



Why measure economic policy for social progress?

Just, fair, and coherent economic policies provide the foundation for achieving social progress. They determine the availability of funding for public goods and services that are essential for fundamental human rights—such as health, education, housing, access to

justice, and an adequate standard of living—and which underpin sustainable development. The way revenue is raised, and from whom, also has critical effects on inequalities and the distribution of financial burdens, especially in times of economic hardship.

What are the main findings of ESPI on ECONOMIC POLICY?

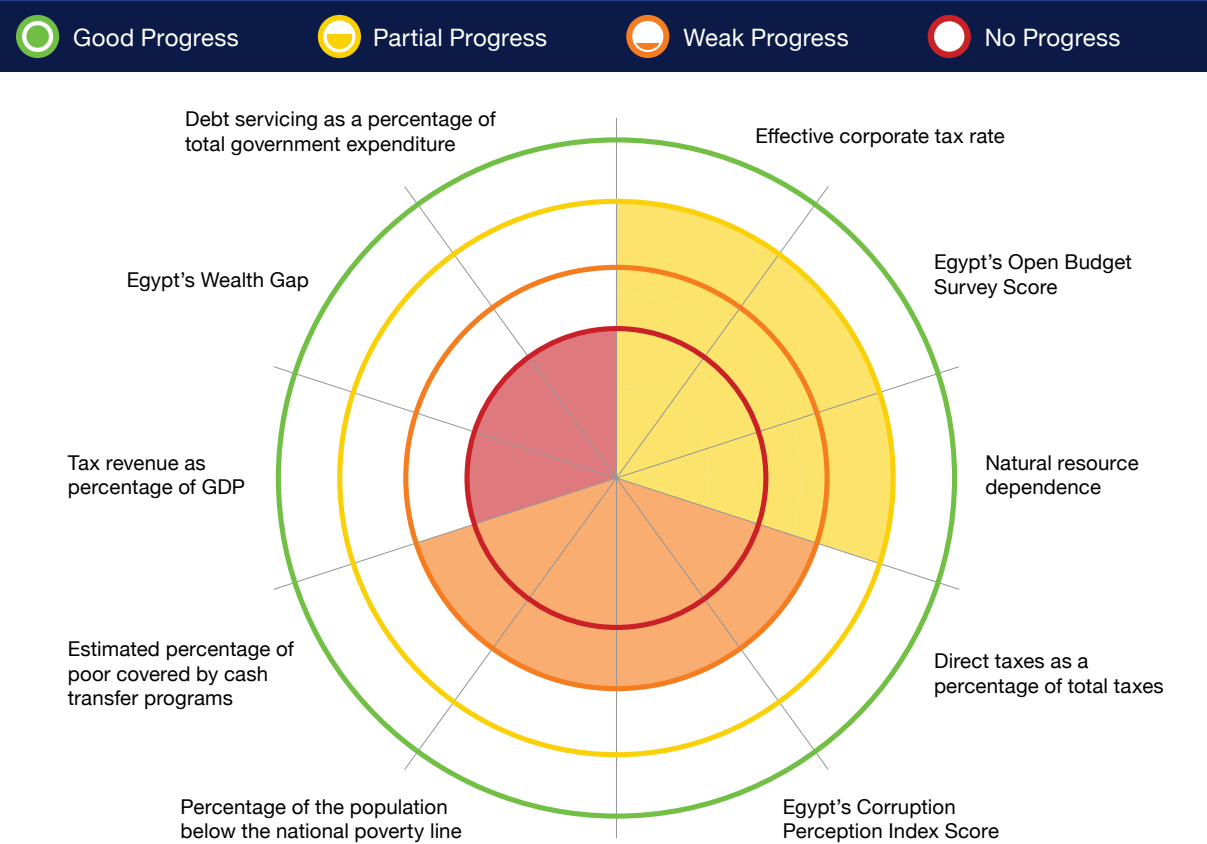
ESPI shows that the Egyptian economy has significant room for improvement when it comes to directing economic policy priorities towards improving socioeconomic wellbeing. Specifically, **raising revenue** in a more equitable manner could lead to a better distribution of resources and opportunities, contributing towards improved socioeconomic wellbeing for all.

Poverty and inequality remain a serious challenge for Egypt. Over 26 million people—approximately one in four—live below the national poverty line, based on the most recent official figures. Egypt was the third most unequal country in the world in 2017, measured by its **wealth gap**. **Social protection** coverage is still very limited, with cash transfer programs covering less

than half of the population living in poverty. This is unsurprising given the deficiencies in the **tax system** and government revenue collection. Tax revenue was only 13% of GDP in the last financial year (low compared to other Lower Middle Income Countries), with corporate tax making up only 10% of total tax revenue. Other structural problems in the Egyptian economy, including a high **debt servicing ratio** and risk of **natural resource dependence**, present further challenges.

