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June 10, 2021

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Arab Republic of Egypt—Selected Issues**

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Questions:	Ms. Allard, MCD (ext. 38054) Ms. Bakhache, MCD (ext. 37141) Mr. Alonso, FAD (ext. 37389) Ms. Hanedar, FAD (ext. 35870) Ms. Kale, MCD (ext. 38088) Mr. de Keyserling, MCD (ext. 37688)

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INTERNATIONAL MONETARY FUND

CONFIDENTIAL

ARAB REPUBLIC OF EGYPT

SELECTED ISSUES

June 7, 2021

Approved By
Middle East and Central Asia Department

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CONTENTS

THE ROLE OF STATE-OWNED ENTERPRISES: ECONOMIC FOOTPRINT, PERFORMANCE AND GOVERNANCE[1]

This paper studies the role of state-owned enterprises (SOEs) in the marketplace in Egypt. It provides an overview of the structure of the SOE sector in Egypt and an assessment of its financial performance relative to SOEs in other countries, and to the Egyptian private sector. It also benchmarks SOE governance relative to OECD guidelines.

A. Background

1. SOEs have played a central role in the Egyptian economy for decades. In the 1950s and 1960s, as part of a socialist development strategy, Egypt nationalized firms across most of the economy. The public sector operated as the main engine of growth and employment, with the private sector effectively restricted to agriculture and informal activities and subject to centralized controls over prices and access to inputs. Economic reforms introduced in the 1990s aimed to reduce the presence of the state in the economy through a focus on privatization, with about one-third of all SOE assets being privatized between 1991 and 1998 (OECD, 2012). With the revolution in 2011, further reform efforts were stalled. A new IPO program was announced in 2016 but has been delayed repeatedly. At the same time, Egyptian SOEs have entered a number of new lines of business, including electric cars, real estate development, and textiles, in many cases competing directly with private sector participants.[2]

2. As of today, Egyptian public sector enterprises are spread across various ministries and operate in a complex regulatory and legal environment. In Egypt, public enterprises are spread across various categories based on the applicable legal framework and the ministries or economic authorities that oversee them (Figure 1). Based on the information provided by the authorities, we estimate that there are over 300 public sector companies and close to 645 joint ventures and partnerships involving the state in Egypt. The following is a list of the various types of public companies in Egypt, based on data available.

- **Public business sector companies.** These are companies under the portfolio of the Ministry of Public Business Sector (PBS), and comprise 8 holding companies which include 118 affiliates and

[1] Prepared by Alex de Keyserling, Deeksha Kale (both MCD), Cristian Alonso (FAD), Said Bakhache (Senior Resident Representative), and Karim Badr (Resident Representative Office).

[2] An agreement was signed with a Chinese company to produce electric cars at Nasr, an SOE whose production lines had been dormant since 2009 (Egypt Independent, 2020). The SOE Arab Contractors is involved in several projects for the new administrative capital and the Bahr Al Baqr wastewater treatment plant, which will be one of the largest in the world. The SOE Vacsera is in discussions to manufacture COVID-19 vaccines (Ahram Online, 2021). The SOE Cotton & Textile Industries Holding Co signed an agreement with an MOE to build a new textile industrial complex Amwal Al Ghad, 2021).

subsidiaries, governed under Public Business Sector Law No. 203 (1991) and spanning over a large range of sectors of the economy.[3]

- **Public sector companies.** These are companies that report to specific line ministries and are governed by Public Sector Authorities and Companies Law No. 97 (1983). All public sector companies were initially governed under this law, until the issuance of Public Business Sector Law No. 203 (1991) placed some companies under the oversight of the ministry of public business sector. Based on data published by the authorities, there are at least 155 companies in this category for which financial reporting is available. The subset of those SOEs that are listed on the stock exchange are also subject to the Companies Law No. 159 (1981), which similarly applies to publicly listed private sector companies. The companies report to different line ministries, such as the ministry of electricity, housing, and others. Like public business sector companies, public sector companies operate in many sectors of the economy.

- **Military-owned companies (MOEs).** These are companies operating under authorities affiliated to the Ministry of Defense (MoD) and Ministry of Military Production (MoMP) and are subject to special laws. These include the National Service Projects Organization (NSPO), the Arab Organization for Industrialization (AOI) and the National Authority of Military Production (NAMP). Based on data published by the authorities, there are at least 19 companies under the Ministry of Military Production, for which financial data are reported. In addition to military production, these companies are involved in economic activities across many sectors such as infrastructure, housing, construction, food and supplies, household appliances, fertilizers, steel, and cement. Military agencies (that is, units within the military, such as NSPO, that own companies) also have indirect control in private sector firms as well as public sector companies by way of joint ownership. For example, the New Administrative Capital Company is a joint ownership between Armed Forces National Land Projects (AFNLP) and New Urban Communities Authority (NUCA), in which AFNLP and NUCA own 51 and 49 percent, respectively.

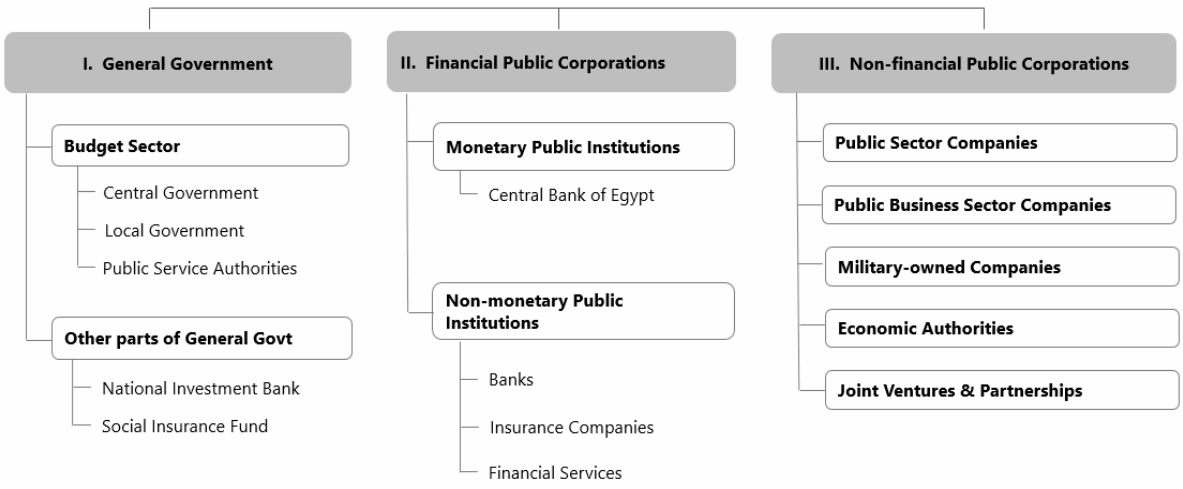
- **Economic authorities (EAs).** EAs are established pursuant to a Presidential Decree, following Law No. 61 (1963). Egypt has 53 EAs established with their own specific regulatory framework. EAs operate in various, often strategic sectors including agriculture, oil and gas, electricity and energy, cultural activities and entertainment, housing and construction, security and defense, trade and supply, and tourism. EAs' budgets are submitted to Parliament on annual basis for oversight. Examples of these authorities include Egyptian General Petroleum Corporation (EGPC), Suez Canal Authority (SCA), New Urban Communities Authorities (NUCA), General Authority for Free Zones and Investment (GAFI) and Industrial Development Authority (IDA).

- **Joint ventures (JVs) and partnerships.** Information from the authorities suggest that there are at least 645 companies set up as JVs with one or more state entities. Of these 645, the PBS ministry has a stake in 300 JVs. The majority of these 300 JVs are investees of Misr Insurance Holding

[3] Ministry of PBSE holding companies: (1) Holding Co. for Construction & Development, (2) Holding Co. For Maritime & Land Transport, (3) Holding Co. for Metallurgical Industries, (4) Cotton & Textile Industries Holding Co., (5) Holding Co. for Pharmaceuticals, Chemicals and Medical Supplies, (6) Holding Co. For Tourism, Hotels & Cinema, (7) Misr Insurance Holding Co. and (8) Chemical Industries Holding Co.

Company, one of the companies in the portfolio of the PBS ministry. These come under Corporate Law No. 159 (1981) and have proportional representation of the PBS ministry on the boards. The remaining 345 JVs may involve the stake of numerous other state entities, including public sector banks and EAs.

Figure 1. Structure of the Egyptian Public Sector



3. This paper analyzes the role played by the SOEs in the Egyptian economy, benchmarks their financial performance vis-à-vis private sector firms as well as SOEs in other countries, and analyzes their governance practices. The analysis mainly focuses on 278 non-bank SOE sector excluding Economic Authorities, joint ventures and partnerships (referred to as the "SOE sector"), as comparable enterprise-level data are not available for EAs, joint ventures and partnerships. To avoid duplication, we exclude EAs, which also own some SOEs. Financial information on the SOE sector is published by the authorities in the form of financial summary reports available on the Ministry of Finance website.[4] These data include the main balance sheet and income statement variables of over 300 SOEs from FY 2015/16 through FY 2018/19, including public sector and public business sector enterprises as well as military production sector companies.[5]

4. The paper is divided into four parts. *First*, we assess the contribution of the SOE sector in the Egyptian economy and discuss its footprint across sectors. *Second,* we study the financial performance of Egyptian SOEs relative to SOEs in other countries and relative to the Egyptian private sector companies. *Third,* we discuss recent reforms in the SOE sector and benchmark the current SOE

[4] A summary report on Egyptian SOEs and EAs is available on the website of the Ministry of Finance here, and reports including financial information on SOEs are published here and here.

[5] Authorities also publish a report on 47 economic authorities. However, this data is consolidated at the level of each economic authorities and hence is not comparable to the firm-level data of other SOEs.

ownership, governance, and market behavior framework in Egypt relative to OECD guidelines. *Finally,* we discuss key policy recommendations.

