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## Abbreviations and Acronyms

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<tr>
<td>CAPMAS</td>
<td>Central Agency for Public Mobilization and Statistics</td>
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<td>CBE</td>
<td>Central Bank of Egypt</td>
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<tr>
<td>CCT</td>
<td>Conditional Cash Transfers</td>
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<td>CIT</td>
<td>Corporate Income Tax</td>
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<td>COVID-19</td>
<td>Corona Virus Disease 2019</td>
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<td>ECE</td>
<td>Early Childhood Education</td>
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<td>EGP</td>
<td>Egyptian Pound</td>
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<td>EMIS</td>
<td>Education Management Information System</td>
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<td>EOS</td>
<td>End of Service</td>
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<td>ES</td>
<td>Executive Summary</td>
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<td>FIA</td>
<td>Fiscal Incidence Analysis</td>
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<td>GAHAR</td>
<td>General Authority for Healthcare Accreditation and Regulation</td>
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<td>GAHC</td>
<td>General Authority for Health Care</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>HIECS</td>
<td>Household Income, Expenditure and Consumption Survey</td>
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<td>HR</td>
<td>Human resources</td>
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<td>HTA</td>
<td>Health technology assessment</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>KG</td>
<td>Kindergarten</td>
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<tr>
<td>MENA</td>
<td>Middle East and North Africa</td>
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<tr>
<td>MIS</td>
<td>Management Information System</td>
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<tr>
<td>MOETE</td>
<td>Ministry of Education and Technical Education</td>
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<td>MOF</td>
<td>Ministry of Finance</td>
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<tr>
<td>MOHESR</td>
<td>Ministry of Higher Education &amp; Scientific Research</td>
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<tr>
<td>MOHP</td>
<td>Ministry of Health and Population</td>
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<td>MOSIT</td>
<td>Ministry of Supply and Internal Trade</td>
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<td>MRV</td>
<td>Most Recent Value</td>
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<td>NCD</td>
<td>Non-communicable Diseases</td>
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<td>NHA</td>
<td>National Health Account</td>
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<td>NOSI</td>
<td>National Organization of Social Insurance</td>
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<td>NSPO</td>
<td>National Service Projects Organization</td>
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<td>NUCA</td>
<td>New Urban Communities Authority</td>
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<td>OOP</td>
<td>Out-of-pocket</td>
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<td>PER</td>
<td>Public Expenditure Review</td>
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<td>PFM</td>
<td>Public Financial Management</td>
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<td>PHC</td>
<td>Primary Health Care</td>
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<td>PIT</td>
<td>Personal Income Tax</td>
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<td>PPP</td>
<td>Purchasing Power Parity</td>
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<td>PPP</td>
<td>Public–private partnership</td>
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<td>SA</td>
<td>Social Assistance</td>
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<td>SBA</td>
<td>Stand-By Arrangement (SBA)</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<td>SCR</td>
<td>Students-classroom Ratio</td>
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<td>SHMFF</td>
<td>Social Housing and Mortgage Financing Fund</td>
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<td>SP</td>
<td>Social Protection</td>
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<tr>
<td>STEM</td>
<td>Science, Technology, Engineering and Math</td>
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<tr>
<td>STR</td>
<td>Student-teacher Ratio</td>
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<tr>
<td>TKP</td>
<td>Takaful &amp; Karama Programs</td>
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<td>UHIA</td>
<td>Universal Health Insurance Agency</td>
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<td>UHIS</td>
<td>Universal Health Insurance System</td>
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<tr>
<td>UNR</td>
<td>Unified National Registry</td>
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<tr>
<td>UPA</td>
<td>Unified Procurement Agency</td>
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<tr>
<td>US</td>
<td>United States</td>
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<tr>
<td>VAT</td>
<td>Value Added Tax</td>
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<td>WB</td>
<td>World Bank</td>
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<tr>
<td>WDI</td>
<td>World Development Indicators</td>
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The Objective: Improving Social Outcomes, whilst Preserving Commitment to Fiscal Discipline

1. Fiscal consolidation reforms have been at the forefront of Egypt's efforts to stabilize the macroeconomic environment in recent years. Good progress has been achieved in addressing the root causes of fiscal pressure, including through reforms of energy subsidies and a containment of the public sector wage bill, leading to a primary surplus and a reduced overall fiscal deficit. On the revenues side, tax revenues remain modest despite important reforms and are lower than the necessary threshold to finance development spending requirements. The structure of tax revenues is also dominated by indirect taxation, while taxation of income remains weak. Moreover, a proliferation and duplication of taxes on visible activities on one hand, with the existence of multiple tax exemptions and incentives on the other hand, call for a review of the direction and philosophy of the tax system. Hence, efforts are still pursued to improve fiscal sustainability, build fiscal buffers, put public debt on a firm downward trajectory, and enable a reduction in interest payments, which remain the largest expenditure item consuming the space needed for productive spending.

2. While critical to macroeconomic stabilization, the fiscal reforms have had adverse implications, notably on low and middle-income population through higher inflation and reduced real incomes. Almost one in every three Egyptians is still living in poverty, but the multifaceted character of poverty goes well beyond material resources. The COVID-19 pandemic has exacerbated many of these challenges, with all social sectors coming under additional pressure. The resulting human capital impact is still unquantified but certain. Traditional measures have become insufficient to face the impact of the crisis on livelihoods, enhance living conditions, and reduce inequalities including in access to health or education, and countries will need to invest in recovery but also in prioritizing human capital.

3. With the intensification of fiscal pressures stemming from a challenging global context, Egypt is increasingly facing the double challenge of improving social outcomes whilst preserving its commitment to fiscal discipline. The COVID-19 crisis had already affected the health, education and socioeconomic conditions in the country, but continued global disruptions and their intensification with the Russia/Ukraine war are weighing heavily on Egypt's fiscal and external balances through its severe impact on travel, trade, investment, and commodity markets. This means that the challenge of improving social spending must be addressed in a context of competing priorities and trade-offs, both across areas/sectors of priorities and within those sectors, in order to achieve the highest social return. It also means that public policies and interventions need to consider the wider socioeconomic context.

4. The historical trend in public spending is one of low allocation to the social sectors, leading to poor investment in human capital and a dissatisfaction with public services. Spending on health, education and scientific research are low by international standards, and have been declining in real terms despite the country’s aspirations - as spelled-out in its Constitution - to reach adequate levels of spending on human development. This has severely impacted social services and outcomes. In education, shortages in teachers and classrooms are undermining the quality of learning environment in the pre-tertiary levels, while the increased enrollment in higher education is not met with adequate funding to sustain public universities and support research. On healthcare, the small and shrinking government spending on the sector has resulted in a high financial burden falling on households. Affordability is a barrier to access health services: out-of-pocket (OOP) payment by users exceeds 60 percent of health spending (among the highest globally), and a high proportion of the poor chose not to seek care because they are unable to bear the expenses. In public facilities, shortages of manpower, poor drug supply chain management, and drug stock-outs are compromising the quality of care.

5. At the same time, expenditure on other non-social sectors has gradually increased, driven by the large allocations to interest payments. Overall, non-social spending increased from 45 percent of total spending to around 66 percent between 2009-2020, while that of the combined social sector has declined by 20 percent, from 54 to 34 percent. The share of one sector, the General Public Services, has increased from 25
percent to 46 percent of total spending during the same period, of which interest payments constitute 85 percent in FY2020. As such, they crowd out important productive and social spending, and pose key risks to fiscal sustainability.

**Figure ES1. Public Expenditure by sector**

* (% of GDP)

**Figure ES2. Spending on social vs. non-social sectors**

* (% of total)

Notes: *Official actual spending by functional classification experience significant delays. As of Q3-FY2022, data for FY2021 are not publicly available. **Social sectors comprise spending on health, education, social protection and housing and public utilities. Source: Ministry of Finance

6. This Public Expenditure Review (PER) aims at informing government efforts to pursue its commitment to enhancing socioeconomic outcomes through more and better spending on human capital. To achieve this important objective, the Government of Egypt (GoE) aims at creating the fiscal space needed to increase growth-enhancing spending in a way that reflects positively on socioeconomic outcomes. This PER analyzes the adequacy, efficiency, and equity of public spending on the human development sectors. It examines options to create fiscal space by reducing inefficient and wasteful spending within this sector and increasing the impact of existing resources. From an equity perspective, the PER examines how public resources are distributed within the sector, and across income groups and/or geographical regions, and how system-wide reforms can reduce inequality in spending and outcomes. Drawing on a fiscal incidence analysis jointly carried out with the MOF, the distributional impact of potential fiscal measures and other policy changes is simulated to inform the reforms agenda.

7. The first part of the review (Volume I) presents the macro-fiscal context and its constraints. It also presents an analysis of the social protection system in place to mitigate the effects of the challenging macroeconomic environment. The analysis of social assistance programs covers the spending levels, design and implementation of the main programs, namely cash transfers, food subsidies, social housing, and school feeding. It also briefly touches upon other emerging productive inclusion and rural area development programs. By efficiently allocating benefits to poor households, the government can employ social assistance programs to directly reduce poverty, help build human capital and, protect against risks and shocks experienced along the life cycle. It also means it can do so at a lower cost, or use the same cost to provide more benefits or reach a wider coverage, instead of using public finances to deliver less efficient programs. As showcased by the COVID-19 crisis around the world, such shocks can easily send large shares of the population into poverty and erase years of progress; rendering increased pressure on social protection systems to reach and deliver support

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1 This objective is at the heart of the renewed social contract, which features as a key pillar in the World Bank Regional Strategy for MENA.
to those in need. Risks experienced in absence of strong and coherent protection programs could impoverish
the population further and compromise investments in human capital.

8. **With Egypt having one of the largest public pension systems in the MENA region, this review provides the first assessment of the 2019 pensions reform, its new policy parameters and their impact on the finances and social indicators.** The reform was very broad in scope, has improved fiscal sustainability, but at the expense of benefit adequacy in the long term, questioning the social sustainability of the new system. The objective of this analysis is to update fiscal projections (last conducted in 2018 prior to the reform), in light of the recent changes and to map priorities for future reforms.