Good economic policy is about process, as well as outcomes. Greater **transparency, participation, and accountability** would certainly strengthen economic policymaking in Egypt, as demonstrated by its weak overall scores on the Open Budget Index and the Corruption Perception Index.

FIG 1. Overall Progress of Economic Policy Indicators





Full List of Indicators

- Effective corporate tax rate
- Egypt's Open Budget Survey Score
- Natural resource dependence
- Direct taxes as a percentage of total taxes
- Egypt's Corruption Perception Index Score
- Percentage of the population below the national poverty line
- Estimated percentage of poor covered by cash transfer programs
- Tax revenue as percentage of GDP
- Egypt's Wealth Gap
- Debt servicing as a percentage of total government expenditure

“Good Progress” indicates Egypt’s fulfilment of commitments made in the Egyptian Constitution and Vision 2030, as well as its positive ranking in comparison to other Lower Middle Income Countries. Currently, there are no “Good Progress” indicators in Economic Policy.

Featured Indicators

A more in-depth look at several of the indicators is included below. For more information on all of the indicators, including the scales and how they were constructed, please see the website at progressegypt.org.

Egypt's wealth gap – No Progress

High degrees of wealth inequality can have damaging effects on standards of living, health outcomes, degree of trust in political institutions, and social cohesion, negatively affecting economic, social and cultural rights.

Egypt’s wealth gap is shown using the Gini coefficient, a statistical measure of economic inequality. The coefficient ranges from 0% (perfect inequality) to 100% (perfect equality). The color scale was developed by comparing Lower Middle Income Countries, with

“Good Progress” reflecting the average of the top five, and ‘No Progress’ being equivalent to the bottom quarter.

Egypt’s wealth Gini coefficient was a staggering 91.7% in 2017, the third most unequal country in the world by this measurement. Worryingly, this reflects an increase from previous years; Egypt’s wealth Gini ranged from 80-81% between 2012 and 2016, according to Credit Suisse data (2017).

Progressive tax reforms, investment in public services and social protection, protecting workers’ rights and ensuring decent work are fundamental to combating economic inequality. Increasing the reliability of statistical data on inequality is also a necessary step for the government.

Estimated percentage of the poor covered by cash transfer programs – Weak Progress

Cash transfer programs play an important role in protecting households against poverty and realizing economic and social rights. This indicator helps illustrate the degree to which Egypt’s cash transfer programs, Social Solidarity Pension and Takaful wa Karama, heralded as a cornerstone of economic “reform” by the IMF and World Bank, indeed play this role. It compares the estimated population that benefits from these cash transfer programs to the population living below the national poverty line.

The scale was developed by quantifying the target under Egypt’s Vision 2030 plan to achieve “sufficient” coverage of the social protection and welfare system. “Sufficient coverage” is defined as coverage of over 80% of the poor population, which qualifies as “Good Progress”. “No Progress” is defined as less than 40%.

FIG 2: Wealth Gap in Lower Middle Income Countries

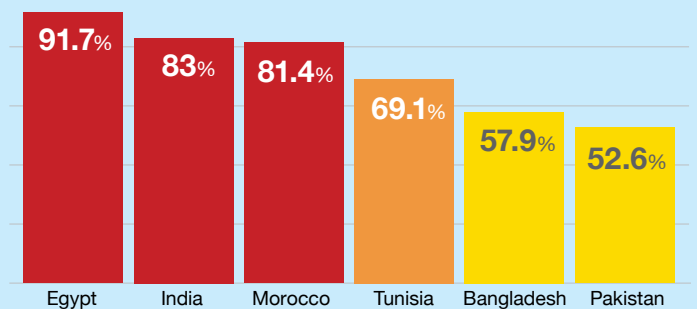
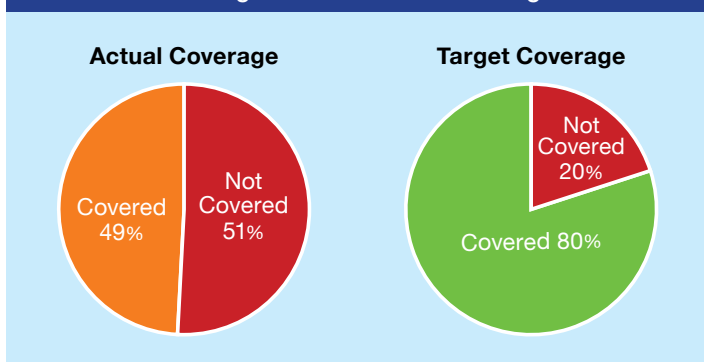