B. Footprint of Egyptian SOEs

Based on country-level as well as cross-country analysis, this section establishes that the SOE sector has a significant presence in the economy, both at the aggregate level and across almost all sectors, and a much wider footprint than in other emerging market economies.

Presence of SOEs in the Economy

5. The role of the SOEs in the Egyptian economy is substantial. According to the Economic Census data for FY 2017/18, which includes a subset of SOEs, comprising public busines sector companies and public sector companies (excluding Economic Authorities, military-owned companies, joint ventures and partnerships) amounted to close to 16 percent of the economy in terms of production and 14 percent in terms of gross value added (see Table 1). These SOEs are also relatively more capital intensive, with a weight of around 25 percent in terms of capital investment and only 6 percent in employment. The share of all SOEs is likely to be much higher if we account for other publicly owned entities currently excluded from this data breakdown.

Table 1. Egypt: Share of Public and Private Sector Companies in Egypt in FY 2017/18

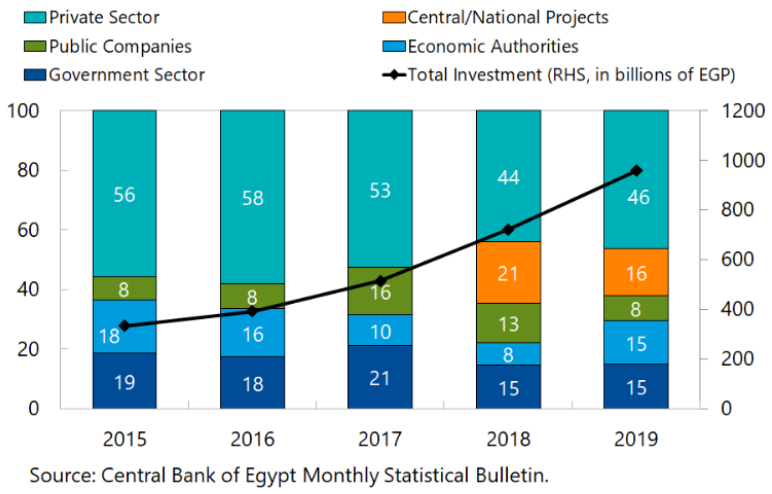
Category	Public Sector	Private Sector	Total	Public Sector (%)	Private Sector (%)
Production (bln EGP)	602	3,275	3,877	15.5	84.5
Gross Value Added (bln EGP)	294	1864	2158	13.6	86.4
Number of Employees (mln)	0.9	12.6	13.5	6.5	93.5
Wages (bln EGP)	92.6	226.1	318.7	25.8	74.2
Fixed Capital Formation (bln EGP)	116.4	355.8	472.2	24.6	75.4
Memorandum items:					
Number of Establishments	1,536	3,741,000	3,742,536	0.04	99.96

Source: Economic Census, Ministry of Planning and Economic Development.
Notes: Public sector is comprised of public sector and public business sector companies in Egypt. Total is expressed as a sum of private and public sector to avoid rounding off errors.

6. The share of investments of SOEs is even higher at close to 39 percent if we include Economic Authorities and national projects (Figure 2). The breakdown of implemented investments as reported in the *Monthly Statistical Bulletin* of the Central Bank suggests that the share of public sector companies, Economic Authorities and national projects is close to 8, 15, and 16 percent, respectively, in FY 2018/19. In the last five years, the share of private sector investment has declined from 56 to 46 percent. Such a high share of investment raises concerns of misallocation of resources, especially given the low profitability of SOEs (see Section C).

The following section(s) will use the firm level data on SOEs from reports published by the authorties on the website of the Ministry of Finance.

Figure 2. Investment by Sector
(In percent of total investment)



Source: Central Bank of Egypt Monthly Statistical Bulletin.

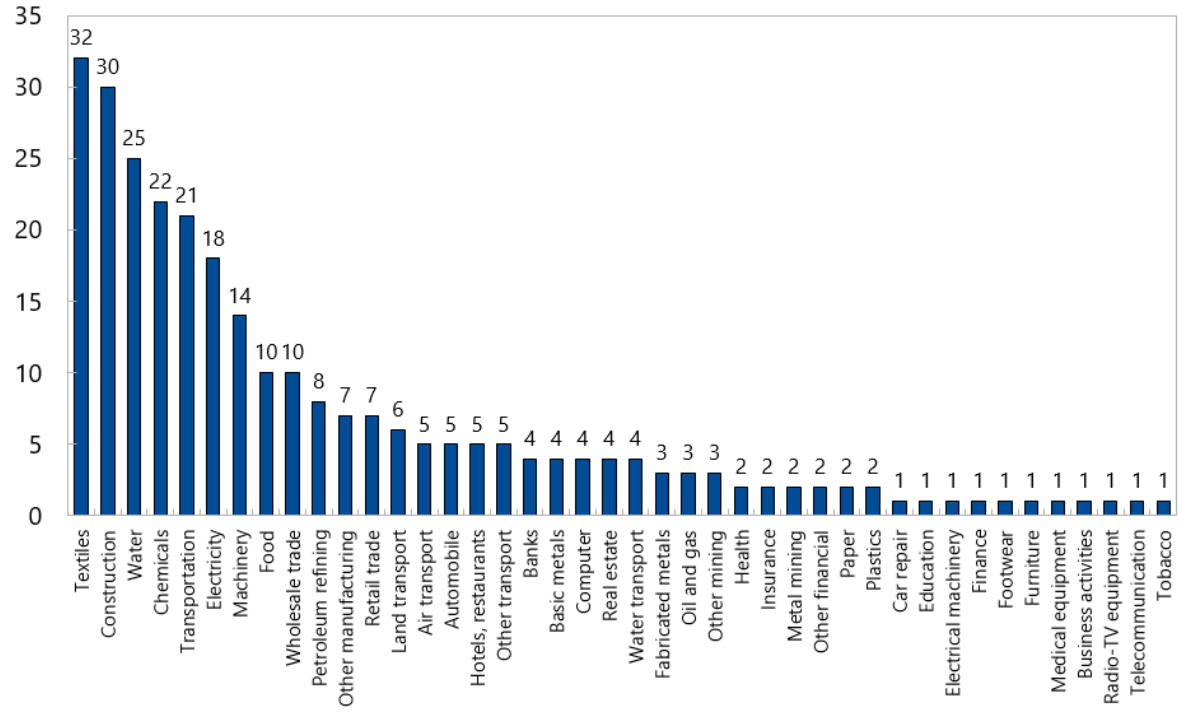
Sectoral Presence of SOEs in Egypt

7. Based on data published by the Ministry of Finance, SOEs are present in almost every sector of the Egyptian economy (Figure 3).[6] Among the main 54 two-digit sectors of the ISIC 3.1 industry classification, SOEs are found to be present in 42 sectors. Yet, there is no single guideline or legal mandate for SOE ownership in Egypt:

- In sectors such as electricity, water, and essential food items, SOEs are mandated to provide essential services and products at affordable prices. Likewise, many SOEs produce goods of strategic or national importance, such as military-owned companies producing defense-related equipment.
- In the water transportation and construction sectors, SOEs operate and generate profits from public assets, such as the Suez Canal and historical sites.
- There is also a significant presence of SOEs across many retail sectors such as textiles, chemical, plastics, paper, telecom, media and tobacco, where the rationale for public ownership of business is not clear.

[6] The analysis is based on financial summary reports published by the Ministry of Finance. These reports are categorized by sector: agriculture, aviation, banking electricity, health, housing military production, public business sector, petroleum, Suez Canal, telecommunication, trade, and transport. While summary financial statistics for 47 EAs are also published, we do not use them in our analysis.

Figure 3. Presence of SOEs in the Egyptian Economy
(Number of SOEs in each sector)

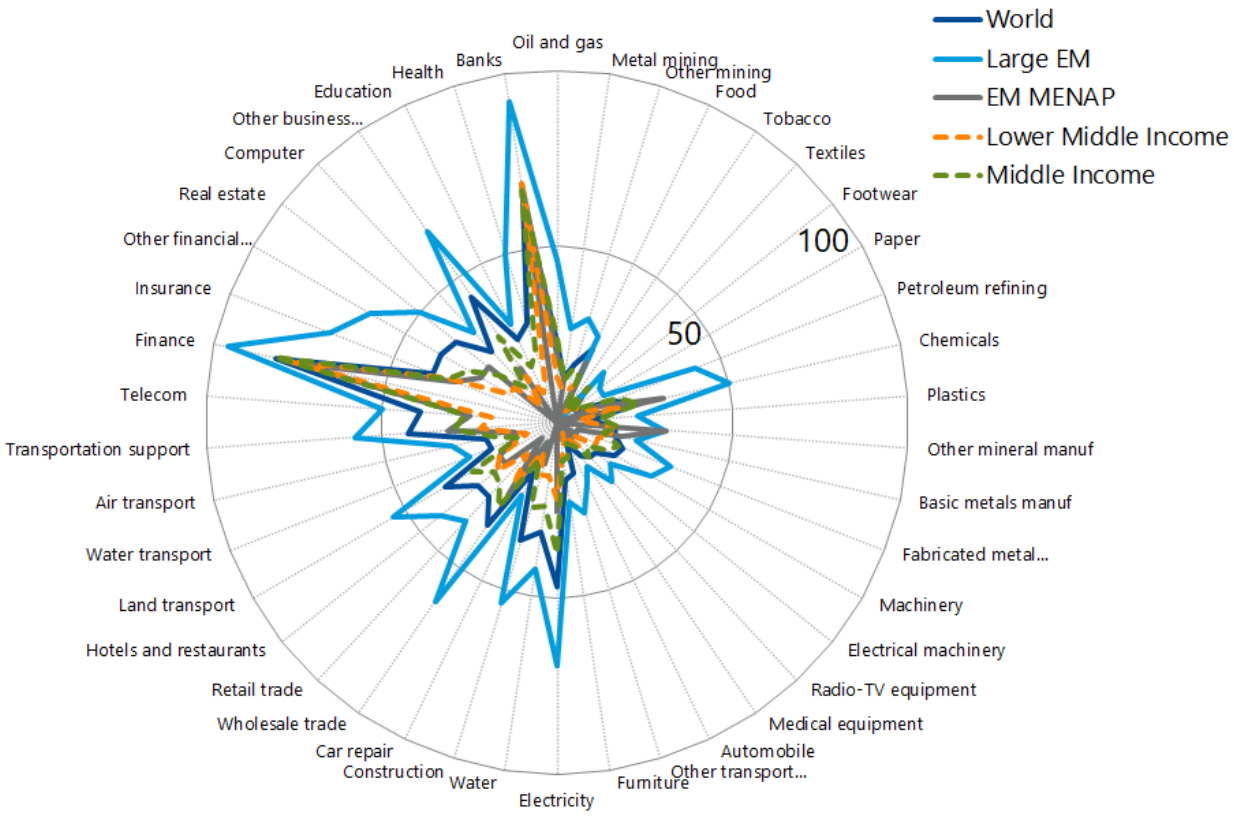


Source: Ministry of Finance, IMF staff analysis.
Notes: IMF staff assigned the applicable ISIC 3.1 industry classification to all the SOEs in the reports. Data on 282 SOEs (including 19 military-owned companies) is from the reports published by authorities in 2020 with latest data pertaining to FY2018/19. We exclude 21 holding companies to avoid double-counting.

