وزارة التخطيط والتنمية الاقتصادية
MINISTRY OF PLANNING AND ECONOMIC DEVELOPMENT

Towards an Evidence-Based

Integrated National Financing Strategy

The Arab Republic of Egypt

Blueprint for Sustainable, Resilient & Transformational Inclusive Growth-led SDG-Centric Financing

All rights reserved. Copyright 2024.

**“Addressing financing challenges requires an evidence-based approach,
supported by effective national and international institutions,
along with well-coordinated public policies, with frequent monitoring and evaluation
to achieve the public good sought in the Sustainable Development Goals.”**

| On the occasion of the release of the United Nations Report on Financing Sustainable Development for the year 2024 |

H.E. Ms. Hala El-Said

Minister of Planning and Economic Development
Arab Republic of Egypt

“The challenges of financing development are immense, but the potential for positive change is equally substantial. It is our collective responsibility to bridge the financing gap, support climate action, and empower developing countries to achieve sustainable and inclusive development. By working together and implementing just financing principles, we can make significant strides towards a more equitable and resilient world for all.”

| High-Level Dialogue on Financing for Development at the United Nations 78th General Assembly (Sep 2023) |

H.E. Ms. Rania Al-Mashat

Minister of International Cooperation

“We are leading efforts to create financing road maps to guide public agencies in investing in high-impact national priorities. Our intelligent policy simulation tools help member States optimize public investment, and enhance budget efficiency and credibility.

To that end, ESCWA will continue to support member States as they prepare for the Fourth International Conference on Financing for Development, ensuring that Arab priorities in domestic resource mobilization, equitable taxation, sustainable debt and combating illicit financial flows are represented.”

| High-level Political Forum on Sustainable Development at the United Nations (July 2024) |

H.E. Ms. Rola Dashti

Under-Secretary-General and Executive Secretary
of the Economic and Social Commission for Western Asia (ESCWA)

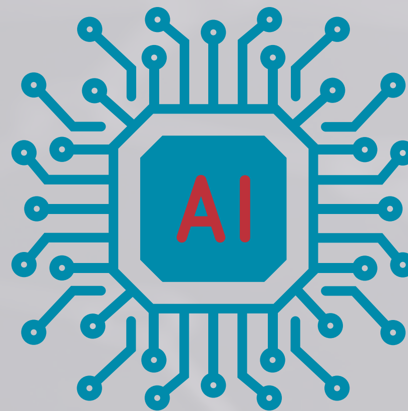
Introduction

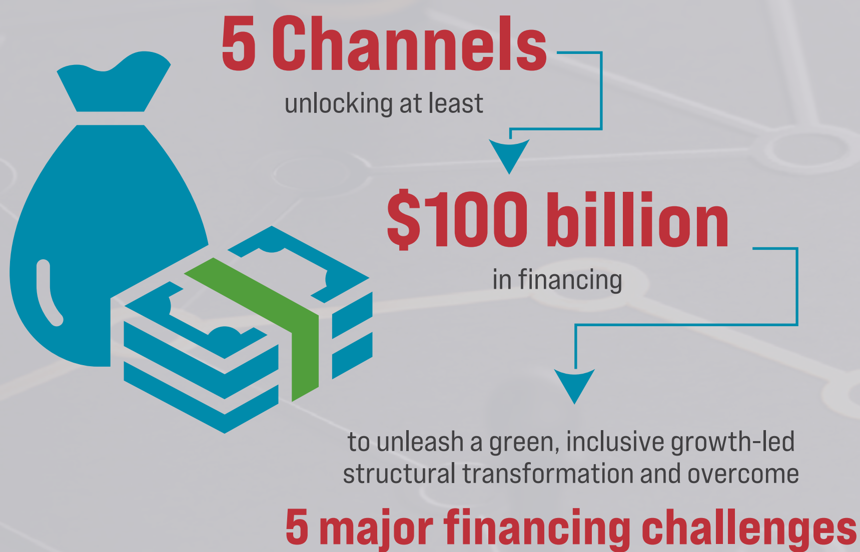
Towards an Evidence-Based Integrated National Financing Strategy

A collaborative effort between the United Nations Economic Commission for Western Asia and the Arab Republic of Egypt (Ministry of Planning and Economic Development)

Drawn from

30 evidence-based and artificial intelligence-powered tools tailored to national contexts





