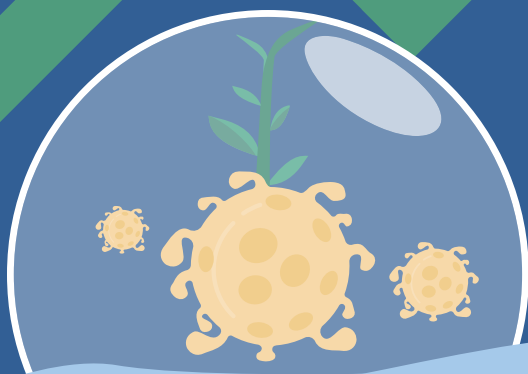




Co-Published Brief

On Egypt's Key Decisions to Combat COVID-19 Pandemic

Budget Transparency Brief No.6



The allocation of EGP 100 Billion to combat the pandemic effects in Egypt: An emergency financial stimulus package launched by Egypt's President

This document was prepared in collaboration between the Fiscal Transparency and Citizen Engagement Unit in the Ministry of Finance and the UNICEF Community Policy and Outreach Unit for citizen engagement purposes. All the information detailed hereafter is the sole responsibility of the Ministry of Finance of Egypt as it is the leading source for all the state budget allocations for the FY 2020-2021.

Contents

1

SETTING THE CONTEXT 4

- Introduction
- What is a Stimulus Package

2

EXAMINING EGYPT'S STIMULUS PACKAGE TO MITIGATE THE REPRECUSION OF COVID-19 ON THE ECONOMY 6

- Public Health
- Most affected Sectors
- Tax Returns

3

WHAT'S BEEN ALLOCATED VS. WHAT'S BEEN EXECUTED 8

4

ON THE REGIONAL SCENE: RESPONDING TO THE CRISIS COMPARED TO THE MENA REGION 9

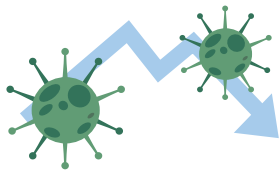
5

PARTICIPATORY BUDGETING/TRANSPARENCY AND CITIZEN ENGAGEMENT UNIT 10



SETTING THE CONTEXT

INTRODUCTION



More than 10 years after the global financial crisis in 2008, the world was hit by the COVID-19 pandemic. **Another crisis that has majorly affected all countries and its repercussions are estimated to be much greater than that of the financial crisis, given its negative impacts on the healthcare systems worldwide, its economic repercussions on governments, markets, businesses and households.**

In this context, **Egypt has taken a variety of rapid, decisive and precautionary measures** both on public health and socio-economic levels.



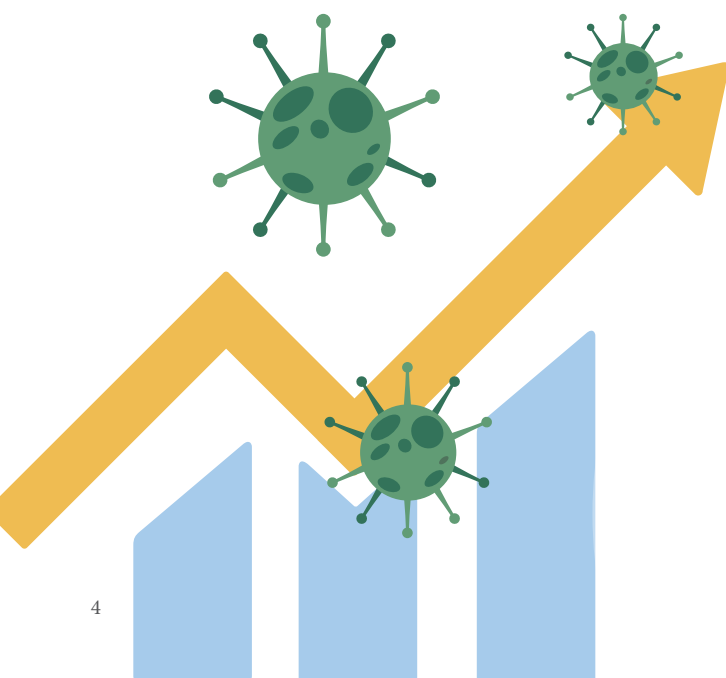
The aim of this brief is to demonstrate with the available data **Egypt's most important proactive measures and policy responses in order to mitigate the negative impacts of the pandemic outbreak** on various sectors of the society.