9. **The second part of the review (Volume II) focuses on the most difficult challenges facing the core human development sectors, namely health, education and higher education.** For those sectors, each chapter is designed to provide an analysis covering the following:

(i) **An overview of the sector,** with the national priorities and recent reform initiatives to support them, the current outcomes and the most prominent financing, efficiency and equity challenges it faces. While public expenditure is the main focus of the analysis, the assessment is complemented by an analysis of the private sector contribution in the financing and provision of social programs.

(ii) **The adequacy of public expenditure on the sector,** which investigates the extent to which spending levels meet the actual needs, and how they compare with spending levels in peer countries. The analysis of the input mix within sectors (e.g., wages, goods and services, capital spending… etc.) is also undertaken to assess the extent to which it responds to the actual needs and promotes efficiency.

(iii) **The efficiency of public expenditure,** which assesses the extent to which resources are optimally used to achieve the best health outcomes. The concept of efficiency encompasses two dimensions: the allocative efficiency measures if inputs are optimally allocated between different needs, while technical efficiency measures the effectiveness with which a given set of inputs is used to produce an output.

(iv) **The equity of public expenditure,** which assesses the distribution of funds across socioeconomic status groups and provides insight into who benefits from expenditures. This can help identify segments of the population where additional spending would be most effective to improve overall social outcomes. Using micro-simulation, the distributional impact of potential fiscal reforms and other policy changes are also simulated, in some cases by assessing the distributional impact of various fiscal interventions scenarios.

10. **Ultimately, permanent reductions in poverty and welfare improvement will depend on job creation, which requires a vibrant private sector and the relevant skilled and healthy workforce.** Social protection programs may provide some insurance and give opportunities to build up human capital – or avoid its loss in times of shocks and crises - but they cannot function alone to sustainably lift people out of poverty. Rather, poverty reduction requires the right environment for a vibrant job-creating economy. This could be achieved with private sector-led growth and a well-defined role for the State as a policy maker and an investor in human capital through an effective, efficient and equitable spending on productivity-enhancing areas, notably on health and education.
The Wider Context: Constraining Macroeconomic Conditions and Overstretched Public Finances

Interest payments stand out as the single largest expenditure item, absorbing significant budget resources. SOEs and economic authorities are another source of pressure, triggered by imbalances in their financial position.

11. Fiscal consolidation reforms have been at the forefront of Egypt’s efforts to stabilize the macroeconomic environment, after years of economic and political turmoil. Important fiscal reforms were undertaken to ease the longstanding pressures on the budget, including from the untargeted and distortionary energy subsidies and the ballooning public sector wage bill, together with boosting public revenue. These reforms have helped reverse the chronic primary deficit into a surplus and brought down the overall budget deficit and government debt-to-GDP ratios. Together with monetary policy measures, energy sector and business environment reforms, they have contributed to an improvement in the overall macroeconomic environment and allowed the country to enter the severe global crisis caused by the COVID-19 pandemic with improved fiscal and external accounts.

12. Yet, public finances are still over-stretched, constraining the country’s ability to scale up spending on the social sectors and narrowing the scope for counter-cyclical fiscal policy. The overall fiscal deficit exceeds 7 percent of GDP, and the government debt-to-GDP ratio remains quite elevated at more than 92 percent. Moreover, contingent liabilities (estimated at 18.4 percent of GDP during FY2020) pose additional fiscal risks. Gross financing needs also remain high at an estimated 40 percent of GDP. Given the yields on government debt instruments - which are among the highest in emerging markets - and the elevated debt levels, interest payments stand out as the single largest expenditure item absorbing significant budget resources. In FY2021, they account for close to 9 percent of GDP, 36 percent of total expenditures, and 68 percent of tax revenues.

13. State-owned enterprises (SOEs) and Economic Authorities (EAs) are another source of pressure on public finances, emanating from chronic imbalances in their financial position. Latest available information from FY2019 shows that SOEs – at the aggregate level - had a negative net relationship with the Treasury, as the sum of transfers (subsidies, loans and contributions) they received was higher than the taxes and dividends paid to the Treasury. This was strongly influenced by a number of large SOEs. The negative burden of economic authorities is even higher, a third of which are incurring losses and another 10 percent are breaking-even. This constitutes an additional burden on the budget that eats from the fiscal space, suggesting a need to revisit the financial position of these entities, their pricing strategies, operating cost plans and
management of resources. The public finance rationale for these enterprises to be state-owned as opposed to privately owned and operated also deserve close attention.

14. Tax revenues are low and remain insufficient to meet the funding requirements of the social sectors. Tax revenue buoyancy has been negative for the majority of the period under consideration, possibly implying that tax revenues are not a close function of the domestic economy. Additionally, tax revenues are dominated by indirect taxation, and a proliferation of taxes on visible activities while taxation of income remains weak. VAT – the main indirect tax – has seen its efficiency and compliance declining and underperforming compared to peers. Despite some progress in collection made since its introduction in 2016, VAT is still hampered by the multiple rates and exemptions. Corporate income tax (CIT) also continues to be subject to multiple forms of exemptions, with an unknown amount of forgone revenues. In recent years, it has witnessed distinct trends between sovereign and non-sovereign sources, with the former experiencing a declining share notably from the CBE. Personal income tax (PIT) productivity has been low, reflecting the country’s low tax coverage and poor compliance, given the large informal sector (for example farmers and professionals including lawyers, doctors, private teachers...etc) and the absence of withholding for professional income.

15. Important recent reforms have strengthened enforcement and increased facilitation of the tax system; recent global trends however put greater emphasis on taxpayers’ trust in the fairness, equity, reciprocity, and accountability of the tax system. These are critical determinants of tax compliance. Egypt does not undertake taxpayers’ surveys to identify challenges related to enforcement, facilitation and trust in the tax system. The last available cross-country survey, however, suggests there are issues with several aspects of the tax framework, reflected in respondents’ perception and understanding of the system. For instance, on enforcement, only a minority thinks it is easy to avoid paying taxes. Yet, more than the third of respondent think it is wrong but understandable for people not to pay taxes they owe on their income. Moreover, more than a third have no or very little trust in the tax department, and another third think that tax officials are

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2 Tax buoyancy should normally be a positive number signaling a positive relationship between tax revenue and GDP. Measurement errors (e.g., of GDP) can also explain this unusual relationship.

3 VAT efficiency is measured as the ratio of actual VAT collections to the potential VAT revenues, which are derived from applying the standard VAT rate to GDP or total consumption. A VAT with no exemptions, a single rate, and full compliance should result in efficiency ratios of close to 1.

4 Tax productivity can be measured by how much revenue is collected at a given tax rate. Higher tax productivity allows authorities to collect more revenue with the same tax rates.
involved in corruption. Trust in the reciprocity of the tax system seems also to be weak, as 40 percent would oppose a decision to increase taxes or user fees even if to increase spending on public health care. These perceptions, while not recently updated, may indicate some structural challenges in the tax system.

16. Many of these macroeconomic challenges risk intensifying with the difficult global context, on which Egypt remains highly vulnerable. While the economic fallout from the Russian-Ukraine war is still unfolding and the outlook remains uncertain, the impact on inflation, fiscal and external accounts, commodity prices and international reserves are intensifying. Two major effects are already materializing and having wide socioeconomic implications. First, tighter global financing conditions have triggered large capital outflows, a drop in foreign exchange reserves and a currency depreciation of 18 percent. Second, as international commodity prices continue to soar, the price shock is passed on to domestic regulated prices notably for fuel products, and are adding fiscal pressure through the increased cost of its large bread/food subsidy program. Both channels are putting upward pressure on inflation, which had already been accelerating prior to the war. These external shocks are aggravating pre-existing structural problems facing the Egyptian economy, and will have a large socioeconomic impact especially for vulnerable groups.

Social Assistance: Accelerating Poverty Reduction through Adequate and Efficient Spending

The increased spending on cash transfers has been efficiently allocated, but many poor and eligible households do not receive cash assistance. Expanding coverage is more cost effective than raising benefit levels and should take priority.

17. Providing equal opportunities and continued poverty reduction are acknowledged as important goals for the GoE. The challenges are significant as poverty rates remain persistently high, whilst income and spatial disparities continue to be an enduring feature. Social assistance programs have evolved significantly in the last decade to help achieving these objectives, yet low spending, institutional complexities and administrative capacity are affecting the quality of spending on major social assistance programs. These challenges need to be addressed while paying attention to implementation issues and promoting both existing and newly launched programs that are efficient, effective and help build a more holistic social safety net.

18. Social assistance (SA) programs have evolved significantly in the last decade, notably with the introduction of conditional cash transfers. The conditional cash transfers programs Takaful & Karama (TKP), in particular, mark an important departure from previous policy as assistance is poverty targeted, and the use of conditions aims at addressing part of the human capital deficit faced by the poor. More recently, the GoE launched productive inclusion/economic empowerment programs (FORSA and Haya Karima, a comprehensive village level development), in order to maximize the direct impacts on poverty, inequality and household’s resilience to shocks. At the same time, existing major programs underwent several adjustments, notably the food subsidy system.

19. SA programs have garnered significant - though stagnating - budget allocations, yet several challenges remain in their design, implementation, and in the efficient and effective allocation of spending. Some programs still represent an amalgamation of historical entitlements that are tough to roll back despite their inefficiencies In FY2013, public expenditure on social protection was absorbing about one third of total government spending. A steep decline in spending occurred between FY2013 and FY2020, following the phasing out of energy subsidies. The large budget savings generated by this important reform however did not translate into real increases in spending on major SA programs, which remained stable at around 2.1 percent of GDP in FY2020.

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5 These include Takaful & Karama, food subsidies and school feeding.
20. The increased spending on cash transfers has been efficiently allocated to benefit the poor and vulnerable, but overall spending remains low. TKP and the social solidarity pension (Daman) were the primary cash transfer programs active in Egypt in the last few years, but Daman has now been merged with TKP. Despite the positive trend in spending, it has in real terms stabilized in recent years and remains low in international comparison (0.3 percent of GDP in FY2020). This is less than half of the global average (0.9 percent), and lower than the lower middle-income country average (0.9 percent) and the MENA average (0.42 percent) (Figure ES9). As documented by recent impact evaluation evidence from Egypt, cash transfers have proven effects in reducing poverty directly and promoting human capital accumulation for its beneficiaries helping to break the intergenerational cycle of poverty.