5 Channels

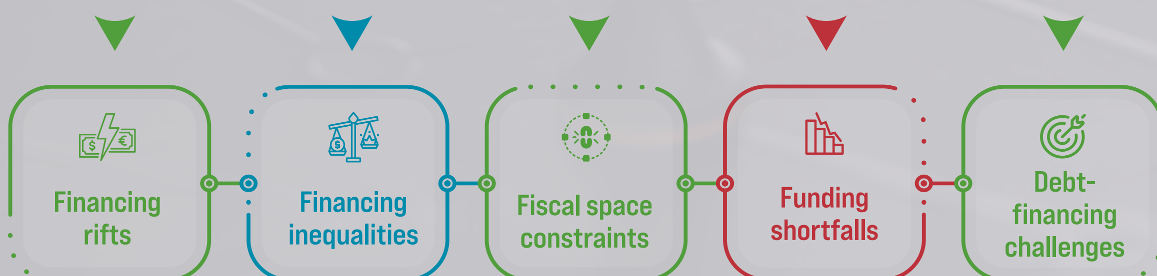
unlocking at least

$100 billion

in financing

to unleash a green, inclusive growth-led structural transformation and overcome

5 major financing challenges



The Price of Ambition

Egypt's 2030 sustainable development aspirations require*

$925 billion in additional financing

equivalent to

1.2%

of the global SDG cost

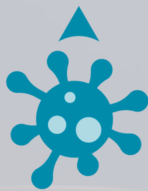
Out of which,

$270 billion

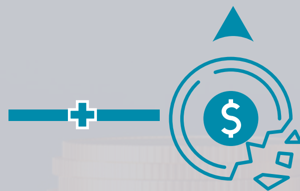
stems from unmet Millennium Development Goals

In just two years,

COVID-19



and the Ukraine conflict



added

$40 billion

to Egypt's SDG-financing needs

1/3 of Egypt's SDG-financing gap stems from SDG 8 (unemployment) and SDG 9 (manufacturing/structural change)

'Green and inclusive growth-led transformational financing'

can reshape conventional growth drivers, fostering a more equitable distribution of economic and financial gains.

Based on 2016 strategy

Sequencing Financing Decisions

SDG synergies outweigh trade-offs: 3 times

In other words, **sequenced financing decisions can yield**

$20 billion

in efficiency gains or SDG cost-savings for Egypt

Robust synergies are found between

SDGs 6, 3, 8, 9 and 11,

reflecting the government's priorities to expand housing and establish new cities, creating opportunities for employment.

6 SDGs

Catalytic goals that advance structural transformation with the highest socio-economic and environmental spillovers

SDG 7 (energy/renewables), SDG 6 (water efficiency/agriculture productivity), SDG 4 (education/innovation), SDG 8 (growth/employment), SDG 9 (manufacturing), and SDG 3 (health).

These six sectors can serve as catalysts for structural transformation.

Optimizing Impacts

Credible and Reliable Budgets

4,500 budget lines
330 impacts,
both direct and indirect, on SDG performance across 97 measurable indicators across the 17 SDGs

Budget lines with positive effects on SDG performance outnumber those with negative effects threefold, indicating Egypt's potential to achieve higher SDG progress based on its existing public spending.

A quarter
of Egypt's intertemporal budget allocations are prioritized

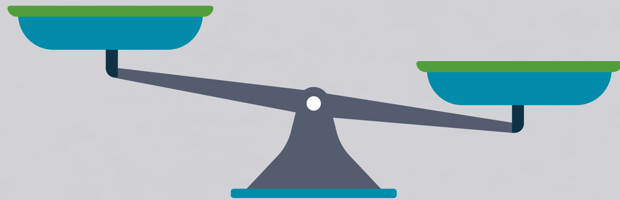
to support
'People'
(**18%** of GDP)

and promote
'Prosperity'
(**14%** of GDP)

BUT, Public expenditures that boost growth in per capita income (SDG 8) do not necessarily translate into higher real wages (SDG 10), pointing to sluggish transmission

Poverty-inequality paradox

"Other public expenditures"
category stimulate growth, but simultaneously contribute to
informality and inequality (SDG 10)



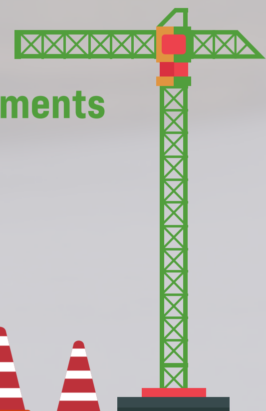
without bringing visible declines
in **poverty (SDG 1)**