8. Egypt has a significant SOE presence compared to other countries. Figure 4a shows all the industries in which Egypt has at least one SOE and compares to the share of countries in each country grouping that have at least one publicly listed SOEs in that industry. For example, while most emerging markets and middle-income countries have public banks or other SOEs in finance, state participation in industries such as food, tobacco, textiles, and machinery is much rarer. Cognizant that this comparison is imperfect because many countries have SOEs that are not publicly listed, we also conduct the analysis using data on non-listed SOEs for a smaller group of countries and a broader industry aggregation (Figure 4b) and find a similar result.[7] It is fairly uncommon for countries to have SOEs operating in primary sectors or real estate.

[7] Comprehensive data on SOE presence across countries outside of listed-SOEs is not readily available.

Figure 4a. Countries with Listed SOEs
(In percent)

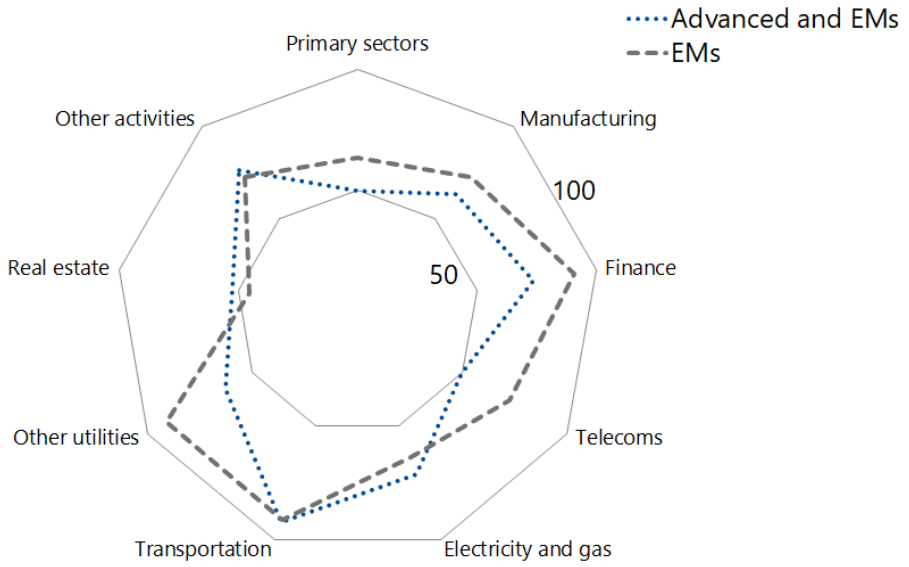


Source: Orbis.

Note: Listed SOEs are companies listed in a stock exchange and where the ultimate majority owner is a state. Large EMs includes Argentina, Brazil, Bulgaria, Chile, Colombia, Costa Rica, Ecuador, Georgia, Guatemala, Hungary, India, Indonesia, Kazakhstan, Malaysia, Mexico, Morocco, Nigeria, Pakistan, Peru, Philippines, Poland, Romania, Russian Federation, South Africa, Sri Lanka, Thailand, Turkey, Ukraine. EM MENAP includes Algeria, Bahrain, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates.

Reading note: Egypt has at least one SOE in all the industries shown in the chart. The color lines show the share of countries that have at least one publicly listed SOE in that industry. For example, more than 90 percent of the large EMs have at least one publicly listed SOE in the banking and finance sectors, while only around 50-60 percent of EMs have at least one publicly listed SOE in sectors such as electricity, water, land transport, and insurance. Very few countries have SOEs in food and tobacco sectors.

Figure 4b. Countries with Non-listed SOEs
(In percent of total, OECD and partner countries)



Source: OECD (2017), The Size and Sectoral Distribution of State-Owned Enterprises.
Note: EMs include Argentina, Brazil, Chile, China, Colombia, Costa Rica, Hungary, India, Mexico, Poland, Turkey. Advanced economies include Australia, Austria, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Netherlands, New Zealand, Norway, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom, United States.
Reading note: Egypt has at least one SOE in all the industries shown in the chart, and so, it is represented by the outer ring at 100 percent. The dashed lines show the share of countries that have at least one non-publicly listed SOE in that industry. For example, around 90 percent of the EMs have at least one SOE in the transportation and finance sectors, while more than 50 percent of EMs have at least one SOE in most other sectors but for real estate where the percentage is slightly below 50 percent.

C. Financial Performance of SOEs

This section presents an assessment of the financial performance of Egyptian SOEs relative to SOEs in other countries, and relative to that of Egyptian private sector companies. We find that financial performance of SOEs is generally weak, with a potential for substantial improvement.

9. To benchmark the financial performance of Egyptian SOEs, we explore three comparator groups of firms. *First,* we construct a panel of 251 Egyptian private sector firms using the Capital IQ database. Of these 251 firms, 225 are listed on the Egyptian stock exchange while the remaining 26 are large private sector firms. *Second*, we analyze the World Bank Enterprise Survey Data for Egypt for FY 2018/19, which uses a representative sample of 3,075 Egyptian private sector firms across 14 sectors. *Third*, we use data on publicly listed SOEs in other countries from the Orbis.

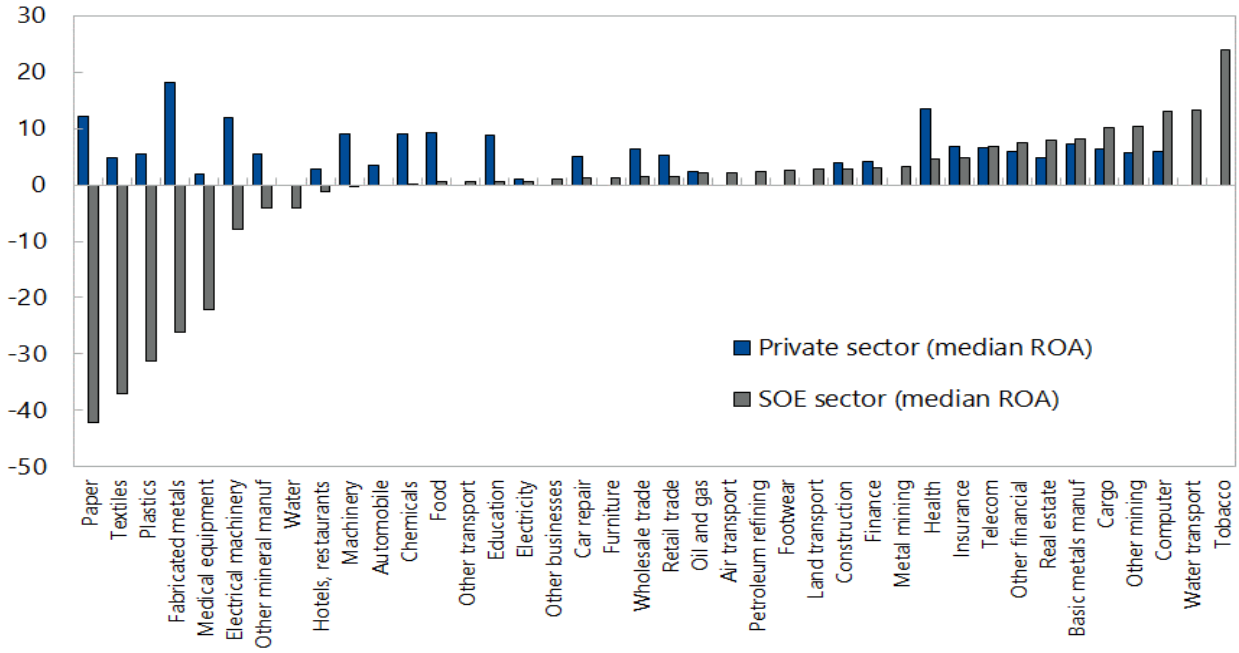
Comparison with Egyptian Private Sector Firms

10. The performance of many SOEs appears to be weak in comparison to private sector firms. We compare profitability ratios of Egyptian SOEs with private sector firms by sectors from FY 2015/16 to FY 2018/19 (Figures 5a and 5b).[8]

- Of the 278 non-bank SOEs for which data are reported (excluding holding companies, banks, economic authorities, joint ventures and partnerships), 107 SOEs incurred losses in FY 2018/19 for a combined amount of 0.2 percent of GDP. 58 SOEs reported negative equity.

- Loss-making SOEs are concentrated in textiles, paper, plastics, metal manufacturing, electrical machinery, and food sectors. Profitable SOEs are in oil and gas, real estate, telecom, hotels, and cargo and other water transportation sector, where the state either has a natural monopoly (water transport including the Suez Canal, and air transport), exclusive rights to certain public assets or licenses (tobacco, real estate, hotels, and restaurants), or enjoys a competitive advantage (such as telecommunications, where a state authority is the regulator and owner of the biggest market player).