![Figure ES7. National SP and core SA program spending, FY2010-FY2020 in percent of GDP](image)

Source: MOF data and World Bank staff calculations

![Figure ES8. Evolution of spending on TKP and Daman](image)

Source: MOF

21. The analysis on the impact of Egyptian fiscal policy echoes impact evaluation evidence on the importance of using targeted cash transfers in reducing poverty. Depending on the set of taxes and transfers enacted under a fiscal policy regime, and their incidence across the population, countries can reduce poverty and inequality to different degrees. Poverty targeted SA programs in Egypt are far more progressive in terms of their incidence to the poorest households than untargeted subsidies (Figure ES11). Furthermore, Egypt’s main SA programs trigger a 6.5 percentage point reduction in poverty. These are partially outweighed
by taxation such that the net impact from overall fiscal policy is 6 percentage points. Set forth in Figure ES10, the effectiveness index (red dots) expresses poverty impacts over total spending allocated to each program. Indeed, whilst food subsidies have the highest impact on poverty reduction, they also attract the largest budget (1.4 percent of GDP) and have a lower effectiveness in reducing poverty than TKP. TKP yield lower impacts though these are achieved at much lower spending (0.3 percent of GDP). To attain a higher effectiveness in reducing poverty through SA, increased spending should be allocated toward targeted cash transfers that bear more impact at lower costs.

Figure ES10. Changes in poverty and effectiveness index in Egypt, decomposed by major SA programs

Figure ES11. Share of program / subsidy scheme spending in FY2020 across welfare distribution groupings

As many eligible households do not receive TKP, and benefit levels are lower than typical CCT programs – raising coverage first and later raising benefit levels can reduce poverty effectively and directly. Notwithstanding strong targeting performance, exclusion errors remain due to the limited size of the program. Whilst about 30 percent of Egyptian households are poor, the program covers just over 15 percent of the population, resulting in approximately half of the eligible poor not being included in the program. With regards to the amount of cash transfer, survey data show that benefits received (equivalent to about 12 percent of post-transfer welfare per month amongst the poorest 20 percent for Takaful, and 5 percent for Karama) are lower than the average global CCT transfer value of 15.6 percent. As shown by impact evaluation and fiscal incidence analysis, expansion of the program could help reduce exclusion errors, and raise poverty and human capital impact while raising the amounts for benefits can immediately bolster the program effectiveness, particularly in areas with higher poverty rates. Micro-simulations were developed to estimate poverty reduction effects from expansion and/or changes in TKP benefit level. Results indicate that it is more effective to first expand coverage to 5 million households (incurring about 1 percentage point reduction in poverty at a cost of EGP 9 billion). Thereafter, adjustments to the benefit level become more effective. Once benefit levels are adjusted upwards, expanding further will continue to yield poverty impacts whilst helping to further minimize exclusion errors amongst the poor.
The high level of coverage for bread subsidy and its low allocative efficiency is met with low adequacy. The system can be improved through stringent changes in coverage, adequacy and targeting.

23. The food subsidies program is the largest social assistance program; its high level of coverage and low allocative efficiency is however met with low adequacy. Absorbing 1.4 percent of GDP and more than 32 percent total SA spending in FY2020, these numbers are expected to increase in light of soaring global commodity and food prices, triggered by the COVID crisis and the Russian war on Ukraine. Additionally, its very large coverage (with 72 million individuals benefiting from subsidized bread and 64.4 million benefiting from food subsidies) is met with low adequacy, as the value of subsidy in both ration cards and bread subsidies is low. In the past, the benefit level was adjusted upward to maintain its value in light of food price inflation, averaging around 6 percent of median market income amongst the poorest 40 percent. As for the bread subsidies, it provides much lower adequacy about 1 percent.

24. Despite low adequacy, the program generates significant poverty impacts given its large coverage amongst the poor. However, this large impact on poverty reduction comes with higher costs and lower effectiveness than other social assistance schemes, and with substantial leakages to unintended income groups and other forms of leakages due to procurement, storage, transportation...etc. remain. Many efforts have been made to reduce the system’s leakage: by limiting its coverage amongst wealthier households using the Unified National Registry (UNR)⁶ and by introducing new eligibility criteria in 2022 for new applicants to the ration card program.

25. Higher adequacy and larger efficiency gains would necessitate more stringent changes in coverage, adequacy and the efficiency of targeting. The options for reforms include: (i) raising the adequacy of the food subsidies for the poor; (ii) adjusting the food voucher system; (iii) gradually moving from food vouchers to cash; and (iv) assessing the impacts of a general price increase of bread subsidies. Meanwhile, the GoE could consider (v) hedging against fluctuations in global wheat prices as an option to protect the budget and mitigate the risks associated with Egypt’s key food item.

![Figure ES12. Food subsidies coverage (%)](image)

**Source:** World Bank staff calculations from CAPMAS HIECS 2017/2018. 2017/2018 survey coverage inflated to 2021 coverage level.

![Figure ES13. Food subsidies adequacy amongst the poorest 40 percent, 2017/2018](image)


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⁶ The UNR is implemented by the Administrative Control Authority (ACA). To date, the UNR is linked with 52 databases covering, 25 million families/households, 115 million records covering civil administration, communication, education, taxation, pensions, electricity records and more.
Box ES1. Bread subsidy versus Conditional Cash Transfers (CCTs): a Targeting Dilemma?

The bread subsidy in Egypt is the largest social protection program in terms of coverage, measured by the number of beneficiaries. It is estimated that 66.7 million citizens benefit from the bread subsidy program in FY2021/22 budget, meaning that only one third of the total population is outside of the program’s coverage.

The CCTs (Takaful and Karama) programs cover 3.85 million households* (around 14 million individuals) as of December 2021, equivalent to 47 percent of the country’s poor population.

The simulations summarized in this box assess the potential efficiency and equity gains from shifting public resources to a more targeted program, Takaful & Karama. Two methods are utilized: a micro-simulation using HIECS household survey data within the Fiscal Incidence Analysis conducted jointly by the World Bank and the MoF and a macro-simulation of welfare loss/gain from broad reforms. The latter being done outside of the HIECS, does not include overall poverty impacts of price increases and mitigation measures. These, as well as other reform options for the broader food subsidy system and delivery system aspects, are discussed in more detail in the Social Assistance chapter and its annex (Volume I).

Micro-simulation. Under the same price increase scenarios as per the Macro simulation, an increase in the price of baladi bread beyond 5 piasters per loaf is estimated to increase poverty at consumable income by 0.4 (in case of doubling the price) and 0.6 (in case of tripling the price) percentage points. Under a tripling of the price of baladi bread, an expansion of the CCT by 1.5 million households (from the level of coverage in late 2021) was estimated to offset an overall increase in poverty and yield a net decrease in poverty of 0.1 percentage points. As the CCT does not yet cover all eligible poor households, not all of the existing poor would be protected. Another option could be to use the CCT database linked with the ration card database and either raise benefits proportionately for all poor, and ideally near-poor, households in the CCT database or to render those households exempt from paying a higher price.

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**Figure ES14. Coverage of main SA programs (%) 2017/2018**

**Figure ES15. SP and SA spending as percent of GDP, FY2020**


**Macro-simulation.** Another hypothetical basic scenario is developed, by assuming an increase in the price of subsidized bread/reduction of the amount of subsidy and utilizing the savings in (i) expanding the coverage of the CCTs to new beneficiaries and (ii) increasing the monthly cash transfer to the existing beneficiaries of the CCTs system.

The bread subsidy beneficiaries currently pay 5 piasters per loaf of subsidized bread (around 8 percent of its cost), and each is entitled to 5 loaves per day. The hypothetical scenario assumes a three-fold increase of the price of bread to 15 piasters per loaf (23 percent of total cost). This would generate an estimated budget savings of EGP 12.5 billion.* These savings will allow for:

- Expanding the coverage of CCT by an additional 4.8 million new beneficiaries (from the current 3.85 million households (HH)/14 million individuals to 5.2 HH/18.8 million individuals). This is equivalent to an expansion in coverage from 46.9 percent to 62.8 percent of the poor population.

- Increase the monthly cash transfer to the existing beneficiaries of the CCT system by EGP 20 per individual to compensate for the loss induced by higher bread prices.

Naturally, it is estimated that around 48 million individuals who are currently benefitting from subsidized bread (of which 75 percent are non-poor) will incur an extra of EGP 182.5/year (or USD 0.8 per month).

Notes:
* The coverage of TKP as of December 2021 is used as baseline for simulations presented in this report. The government of Egypt has cumulatively extended the coverage of Takaful and Karama programs since March 2022 as follows: (i) 450K additional households within a wider mitigation package amounting to EGP 130 billion announced in March 2022 to increase coverage to 4.1 million households (ii) 900K additional households were announced in July 2022 to increase coverage to 5 million households starting from September 2022. The expansion of the programs’ coverage aims at addressing the repercussions of current global economic challenges on the Egyptian citizens.

*** These calculations are expected to have changes with the increase in the global price of wheat and its implication on the cost of subsidy.

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**Figure B. ES. 1. A hypothetical scenario of channeling subsidies allocations to CCT**

<table>
<thead>
<tr>
<th>Net Gain in welfare of bread subsidy beneficiaries (EGP 9.1 billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.3 million households (approximately 4.8 million individuals suffering from poverty) could be added to the CCT system and receive a monthly transfer of EGP 580 per household</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loss in welfare of bread subsidy beneficiaries (EGP 8.7 billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.85 million households (approximately 14 million individuals suffering from poverty) will witness a monthly increase in their cash transfers of EGP 20 per individual (EGP 80 for 4-individuals household)</td>
</tr>
</tbody>
</table>

47.9 million individuals (of which at least 75 percent are above the poverty line) will incur additional annual cost of EGP 182.5 per individual (less than 1 dollar per month).

Net gain = total gain from CCT system (EGP 12.5 billion) minus total loss induced by increase in price of subsidized bread (EGP 3.4 billion).

Source: WB staff calculations based on MOF and MOSS data. More details about main assumptions and methodology can be found in Annex 2.2 of the Social Assistance Chapter (Volume I).
The social housing program needs to be reassessed in light of the large size of allocated public funds. The scale of indirect subsidies is substantial, but the absence of consolidated reporting hinders a proper assessment of the program performance.