According to many international financial institutions, **such measures have led Egypt's economy to stay resilient and to withstand the shocks precipitated by the COVID-19 crisis.**



In fact, Egypt's economy has been in a continuous change in the last decade **due to the comprehensive macroeconomic reform it has been undergoing since November 2016**, which restored credibility in the Egyptian economy.

Amid the global coronavirus pandemic outbreak in early 2020 and its economic repercussions, and in order to support the vulnerable and most affected sectors, **Egypt's government has announced an emergency financial stimulus package of EGP 100 billion** (financed by budget reserves) to minimize damage on the economy and contain the negative social and economic implications.



WHAT IS A 'STIMULUS PACKAGE'?

During economic downturns, governments often intervene to stimulate and to stabilize the economy due to the lack of demand (during recessions). In fact, there are two channels through which governments can boost activity and soften the effects of a recession; whether through automatic stabilizers which intend to offset the downturn and operate in relation to business cycle (not depending on government's actions), or a stimulus, which is a package of measures taken by the government to boost employment and spending, and to compensate the economic loss for those mostly hit and in need.

Fiscal and Monetary Policies are amongst the most effective approaches of the stimulus package:



Fiscal stimulus, refers to an expansionary policy (by the government) during which **the government increases its spending and consumption, or lowers taxes to revitalize the economy.**



Monetary stimulus, refers to measures (controlled by the central bank), such as **lowering interest rates to encourage private investments, or applying quantitative easing** (injecting more money into the economy) in order to put extra cash into people's hands during downturns.

The government of Egypt has adopted several decisions as a comprehensive recovery plan on top of which is the fiscal approach to mitigate the COVID-19 negative impacts, which would hinder what the country has achieved in the past 4 years. In fact, since early days of the pandemic, Egypt has dedicated EGP 100 billion (6.13 billion \$), roughly 2 % of its GDP as an emergency stimulus package.

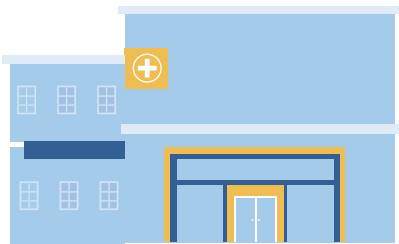
It's noteworthy that this stimulus package is the biggest in Egypt's history ; exceeding the one implemented in the aftermath of the 2008 global recession, which disbursed a sum of EGP 15.5 billion (ILO, 2008), around 1.5% of the country's GDP at this time.

EXAMINING EGYPT'S STIMULUS PACKAGE TO REVIVE THE ECONOMY



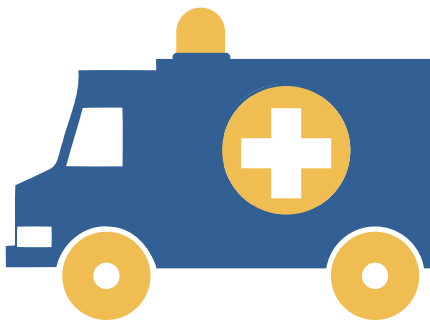
2.1 STRENGTHENING PUBLIC HEALTH SECTOR IN WAKE OF THE HEALTH CRISIS

Around **EGP 17.4 billion** of the package have been allocated to save the healthcare system by :



- Providing urgent medical supplies.
- Covering bonuses for medical staff in quarantine hospitals and central labs.
- Increasing public hospitals' capacity to absorb the increase of cases that the coronavirus pandemic could bring.

Supporting medical professionals by:



- increasing wages spending allocations.
- increasing wages allowances (infection allowance, night shift allowance...).
- providing one-time bonus paid for medical workers.

2.2 SUPPORTING VULNERABLE SEGMENTS AND EXPANDING SOCIAL SAFETY NETS

- **Expansion of the cash transfer/social protection programs' scope**, including Takaful & Karama, in order to cover and reach more families: **60 thousand families were reached** (Ministry of Social Solidarity, 2020).
- Raising pensions by **13% in FY 2021** to ensure a real increase in the incomes of more than **10 million pensioners**, and increasing social housing support to **5.7 billion EGP**.