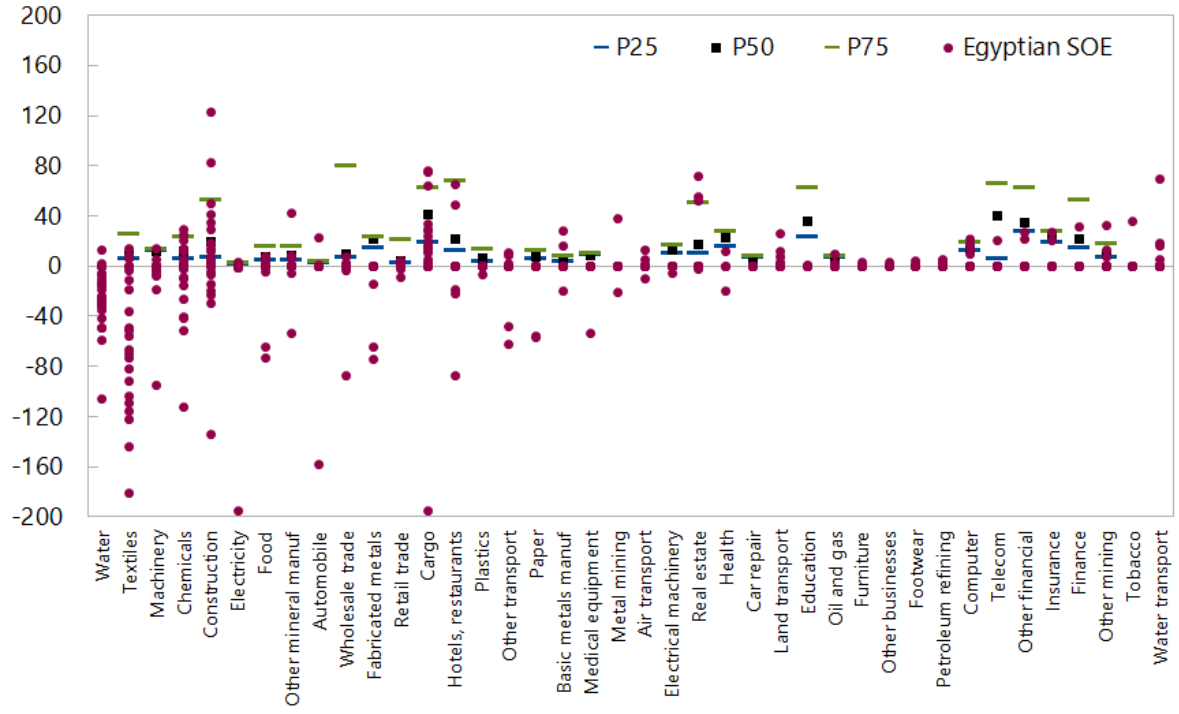
Figure 5a. Return on Assets Ratio (Before Taxes)
(In percent, average over FY 2015/16–2018/19)



Source: Capital IQ database, Egyptian Authorities's SOE reports.
Note: The median firm's return on assets before taxes ratio is plotted for each sector in FY 2018/19. The industry classification is based on ISIC 3.1 version.

[8] This analysis is based on a panel of 251 private sector firms for which we have financial information from FY 2015/16 to FY 2018/19 from the Capital IQ database. We assign a two-digit industry code based on ISIC 3.1 classification to each company. While there are enough private sector firms that we can benchmark SOEs within most sectors, some sectors do not have relevant comparators, for instance, water, petroleum refining, air transport, and land transport, have minimal or no private sector presence.

Figure 5b. Profit Margin Ratio
(In percent, average over FY 2015/16–2018/19)



Source: Capital IQ database, Egyptian Authorities's SOE reports.
Note: For each industry, the chart indicates the 25th, 50th and 75th percentiles (P25, P50 and P75) of the profit margin for private sector Egyptian firms, as well as the profit margin of SOEs in the data. Profit margin is defined as the ratio of net income before taxes and revenues. Each red dot corresponds to the average ratio of an SOE between FY 2015/16 and FY 2018/19, and the sectors are arranged in the decreasing order of the number of loss making SOEs in a sector.

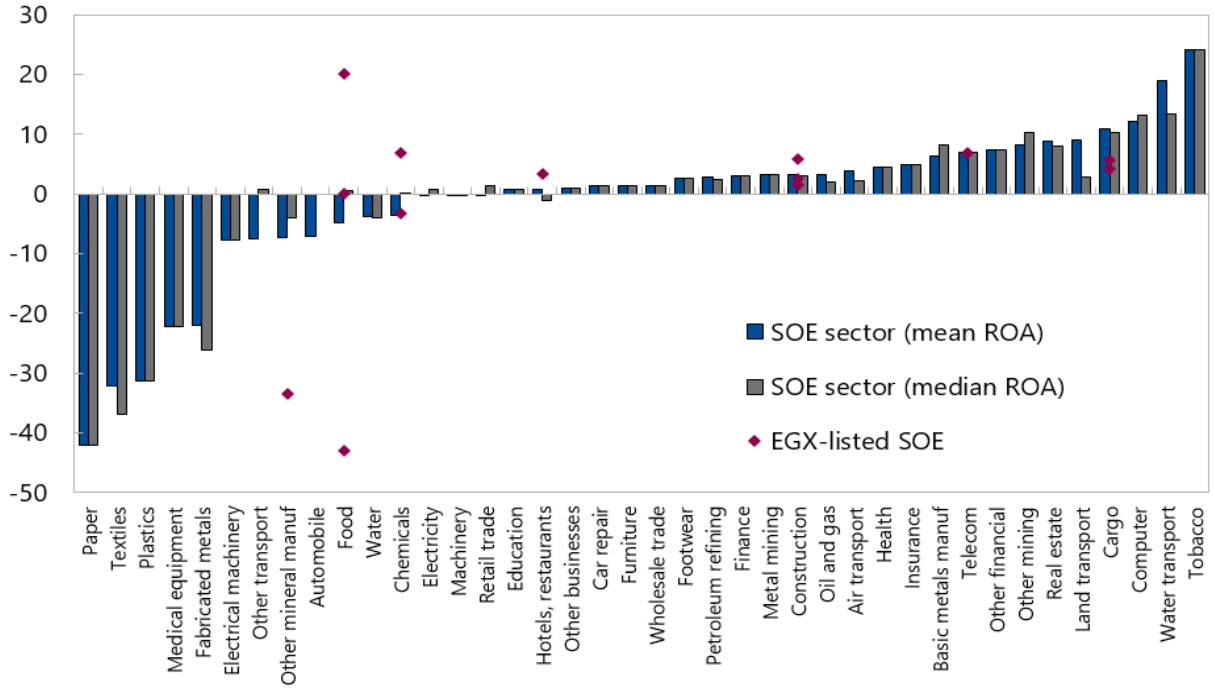
11. Publicly listed SOEs in most industries tend to perform relatively better compared to the industry average (Figure 6). Publicly listed SOEs across all sectors tend to have higher profitability compared to their unlisted counterparts. While this could be partly explained by selection bias with the authorities listing in the stock market the most profitable SOEs, this result also signals the benefits of stronger management and governance practices that listing and partial devolution can bring to performance.

12. Private sector firms appear to be more productive than their SOE counterparts in most sectors. Using the World Bank's Enterprise Survey Data for FY 2018/19, we compute a measure of productivity as the ratio of revenue to employees. We find that the productivity of private sector firms, on average, is almost 400 percent higher than productivity of SOEs.[9] Productivity of SOEs is particularly low in several sectors such as textiles, automobiles, chemicals, and plastics. For certain sectors like petroleum refining, telecommunication, and water transportation, SOEs are either comparable or better than private sector firms. These sectors tend to either enjoy a natural monopoly (water transport

[9] Simple average of the ratio of productivity of private sector firms and SOEs across industries as per Figure 7.

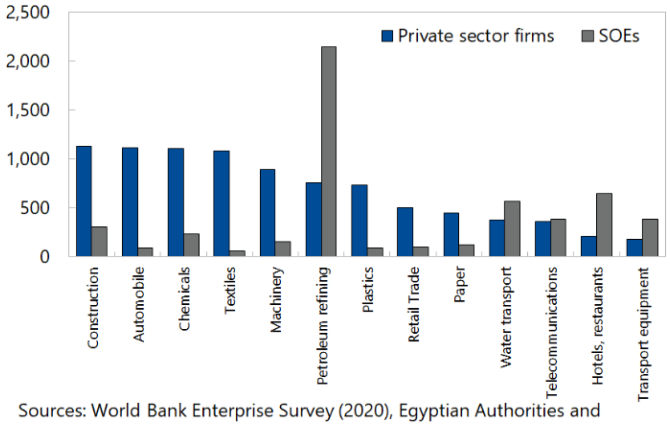
including the Suez Canal, and air transport), or a competitive advantage (such as Telecom, where a state authority is the regulator and owner of the biggest market player). These findings are consistent with the previous analysis based on a sample of large private firms in the Capital IQ database.

Figure 6. Publicly Listed SOEs Relative to Other SOEs in FY 2018/19
(In percent; ROA before taxes)



Source: Capital IQ database, Egyptian Authorities' SOE reports.
Note: Industry classification is based on ISIC Rev 3.1

Figure 7. Productivity of Egyptian Firms
(Mean revenue per employee, in thousands of EGP, FY2018/19)



Sources: World Bank Enterprise Survey (2020), Egyptian Authorities and IMF staff calculations.

Comparison with SOEs in Other Countries

13. Egyptian SOEs also appear to underperform in comparison to publicly listed international counterparts (Table 2). We compare the performance of publicly listed SOEs around the world (and across different country groups) with that of Egyptian SOEs.[1] While there are some profitable industries, most notably those associated with the Suez Canal, the performance of Egyptian SOEs is weak compared to listed SOEs in other countries. Industries with weak financial performance include textiles, chemicals, automobile, and machinery. If the performance of Egyptian SOEs was to be raised to the level of the median international listed SOE, profitability would increase by around EGP 20bn, an improvement of over a third from current profitability.