26. The social housing program aspires to improve the affordability of housing to lower income households, with an initial objective to construct one million housing units over five years. The program has clear and transparent eligibility criteria based on which the housing units are allocated to beneficiaries. Currently targeting low and lower-middle income households, the income brackets are reviewed periodically to take into consideration changes in prices and in people’s standards of living. Administrative data indicate that the program is reaching its intended target group. As of December 2021, around 399,393 households have benefited from the program, of which 63.5 percent have a head of household below the age of 40. Female beneficiaries constitute around 22 percent of the total. While the affordable housing initiative is a nation-wide program covering all 27 governorates, the program is implemented with high geographic concentration, with about 80 percent located in/around the Greater Cairo area.

Source: SHMFF annual progress reports

27. Since its re-initiation in 2014, the program has grown significantly with higher budget spending and several elements of indirect subsidies. Budget spending on the program reached 0.4 percent of GDP in FY2020. Additionally, other indirect subsidies come from off-budget entities, notably from the New Urban Communities Authority (NUCA) through the provision of land free of charge, financing utilities infrastructure by and its contribution in the construction cost resulting from unexpected price increases. The Central Bank of Egypt (CBE) is another major player in the provision of social housing programs and has launched several mortgage finance initiatives. These initiatives are in their essence quasi-fiscal operations, which affect the overall public sector balance without immediately affecting the budget deficit as conventionally measured. They also blur the transparency of the total/true cost for public finances (taking into account the whole public sector) of the program, and may have significant implications for the State budget over the coming years.

28. The estimation of the total program cost and the assessment of its allocative efficiency are challenged by the absence of consolidated financial reporting. This review could not find such a consolidated assessment in any of the budget documents, which makes it difficult for policy makers to properly

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7 Some official announcements put that target as 1.5 million units.
8 The Social Housing and Mortgage Financing Fund law, Article 2. In some cases, local government may provide the necessary land in governorates, in coordination with NUCA.
assess the performance of the program. The indirect cost/subsidy of the program is substantial, although not captured through budget reporting.

29. **Significant variation in measures of occupancy rates and low demand for rental suggest that the largely subsidized scheme may create distorted demand for housing units, without necessarily reflecting a genuine need for the beneficiary.** The rental component – which was meant to serve applicants not eligible for mortgage financing given their income levels that fall below EGP 1,500 - did not take off sufficiently after six years of implementation, despite low rent value. Moreover, the variation in occupancy rates (measured as the number of units occupied/number of units sold) and the extent of occupancy violations (selling/renting/not occupying/changes the activity of the unit) signal some concerns with regards to using the housing units for the designated purpose. Hence, the large State support for the program risks being a driving element of existing demand, since the units may be used as a store of value or to possibly make capital gain if sold at market rate after a five years’ period, which is the time limitation set by the law.

Figure ES18. Institutional Mapping of the Social Housing Program

30. **Private sector participation in the affordable housing program is weak, which links to a wider debate on the role of the private sector in the economy and in sustainable job creation amid a competitive landscape.** While NUCA may still resort to contracting private companies, their participation as real estate developers in the affordable housing program is weak, possibly because of different conditions applied for land allocation. This implies a missed opportunity for mobilizing private capital, which could help creating fiscal space. Additionally, the private sector can contribute to efficiency gains in the development, construction, operations and maintenance for affordable housing through the use of technology, better management and construction practices, especially if the demand risk is eliminated through a strict sequencing of units’ allocation/construction as is now the case for the public sector construction. New PPP guidelines were approved in January 2020 to address the concerns of private developers. If properly implemented, this should release some fiscal burden for the government and create a level playing field between state-controlled and private developers.

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9 According to law 93 of 2018, all land allocated to social housing is provisioned free of charge to the SHMFF, which is not applicable to the private sector.
The school feeding program has high incidence among the poor students in public schools. The program could be more efficiently run by the private sector, while the government focuses on its regulatory role.

31. **Egypt has a longstanding school feeding program in place, providing important support to children attending public schools.** It is considered an essential pillar of Egyptian safety net programs, delivering daily fortified snacks/meals to school students with the objective of contributing to fighting malnutrition and food insecurity, incentivizing school enrollment and attendance, while also alleviating the financial burden on poor families by securing meals for their children. The program feeds all students in public and community schools, aged 4-12 years; coverage is currently estimated at 16.6 million students although the number is likely to increase if Al-Azhar schools are taken into account.

32. **The program has been expanding over the past few years to mitigate the impact of economic and subsidy reforms.** With a modest budget of 0.02 percent of GDP, the program is not poverty targeted but its incidence is higher among the poorer segments of the population (Figure ES19), suggesting some degree of self-selection. Yet, survey data indicate that many eligible students may not be making use of program benefits. At the same time, 60 percent of the school meals benefit students whose parents are in poorest 40 percent, while close to 40 percent of the benefits goes to the top six income deciles. As poverty rate is around 30 percent, data also show that coverage of school feeding is far below the poverty rate, with the largest gaps being in metropolitan areas.

![Figure ES19. School meals coverage 2017/2018](image1)

![Figure ES20. School feeding coverage and poverty rates by geographic region](image2)

Source: HIECS 2017/2018 & World Bank staff calculations

33. **Recently, there has been some policy development toward a more central management of the preparation of school meals.** The SILO Egypt for Food Industries in Sadat City was launched in 2021, operating under the National Service Projects Organization (NSPO)\(^{10}\). The project aims at promoting food security, including through the provision of school meals and enhancement in their health and safety standards. While this centralized system may be one option to avoid health and safety problems that occurred in the past, this concern could be more efficiently addressed by leaving the space for private sector companies to offer

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\(^{10}\) The NSPO is an entity affiliated to the Ministry of Defense. It was established in 1979 with the stated objectives of (1) creating productive entities in the fields of engineering, industrial, agricultural, animal production and poultry and food industries; (2) achieving self-sufficiency in some of the requirements necessary for the Armed Forces; (3) offering companies products in the domestic market at affordable prices; and 94) providing job opportunities to young people from different specializations.
quality products at reasonable prices if the government resorts to competitive bidding and focuses on its regulatory role instead of directly investing and intervening in a commercially viable sector that could attract private investments and, hence, avail fiscal space for other underfunded social programs.

34. **Recognizing that poverty and gaps in human capital outcomes cannot be addressed solely through cash transfers, Egypt’s approach to social assistance is becoming more holistic with the launch of several “Cash Plus” initiatives.** A range of social protection programs were recently launched, focusing on building sustainable livelihoods and promoting job creation. These initiatives include programs such as the re-initiation of public works programs under the wider “Decent Life” initiative (Haya Karima), a “Decent Housing Program” to provide flooring, roofing, water and gas connections to poor homes, an employability program “FORSA”, “Two is Enough Program” addressing reproductive health and “No Illiteracy with Takaful” targeting Takaful illiterate mothers (estimated at 64 percent). These are all public programs that have harnessed and leveraged the existing MOSS's TKP-management information system (MIS) containing 31 million people and linking directly with TKP.

A well-coordinated and effectively implemented Haya Karima program presents an opportunity to raise the welfare impact of social protection and fiscal policy. Regular monitoring and evaluation vis-à-vis program goals is key to ensure its success.

35. **Haya Karima is a large, multi-dimensional social and economic development program aiming at consolidating all the efforts to address multidimensional poverty and enable sustainable development in the governorates of Egypt.** Launched in 2021, the program will focus on villages within all 175 rural districts over three years, with the first phase covering the poorest 1,413 villages in 51 districts. The initiative focuses on many developmental challenges related to rural areas, including poverty, basic services (water & sanitation, education, solid waste, roads, irrigation & drainage, gas…etc), direct support to the poorest and vulnerable in selected villages and economic development opportunities to increase real incomes (large scale agricultural projects, credit provision to micro and small enterprises, as well as smaller artisanal, industrial or economic zones for local employment).

36. **Given its multi-faceted objectives, the institutional framework of the initiative is expected to be complex, as evidenced by the multitude of public entities involved.** The total allocated budget was not officially announced and has ranged between EGP 14 billion (0.2 percent of GDP) for the first year to 700 billion EGP (11 percent of 2021 GDP) over the entire project lifecycle.11 The initiative aims to create an integrated framework consolidating efforts among government institutions, the private sector, civil society and development partners. An Inter-ministerial committee is responsible for the oversight and coordination, chaired by the office of the Prime Minister and comprising nearly twenty ministries.

37. **FORSA is a pilot economic empowerment program that promotes productive inclusion through the provision of asset transfers and waged employment.** It aims at creating sustainable and productive livelihood opportunities to help beneficiaries graduate out of poverty, through skills development (life skills, employability skills, technical trainings), financial inclusion and savings. The publicly-designed, -run and -provided program is currently piloting in eight governorates, covering 50,000 households at a cost well below 0.01 percent of GDP, with plans to further scale up the program in both urban and rural areas.

38. **In all these social assistance systems and programs, integrated and digital information systems are key enablers.** Globally, social protection programs share common processes in the delivery chain, where they all follow a process of assessing potential eligibility and deciding on enrollment and benefit packages before the programs get implemented. Egypt has made important headway in that regard, especially in assessing

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11 Strategic documentation of the plan was not available at the time of the analysis.
potential eligibility through its digital payment systems, and with potential additional gains from the emerging unified national registry (UNR), if properly used. Given the common steps involved in the assessment stage, unifying this process yields important efficiency gains.

Pensions: Designing an Effective and Holistic System to Improve Adequacy and Coverage

The 2019 pension reform has improved fiscal sustainability, but at the expense of benefit adequacy in the long term, questioning the social sustainability of the new system.

39. **The national social insurance system is an important component of public expenditure, as state budget subsidies have represented a significant share of the public pension cost.** Expenditures of all the social insurance programs managed by the National Organization for Social Insurance (NOSI) constitute about 4 percent of GDP. They are financed through regular employer and employee contribution, significant transfers from the Treasury, returns on investment of financial reserves, and other small revenue sources.