Public investments in education yield
the highest socio-economic spillover

For every $1
spent on education
asset purchases

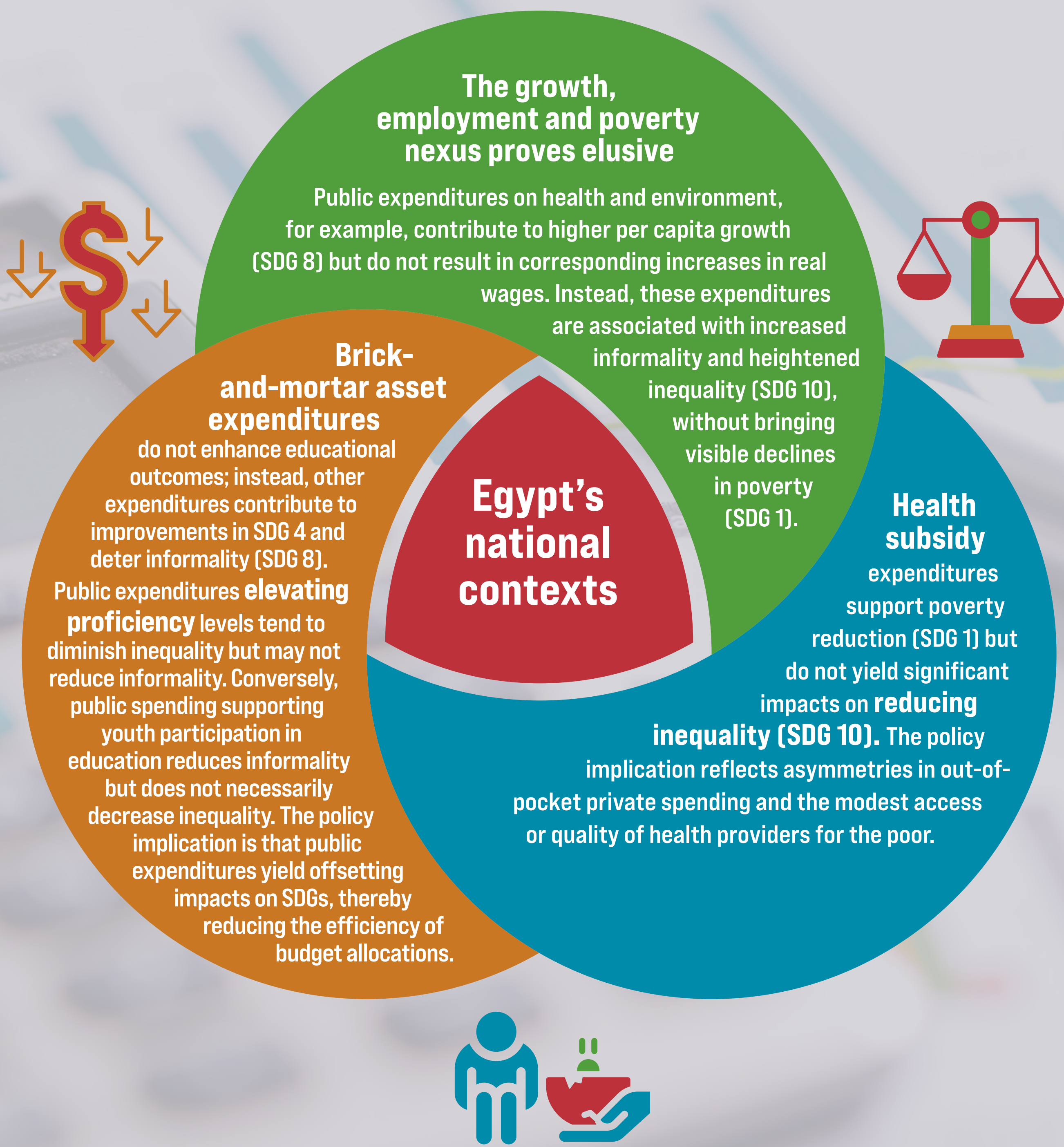
83¢
of indirect spillovers can be
accrued across other SDGs

Public expenditures supporting
SOEs (state-owned enterprises)
and manufacturing activity
surpass their optimal allocation, pointing to the
heavy public footprint
in manufacturing,
potentially crowding-out private capital investments



Almost **25 percent**

of Egypt's SDG-budget expenditures exhibit unique behaviors not captured in economic literature,

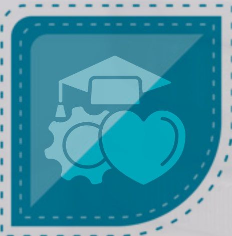


SDG-Budget Performance

Purchases of goods and assets most impactful expenditure **improving SDG outcomes** across all SDGs

Housing, health, and cultural sectors purchase of goods exhibit adverse effects on SDG 16.4, suggesting potential inefficiencies or distortions in public procurement

General public services wages drive progress on **13 SDGs**



Health and education subsidies drive progress on **14 SDGs**

Health expenditures have a direct impact on health outcomes. Accounting for both, Egypt is found to have allocated a total of **9.5 percent of GDP** to health in 2018/2019 exceeding the benchmark set by Egypt's Constitution.