FIG 3. Actual vs Target Cash Transfer Coverage



Source: MoSS (2016), HIECS (2015), World Bank (2018)

ESPI finds that these programs covered only approximately 49% of the total population considered poor. A key challenge to the effectiveness of cash transfer programs is inadequate systems to identify beneficiaries, which often exclude those most in need.¹ United Nations experts recommend universal programs instead, to protect populations against poverty while ensuring gender and geographical inclusion.² Achieving these goals will require structural reforms to the country's social protection programs and its approach to revenue generation and spending, including progressive tax reforms.

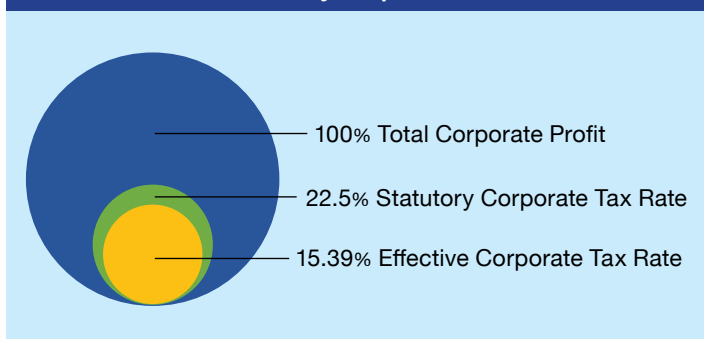
Effective corporate tax rate – Partial Progress

Corporate taxes are considered a progressive way to raise significant sums of money for public services. When companies end up paying low rates of tax, they are not contributing their fair share. This indicator measures the effective tax rate on corporate profits, meaning the average rate actually paid.

The scale was constructed by comparing the effective corporate tax rate to the 22.5% statutory corporate tax rate prescribed in law, which is very close to the global estimated average, according to KPMG (2018). "Good Progress" means that the effective rate is close to the statutory rate. "No Progress" means it is less than half.

The effective rate of corporate tax paid by the top 30 companies on the Egyptian Stock Exchange at the end of the 2016/17 fiscal year (FY) is calculated at only 15.39%, far lower than the 22.5% statutory corporate tax rate. This is due in large part to the variety of tax exemptions and incentives that allow companies to lower their taxable profits. The total revenue from corporate income tax collected during this period amounted to only 10% of total tax revenue, according to the Ministry of Finance, while Value-

FIG 4. Effective vs Statutory Corporate Tax Rates



Source: Egyptian Stock Exchange (2016/17), KPMG (2018)

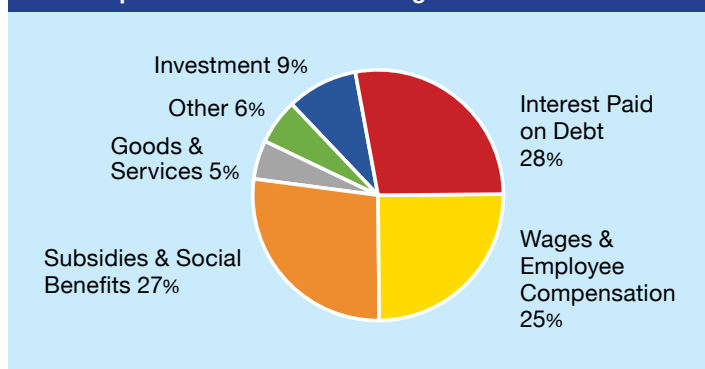
Added Tax, paid for by consumers and with a disproportionate impact on poorer people, amounted to almost half of total tax revenue.³ Applying a fairer and more progressive income tax for private companies would narrow the gap between the effective and the statutory rates of corporate tax. Domestic efforts should be complemented with serious international cooperation to combat tax evasion.

Debt servicing as a percentage of total government expenditure – No Progress

Governments issue debt to finance a number of important economic and social activities, including building hospitals, schools and infrastructure. In the past two fiscal years - 2016/17 and 2017/18 - it has been clear that the debt burden has limited the resources available for financing these essential public services. For example, 2017/18 expenditure on health and education has fallen below the minimum constitutional level.