40. **In 2019, a new Social Security and Pension bill was promulgated into the Law no. 148/2019, introducing major improvements in the sustainability, fairness, and incentives of the pensions system.** It has provided many positive contributions to strengthening institutions (merger of Funds, unification of schemes, establishing Investment Fund), clearing past liabilities between MOF and the NOSI through debt cancellation, introducing parametric adjustments (retirement age, indexation, valorization, minimum service, early retirement, etc.), systemic changes in the End of Service Indemnity Scheme, and a vision of coverage expansion (co-financing casual workers’ contributions by the Treasury).

41. **Notwithstanding the positive developments, policymakers are still facing complex challenges in adapting the pension system to the current and future economic, demographic, and social realities.** The country’s social insurance system needs to be able to effectively respond to changes in labor markets. Several challenges persist:

   (i) **Fiscal Sustainability/Adequacy:**

42. **The reform generated significant tilt towards fiscal sustainability at the expense of benefit adequacy in the long term, questioning social sustainability of the new system.** Under the status quo, the pensions expenditures decline significantly from over 4 percent to 3 percent of GDP (Figure ES21). The reduction in cost is mainly due to a combination of the parameters of indexation, valorization, and minimum pension, which generates very low protection in medium to long run. As such, the ratio of average pension to average wage is falling from ~70% to ~30% in the long run. Hence, there will be a critical need of revisiting parameters of the pension system at some point in the future, within the next ten years. For instance, alternative scenarios with benefit indexation of 50 percent wage and 50 percent inflation, known as a “Swiss formula” can secure the replacement rates of pensions within probably a more politically and socially acceptable range of 40 to 50 percent relative to the average insured wage (more in line with the ILO guidelines).
Figure ES21. Under Status Quo: Projected NOSI expenditures (% of GDP) and replacement rates (% of average wage)

Figure ES22. Under a 50/50 wage-inflation indexation: Projected NOSI expenditures (% of GDP) and replacement rates (% of average wage)

Source: WB fiscal simulations

(ii) Social Impact:

43. The population that benefits from the system is still disproportionately in the higher income category. There are over three times more households in the top quintiles compared to the bottom quintile that have at least one beneficiary of NOSI. This is not surprising as opportunities to participate in the system are significantly limited for the bottom quintile. It is also notable that not always participation in the system translates into a benefit. Figure ES23 implies that there could be significant gaps between contributing and benefiting households for most of the population. Assuming that contributory coverage remained stable or even slightly declined recently, this could indicate that significant numbers of individuals participating in the system never earn sufficient rights or are unable to claim them.

Figure ES23. NOSI Coverage by Quintiles

Source: HIECS, 2017-2018

44. Improvements in the benefit adequacy over the medium term will be erased and reversed in the longer term as all major parameters in the system are explicitly linked by Law to inflation with no consideration of growth in real incomes. This constitutes a major social risk in the current system. There are three parameters to consider: (i) valorization\(^\text{12}\), (ii) indexation, and (iii) minimum pension. Valorization could be the main candidate for the possible future policy adjustments to ensure benefit adequacy and ensure social

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\(^{12}\) Valorization is a mechanism that adjusts the value of historic individual wages to the point of individual pension benefit calculation. Typically, it uses some combination of historic wage growth and inflation.
sustainability. Additionally, a significant number of workers in the special schemes, as well as beneficiaries of widow and orphan pensions, receive their benefits at the rate of the minimum pension. Those in the private unorganized sector are less privileged compared to their peers employed by the Government or Public sector enterprises. For them, the minimum protection offered by the system may be quickly eroding.

(iii) Coverage:

45. **The contributory coverage remains high but is on a declining trend.** Egypt has historically boasted one of the highest contributory coverages of the working age population in the region - in part due to various special schemes. Yet, the coverage has declined in the recent years, partially as a result of the hiring freeze in the public sector, but also due to the dramatic contraction in the casual workers' pension scheme. Incentives to participate for the low-income workers remain low.

46. **Despite the large amounts of public resources dedicated to the pension system, coverage gaps remain.** The system covers about 28 percent of the Egyptian working age population or around 55 percent of all the employed. Coordination of efforts on coverage expansion between different ministries remains weak, short of consolidated vision.

(iv) Early retirement

47. **Some important changes took place in the system of early retirement.** Prior to reform, more than 40 percent of contributors who retired took early retirement, as the system favored early retirement rather than working up to the normal retirement age and pensions were not penalized appropriately. The new law introduced an expansion of the minimum required service for early retirement from 20 to 25 years and has set a minimum pension for qualified individuals at 50 percent of the insured wage. A new set of actuarial adjustment factors was also introduced by the law. Yet, the new rules are perceived by many as being too restrictive and are facing some pressure to undo the changes introduced by the law. If flexibility was to be introduced, there are mechanisms to largely neutralize budget implications. In doing so, it is important to avoid temptations of using early retirement as a mechanism of downsizing the public sector enterprises, in order to ensure fairness across different beneficiaries, so as to links people’s rights to their contribution to the economy. Other channels should be explored to right-size the public sector.

(v) Institutional and technological transformation of NOSI

48. **The system has for long remained administratively inefficient, but it is now undergoing a rapid institutional and technological transformation.** The effort is truly commendable but significant investments will be further required to bring the institution and its services to modern standards.

- NOSI is in a transition from “high staff/low technology” situation, to “reduced staff/high technology utilization” state. This journey may take several years as the new digital solutions gradually unfold, but it is not recommended to expand the number of staff significantly, unless temporarily to address various transition needs. More specifically, there is scope for rebalancing resources towards technology investments and training of staff. Such infrastructure investments require an earmarked source of funding.

- Reporting and monitoring systems of NOSI remain weak, which provides major impediment to effective management of the system or building trust among general public. Modern institutions have the reporting and data collection function automated, so the main set of reports is available to the management at a simplicity of pressing a button.

- The current NOSI initiative of modernizing its ICT systems should clearly incorporate an objective of developing a strong business intelligence (BI) and data analytics (DA) capabilities, including establishing a segregate data warehouse with a capacity to consolidate and analyze the data to inform better policies and more effective management.
Health and Education Spending: Adequacy, Efficiency and Equity Challenges

Spending on health and education is low; increased spending needs to happen along with many reforms to increase efficiency and equity of spending.

49. The concept of human capital encompasses the knowledge, skills, competencies, health and nutrition that people accumulate over their lives, enabling them to become productive actors in society. The COVID-19 crisis has shown that when one of these core sectors is severely affected, such shocks to human capital can paralyze the entire economy, deeply affect livelihoods through their impact on labor, goods, and services markets, and negatively impact overall human capital accumulation. Ensuring that institutions in charge of human capital development are delivering the necessary social outcomes would require an investment in their ability to deliver efficiently, equitably, in addition to be flexible and responsive to evolving needs. These should also strengthen their resilience to shocks, namely their ability to return to a stable state after disruption.

50. Egypt has made progress on improving basic health and education outcomes, as part of its goals to boost human capital. Over the past two decades and in line with global advancements, life expectancy increased from 67 to 73.9 years, under-5 mortality declined from 61.5 to 21.5 deaths per 1,000 live births, and significant improvements were achieved in child health outcomes, partially owing to high levels of vaccination. Access to education is near universal at the primary and preparatory levels, but a significant share of children does not enroll in pre-primary or secondary education, and the overall Net Enrollment Rate (NER) is 75 percent, an outcome of progressive policies towards universalizing education. Egypt has also achieved tremendous progress in expanding access to higher education over the last five decades, as the Gross Enrollment Ratio (GER) in tertiary education increased from 7 to 39 percent between 1972 and 2018. The increase in tertiary enrollment was particularly high among females, resulting in eliminating the gender gap in tertiary GER.

51. Notwithstanding this progress, large shortcomings remain and are manifested in poor learning and health outcomes. The Learning Poverty report estimates that 70 percent of students are not able to read and understand an age-appropriate text at age 10, and Egypt ranks in the bottom decile of countries based on the percentage of students reaching the low international benchmark for achievement in the Trends in International Mathematics and Science (TIMSS) scoring scale. Despite a large expansion in the last decade, Egypt underperforms most countries in the MENA region with respect to its research output when compared to its large population, despite higher spending on research and development as a percentage to GDP. Despite good achievements on basic health outcomes, malnutrition and stunting remain a big challenge. At 2.1 million, Egypt has the largest number of stunted children in the MENA region and the 12th largest stunted population in the world. Additionally, nutritional outcomes are poor, and have not improved substantially between 2000 and 2014. The major burden of disease shifted from communicable to non-communicable diseases (NCDs), and the health system has yet to adapt to this epidemiological transition. In 2019, NCDs accounted for 85.6 percent of all deaths in Egypt, higher than the proportion of deaths attributable to NCDs in MENA (78.5 percent), and substantially higher than the average for lower middle-income countries (64.1 percent) (Figure ES27). Almost one in three Egyptian citizens are at risk of dying prematurely (between the ages of 30 and 70 years) from one of the four main NCDs (cardiovascular disease, chronic obstructive pulmonary disease, diabetes, and cancer).

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Figure ES24. Percentage of Students Reaching the Low TIMSS Benchmark, 2019

Figure ES25. Number of citable documents per million population in 2020

Figure ES26. Expenditure on research and development (% of GDP)

Source: Trends in International Mathematics and Science Study (2019)


Source: UNESCO Institute for Statistics
52. Several cross-cutting challenges have been identified as negatively affecting the attainment of Egypt’s objectives for human development, and the related social outcomes in the health and education sectors.

(i) Spending on health and education is low, and nominal budget increases were insufficient to translate into higher real spending. This is apparent when considering the growing size of the population, its evolving needs and when benchmarked against the spending levels in peer countries. The GOE’s functional classification of human development sectors’ expenditures is not comprehensive – leaving out important sector expenditure due to their administrative affiliations, but also includes other unrelated spending items. The inclusion of such items is not in line with global practices. Regardless of the different accounting methods, it is indisputably the case that efforts exerted in recent years to increase spending allocations to priority sectors did not translate into higher real spending.