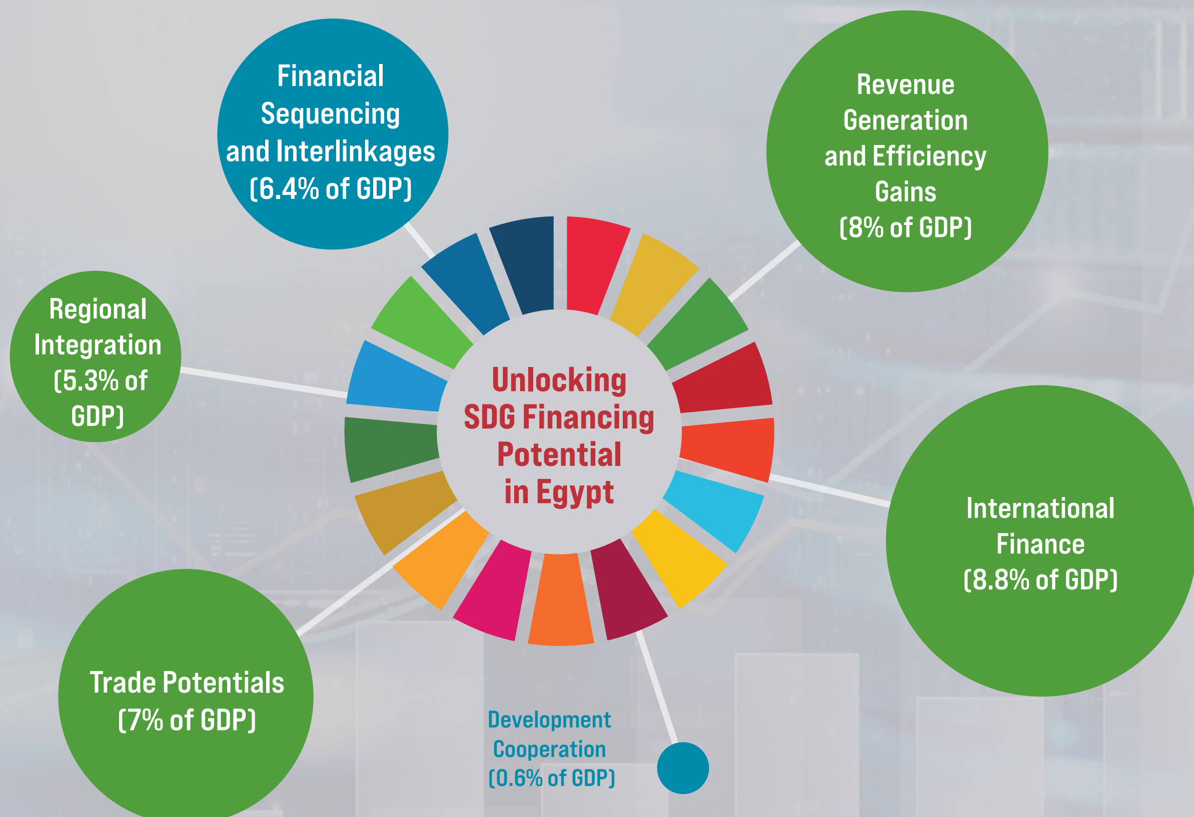
Education expenditures and other budget lines indirectly enhance education outcomes. The combined direct and indirect budget allocations for education amount to **6.6 percent of GDP,** exceeding the benchmark set by Egypt's Constitution by 0.6 percentage points.

Sustainable Financing Solutions and Potential Landing Zones

Egypt has the potential to amplify its SDG-financing capacity by **15 percent** for every **percentage point increase in GDP**.

