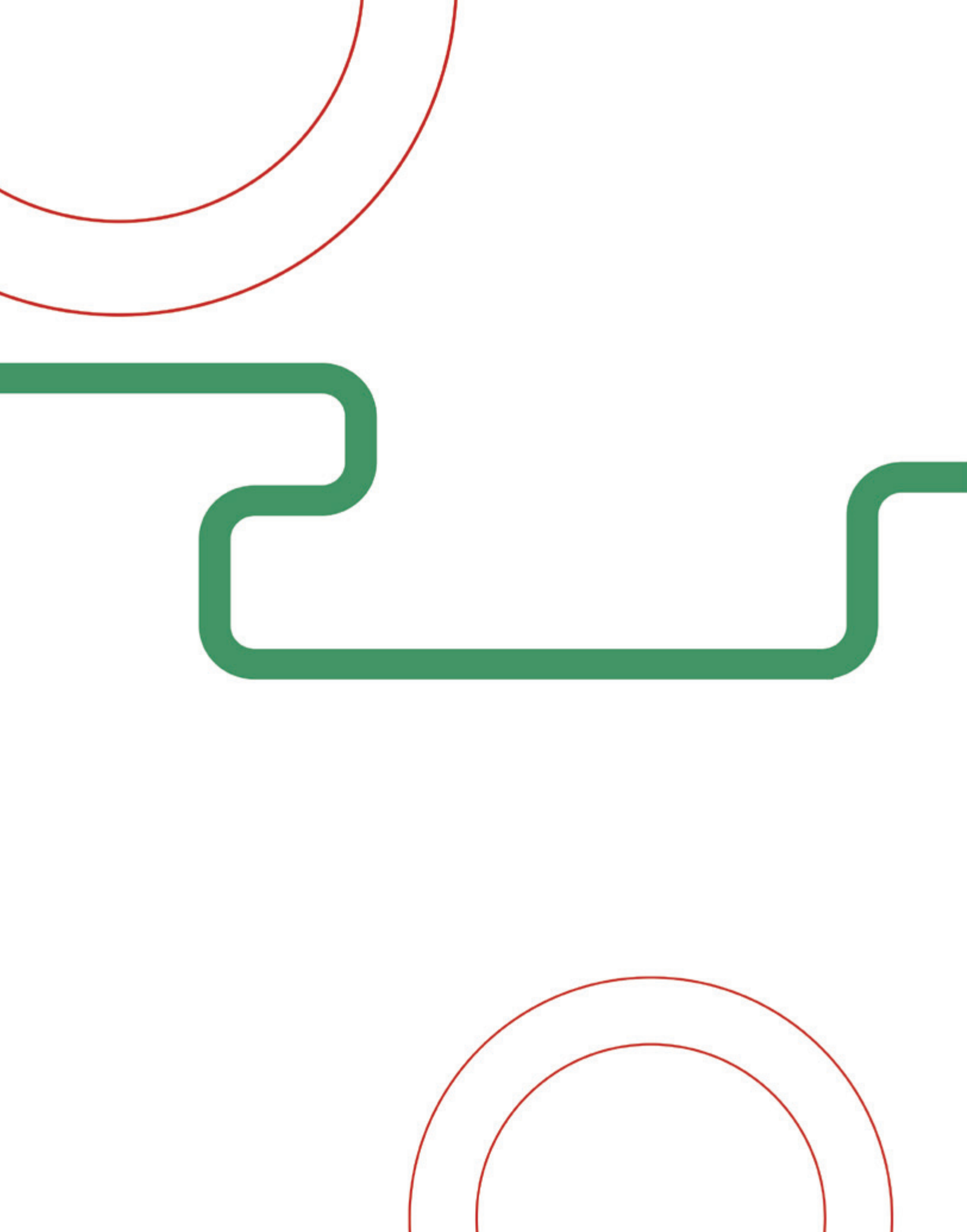
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# Notes

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