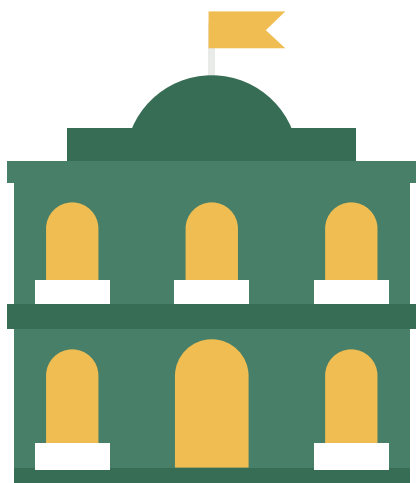
Support initiative to the most vulnerable segments and mostly hit:



- Entailing a **500 EGP monthly cash support** to irregular/seasonal workers in different affected sectors for **3 months** costing a total of **EGP 3 billion: 1500 EGP in total**, covering closely **1.6 million beneficiaries** (IMF, 2020).
- Increasing payments for women community leaders (in rural areas): from **350 EGP to 900 EGP**.

2.3 MODIFYING TAX RETURNS, PROVIDING INCENTIVE PROGRAMS AND COST REDUCTIONS(FOR PEOPLE AND COMPANIES)

The government has intended to decrease burden on citizens by:



- Increasing tax exemptions limit for employees from **8000 EGP to 15000 EGP annually.**
- Introducing a new, low-valued tax bracket (**2.5%**) for employees.
- earning below 30000 yearly, and those earning 24000 or below yearly will get a **9000 personal tax exemption**
- Extending individuals' annual tax return deadline to **April 16th instead of March 21st**, exempting them of subscription fee for using the Egyptian Tax Authority's online portal, and cancelling the ATM withdrawal fees
- Directing 50 billion EGP to real estate financing for middle-income citizens.

The government has intended to provide aid to the most affected sectors by :



- Allocating **additional funds to tourism sector** to mitigate the precaution of the pandemic, as well as postponing the payment of all financial obligations on touristic establishments for 3 months.



- Extending the payment of real estate taxes by manufacturing sector for **3 months**, **pumping 3 billion EGP** to support the Export Development Fund(EDF), and providing allocations for private supplies and contractors



- Reducing electricity/natural gas costs for the industrial sector (especially heavy industries), and discounting fuel prices for aviation sector.



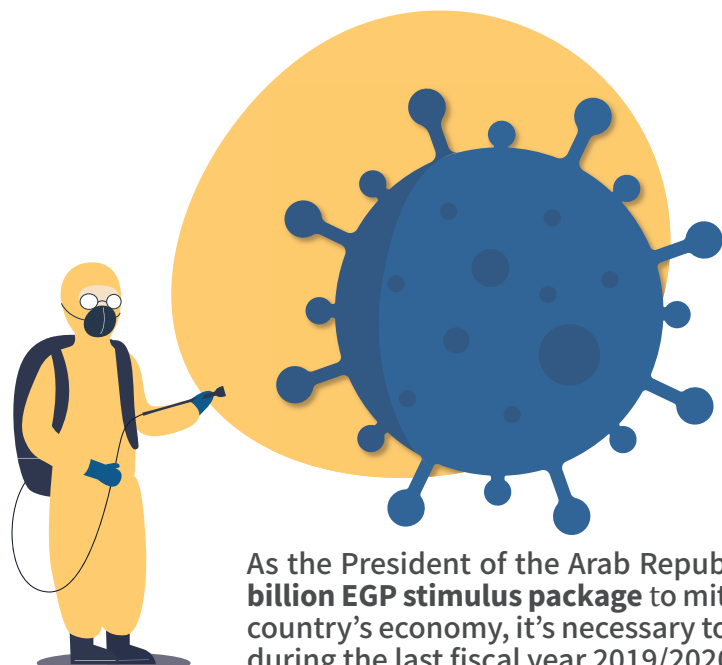
- Imposing a **1% corona tax** on public and private salaries, and **0.5%** on pensions, to support the most affected individuals and small and medium enterprises.