Egypt has the potential to generate more than **$100 billion** in additional SDG financing through an integrated national financing strategy to mobilize (public, private, domestic, international, multilateral, plurilateral, traditional, and innovative sources):

- Domestic resources and public financial management, including potential revenue-generating tax streams and efficiency gains from public spending, budget optimization and execution **(8 per cent of GDP)**.
- Private business and international finance **(8.8 per cent of GDP)**.
- International development cooperation **(0.6 per cent of GDP)**.
- Trade as an engine for growth and financing **(7 per cent of GDP)**.
- Financing opportunities from deepening regional integration **(5.3 per cent of GDP)**.
- Systemic reform (sequencing financing decisions, transition to program-based SDG budgeting and harnessing SDG interlinkages - **6.4 per cent of GDP)**.



2024

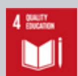
By 2030

Through a proposed **Integrated National Financing Strategy**, Egypt can achieve significant strides in attaining national SDG-targets, resulting in the following expected landing-zones:

SDG 1: Sustainably reduce **poverty** headcount by half benefiting **16 million people.**

SDG 2: Increase agricultural investments by **$20 billion** and eliminate the number of stunted children by **2.9 million**.

SDG 3: Reduce out-of-pocket health expenditures by **70 percent** and secure universal health coverage for **35 million**.



SDG 4: Sustain youth participation in secondary education, benefiting **1.5 million**.

SDG 6: Achieve universal access to water and sanitation, benefiting **35 million** inhabitants.

SDG 7: Achieve Egypt's goal of increasing the share of renewables in the electricity mix to **42 percent**.

SDG 8: Create descent productive employment for new market entrants capping unemployment at **5.7 percent.**

SDG 9: Raise innovation-led manufacturing value added output by **$40 billion**, resulting in a 12-rank improvement on the Global Innovation Index.

SDG 11: Eliminate slums and unsafe settlement and relocating slump inhabitants to the benefit of **6 million**.

SDG 17: Strengthen domestic public resources to reach **20 percent of GDP**, aligning with IMF benchmarks for Egypt. Additionally, boost foreign currency export earnings by **5 percent of GDP**, resulting in a **two-thirds** increase in exports toward Egypt's **$100 billion target**.

Evidence from an Integrated Financing Diagnostic

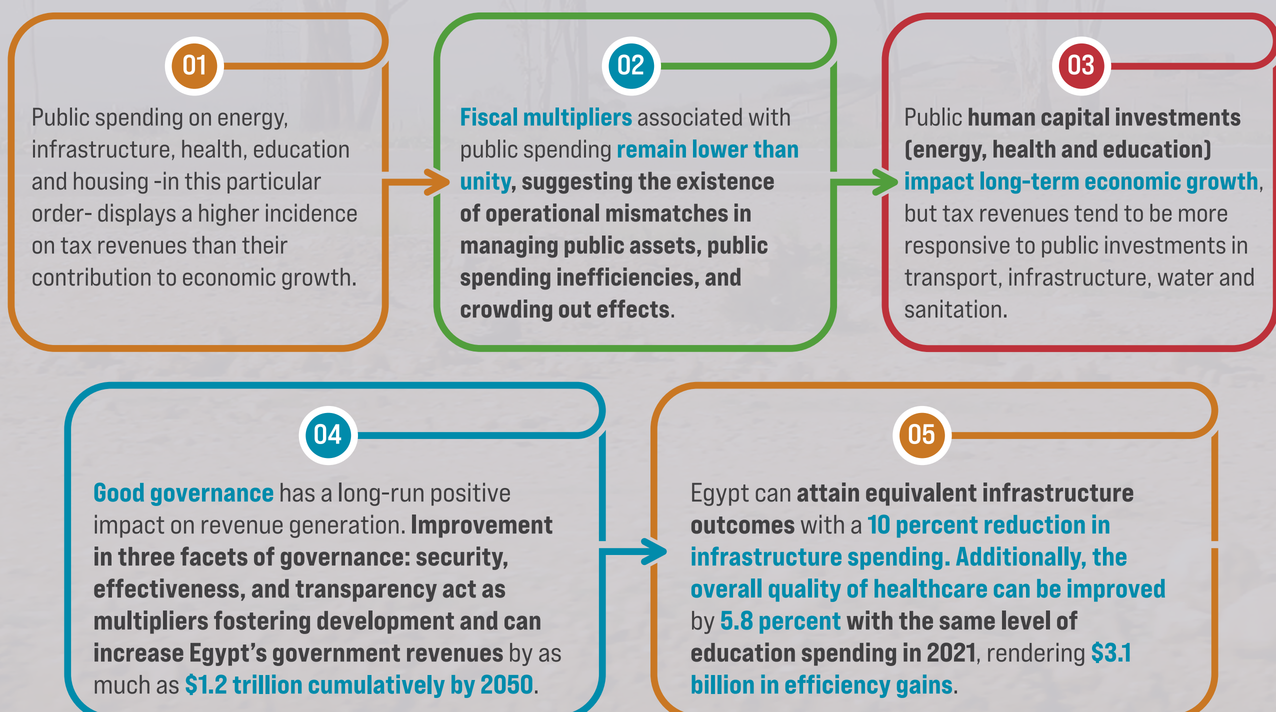
Blueprint for Sustainable, Resilient and Transformational Financing