Table 2. Egypt: Benchmarking SOEs to International Comparators

Industry	ROA Bef. Tax (%)	Annual Profit (bn EGP)	Assets (bn EGP)	Performance with respect to publicly-traded SOEs in: World	Large EM	Lower Middle Income	Middle Income
Oil and gas	4.9	1	20				
Metal mining	-10.6	0	1				
Other mining	10.6	0	4				
Food	6.5	0	3				
Tobacco	24.0	4	17				
Textiles	-21.9	-3	13				
Footwear	2.6	0	0				
Paper	-40.7	0	0				
Petroleum refining	1.2	1	91				
Chemicals	-1.3	0	19				
Plastics	-47.7	0	1				
Other mineral manuf	-5.2	0	4				
Basic metals manuf	15.8	2	12				
Fabricated metal manuf	-26.8	-1	4				
Machinery	0.3	0	9				
Electrical machinery	-7.8	0	0				
Medical equipment	-22.2	0	0				
Automobile	-16.7	0	1				
Other transport equipment	0.0	0	4				
Furniture	1.3	0	0				
Electricity	0.1	1	509				
Water	-2.6	-2	89				
Construction	3.3	2	52				
Car repair	1.3	0	0				
Wholesale trade	3.5	1	19				
Retail trade	1.2	0	4				
Hotels and restaurants	8.3	1	6				
Land transport	5.0	0	7				
Water transport	39.4	1	1				
Air transport	-9.0	-2	22				
Transportation support	22.4	5	22				
Telecom	6.9	4	56				
Finance	3.1	0	2				
Insurance	4.9	3	58				
Other financial intermediation	7.7	2	25				
Real estate	5.8	0	7				
Computer	14.0	0	1				
Other business activities	0.9	0	0				
Education	0.6	0	0				
Health	1.6	0	0				
Banks	1.8	38	2,127				
Total	**1.7**	**56**	**3,214**				

Below 25th
Below Median
Below 75th
Above 75th
Missing

Source: Orbis, Egyptian authorities.
Note: For each industry, P25, P50, P75 correspond to the 25th, 50th, and 75th percentile of the return on assets before taxes for SOEs around the world since 2015, respectively.

[1] Using publicly listed SOEs around the world as a comparator group is not ideal as countries presumably list their most profitable state-owned companies. However, this comparator group allows us to define benchmark profitability for disaggregated industries and for different country groupings.

D. Governance of SOEs

This section benchmarks corporate governance of SOEs in Egypt against selected OECD guidelines with the objective of highlighting areas of improvement, such as management of the current portfolio of SOEs, and best practices to encourage fair competition to achieve a level playing field with the private sector.

14. The OECD guidelines summarize best practices in management and governance of SOEs. Their goal is to promote efficiency and contribute to economic growth by providing adequate incentives for proper management, enhancing transparency and accountability, and ensuring a level playing field with the private sector. The guidelines cover areas related to rationale of state ownership, role of the state as an owner, disclosure, and transparency of SOEs operations and performance, relationship with shareholders and other stakeholders as well as advice to foster competition in the marketplace. Several countries have used these guidelines to review the governance and institutional settings of their respective SOEs sector and identify options to reform the sector, and examples of such reviews are published on the OECD website.

15. The Egyptian government has taken several positive steps to reform the SOEs sector (Box 1). First, the recent amendments to law 203 is a commendable step towards improving the performance of the sector. These amendments aim to foster transparency, improve accountability of boards of directors and management, and enhance the governance of the sector. Second, the Ministry of Public Business Sector is restructuring distressed SOEs such as those in the textiles sector. Third, the authorities are inviting the private sector to partner with SOEs through the Sovereign Fund of Egypt or acquire SOEs through IPOs of some military-owned enterprises. One of the key objectives identified in the recently launched National Structural Reform Program (NSRP) is to increase the efficiency and transparency of SOEs and provide an enabling environment for a more competitive private sector.

Box 1. Recent Measures to Reform the SOE Sector

Amendments to the SOE Law. In September 2020, amendments were added to Public Business Sector Law No. 203 which aimed to enhance the governance of SOEs and set up financial rules to enhance financial performance. The main amendments are: *(i) Separation of non-executive chairman and CEO, (ii) proportional representation of shareholders in board of directors, (iii) annual reporting on corporate governance to enhance transparency, (iv) a feasibility study requirement prior to establishing a new company, (v) transfer of companies with more than 25 percent ownership on public listing to Corporate Law No. 159, (vi) the power to the board of directors to determine labor regulations and remunerations with consultation of labor unions, (vii) the ability of the General Assembly to appoint an independent external auditor, in addition to the Central Audit Agency, (viii) push the General Assembly to decide to either increase capital or liquidate an SOE if its equity is depleted.*

IPO Program. In March 2018, the Finance Ministry announced plans to sell stakes in SOEs through a program aimed at boosting the financing available to SOEs by attracting local and foreign private investment, and simultaneously deepening the Egyptian stock market capitalization. The program aimed at floating 15–30 percent equity of SOEs. The Cabinet shortlisted around 23 companies for offerings. The program has suffered several setbacks and delays since its launch. The government attributes these delays to the lack of liquidity due to deteriorating investor appetite in emerging markets, and more recently because of the COVID pandemic, which has led to a postponement of the whole program. Thus far, only one offering has been successful - Eastern Company for Tobacco's 4.5 percent stake sale was completed in 2019, for a total value of EGP1.72 billion. In addition, the authorities decided to invite private sector participation in some military-owned companies.

Box 1. Recent Measures to Reform the SOE Sector (concluded)

Sovereign Fund of Egypt (SFE). The SFE was created based on Law No. 177, approved by the President in August 2018. The objective of the SFE is to attract domestic, foreign, and regional investments to the Egyptian market, towards sectors that the state sees as vital to the economy, and which would sustainably generate income and create value, ultimately contributing to economic development. The SFE has an authorized capital of EGP 200 billion and issued capital of EGP 5 billion. Of the total issued capital, EGP 1 billion was paid from the Treasury upon incorporation. It will operate with a private equity-style model of investing, offering stakes of variable sizes in SOEs and public projects. The SFE is envisaged to work through three types of partnerships. *First,* partnerships with private-sector investors in specific industries. *Second,* partnerships with other sovereign funds. *Third,* partnerships on specific projects through PPP, JVs, and other sub-funds. Since its inception, the fund inked three agreements, two of which aim at maximizing investment in assets owned by the Ministry of the PBS and the NIB, while the third agreement was signed in June 2020 to improve the historic area of Bab El-Azab

The State as an Owner

16. There is no ownership policy that stipulates the objective of state ownership of SOEs. The best practice is for "the state to exercise the ownership of SOEs in the interest of the general public" and to "carefully evaluate and disclose the objectives that justify state ownership and subject these to a recurrent review" (OECD, 2015). In Egypt, the rationale for establishing SOEs is conveyed separately for each SOE and usually communicated in the form of a press release or interview, rather than through overall principles or a consistent strategy that is clear to the public and economic agents. The recent amendment to the Public Business Sector Law No. 203 requires conducting a feasibility study prior to establishing new SOEs. However, the amendment does not require the state to implement a cohesive and transparent ownership policy subject to public scrutiny. This lack of ownership policy creates uncertainty for the private sector, as there is no clarity on the extent of competition from SOEs.

17. Ownership of SOEs in Egypt is decentralized and highly fragmented. The best practice is for "the state to act as an informed and active owner through a standardized legal framework and centralized ownership" (OECD, 2015). As previously noted, in Egypt, various line ministries, government bodies and the Armed Forces own SOEs under different legal and regulatory frameworks. Hence, there is no single coordinating or overseeing authority. Moreover, the regulatory set up is complex, with multiple laws for incorporation and ownership, and different governance and procurement regulations governing SOEs.

18. There is no clear separation between commercial and non-commercial activities in SOEs. The best practice is to "separate commercial activities from public policy objectives and be transparent about the cost of public policy mandates" (OECD, 2015). The introduction of Law No. 203 was a commendable step toward the corporatization of SOEs in Egypt. Yet, there remain instances of SOEs pursuing public mandates. For instance, EGPC and the holding companies of electricity and natural gas manage energy subsidies. Transparent costing of the policy mandate is not publicly and regularly available. There is no clarification provided on whether budget transfers to these entities adequately cover the policy mandate.

Accountability and Performance Criteria

19. The independence of SOEs appears to be unclear. The best practice is to "allow full operational autonomy and respect the independence of SOE boards" (OECD, 2015). According to World Bank (2015), one major problem is the extent of political and bureaucratic interference in SOEs' conduct of business, evident in key appointments, pricing of goods and services, procurement, and investment decisions. While the roles of the boards are stipulated in the law, the selection criteria of board members are not clear. This applies to membership of the general assembly too. Furthermore, the remuneration of the board members is not available to the public. The recent amendments of Law 203 have advanced important reforms such as separating the role of chairman from that of CEO and having a performance criterion against which the general assembly can evaluate the performance of the board.

20. There are some weaknesses in ensuring equitable and fair treatment of all shareholders. The best practice is for "the state to respect non-state shareholders and to provide them with equal access to company information" (OECD, 2015). The authorities report that some SOEs listed in the stock market do not have adequate representation in the board. As previously noted, information on the cost of policy mandates is not readily available. The recent amendments of Law 203 are a step in the right direction by stipulating proportional representation of shareholders, particularly those with minority shares.

21. SOEs are not subject to the same regulatory framework and market conditions as their private sector counterparts. The best practice is "to provide for a level playing field in the marketplace" (OECD, 2015).

- ***SOEs are exempt from some competition provisions.*** The Competition Law granted the Egyptian Competition Authority the right to exempt SOEs working in the public interest from some antitrust measures (ICA 2019) without defining what public interest entails.[1]

- ***SOEs are not subject to the government procurement law.*** The procurement law applies to all public entities, except for SOEs. Each EA and SOE has its own procurement policy. In addition, the procurement law allows for direct contracting between any two public entities (World Bank, 2020). These exemptions open the door for public officials to contract with other state entities to bypass cumbersome regulations and could lead to crowding out potential private sector participation.