According to the FY 2015/16 Ministry of Finance budget, total debt servicing stood at almost 244 billion EGP, which represents nearly 30% of the total government expenditure for the year. Contributing to this, Egypt's budget deficit (expenditures exceeding revenue) grew from 8% of GDP in FY 2009/10 to 12.3% in FY 2015/16. The Ministry of Finance also reports that in the past four years Egypt's debt-to-GDP ratio has increased from 85.1% at the end of FY 2013/14 to almost 105.9% at the end of FY 2016/17.

FIG 5. Expenditure FY 2015/16 Budget



Source: Ministry of Finance (2015/16), Mada (2016)

There are more sustainable approaches to revenue generation, which would reduce the budget deficit. For example, more progressive tax policies aimed at broadening the tax base could ensure mobilization of public resources to fund social investments, instead of the reliance on burdensome external debt.

References

1. Egyptian Initiative for Personal Rights (2018), Money Alone is not Enough: Tracking Impact of the Monetary Subsidy Support Programs on the Poor in Egypt. At: https://eipr.org/sites/default/files/reports/pdf/cash_subsidies-egy.pdf
2. Committee on Economic, Social and Cultural Rights (2013), Concluding Observations on the combined second to fourth periodic reports of Egypt. At: <https://is.gd/MFsYSx>. See also, OHCHR (2012), UN Guiding Principles on Extreme Poverty and Human Rights. At: 1
3. EIPR (2017), Where Does Our Money Go This Year, from the 2017/2018 Budget (Arabic only). At: <https://bit.ly/2GM1sEs>

What are the Egypt Social Progress Indicators?

ESPI is an innovative metric offering a unique set of multidimensional, action-oriented indicators. It uses a four-color scale to measure progress on socioeconomic wellbeing in Egypt across six topics:

- economic policy
- labor
- urbanization
- food, water, and agricultural land
- education
- health

ESPI incorporates a gender analysis across all topics. ESPI goes beyond traditional economic indicators used by international financial institutions and other economic actors to measure the health of the Egyptian economy and to provide a holistic assessment of the status of socioeconomic wellbeing for average Egyptians.

How were the Egypt Social Progress Indicators Developed?

The idea for ESPI was born in 2015, when a number of academic researchers, independent field experts, and civil society groups started to explore the idea of creating a data-driven, interdisciplinary, and “homegrown” metric that translates recommendations from UN mechanisms into clear, measurable, and actionable indicators; tracks national implementation of SDG targets; and takes into account Egypt’s position as a Lower Middle Income Country.

ESPI was conceptualized and designed, through a multi-year collaborative process, by the Center for Economic and Social Rights, the Social Justice Platform, the Egyptian Initiative for Personal Rights, the Egyptian Center for Economic and Social Rights, Aspiration Tech, and Backspace. Research and analysis for the indicators was conducted by numerous independent researchers and field experts.

Methodology

Fundamental to the uniqueness of ESPI is its methodology, which was designed through a collective process, ensuring its relevance to the daily reality of everyday people.

Indicator selection

ESPI aims to be action-oriented. For that reason, it measures both:

- **outcomes** of socioeconomic wellbeing; and
- the **drivers** of those outcomes, which include legal, policy, financial, human resource, and institutional inputs and outputs.

To achieve a balance in the indicators selected, ESPI is also guided by the OPERA framework developed by the Center for Economic and Social Rights, which centers on four levels of analysis: Outcomes, Policy Efforts, Resources, and Assessment. Within this framework, a mix of quantitative and qualitative, as well as fact-based and perception-based, indicators ensure that ESPI provides a holistic picture of social progress. Potential indicators were subjected to extensive internal review and external consultation with experts and stakeholders.

Benchmarking and scaling

ESPI uses a four-color scale to measure Egypt’s progress on a specific indicator:



The methodology for constructing the scales varied, necessarily, between quantitative and qualitative indicators. Sources of benchmarks included Egypt’s own development targets, including those articulated in Vision 2030; international commitments, such as the SDGs; and recommendations and guidelines from international bodies. On the website, each indicator is accompanied by a detailed description of the scale and how it was developed.

Data was gathered largely from two sources: socioeconomic and administrative data produced by the Egyptian government and relevant international bodies for quantitative indicators, and objective, credible, and well-sourced expert analysis conducted by independent researchers for qualitative indicators. The combination of these sources ensures that ESPI is rigorous and reveals new insights about social progress.

All indicators – both quantitative and qualitative – are accompanied by comprehensive commentary that contextualizes and explains the data, making ESPI one of the most in-depth metrics of its kind.



EGYPT SOCIAL PROGRESS INDICATORS

Measuring progress towards improving wellbeing in Egypt

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