Domestic Public Resources

Egypt needs to raise: **(i) public spending efficiency**, **(ii) tax revenue generation**, and **(iii) actively engage on the international front to root-out illicit outflows**.

Improving public spending efficiency:

Public investment efficiency, coupled with targeted social protection spending (along with improvements in their delivery channels) and domestic resource mobilization are three domains that merit integrated treatment. The following findings merit consideration to enhance public spending efficiency:



Enhancing tax-revenue generation:

Despite the robust growth, Egypt's tax revenues do not rise proportionally , reflecting challenges in tax collection, administration, compliance, and leakage. Stagnant GDP shares in agriculture and manufacturing, large services sector with high concentration of low value-added activities, and a significant informal economy contribute to this situation.

The sluggish response of taxes to growth points to several distortions associated with:

Tax progressivity: The unequal distribution of the tax burden, low focus on taxing certain aspects of wealth, difficulties in valuing property, inefficient tax revenue collection reflect some of the limitations of the tax system.

Tax collection: $5.6 billion in value-added tax revenues could be generated by improving tax compliance and rationalizing multiple and overlapping tax exemptions. Tax collection inefficiencies are associated with hard to tax sectors, professional services, excessive tax expenditures.

Tax administration: $254 million in public revenues can be expected from each one rank improvement on corruption perception standings.

Tax expenditures: Tax incentives amount to $400 million (10 percent of Egypt's corporate tax revenues in 2020).

Tax compliance: A moderate effort to reduce informality can generate an additional 37 percent of tax revenues (equivalent to $20 billion in 2021).

Tax abuse: $2 billion (16 percent of CIT revenues in 2021) are **lost due to multinational corporate tax abuse.**

Tax competition: Egypt's tax base shrunk by **7 percent over the past decade as a result of tax competition**. A one-point reduction in the CIT rates globally reduces Egypt's corporate tax base by 3.7 percent.

Tax havens: Firm-level data suggests that **3 out of ten corporates with foreign subsidiaries in Egypt have links to low-tax jurisdictions** -suggesting that corporates are channeling their profits to low-tax jurisdictions to limit their tax footprint. An estimated **7 percent of Egypt's corporate tax revenues is claimed to be lost due to profit shifting**.

Tax potentials: 20 percent of multinational corporations operating in Egypt pay less than a 15 percent effective tax rate on their reported profits in taxes.

Tax enforcement: More than **two-thirds** of **personal income tax revenues accrue from civil servants' payrolls with just 2 percent from taxing professional income**.

Domestic and International Private Finance

Domestic private investment remains stifled and public investments had to compensate for the shortfall to address inequalities and make-up for the less-than-ideal private sector performance.

1. Egypt's cross-border financing exposures exhibit high to medium volatility due to regional instability, de-risking and risk-intolerance under increased conditions of monetary tightening and capital mobility.

2. The **high contribution of capital to GDP does not seem to trigger a commensurate increase in the private sectors' contribution** to **Gross Fixed Capital Formation**.

3. Egypt's **banking assets-to-GDP ratio** reflects a heavy banking footprint in deficit financing as commercial banks hold 81 percent of treasury securities, only 5 percent of private enterprises can penetrate the banking sector and access credit to finance working capital.

4. A significant share of FDI inflows originate from corporates whose ultimate parent jurisdictions apply low CIT rates and/or exempt foreign income from taxes. According to the IMF, aggressive tax planning on the part of multinational corporation seems to be taking place to reduce their tax-footprint.

5. **Majority-owned foreign corporates operate in Egypt at the minimum scale that makes them profitable. In fact, between 2011-2019, for every dollar gained in FDI, 79¢ were repatriated with only 16¢ being reinvested on the dollar in Egypt.** This low reinvestment rate partially explains the slow pace in FDI stock accumulation (6.5 percent CAGR as opposed to 9 percent in developed economies), and is attributed to thin capitalization rules, untaxed passive income and the conditions that led to foreign tax credits being granted on worldwide income.