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14 Examples of these unconventional methods include adding drinking water and sanitation to health spending or interest payments to all sectors.
(ii) **Financial allocations are weakly responsive to meet the population growth, and to the gradual change in its dynamics and structure.** Rapid population growth is leading to high dependency ratios, diluting spending in per capita terms, and exerting significant pressure on the social welfare, health and education systems. It is also having implications on important metrics such as students-to-teacher (STR) and students-to-classrooms ratios (SCR), and the beds and physicians-to-population ratios, among others. At the same time, the population is aging, with the old-age dependency ratio expected to increase from current 16 percent to 20 percent in less than ten years, hereby posing additional challenges to the health system (and its ability to deal with non-communicable diseases), as well as for the pension system in the medium-to-long term. Simulations suggest that the heavy task of catching-up to the rising population and its different segments can be mitigated by progressive actions taken today and should be a central focus of policy measures.
(iii) **Spending on wages consumes the largest share of the sectors’ budget, yet salaries, pensions and transfers are low at the individual/household level.** Large spending on wages is a reflection of a large numbers of employees working with low salaries, while the overall number of schoolteachers and medical staff is insufficient. Wages absorb a large part of the education and health sectors expenditure (69 percent and 45 percent in FY2020, respectively), but this heavy spending on wages does not reflect in the same way on teachers’ and doctors’ pay. Low salaries have for long been a challenge to attract and retain the right skills, hereby also affecting motivation or forcing many to seek second jobs in private tutoring. Similarly, most healthcare jobs (physicians, nurses, and other health professionals) are low paid, with pay entirely disconnected from performance, resulting in a prevalence of dual practice with around 80 percent of medical doctors working in both the public and private sectors or seek work abroad. This is reflected in an acute shortage in schoolteachers, and a declining number of physicians.

(iv) **This results in considerable strain on resources, with while at the same time the country faces acute shortages in the number of teachers and classrooms and a declining number of physicians.** The shortage of teachers is officially estimated at over 320,000 teachers, and this shortage in public schools is likely to widen without urgent corrective action. To address this, teachers were hired on short-term/part-time contracts, and students were distributed across multiple shifts during the day. The prolonged use of these temporary measures however risks attracting less qualified and motivated teachers – especially with the low pay – who may then become a structural part of the education system. More recently in 2022, the GOE decided to allow for the recruitment of 30,000 per year – a total of 150,000 teachers over five years – while prioritizing early grades. While this is a step in the right direction, careful considerations should be given to (i) the quality of new hires; (ii) overall teachers preparedness and continuous professional development; and (iii) the status, motivation and overall teachers’ management. In the health sector, physicians tend to move to the private sector or immigrate overseas, triggering human resource loss in the public sector.

(v) **Put together, these important facts have affected the quality of public social services, which are consequently not fully utilized.** Investment in public infrastructure did not necessarily lead to improvements in public service quality. In the health sector for instance, low utilization may be due to quality concerns, and is captured through beds occupancy rate which has been below 50 percent since 2010, low utilization of primary care, and widespread disparities in service use across income groups and regions.
The gap has been filled in many sectors by private provision while in others, this role is still limited due to many factors including the relatively high cost. This is the case in higher education for instance, where public institutions continue to absorb the majority of students - a share that has been stable around 80 percent in the most recent years.

![Figure ES36. Bed occupancy rate in MoHP hospitals (%)](image1)

![Figure ES37. Share of tertiary enrollment by sector (%)](image2)

Source: WDI (2020), Data for Egypt is authors’ calculation based on MOHP Statistical Yearbook (2019).

(vi) Another direct consequence from the above is that out-of-pocket (OOP) spending plays a central role in access to services to cover for quality and access gaps. Over the past decade, the share of OOP remained above 60 percent of current health spending, resulting in a high financial burden on households. In education, private provision is rapidly increasing to cover access and quality gaps and the resource gap between public and private schools is growing. Moreover, private tutoring remains necessary - or perceived as such - for successful transition through the education system. Access to Kindergarten (KG) is limited to the few who can afford attending programs at a for-fee private provider, or those who are able to secure one of the few public spaces available. Although public higher education is free, households contribute a significant 58 percent of total household spending on education. The share of household spending on higher education varies significantly across consumption quintiles, with families from disadvantaged backgrounds enrolling their children in higher education at much lower rates than other families due mainly to financial constraints, low expectations of children, and negative perceptions about the benefits of higher education. Yet, there is little variability between income quintiles in terms of enrollment in public/private establishments (Figure ES40). This can be explained by the limited supply of private institutions in Egypt, especially private universities. Also, university enrollment in most instances is restricted by geographic location so choice is limited. Anecdotal evidence suggests that within university variation might be greater than cross-university variation, meaning that there might be larger socio-economic differences in enrollment by types of programs/faculties compared to enrollment across universities.
(vii) **Resources are not efficiently nor equitably distributed across types of services and geographic regions.** In education for instance, the distribution of STRs and SCRs differs considerably between levels of education and is most noticeable when comparing the primary and secondary levels. Similarly, the distribution of public hospitals and health workers across governorates is not fully aligned with their share of population. The sector also suffers from a human resources skill mismatch, under-staffing in remote and under-developed areas, and idle capacities in primary health care (PHC) and hospitals. Households with the least access to healthcare are in Upper Egypt governorates, which have higher poverty rates and lower per capita public spending on health.
Figure ES42. SCR Box Plots across Governorates and Education Levels, 2021

Source: WB staff calculations based on MOETE EMIS. Note: The end points of a box plot represent the range of observations and box lines represent the 25th, 50th and 75th percentile of observation

Figure ES43. Share of public hospitals beds and population across governorates, 2019 (percent)

Source: WB staff calculation based on MOHP Statistical Yearbook, 2019

Resource Allocation: System-wide Obstacles to Evidence-Based Budgeting

The weak association of budgeting with defined metrics undermines an efficient and equitable allocation of resources. The separate budget process for capital and recurrent spending results in idle capacity and shortages in service provision.

53. Assessing the link between budgeting/funding and desired outcomes is faced with a number of obstacles that undermine the informed and evidence-based budgeting, and the efficient allocation of resources. These cross-cutting factors are summarized below.

(i) The lack of integrated financial, input and output data. A mapping of administrative (compiled by the line ministries) and financial data on the sector (compiled by the finance ministry) does not exist, which does not allow for a detailed identification of expenditure by type of spending. Integrated data would allow both MOF and sector ministries to track social outcomes against financial inputs at the national and subnational levels, and thus would provide a platform for designing effective policy. Similarly, the institutional mapping of some social programs (social housing for instance) indicate that their cost may be spread across many entities including off-budget ones. The absence of consolidated financial reporting hinders policy makers’ ability to properly assess their performance and make appropriate funding decisions.

(ii) The historical approach in budgeting and the weak association with defined metrics. Annual budgets are strongly influenced by actual spending over the previous three years, and thus result in allocations that are primarily determined by previous allocations, notably to non-discretionary items such as public wages. Formula-based funding is not integrated in the budgeting process, and the lack of clear and transparent criteria for regional and sub-sectoral budget allocations does not allow to systematically capture the evolving needs and priorities.

(iii) The separation of budget processes for capital and recurrent spending. Budgeting for capital and recurrent spending fall under the responsibility of two different ministries. This institutional setup affects the proper synchronization of capital budgeting decisions with their recurrent spending implications. In many cases, they can result in infrastructure spending that is not met with the necessary allocation for workers’ salaries or, more likely, for maintenance and operations spending. In the healthcare sector, this is
often translated into idle capacity where new primary health care units, hospitals and modern equipment are not fully functional because of shortages in medical staff or medical supplies. In higher education, substantial increase in capital spending – which was driven by large investments in establishing new technological and national non-profit universities – was happening at the same time of a decline in real spending per student over the last five years.

(iv) **High level of centralization, with limited financial and institutional flexibility.** Public spending is highly centralized, leaving local directorates with little fiscal space and decision-making authority to focus on regional needs and priorities. Their funding is also largely dominated by recurrent spending, especially on wages (close to 70 percent and 45 percent of total spending for education and health, respectively), while their control over capital spending is limited. They have a limited capacity to generate own-source revenue and have little-to-no authority over the utilization of the modest financial resources that are locally generated. On the institutional side, a strict governance structure limits the ability to respond to rapid changes. In higher education for instance, the ministry has a far-reaching authority including in faculty appointments, program offerings and curricula, institutional accreditation, and student admissions, which limits the ability of institutions to respond effectively to the fast-moving labor market needs. This leads to weak linkages between the government’s strategic vision and national and regional development plans. It also separates development plans from actual public budgets, which undermines the ability of public authorities to address local community needs.

### Aligning Public Expenditures with Broader Development Objectives

#### A. Cross-Cutting Fiscal and PFM Reforms

Government spending needs to purposely support equity in access to quality services, where the poor, the vulnerable population and the disadvantaged regions are sufficiently supported.

54. **The nature of the challenges identified in this review suggest that the heavy task of catching-up to the development goals can be achieved through progressive actions taken today and should be a central focus of policy measures.** The high poverty rates and the large needs for social assistance, the rising population and its different segments, the high financial burden on households from OOP and the different shocks to human capital from the COVID-19 pandemic can all be mitigated by progressive actions taken today. Beyond mitigation measures however, decent private sector jobs are what can lift the population out of poverty and help the economy sustainably grow.

55. **On the financing side, all human development sectors will need an increase in government spending to undertake transformative changes,** reach their development goals with human capital at their core, and be on par with other countries of similar economic potential. This policy recommendation is formulated to be viewed from a holistic perspective and implemented in conjunction with the following changes that need to take place at the same time to ensure that additional funds are spent efficiently and effectively.

(i) **Budget planning needs to be linked to clear criteria, and to service delivery targets and outcomes.** Transitioning the budget process towards formula-based funding would support the efficient use of additional funding. This can be first done through a pilot program to allow for a sequential process towards reform, provide policymakers with sufficient time to build support for the formula-based funding among key stakeholders, and identify any implementation bottlenecks that might hinder the new mechanisms. The shift from a line-item budgeting to a formula-based one will however require introducing changes to the current legal environment, and necessitates a close coordination between MOF and the line ministries.
(ii) **The transition towards formula-based funding should be accompanied by additional measures to support efficiency gains.** While the formula will determine aggregate expenditure limits, it is important that decisions on the mix of inputs are informed by the needs of local service providers. One element is to localize responsibility for certain expenditures. Several functions do not need to be concentrated with a central government, particularly those around simple maintenance and petty cash expenditures. A second is to ensure that where expenditure decisions remain centralized these decisions are informed by an assessment of local needs. In both cases the aim is to ensure that the management of expenditure decisions is organized to encourage the most efficient use of resources while maintaining control and coordination.