- Reducing taxes on dividends into half and extending the suspension of capital gains taxes to **January 2022.**

- As for the national food security sector, the government has allocated around **29 billion EGP** to secure staple food goods provisions(Ministry of Supply, 2020) .

WHAT'S BEEN ALLOCATED VS. WHAT'S BEEN EXECUTED



Total --- (EGP 100 BILLION)
(Until end of March 2021)

As the President of the Arab Republic of Egypt earmarked in late March a **100 billion EGP stimulus package** to mitigate the COVID-19 outbreak's effects on the country's economy, it's necessary to note what the government has spent so far during the last fiscal year 2019/2020, according to what the Ministry of Finance declared in June 2020:



Public Health Sector

- Higher wages spending allocations for public health staff.
- Increasing infection allowance.
- One time bonus paid to health workers.

2019/2020 (Million) --- 8,223
2020/2021 (Million) --- 9,211
Total (Million) --- 17,434



Support to small and medium enterprises

- Providing loans with a maximum tenor of one year and a maximum amount of EGP 1 million.

2019/2020 (Million) --- 439
2020/2021 (Million) --- 292
Total (Million) --- 731



Support to other sectors

- Extra allowances in education sector

2019/2020 (Million) --- 640
2020/2021 (Million) --- 3,530
Total (Million) --- 4,170

Support to Vulnerable Sectors

- Modifying tax return plans
- Supporting the industry sector
- Supporting exporters, contractors
- Providing loans for tourism and aviation sectors

2019/2020 (Million) --- 30,306
2020/2021 (Million) --- 34,226
Total (Million) --- 64,532



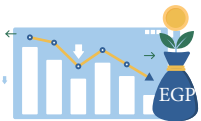
Support to vulnerable segments and financial mitigation

- Monthly cash subsidy worth EGP 500 to affected workers.

2019/2020 (Million) --- 9,000
2020/2021 (Million) --- 4,260
Total (Million) --- 13,260



ON THE REGIONAL SCENE: EGYPT'S STIMULUS PACKAGE IS RESPONDING MUCH BETTER TO THE CRISIS THAN MANY NEIGHBORS IN THE MENA REGION



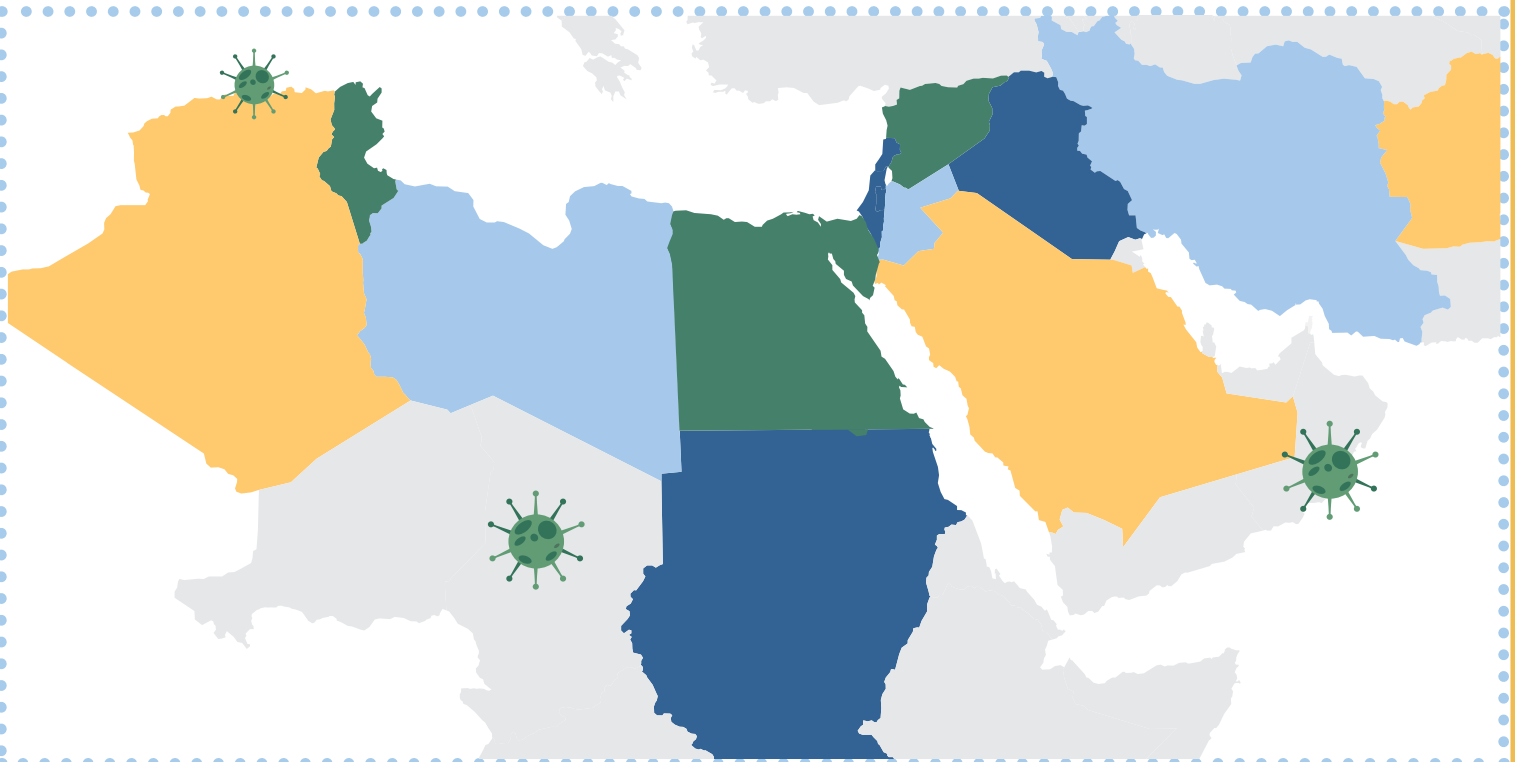
- Firstly, Egypt's stimulus package has included **the biggest interest rate cut (300 bps) in the region**, and exceeded what was applied in neighboring countries, such as Qatar (100 bps), Saudi Arabia and the UAE (both 125 bps). This means that banks in Egypt would be able to lend more money during the crisis, in order to encourage investment.