Egypt's FDI inflows are influenced by:

In fact, these factors are found to be affecting FDI decisions. A **1 percentage point improvement in institutional and regulatory quality** is associated with **28 percent increase** in FDI (as opposed to 22 percent on average for the region).

FDI are concentrated in high capital-intensive but low job-generating sectors and labor factor productivity, notably in real estate and extractive industries (coal, oil, and gas), which accounted for more than 50 percent of FDI to Egypt. It is too soon to assess the impact of the new incentives, "golden licenses" awarded to corporates operating in green hydrogen, electric cars, infrastructure, seawater desalination and renewable energy projects. The new incentives remain slanted towards capital intensive sectors and thin-capitalization rules merit reconsideration.

For every **million dollars of FDI**

only 1.7 jobs were created in Egypt, marking a level 25 percent less than the regional average.

Despite attracting a significant share of FDI in the Arab region (16.4 percent of the total), **Egypt's FDI inflows** result in fewer job creations than in peer countries as these investments are largely directed towards capital-intensive, rent-seeking sectors.

Egypt has the potential to **double its FDI intake** by 2025 to 3 percent of GDP, driven by efforts to improve the business environment.

Yet, Public-Private Partnerships (PPPs) constitute a modest 0.6 percent ($13.4 billion over 1990-2020) of all such investments received by low and middle-income economies ($2 trillion), despite Egypt's GDP (PPP) and population being three times that of other low and middle-income economies.

Since 2015, Egypt has developed a reliance on remittances. **Remittance inflows** are found to be positively influenced by political and macroeconomic stability in Egypt, as well as increases in international oil prices and devaluation of the exchange rate. **Had remittance transfer costs been reduced, Egypt could have mobilized an additional $3 billion in development finance between 2015-2020** (an annual average of $506 million). Further reductions in remittance transfer costs could generate $7 billion in financing between 2022-2030.

International Development Cooperation

1. The lost opportunity associated with unmet ODA commitments amounts to $11.4 billion (2015-2020). In other words, **if DAC countries fulfilled their ODA targets, Egypt could have witnessed an annual average increase in its ODA envelope** by **$1.8 billion**.

2. DAC-ODA pledges consistently exceed disbursements ($6.6 billion in pledges compared to $1.4 billion disbursements over the period 2015-2020). This may be attributed to mismatches between government projects requiring external finance and donor ODA planning cycles.

3. Almost **91 percent** of **ODA is concessional borrowing**, with **only 9 percent taking the form of grants**. This raises valid questions about whether ODA has been a contributing factor to debt build-up in recent years. **The grant elements in Egypt's loans decreased sharply from 24 percent in 2008 to a mere 1.4 percent by 2021**.

4. More in-donor refugee costs are being considered as ODA, while development assistance to support debt-related action (debt forgiveness, debt refinancing, debt restructuring) came to a near halt, removing a potential buffer for debt sustainability. Despite calls for debt relief to be in addition to ODA, under updated DAC rules, debt relief would partially count as ODA flows.

5. Elevated levels of tied aid remain a concern. **By 2018, 89.3 percent of ODA** to Egypt was **deemed untied** (an increase of 65 percent over the past decade). The continued practice of **"informal tying"** persists, with **60 percent of the value of reported bilateral ODA contracts are assigned to firms, contractors and consultants in donor countries**.

For every
$1 in ODA
received from non-DAC donors

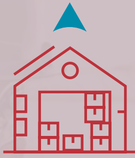
the Arab Coordination Group granted
$1.29
to other regions. This represents a missed opportunity to tap intra-regional development financing

Egypt climate action needs estimated at $249 billion by 2050. As it stands, only 6 percent of climate finance can be considered as additional ODA-DAC pledges. Climate related development assistance is not part of the UN target of allocating 0.7 percent of DAC countries' gross national income as ODA. **Thus, climate finance should remain additional to DAC-ODA commitments,** and accounted for in any cross-border climate-related carbon tax adjustments or carbon trading schemes.

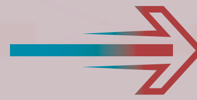
Trade as an Engine for Growth-Led SDG-Financing

Egypt's trade intensities reveal a high concentration of export markets, with 50 percent of merchandise exports going to just ten countries. Egypt is under-trading with 63 percent of export destinations.

In two decades, **Egypt expanded its export basket with 51 new products,** primarily in the high complexity category



However, these additions, have yet to significantly **boost** output or **increase Egypt's share in global trade** for these products.