(iii) **Government spending needs to purposely support equity in access to quality services, where the poor, the vulnerable population and the disadvantaged regions are sufficiently supported.** In both health and education, introduce incentives to serve in rural areas and upper Egypt can help solving the issue of under-supply of resources, together with career development programs. In scaling up some of the social assistance programs, these can be first piloted in disadvantaged regions where poverty and unemployment are more prevalent.

(iv) **Explore innovative sources to expand revenue generating streams and cost-sharing arrangements.** In addition to alleviating the burden on the national budget, these can promote a more efficient provision of public goods and services including improvements in the allocative efficiency, allow for more effective and inclusive decision-making and increase responsiveness and accountability to the served population. The decentralization of responsibility described above can support this change. In higher education for instance, matching funds, competitive grants, and student loans are viable options to be considered. In early childhood education where access and quality increases are believed to generate strong future outcomes, the private sector can play a key role in universalizing access to KG.

56. **On the sectoral side, spending increases need to be undertaken alongside major sectoral system-wide reforms, with significant attention given to efficiency gains.**

(i) **Important investment is needed to build up institutional capacity at implementing agencies,** enable their ability to properly cost the reforms requirements, including through Medium Term Expenditure Frameworks prepared jointly with MOF, strengthen monitoring and evaluation (M&E) mechanisms to assess progress and performance, and to generate lessons and learning to inform mid-term adjustment and future reforms.

(ii) **Strong data collection and performance monitoring mechanism should be established as a powerful tool to inform policy directions, together with building capacity for policy analysis and evaluation.** Other information collection channels can also support the same objective, including users and beneficiaries’ surveys. For example, surveys on taxpayers’ experience in paying taxes, on the quality of healthcare services received, on beneficiaries’ preferences between the existing voucher system versus receiving direct cash transfers, or trace studies on the employability of graduates, are all significant examples of the usefulness of these tools to inform decisions.

(iii) **Workforce plans need to be constantly updated to address the growing population needs and incentivize staff performance.** Well-designed mechanisms to improve workers compensation are needed, to enable the sectors to attract and retain the needed qualified human resources. Desirably this would be linked to systems that identify and reward performance. This has been constraining the service delivery and quality despite the investments undertaken to improve infrastructure. More thinking needs to be put in the design of such a compensation framework, building on other countries experience.
B. Sector-Specific Recommendations: The Way Forward

B.1. Social Assistance

57. Several recommendations and options for reform emerged from the analysis of the existing social assistance landscape. Chief of them is the importance of raising the scope of the social registry to more accurately capture both the poor and the vulnerable in Egypt, and to enhance efficiency through improved targeting and promoting higher value of benefits for the poor and vulnerable. For other programs, notably for social housing, it will be important to have an accurate assessment of the overall program costs, including indirect spending and subsidies, and to reassess the efficiency of the program to reach its desirable outcomes in light of the size of allocated public funds. Within this context, a summary of reform priorities emerging from the analysis is given below.

(i) **Expand targeted cash transfers to cover all eligible poor households.** This expansion would comprise 0.4 percent of GDP, above FY2021’s budgeted level of 0.3 percent. The value of transfers could also be raised for higher impacts on poverty. To estimate how increased spending could affect poverty, at what costs, and which approaches are most efficient at different places in a policy reform trajectory, several scenarios in adjusting TKP are explored (see Volume I for details).

(ii) **Higher adequacy and larger efficiency gains in food subsidies would necessitate stringent changes in coverage, and in targeting.** The options for reforms include:

   (1) **Raising the adequacy of the food subsidies for the poor** by moving the value of the subsidy from 7 percent of market income to 16 percent. The fiscal incidence model shows that poverty could be reduced by 60 percent more with no additional fiscal burden on the budget if this is accompanied by keeping benefits constant for the middle class and lowering them for the upper class.

   (2) **Adjusting the food voucher system to improve its technical efficiency** through a strong monitoring system, thorough costing and linkages to nutrition. In addition, it could consider some relevant aspects of international experiences in designing food assistance programs such as the annual re-assessment of eligibility following a mixed-methods approach; adjustments to the benefit structure and value based on geographic, socio-economic or demographic features; and regular beneficiary and shop owner focused M&E and grievance redressal mechanisms.

   (3) **Gradually moving from food vouchers to cash for a more efficient use of public resources, a more cost-efficient implementation, and a positive impact on diet quality.** This shift can only happen gradually, and through piloting – where beneficiaries could be given the choice – to allow for the assessment of key consideration when moving to cash, including food inflation and potential indexation, as well as market dynamics and potential market distortions.

   (4) **Assessing the options to partially shield the budget from the impact of higher global wheat prices.** If a general price increase of subsidized bread is to be considered, the impact on poverty needs to be carefully assessed and mitigated. Meanwhile, notwithstanding potential drawbacks, the GoE could consider hedging against fluctuations in global wheat prices to mitigate the risks associated with Egypt’s key food item. Hedging, however, entails potential risks as sovereign hedges for commodities can be very expensive for large deals, and significant price fluctuations may result in large gains but also large losses.

(iii) **Measure the overall cost of the Social Housing program to reach a comprehensive assessment of its efficiency in reaching its desired outcomes considering the large volume of allocated public funds.** Channeling all types of subsidies through the State budget would facilitate cost monitoring, reflect the real value of subsidy, assess the value for money, and ensure the most efficient use of public funds. This could be further facilitated through an increased clarity on the SHMFF financial position, notably through the adoption of the accrual basis of accounting where all the assets
(e.g., stock of unsold units) and liabilities (i.e., commercial bank loans) would be presented on the balance sheet, while ensuring continuing oversight and visibility of SHMFF transactions by MOF. The increased transparency is key in enabling policy makers to better assess the overall program performance and its associated cost.

(iv) Assess the allocative efficiency of this program compared to other ones that are targeted to the same or lower income households and consider possible adjustments and revisions. The program allocates large public funds (over EGP 100 billion as of December 2021) to a limited total number of beneficiaries (close to 400,000).

(v) Avail land at its market value to all developers (public and private sector), so as to strengthen the private sector participation in the affordable housing program. In light of the availability of an already large stock of vacant units (estimated total of around 10.8 million), it is also recommended to find solutions to unlock part of it for residential purposes. These can focus on regulatory reforms such as facilitating the registration of residential units, as well as creating incentives for an increased resorting to rental arrangements and strengthen the enforcement of rental contracts. Unlocking this stock and availing it for would help creating more fiscal space for other public investment priorities.

(vi) Carefully plan, budget, and coordinate the implementation of emerging “cash plus” interventions such as FORSA and Haya Karima, to lay a robust foundation for scaling-up in the future. Strategic documentation on the Haya Karima program plan was not available at the time of the analysis, but available information suggests that the institutional framework of the initiative is expected to be complex, given its multi-faceted objectives and as evidenced by the multitude of entities involved. If carefully and transparently prepared and budgeted, the program could present a momentous opportunity to raise the welfare impact of social protection and fiscal policy.

B.2. Pensions

58. Revisit parameters of the national pension system in the medium term, to address the issue of potentially deteriorating benefit adequacy (pension replacement rates). More specifically, it would be important to define a clear policy target for income replacement at retirement, consider a new indexation and/or valorization policy that is more closely linked to wages, and streamline the system of survivor pensions.

59. Rethink strategically the coordination between social assistance and social insurance policies, with a view of designing an effective system enabling coverage expansion. This would necessitate a coordination with all key stakeholders within the government to develop a holistic strategy of coverage expansion. Assess options of a broader set of insurance products, in addition to pensions, to stimulate participation of the unorganized sector workers (sickness, maternity, health, etc).

60. On early retirement plans and short-term schemes, introduce further changes to make the provisions more flexible, without compromising fiscal implications. Avoid temptations of using early retirement as a mechanism of downsizing the public sector enterprises. Explore options of offering the end-of-service (EOS) lump sum benefit to purchase pension increment in the main scheme in case of early retirement and inadequate pension.

61. Institutional reforms are required, for example through the establishment of the Board of Trustees of the Investment Fund at the soonest, and have it draw a broad investment policy, including segregate management of the EOS assets in individual accounts. Hire a professional accounting firm to review and recommend improvements in the NOSI accounting framework.
B.3. Education

62. **Expand resources to primary education.** A framework specifying the criteria for teacher recruitment by level and governorate would support MOETE in ensuring adequate use of resources. In order to prioritize localities most in need, it is recommended to conduct a costing exercise for absorbing students in overenrolled and/or understaffed schools, and estimates the current and capital investments needed to stop the practices of hiring temporary teachers and multiple shifting classrooms.

63. **Transition the education budget process towards formula-based funding.** As the current process excludes defined learning and school input metrics for allocating funds, expanding resources towards education under a revised budget process supports the efficient use of additional funding. This can happen through piloting a formula-based funding model, which can either be conducted for one modality at the directorate or locality level, or can include multiple alternative modalities to leverage the lessons learned from each approach.

64. **Increase school autonomy and enable principals to make independent allocation decisions.** While this can eventually be part of a comprehensive shifting of responsibility it will take time to establish the necessary accountability framework to give confidence in how this would be implemented. Two main education functions can initially be considered for decentralization: simple works maintenance and budgeting for goods and services at the school level.

65. **Expand access to kindergarten (KG)/early childhood education.** This policy recommendation is presented last because it is designed to be viewed in conjunction with expanding resources to primary education under a revised budget process. While the impact on efficiency and equity of the system is not immediate, expanding access to quality KG through public and private provision is of high importance given the multiple benefits associated with early learning. It would increase both the likelihood of children being more prepared for primary education — including by acquiring social-emotional competencies crucial for the work of tomorrow, and the likelihood of staying longer in the education system. Successful reform at the KG and primary levels would complement the reform currently underway in national assessments and the development of secondary education. Particularly for more marginal socioeconomic groups, increasing awareness of the benefits of early education will have a compounding effect on enrollment.