- **Some SOEs appear to enjoy some advantages in taxes, customs, access to finance, land allocation, and navigating the bureaucracy that are not available to the private sector.** While SOEs are generally subject to the same tax and customs laws and regulations as private sector companies, military-owned establishments are exempt from income tax and some military-owned commercial facilities (e.g., hotels, clubs, and supermarkets) are exempt from the real estate tax.[2] These exemptions lower the operating costs those companies face, hurting competition in the

[1] In particular, in relation to Article 9 of the Competition Law.

[2] Article No. 47 of the Income Tax Law No. 91 of 2005, Article 1 and appendix table of Minister of Defense Decree Number 68 of 2015 (World Bank, 2020b).

sectors where they operate. By virtue of being affiliated to the state, SOEs can also better manage the excessive bureaucracy and red tape. Some SOEs enjoy easier access to land as well as access to finance, often backed by state guarantees (implicit and explicit) (Investment Climate Assessment, World Bank, 2019). For example, the New Administrative Capital company enjoyed access to land due to its partnership with NUCA. NIB provided financing for the textile sector despite the chronically weak performance of the sector (Daily News, 2019). The combination of these provisions is likely to subject private sector firms, especially SMEs, to unfair competition.

22. There are instances of conflict of interest in certain sectors. The best practice is to limit conflict of interest by separating regulator for market player. In sectors such as the information, communications, and technology, transportation, and aviation, both the regulator of the sector and an SOE report to the same ministry. For example, the telecom competition authority reports directly to the ministry of telecommunication, which also oversees the operation of an SOE (Telecom Egypt). In addition, Telecom Egypt has a 45 percent share on its main private sector competitor, Vodafone Egypt, raising additional competitiveness concerns. his practice can potentially hurt competition, subject private sector companies to unfair treatment by having SOEs in an advantageous position.

Transparency

23. The government has taken important steps towards enhancing disclosure and transparency for SOEs. The best practice is to "hold SOEs to the highest transparency standards in the country, comparable to those for publicly-listed companies" (OECD, 2015). A summary of the financial statements of 47 EAs and over 300 SOEs, including 19 MOEs, were published with data pertaining to FY 2018/19. Yet, as previously indicated, coverage is not comprehensive.

24. The recent amendments to Law No. 203 require SOEs under this law to publish a semi-annual performance report and an annual board of directors' report. The SOE report does not provide measures of aggregate and industry-level performance to facilitate benchmarking with the private sector firms.

E. Conclusion

25. We find that Egyptian SOEs are present in a wide range of sectors, tend to have weak financial performance, and are subject to complex governance arrangements. This leads to concerns of on-budget and off-budget fiscal costs, misallocation of resources, and unfair competition to private sector players; all of which weigh on growth. Reforming the SOE sector and encouraging private sector-led growth has been a priority of the Egyptian authorities in recent years but this effort needs to be substantially strengthened to underpin the recovery and support strong and sustained growth.

To further advance SOE reform and promote inclusive private sector-led growth, key areas of policy reforms that emerge from our analysis pertain to:

- **Defining a clear state ownership policy.** Developing an ownership policy will enhance political accountability and transparency for all economic agents in the marketplace. The analysis could shed

light on sectors from which the state can gradually withdraw to allow private sector activity. It will also reduce uncertainty faced by the private sector with respect to competition from SOEs. At the same time, centralizing state ownership in a single entity which is subject to a unified and simplified legal framework would help improve governance and facilitate the management of SOEs.

- **Strengthening transparency and SOE performance.** Expanding the coverage of financial reporting to include all SOEs (including JVs and MOEs) and producing aggregate and industry performance metrics to make it easier for all economic stakeholders to evaluate performance will be important. This will lay the basis to set benchmark returns to incentivize good performance for instance through performance contracts or stock exchange listing. Furthermore, as per best practices, the reports published could also include important information such as fiscal costs of SOEs pursuing public policy objectives and operating at below market prices; corporate governance codes; board and key executive remunerations; qualifications of board members; details of the selection process; and a comprehensive fiscal risk assessment.
- **Leveling the playing field.** This includes ensuring fair and similar treatment for SOEs and private sector firms with regards to business laws, taxations and customs, access to finance, and access to land. Preferential treatments or exemption in taxes or customs for SOEs should be eliminated. The role of direct procurement among public sector parties should be minimized, and a clear criterion should be provided for exempting SOEs from anti-trust law. Public banks should loan to SOEs at arm's length. The roles of regulator and market player should be separated to address potential conflicts of interest.

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FISCAL POLICIES TO REACH THE SUSTAINABLE DEVELOPMENT GOALS BY 2030[1]

Egypt is committed to reaching the Sustainable Development Goals (SDGs) by 2030, with a view to supporting inclusive growth, reducing poverty, and providing opportunities to all Egyptians. This paper reviews ongoing reforms by the Egyptian authorities, explores the role of fiscal policy to foster attainment of selected SDGs, and costs some of them. While the authorities are increasingly focusing public spending in priority areas for reaching the SDGs, the analysis shows that more efforts will be required to address existing challenges and deal with demographic pressures. In addition to higher spending, improvements in efficiency and strong revenue mobilization will be needed.

A. Introduction

1. The Egyptian authorities have a strong commitment to reach the SDGs. They have adopted the sustainable development strategy "Egypt Vision 2030" (Egypt, 2015). The strategy is structured around three dimensions covering economic, social, and environmental development and closely maps to the SDGs. To ensure progress towards meeting the SDGs, a National Committee for Monitoring the Implementation of the SDGs has been established, with representatives from 17 ministries and government agencies.

2. This commitment reflects still substantial work ahead to achieve the SDGs (Figure 1). Poverty has declined but remains high, quality education and health care lag peers, and major challenges remain to reach gender equality. In addition, access to sanitation is uneven and needs for road infrastructure, particularly in rural areas, are substantial. The existing challenges to reach the SDGs are compounded by demographic pressures, as highlighted by the authorities' analysis (CAPMAS, 2021). Egypt's population is growing rapidly, with 20 million people expected to be added in the coming decade, accentuating the need to strengthen delivery of public services.

3. The COVID-19 crisis has accelerated the need to move decisively on the SDG agenda. While the economic impact of COVID-19 has been relatively mild in Egypt, partly thanks to the authorities' strong policy response, the crisis represents a significant setback in the path to achieving the SDGs. Even a short-lived temporary spike in unemployment may have had a direct impact on poverty, which in turn could depress educational and health attainment.[2] Electronic platforms and educational channels have supported learning during school closures, but their effectiveness still needs to be assessed. Most directly, COVID-19 has added pressures to the health system. The authorities have made great efforts to guarantee the provision of non-COVID health services during

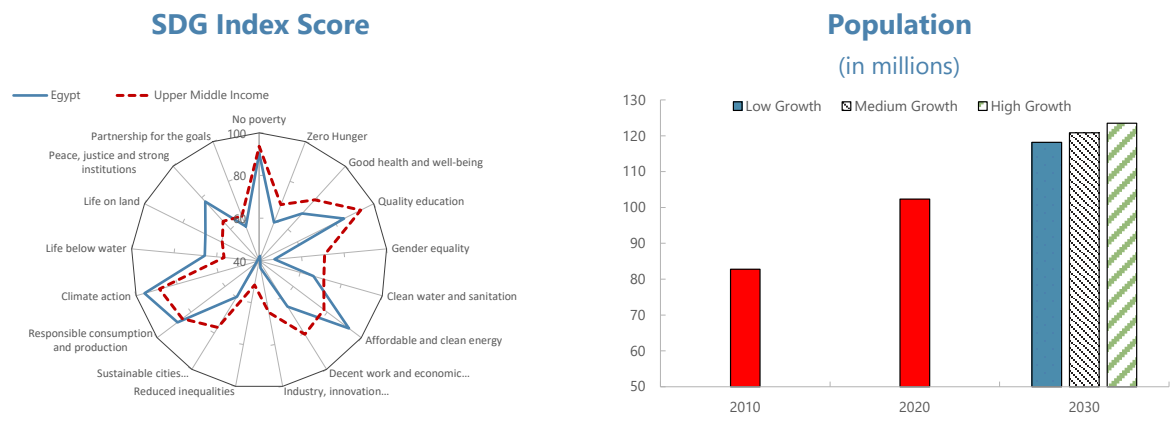
[1] Prepared by Cristian Alonso and Emine Hanedar (both FAD).

[2] More than 2 million people lost their jobs in their immediate aftermath of the crisis, between April and June 2020. A rapid recovery took place the following quarter, but leaving still some out of work.

the pandemic.[3] Nevertheless, a negative impact of the pandemic on the health outcomes of other diseases may still materialize over the medium term.

4. This paper explores fiscal policies to achieve the SDGs in Egypt, including by costing some of them. We focus on selected SDGs: No Poverty (SDG1), Good Health and Well-being (SDG3), Quality Education (SDG4), Gender Equality (SDG5), Clean Water and Sanitation (SDG6), and Industry, Innovation, and Infrastructure (SDG9). In these areas, we discuss the ongoing authorities' efforts to meet the SDGs and consider the role of fiscal policy to foster those efforts. We also estimate the cost of reaching SDGs 3, 4, 6, and 9 using the input-output methodology outlined in IMF (2019), which assumes not only more spending but also better spending.[4] Estimates are presented as additional annual steady-state spending in 2030. However, to reach the SDGs, the scale-up of spending would need to start before 2030. Our baseline estimates rely on the medium scenario of population growth estimated by the UN (UN, 2019) and assume a 5 percent real GDP growth (in constant US dollars) in the second half of the decade. We also consider robustness to these assumptions in the final section.

Figure 1. The Path to Achieving the SDGs in Egypt



Source: Sachs et al. (2020), UN World Population Prospects 2019.
Notes: Low, medium, and high population growth on the right-hand side figure correspond to the low, medium, and high variant scenarios in UN projections.