- Secondly, compared to other neighboring countries in the Middle East, such as Iraq, Lebanon and Jordan, Egypt has a **higher and more important number of tax exemptions and reliefs**; including personal taxes, real estate taxes, and taxes on capital gains and dividends.



- Thirdly, Egypt has also **focused on extending its social spending during the pandemic**. In fact, its social protection programs: Takaful & Karama, Social Solidarity reached much more beneficiaries, pensions, wages and allowances have all increased significantly, as well as the cash subsidies provided to irregular workers.



PARTICIPATORY BUDGETING AT THE EGYPTIAN MINISTRY OF FINANCE



5.1 THE TRANSPARENCY & CITIZEN ENGAGEMENT UNIT AND ITS MANDATE:

- Transparency and Citizen Engagement activities have been carried out since 2015 by the ministry of Finance, before the official establishment of the unit by a **Ministerial decree No.574 of 2018**. Assigning the unit to spread the financial and economic awareness with transparency and inclusiveness and change the image of the ministry in appropriate timeline, so that empowering the citizens to participate and follow up on the state's budget and be part of the decision-making process.
- The unit is mandated with **periodically informing the public of fiscal and economic trends in a transparent, comprehensive and timely manner**.
- **Therefore, building institutional frameworks that enable the different segments of society to actively participate in the budget cycle and participating in decision making processes** through several participatory budgeting tools deployed by the unit, and its success partners, such as the public hearing sessions held in Fayoum and Alexandria. In addition, creating participatory mechanisms aimed at reaching, motivating and empowering youth and women to participate and understand the state's budget and Egypt's Vision 2030, as well as getting to know national projects in innovative interactive ways that suit different age groups.



5.2 WHAT IS THE DRIVING FORCE BEHIND CREATING A TRANSPARENCY UNIT?

- The need for more transparency in the state's budget has become more **pressing considering the current global pandemic and the ever-changing global socio-political dynamics**. To that end, the government is keen to institutionalize internationally recognized standards of transparency and citizen engagement throughout its institutions as emphasized in Egypt Vision 2030.
- Ultimately, transparency and engagement endeavors aim at **effective public financial management, better public services and meaningful development projects that cater directly to citizens' priorities**.