Egypt's **Diversification Index** shows **marginal improvements** (standing at one percent lower than the Arab region's average)

Egypt's preferential tariff advantages runs **10 percent higher** than the global average, with the advantage being four times when exporting to developing markets. The policy implication is that Egypt may well benefit from a review of preferential ties, considering the erosion of its **trade preferences** due to trade liberalization by competitors and unilateral export subsidy measures enacted by major trading partners.

Egypt may contemplate leading the **Arab Common Economic Security Space (ACESS)** to protect the functionality of its extra-regional preferential trade arrangements while concurrently pursuing more extensive forms of **Arab integration**.

Egypt may consider unleashing its trade potentials by:

01 — Exploiting **untapped export potentials** estimated at **$24 billion**. Egypt's **merchandise exports grew** at a compounded annual rate of **9.7 percent** ($2.7 billion annually on average between 2016-2021). **At this pace, the country would require another decade to meet its export target of $100 billion.**

02 — Increasing export complexity: Egypt's low complexity exports, primarily resource-based and primary commodities (50 percent of total exports in 2021), leave room for expansion into higher complexity. Low-tech, labor-intensive manufacturing products account for 21 percent, presenting potential for increased complexity.

03 — Ensuring that trade integrity remains a key consideration. **Over the period 2009-2015**, an estimated **$9.4 billion** on average is said to have been **lost/ unaccounted for due to trade-misinvoicing or misdeclaration.**

04 — Avoiding over-reliance on exchange rate devaluation as a means to enhance export potential as the price effect is observed to be transient. In contrast, devaluation is found to increase the number of trade partners and the variety of traded products (extensive margin).

Debt Financing and Sustainability

Prior to COVID-19 and the Ukraine crisis, debt risks were subdued by the favorable interest rate growth differentials (IRGD) observed in both nominal and real terms. With interest paid on debt lower than the economic growth rate, the debt-to-GDP ratio stabilized. Egypt's IRGD played a significant role in explaining the downward trajectory of debt to growth between FY2017-2019, except following the devaluation of the Egyptian Pound.

1/3 of Egypt's increased **debt** burden was attributed to exchange **rate depreciation** in 2016/2017

On average, a **10% percent** depreciation in the Egyptian Pound is estimated to raise foreign debt service by 0.4 percentage points.

The shift from monetary to fiscal policy response underscores the importance of securing a primary balance surplus. This is attainable, given that Egypt's economy was projected to achieve a negative IRGD of **3.4 percent** over 2022-2027, aligning with the government's efforts to steer the debt-to-GDP ratio back on a downward trajectory.

On the other hand, **elevated interest rates negatively impact debt sustainability.** In this context, the debt-stabilizing balance (a stationary measure of government solvency) and fiscal reaction functions (the response of fiscal policy and the primary balance to lagged debt) weaken, leading to increased debt intake, escalating **debt service to the point that it became the single largest expenditure category in Egypt's budget since 2015/2016.**

Debt can neither grow nor be **rolled** over **indefinitely**. **Equally**, aggressive **short-term reductions** to the debt to GDP ratio are also not a preferred policy approach. The IMF's target of a 74.2 percent **debt-to-GDP ratio by 2022/2023** remains stringent given the prevailing macroeconomic conditions. Setting a similar target for 2030 would necessitate an average primary balance ratio in the range of **2** to **2.2 percent of GDP**, leading to **substantial fiscal adjustments**, **rationalization**, and **consolidation** with notable adverse effects on **fiscal space for social expenditure and SDG investments**.

Hence, Egypt's recent **Medium-Term Debt Management Strategy (MTDS)**

aims for a budget sector debt-to-GDP ratio of **80 percent by 2024/2025,**

a goal more in line with **ESCWA's debt projections** utilized in the **SDG-Financing Simulator**

Contrary to the indications in the literature regarding Egypt's claimed **'Twin-Deficit'** dilemma, the country demonstrates a unidirectional influence running from the current account to the **fiscal balance**. This leans support to a Ricardian Equivalence, where improvements in the former raise the probability of a **lower deficit** in the latter.

In other words, it is the **current account deficit** that prompt the government to **maintain its investments and consumption plans** through **debt accumulation**.

The key constraint on growth and SDG financing in Egypt remains the balance of payments. This means that beyond fiscal consolidation, implementing cross-sectoral strategies linking trade, industry, labor, finance, and transport is crucial. These strategies stimulate a sustained cross-border flow of financing, enhancing both current and capital accounts.

2302029E