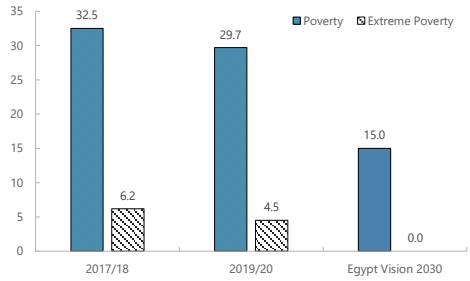
[3] For instance, the initiatives on women health and early detection of hearing impairment for newborns have screened 6 and 1.1 million, respectively, a rapid and extensive vaccination campaign against polio was conducted in February-March 2021, and the UHIS was launched in Luxor, South Sinai, and Ismailia.

[4] We consider comparator countries in the same income group that have a high SDG performance. Countries with a high SDG performance appear to show also high efficiency in meeting the SDGs, in the sense that they obtain good outcomes with a relatively low use of inputs (e.g., number of doctors or teachers).

B. No Poverty Goal

5. While poverty in Egypt has declined recently, it remains high (Figure 2). Poverty dropped from 32.5 percent in FY 2017/18 to 29.7 percent in FY 2019/20, with extreme poverty declining from 6.2 to 4.5 percent.[5] Poverty decreased in all regions and the improvement was stronger in rural areas, partly reflecting the expansion of the targeted social safety net. While the declining trend is positive, more is needed to reach the targets in Egypt Vision 2030 (i.e., 15 percent for poverty and 0 percent for extreme poverty). While the main avenue out of poverty is sustainable job creation, a strong social safety net is needed to prevent extreme deprivation and protect the most vulnerable.

Figure 2. Poverty Headcount
(In percent)



Source: Egyptian authorities.

6. The social safety net has been expanded significantly, but there is room to strengthen it further. The authorities' reform efforts have expanded the Takaful and Karama cash transfers programs, which have been found to be very effective at improving welfare for the poorest (Lara Ibarra et al., 2019).[6] However, even with a coverage of around 3.7 million households, many vulnerable households are still not benefiting from the schemes. There is also room to enhance adequacy by raising benefit levels. Additional capacity and resources would need to be allocated to the programs, which currently costs only 0.3 percent of GDP.[7] Naturally, investments in the other SDGs as discussed in this paper would promote inclusive growth and reduce spending needs in social safety net programs.

C. Good Health and Well-Being Goal

7. The authorities have embarked in an ambitious overhaul of the health system. The Universal Health Insurance Scheme (UHIS) was launched in Port Said in August 2019 and is expected to be rolled out gradually across the country over the coming decade (Figure 3). The scheme is designed to consolidate administration of the system, while separating the roles of provider and purchaser of services, in order to mitigate the current high levels of out-of-pocket spending.[8] The

[5] The Fiscal Year (FY) in Egypt runs from July to June.

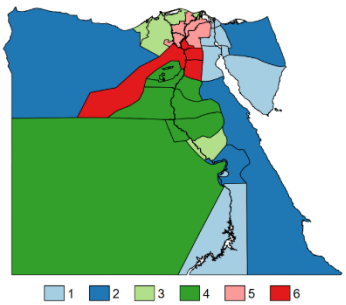
[6] The Egyptian social safety net also includes a number of additional programs, with varying degrees of targeting, effectiveness, and cost. With support of the World Bank, the authorities have been working on a Public Expenditure Review to strengthen efficiency.

[7] For a theoretical benchmark, given that the poverty gap (at USD 3.2 a day) was 6.3 percent in 2017, it would take 2.9 percent of GDP to eliminate poverty using only cash transfers under perfect targeting. Obviously, this number is only indicative, as the main policy to eliminate poverty is through better education and health and better job opportunities, which is the focus of the other SDGs.

[8] Accreditation and procurement of medical supplies will also be handled by separate entities.

scheme is funded by contributions by employees/employers and pensioners, a transfer by the Treasury to cover the cost for vulnerable groups, some earmarked fees and taxes, and co-payments by beneficiaries at point of service. While it is still too early to provide a full assessment, the pilot in Port Said yielded a financial surplus in its first year, which provided funding for infrastructure investment in other governorates that are also part of the first phase.

Figure 3. Phase of UHIS Implementation



Source: Egyptian authorities.
Note: UHIS = Universal Health Insurance Scheme. Numbers 1 to 6 in the legend correspond to the planned phase of rollout of the UHIS in each governorate.

8. Improving health outcomes would require both additional resources and efficiency gains. To assess the cost of meeting this SDG, we look at how best performers around the world combine doctors, other medical personnel, and other current and capital spending to provide health services. We then cost the resources needed to reach such a combination of inputs in Egypt. For this benchmarking exercise, we focus on relatively good performers with similar levels of GDP per capita such as Belarus, Iran, Jamaica, and Serbia.[9]

- ***The main takeaway is the need to expand the number of doctors and, more importantly, the number of other medical personnel***. Both results from the analysis are in line with Egypt Vision's 2030 target of 2 doctors and 5 other medical personnel per 1,000 inhabitants, versus respectively 1 and 2 as of 2018 (Table 1). With those increases, it is estimated that health spending would amount to 7.9 percent of GDP in 2030, with the public sector spending 4.9 percent of GDP, a tripling from the current level. The relatively larger increase in public (versus private) spending reflects in particular the fact that the expansion of services would be particularly targeted toward the poorest households and would therefore need to entail a larger public subsidy.

- ***However, those additional resources would have to be deployed efficiently to ensure the desired improvement in health outcomes***. While substantial, the estimated increase in public health spending yielded by the benchmarking exercise (3.2 percent of GDP) is still below the Egypt Vision 2030 target of around 10 percent of GDP in health spending. However, this lower estimate critically assumes that the resources are deployed in the most efficient way. Inability to attain efficiency gains would require much higher health spending. Among them, the exercise assumes a reduction of doctor wages (as percent of GDP, not in nominal terms) to match the

[9] The full list includes Albania, Bosnia and Herzegovina, Belarus, Colombia, Iran, Jamaica, Sri Lanka, Macedonia, El Salvador, and Serbia.

levels in comparator countries, which could prove challenging in Egypt due to brain drain concerns, but without which, the cost of achieving this SDG would be significantly higher.[10]

Table 1. Egypt: SDG 3 – Good Health and Well-Being Costing

	Countries with GDP per capita of 3000 USD - 6000 USD			Egypt	
	All 2018	Low performers 2018	High performers 2018	2018	2030
Baseline projections					
GDP per capita	4,141	3,928	4,989	3,057	5,978
Population (thousand)	9,456	9,758	6,702	95,689	120,832
Main factors driving the cost of achieving the health and wellbeing SDG					
Doctors per 1,000 population	1.2	0.8	1.7	1.0	1.7
Other medical personnel per 1,000 population	5.9	5.4	6.3	1.9	6.3
Doctor wages (% GDP per capita)	7.1	7.1	6.6	8.3	6.6
Other current and capital spending (% total spending)	62	62	62	59	59
Private share (% total spending)	42	43	38	60	38
Results					
Health spending (percent of GDP)	6.8	6.5	7.0	4.0	7.9
Public	4.0	3.7	4.3	1.6	4.9
Private	2.9	2.8	2.7	2.4	3.0
Per capita spending (USD 2018)	283	257	349	124	471
SDG3 index	75	72	80	72	>80

Source: IMF staff calculations using the IMF SDG Costing Tool and data from Egyptian authorities, WHO Global Health Observatory, World Bank, and OECD Health Statistics.

D. Quality Education Goal

9. The authorities are investing heavily in education to address overcrowding pressures raised by ongoing demographic trends. The addition of 20 million people over the past decade and the expected increase by another 20 for the next decade are straining resources in education and leading to substantial overcrowding of classrooms. From 42 students per classroom of pre-university education on average, Egypt Vision 2030 targets a decline to 35 (Egypt, 2015). Similar pressures affect technical and higher education. To address this challenge, the authorities are investing substantially in education infrastructure. With a budget of EGP 36 bn (0.6 percent of GDP) for FY 2020/21, investment in education is expected to more than double with respect to the execution in FY 2018/19. Investment plans include building 73,000 new classrooms and establishing new universities. In addition, the authorities are implementing a comprehensive overhaul of the curriculum under the project Education 2.0. They are reforming the testing system to reduce the negative incentives of high-stakes exams that fostered memorization, rather than understanding.

[10] In this regard, the authorities have implemented several measures to expand the supply of medical personnel, such as raising the mandatory retirement age of doctors and encouraging the opening of medical schools by allowing students access to public hospitals.

They are also investing heavily in technology, including through the Egyptian Knowledge Bank, which has proven very useful to support learning during the pandemic.

10. Addressing overcrowding pressures would indeed require additional resources deployed efficiently. We cost this SDG by considering how best performers combine students per teacher, teachers' wages and other spending to attain good educational outcomes. Best performers in this SDG include Azerbaijan, Jordan, and Sri Lanka.[11] Their combination of inputs is applied to Egypt's projected young population and Egypt Vision 2030 enrollment targets. We find that higher enrollments and a lower number of students per teacher would require education spending to reach 5.3 percent of GDP by 2030 (Table 2). Public spending would need to increase proportionally more, to 4.8 percent of GDP, as expanded provision of services targets vulnerable households.[12] As for the analysis on health spending, this additional public spending need of 1 percent of GDP assumes that resources are efficiently deployed, otherwise it would constitute a lower bound. Special attention would need to be paid to the spatial distribution of additional resources to address large existing inequities across governorates. Higher use of technology and hybrid models of education could also be considered to foster access and improve quality.