5.3 OBJECTIVE OF PUBLIC PARTICIPATION



Empowerment: Providing people with the opportunity to having the final decision



Cooperation: Participating with people in all decision taking aspects, including setting alternatives and identifying preferred solutions.



Participation: Working directly with people during the process to ensure constantly understanding and considering public concerns and aspiration.



Coordination: Receiving the public feedbacks towards the analysis, alternatives and/or decisions.



Provision of Information: Providing people with balanced and objective information to help people in understanding the problem, alternatives, opportunities and/or solutions.



Increasing the level of public impact which leads to a more effective and responsive citizen on the local level



5.4 HOW DOES THE UNIT PERFORM ITS MANDATE?

- Firstly, the unit periodically publishes **comprehensive reports around the budget cycle** along with reader-friendly citizen versions. Recently there have been **several in-focus publications such as the COVID-19 Public Spending and the Children Budgetary Allocation** briefs to respond to the uncertainty citizens are faced throughout the pandemic. All reports are published on the Ministry's interactive online platforms. www.budget.gov.eg , www.mofdigitalgate.gov.eg , www.mof.gov.eg
- **Secondly, the unit along with its success partners work on engaging citizens on ground through several participatory budgeting tools** such as public hearing sessions, surveys, simulations, social accountability workshops.
- **Youth constitute the larger block of the unit's audience**, and therefore several endeavors such as **orientations on the country's fiscal and economic status quo have already taken place at several universities to raise their financial awareness** and engage them with the budget cycle. Furthermore, more endeavors such as a **budget game and other interactive financial literacy tools are currently in the pipeline in partnership with the UNICEF.**
- **Moreover, the unit has partnered with pioneer civil society organizations and universities in order to integrate budget-relevant capacity building and sports extra-curricular activities in student's school learning journey as well as create a link between their graduation cap-stone projects, participatory budgeting and mega national projects to raise their awareness and provide them with hands-on experience.**
- Lastly, creating better **communication channels with the public such as public hearing session in the parliament, social media platforms with visual content, mobile apps and interactive games** that cater to the needs of all the **different audience groups have been at the core of the unit's mandate.**



5.5 EGYPTIAN MODEL FOR PARTICIPATORY BUDGETING

- **The Egyptian Participatory Budgeting Model is a tool for good governance that aims at better financial management of the state's budget**, by creating a common ground for citizens and relevant government and non-government institutions that ultimately leads to **the alignment of development priorities and thus more effective results that are responsive to citizens' needs and government capacity.**
- **The Ministry of Finance relies on providing transparent economic and fiscal data that equips citizens to actively engage in sustainable development plans and decision-making processes through participation in budget preparation.** Raising the financial awareness of citizens and equipping them to understand and analyze the citizen budget should in turn allow them to monitor development projects and carry out social accountability activities.
- The unit's medium-term action plan for the implementation of participatory budgeting relies heavily on **creating a solid network of success partners amongst which are government, non-government institutions and private sector in order to successfully replicate the Egyptian model of PB across the country.**