Table 2. Egypt: SDG 4 – Quality Education Costing

	Countries with GDP per capita of 3000 USD - 6000 USD			Egypt	
	All 2018	Low performers 2018	High performers 2018	2018	2030
Baseline projections					
GDP per capita	4,141	4,518	4,094	3,057	5,978
Population (thousand)	37,810	38,931	37,810	95,689	120,832
Main factors driving the cost of achieving the education SDG					
Students per teacher ratio	19.0	20.6	16.5	19.6	16.5
Teacher wages (ratio to GDP per capita)	2.4	4.0	1.7	n/a	1.7
Other current and capital spending (% total spending)	39	39	36	n/a	36
Other factors driving the cost of achieving the education SDG					
Student age population (% total population)	39	41	33	35	39
Enrollment rate (preprimary to tertiary) 1/	68	64	70	57	83
Private share (% of total spending)	19	41	5	19	10
Results					
Education spending (percent of GDP)	5.6	8.3	3.7	4.6	5.3
Public	4.5	4.9	3.5	3.8	4.8
Private	1.1	3.4	0.2	0.9	0.5
Spending per student (USD 2018)	866	1,430	660	709	964
SDG4 index	77.8	75.3	88	74.5	>88

Source: IMF staff calculations using the IMF SDG Costing Tool and data from UNESCO and World Bank EDStats database.

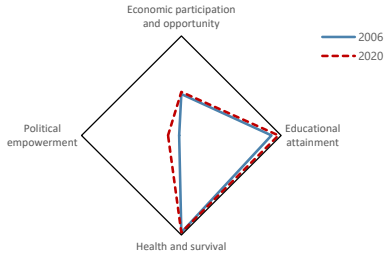
[11] The full list includes Albania, Armenia, Azerbaijan, Belarus, Belize, Georgia, Iran, Jordan, Mongolia, Serbia, and Sri Lanka.

[12] If the share of private sector spending were to remain constant at 19 percent, the additional public spending would be only 0.5 percent of GDP.

E. Gender Equality Goal

11. A large gender gap remains in Egypt. While educational and health gender gaps are relatively narrow, women's political empowerment and economic participation and opportunity lag substantially (Figure 4). Importantly, female labor force participation remains less than a third of male. Egypt Vision 2030 aims to rank 60th in the Global Gender Index, while it ranked 134th out of 153 surveyed countries in 2020 (WEF, 2020). Acknowledging this gap, the authorities have launched a number of initiatives including (i) the "Closing the Gender Gap Accelerator" in partnership with the private sector, (ii) a policy tracker by National Council of Women to monitor gender-sensitiveness of policies during the COVID crisis, (iii) the microfinance program Mastoura and other gender-focused social programs (e.g., First 1,000 days and No illiteracy with Takaful) and (iv) the presidential initiative for the general health of Egyptian women. Finally, the Takaful and Karama program targets primarily women, who make up 88 percent of the program's beneficiaries.

Figure 4. Global Gender Gap Index



Source: WEF (2020).

12. Fiscal policy can help address gender imbalances.[13] Expansion of early childhood education can reduce women's unpaid work and allow them to rejoin the labor force after maternity leave. There is also room to improve the legal framework to guarantee gender equality, which in itself can be conducive to changes in cultural norms over time (World Bank, 2021). For instance, the introduction of paternity leave, a feature currently absent from Egyptian legislation, could contribute to redistribute the burden of unpaid care work as fathers' early involvement tends to have lasting impact. Likewise, investments in safe transportation, for instance with the expansion of women-only transportation to buses (from the current initiative in Cairo metro), can address some of women's safety concerns weighing on female labor force participation (Christensen and Osman, 2021). Fostering female labor force participation would also require implementing active labor market policies and promoting flexible work arrangements, which have proven effective during the pandemic. Finally, introducing gender budgeting can help monitor implementation of policies and their outcomes.

F. Clean Water and Sanitation Goal

13. Continuous investments in clean water and sanitation are also needed. The right to clean water is enshrined in the Egyptian Constitution. Egypt Vision 2030 targets 100 percent of the population with access to safe drinking water and sanitation systems. While 99 percent of the population currently have access to safe drinking water, only half of the population have sanitation systems (Egypt, 2015). In addition, climate change raises water insecurity risks. The authorities are addressing these challenges with large investments in desalination and sewage treatment plants. Hutton and Varughese (2016) provide estimates of the cost to reach the clean water and sanitation

[13] For references, Alonso et al. (2019) and Kochhar et al. (2017).

in Egypt (Table 3), including capital investment, operational cost, and maintenance. The estimated annual steady-state cost amounts to 0.3 percent of GDP, largely contributed by the sanitation component.

Table 3. Egypt: SDG 5 – Clean Water and Sanitation Costing

	Ending open defecation	Basic			Safely Managed		Total
		Water	Sanitation	Hygiene	Water	Sanitation	
Total cost (% of 2030 GDP)	0.03	0.2	0.5	0.0	1.5	2.4	4.7
Annual cost (% of 2030 GDP)	0.00	0.0	0.0	0.0	0.1	0.2	0.3

Source: World Bank WASH costing model from Hutton and Varughese (2016).

G. Road Infrastructure Goal

14. Increasing road connectivity is critical to enhance development and access to opportunities in rural areas. We estimate the road density target based on GDP per capita, rural access index, and population density. This results in a road infrastructure gap in terms of the kilometers that would need to be built over the coming decade. Using an average unit cost of USD 0.5 million per kilometer (Iimi et al., 2016), we estimate the annual steady-state cost of building and maintaining the road network to 0.8 percent of GDP in 2030 (Table 4).

Table 4. Egypt: SDG 9 – Road Infrastructure Costing

	Egypt	
	2018	2030
Baseline projections		
GDP per capita	3,057	5,978
Population (thousand)	98,900	120,832
Main factors driving the cost of achieving the road SDG		
Rural Access Index (RAI) - (%)	77	90
Number of years to 2030	10	-
Length of Roads (km)	176,927	256,156
Required increase in the km of paved roads (%)		45
Results		
Additional Km Needed		79,229
Unit cost ($/Km)		487,168
Total Investment Cost for 10 years (in mln $)		38,598
In percent of 2030 GDP		5.3
Annual Cost (in mln $)		3,860
In percent of 2030 GDP		0.5
Cost of maintaining new roads in 2030 (in percent of 2030 GDP) (assuming 5% depreciation on new roads)		0.3
Total annual cost including depreciation (in percent of 2030 GDP)		0.8

Source: IMF staff calculations using the IMF SDG Costing Tool and data from World Bank, CIA Factbook, and International Road Federation World Road Statistics.

H. Conclusion

15. Reaching the SDGs presents an attainable goal.

- ***The additional public spending needed to reach the selected SDGs is costed in this paper to amount to about 5½ percent of GDP on an annual steady-state basis*** (Figure 5).[14] This number should be taken with the adequate caveats given that it is surrounded by uncertainties and assumes substantial efficiency gains that will need to be achieved—it, however, provides a useful order of magnitude. In particular, the main upshot is that while substantial, such an increase does not appear to be out of reach.

- ***The authorities have identified several avenues to fund those efforts***. Their recently approved MTRS envisions raising tax to GDP by 2 percentage points in 4 years. Effective debt management and fiscal prudence would reduce the excessive burden of the interest bill, which amounted to 9.8 percent of GDP in FY 2019/20 and would over time free fiscal space for development spending. More broadly, spending reallocation and efficiency gains could provide additional resources. In this regard, the ongoing Public Expenditure Review, supported by the World Bank, will produce recommendations to strengthen service delivery and efficiency in social protection, health, and education. The authorities are also reorganizing the ministry of finance and restructuring the budget department on functional, rather than administrative, basis, which could also help identify and address inefficiencies.

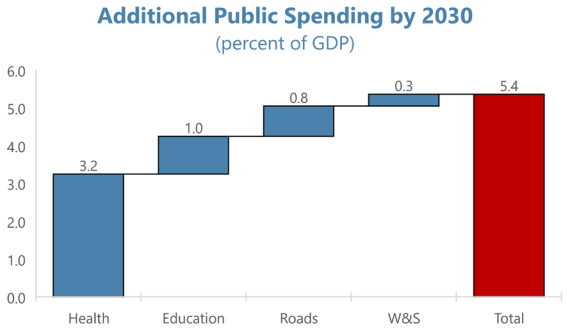
- ***Finally, maintaining macroeconomic stability and reigniting the structural reform agenda are integral parts of reaching the SDGs in Egypt.*** Faster GDP growth and reduced demographic pressures could lower the cost of reaching the SDGs, as illustrated in the sensitivity analysis presented in Figure 5. This further highlights the importance of advancing structural reforms as outlined in the companion SIP. The cost of reaching the SDGs can also be reduced by positive spillovers from some sectors to others. For example, raising female labor force participation would boost GDP, reduce poverty, and lead to better outcomes on children's health and education. A healthy and educated labor force in turn would be more productive, further raising GDP.

[14] In this exercise, this represents the annual cost that would be needed in a steady state to reach and maintain the country at the level of the SDGs. The estimated additional cost of 5 ½ percent of GDP is much lower than estimates for low-income developing countries (15½ percent of GDP) and somewhat higher than estimates for emerging markets (around 4 percent of GDP) (IMF, 2019). The latter largely responds to the high demographic pressures faced by Egypt. The annual steady-state cost would amount to around 40 billion dollars at 2018 prices.

Figure 5. Additional Public Spending by 2030

(In percent of GDP)

Baseline



Sensitivity to Alternative GDP and Population Growth Paths

		GDP Growth		
		Low	Medium	High
Population Growth	Low	5.4	4.8	4.7
	Medium	5.4	5.4	4.7
	High	5.5	5.4	4.8

Source: IMF staff calculations using the IMF SDG Costing Tool and data from UNESCO, World Bank Edstats database, WHO Global Health Observatory, World Bank, OECD Health Statistics, CIA Factbook, International Road Federation World Road Statistics, and World Bank WASH Costing Model from Hutton and Varughese (2016).
Note: In the left hand-side table, low, medium, and high population growth correspond to the low, medium, and high variant scenarios in UN projections. Low, medium, and high GDP (in constant dollars) growth correspond to rates of 5.9, 7.2, and 8.4 percent.
W&S: Water and Sanitation.

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