5.6 ENDEAVORS PURSUED BY THE UNIT TO INFORM AND ENGAGE CITIZENS

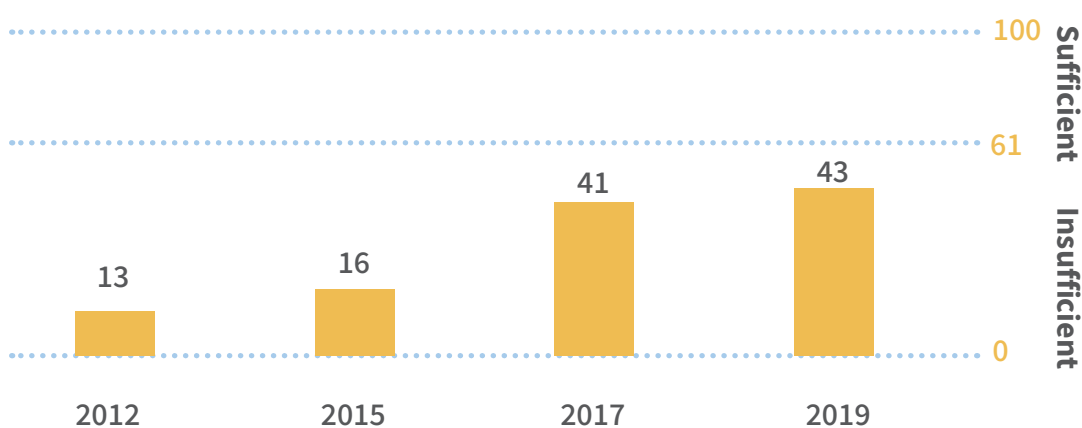
- In response to the global pandemic and its accompanying uncertainty and challenges faced by citizens, the unit has recently published, in partnership with UNICEF, several simplified and reader-friendly citizen versions of its technical reports around the budget cycle including children budgetary allocations and COVID-19 public spending.
- Youth constitute the bigger block of the unit's audience group and to that end an interactive website has been undergoing development to engage them with interactive financial literacy courses and games, in partnership with UNICEF. <https://cutt.ly/lc4enYS>
- Moreover, in partnership with government and non-government institutions, parliament as well as private sector, the institutionalization of on-ground citizen participatory budgeting tools such as public surveys, public hearings, social dialogue, and third-party monitoring have been deployed in 3 governorates (Cairo, Alexandria, Fayoum) with ongoing prospects for expansion in other governorates simultaneously.

EGYPT RANKS 2ND REGIONALLY IN THE OPEN BUDGET SURVEY (OBS)

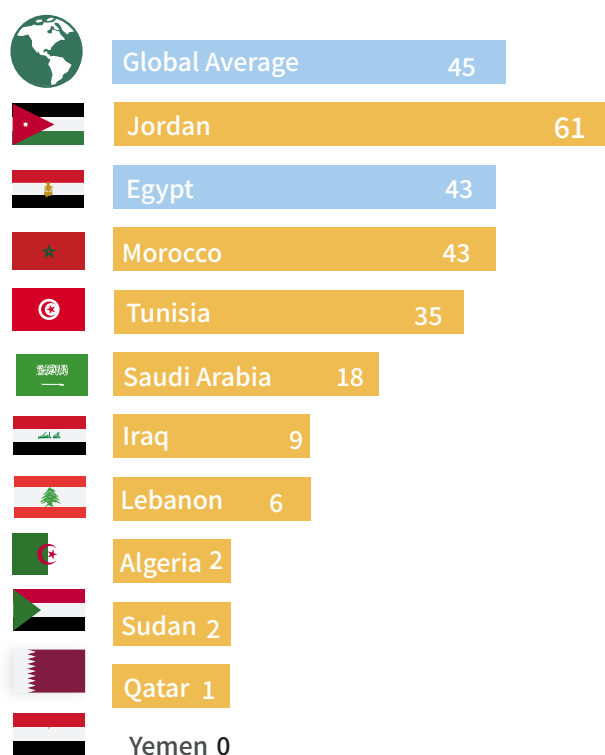
As a result of improvement made by the unit across its online and on-ground endeavors for better transparency and citizen engagement, Egypt's score in the Open Budget Survey (OBS 2019 was published in Y2020) has improved by 27 basis points compared to 2015.



How has the transparency score for Egypt changed over time?



Transparency in Egypt compared to others



Public Participation in Egypt compared to others



CONCLUDING REMARKS

This brief aims at disclosing the most important measures, procedures and incentive packages that have been implemented by the MoF to mitigate the negative effects of the COVID-19 pandemic in a simple way that is easy for the citizens to read and understand, in light of the GoE's interest in promoting citizen participation and disclosure, and believing that participation and oversight will contribute to raising community awareness, and involves them in the decision-making process; to ensure that current fiscal policies guaranty reaching desired targets and that spending reaches its target groups.

This brief and other simplified reports will also be used in participatory budgeting activities in various governorates, as an access to citizens from all age groups to the latest developments in spending and the directed support to the most affected sectors by the pandemic, continuing from 2020 to the present day; To clarify and disclose expansionary economic policies that Egypt has adopted during Covid-19 pandemic. It aims to achieve comprehensive and sustainable development, providing a decent life for citizens, improving their standard of living, and upgrading the services provided to them; which contributes to develop the economic gains that have been made through the implementation of the economic reform program, and help to stay on the safe economic path.

Arab Republic of Egypt