B.4. Higher Education

66. **Develop a new funding strategy for the higher education sector that includes objective, transparent, and predictable criteria for allocation of public funding across higher education institutions.** The funding formula could include a mix of input-based indicators, such as enrollment, as well as performance-based measures such as completion rate, on-time graduation, and graduates’ employment.

67. **Introduce new cost-sharing mechanisms to incentivize public institutions to increase their non-governmental revenues.** This is implemented internationally through matching funds and/or capacity building programs as well as regulatory changes to ensure that public institutions are able to generate and properly spend their revenues.

68. **Adopt clear mechanisms to ensure equality of opportunity in access to the new national non-profit universities, especially among students from disadvantaged background.** Given the large socioeconomic gap in access to tertiary education, it is essential that these new universities provide equal access to all qualified students regardless of their financial needs or socio-economic backgrounds. This could be implemented through a comprehensive student financial aid system that includes a mix of needs-based scholarships/grants, student loans, and work-study programs.

69. **Develop predictable regulations for the private provision of tertiary education.** Currently, the private sector is strictly regulated, with private institutions having very limited financial and institutional autonomy.
Furthermore, current laws and regulations governing the private sector are ambiguous, cumbersome, and inefficient.

70. **Reform the university admission system to steer students into high employability programs.** This necessitates and effort to identify and enhance the capacity of programs with high labor market demand, and would require collecting systematic and regular data at both the national and institutional levels on the labor market outcomes of graduates, e.g., through tracer studies.

71. **Provide higher education institutions with flexibility in program offerings, which they currently lack especially at the undergraduate level.** Considerations might be given to increasing partnerships with the private sector, e.g., local employers and industry associations, to enhance the labor market relevance of the university programs and improve employability of graduates

72. **Enhance the research capacity and output of universities.** Conduct an in-depth analysis of research capabilities of universities, including capacity of teaching staff, available funding for research, and main factors hindering the research productivity of universities. Provide incentives to universities and teaching staff to increase their research productivity, through targeted funding, such as matching funds, and competitive grants, and performance-based incentives. Improve the research infrastructure of universities, including labs, equipment, and facilities.

B.5. Health

73. **Increase government spending for health.** The currently inadequate spending on health care, the rapidly growing population, the high financial burden due to OOP, and the scaling up of UHIS, all call for an increase in government health spending in Egypt to boost its investment in human capital and be on par with other countries of similar economic potentials.

74. **Government spending on health could benefit from an increased allocation to preventive care, especially on centrally managed programs.** The introduction of mandatory screening programs (e.g., prostate, colon and breast cancers) have proven as worthwhile investments in many countries around the world. Further, the non-communicable diseases (NCD) management programs under the “100 Million Healthy Lives” campaign could be further expanded to tackle the NCD burden and avoid costly complications in future years.

75. **Government spending needs to support health equity, to subsidize the poor and vulnerable population and the disadvantaged regions, such as upper Egypt.** Currently, more budget resources are invested for the non-poor and more developed regions. A new model of deconcentrating the specialized and tertiary centers to fall outside the urban centers and spread out to most geographic regions is required. This could be gradually achieved through government mandates and moratoriums on specific services to discourage further growth in the large urban areas. On the contrary, more investments in primary health care facilities should be sought in urban settings to compensate for the service deficits in that category. Supply side interventions (e.g., budgeting decisions) will be a powerful tool in creating a change in demand on health care services and hence attain more equity to the population.

76. **Explore innovative sources to expand revenue generating streams to address the growing healthcare needs.** UHIS already leverages multiple sources of innovative financing for health care. Forecasting and actuarial modelling exercises need to be carried out/updated to identify the expected future financing needs.

77. **Conduct a comprehensive process evaluation in governorates that have already joined UHIS, followed by an impact evaluation of UHIS in governorates that are yet to join UHIS.** The aim is to measure the impact of introducing the new UHIS on health service utilization and health expenditures in governorates that have already introduced UHIS. Such information can help to tailor the rollout of UHIS in other governorates. At the same time, the government should consider designing an impact evaluation for governorates that have yet to join UHIS to measure the impact before and after the rollout.
78. **Establish strong data collection and performance monitoring mechanism, as well as build capacity for policy analysis and evaluation to inform policy making.** With the ongoing reforms, and the IT system development under UHIS, many new data collection mechanisms become available, such as electronic medical records, claims data, pharmaceutical data, household surveys, and facility administrative data. These should aim to collect data on disease burden and health needs, service availability and quality, service utilization, government spending, and out-of-pocket spending, to enable better analysis of health system efficiency and effectiveness to achieve health sector goals.

79. **In the medium-term, the scaling up of UHIS implementation is critical to establish an effective and sustainable model of Universal Health Coverage in Egypt.** This requires strong investment to build up institutional capacity at implementing agencies (UHIA, GAHC, GAHAR, UPA). Expand enrollment of the informal non-poor population, by strengthening the beneficiary identification and premium collection mechanisms, possibly through collaboration with the Ministry of Social Solidarity and Tax Authority.

80. **Improve quality of care and management at public facilities.** Under the new UHIS system, patients are free to choose their service providers if they use the referral system, as both private and public providers will be contracted using a unified fee schedule and similar output-based contracts. Patient preference for private sector might lead to crowding out of the public providers. Hence, a healthy competition between private and public providers is expected to drive clinical quality improvement in public facilities, particularly in areas where private sector provision is already prevalent. It is important, however, for UHIA and GAHC to enforce the basic quality standards and continue to closely monitor the provision of care quality through medical audits at both public and private providers participating in UHIS. In addition, strategic purchasing also requires significant provider capacity to internalize the incentive. Preparing providers for this change in financial transfers requires substantial investment in management systems to strengthen their capability to manage the facility along with information technology in health facilities, in planning and M&E capacity, financial management and in accounting systems.

81. **Update Health Workforce Planning to address population needs and incentivize staff performance.** The pipeline training of health care professionals needs to be aligned with future demand projections. Introduce incentives to serve in rural areas and upper Egypt for better equity.

82. **Restructure compensation to be linked to staff performance.** As the single largest spending category in the budget, the rigidity of current staff compensation structures disconnects with performance.
A Recap of Key Findings and Policy Recommendations

SOCIAL ASSISTANCE

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<th>Key Finding</th>
<th>Policy Recommendation</th>
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<tr>
<td><strong>Overall Social Assistance Spending</strong></td>
<td>➢ Increase the coverage and accuracy of Egypt’s federated social registry, particularly: expanding the registry used to allocate targeted cash transfer beneficiaries, for more effective SA spending and enhanced shock response.</td>
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<td>➢ Real spending on main social assistance programs remains unchanged during the period under consideration (FY2014 to FY2020), including on cash transfers, despite the freed-up resources from energy subsidy reforms.</td>
<td>➢ Harness existing delivery systems: leverage digital platforms, technology and efficient monitoring &amp; evaluation practices so that program implementation can be adjusted based on evidence.</td>
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<td>➢ The lack of information on administration cost of social assistance programs prevented an assessment of technical efficiency and the formulation of recommendations on improving it.</td>
<td>➢ Leverage the newly launched Haya Karima program, targeted to the poorest villages, to expand and optimize the coverage of existing and impactful programs such as cash and cash plus interventions.</td>
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<td>➢ Important steps are being taken towards a digital and integrated information system for social assistance.</td>
<td>➢ Consolidate SA programs further within the framework of a comprehensive and integrated social protection strategy and continue harnessing productive inclusion and active labor market programs to support female labor force participation, job creation &amp; sustainable livelihoods.</td>
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**Cash Transfers - Takaful & Karama**

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<th>Key Finding</th>
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<td>➢ Cash transfers appear successful in reaching their objectives, though large coverage and adequacy gaps remain. Addressing these gaps present an important opportunity given their significant impact on poverty reduction as well as support toward human capital acquisition.</td>
<td>➢ Expand targeted cash transfers to cover all eligible poor households. This expansion would comprise 0.4 percent of GDP, above FY2021’s budgeted level of 0.3 percent. At the current level of coverage of 3.4 million households, expanding coverage is more cost effective than raising benefit levels. Accurately assess the administration cost of the program and resort to competitive processes to save on cost.</td>
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Food Subsidies

➢ The high level of coverage (around 90 percent on average) and low allocative efficiency is met with low adequacy. The value of subsidy in both ration cards (around 6 percent of median market income amongst the poorest 40 percent) and bread subsidies (1 percent) is low.

➢ Food subsidies reforms are slow. The large impacts on poverty reduction come with higher costs and lower effectiveness than other schemes. Substantial leakages to unintended income groups remain.

➢ Soaring international wheat prices are putting Egypt’s budget under pressure, given its direct implications for the cost of bread subsidy.

➢ Raise the adequacy of food subsidies for the poorest. Fiscally neutral options can be explored while reforms on coverage will need to be gradual and can be developed through closely monitored pilots.

➢ Gradually moving from food vouchers to cash may induce a more effective and efficient use of public resources, a more cost-efficient implementation, in addition to a positive impact on diet quality. Through pilots, enacted in under a year, current beneficiaries could be asked to choose between keeping the existing voucher system or otherwise receiving direct cash.

➢ This gradual shift should allow for the assessment of key consideration including food inflation and potential indexation, as well as market dynamics and potential market distortions.

➢ Raising technical efficiency of the system through a range of adjustments: strengthen monitoring systems, continue to closely track supply chain, procurement, storage and transportation. Further digitalize monitoring, evaluation and grievance redress systems.

➢ Wheat imports risk management: hedging against large increases in global prices. Financial instruments such as options and futures provide an attractive means for reducing exposure to market volatility and to protecting the budget from risks associated to large price increases in Egypt’s key food item. They also improve budget planning by allowing the country to lock in prices ahead of time. Technical capacity and financial knowledge will be needed to decide on the best instruments and minimize the potential losses.

Social Housing

➢ The program cost is spread across many entities including off-budget ones; the absence of consolidated reporting makes it difficult for policy makers to properly assess the performance of the program.

➢ Large public resources are allocated to a limited number of beneficiaries.

➢ Social housing programs need to be revisited and reassessed considering its overall high costs, unmeasured indirect subsidies and uncertain allocative efficiency compared to other ones that are targeted to the same or lower income households, especially when considering the large volume of allocated public funds.
The institutional setup of the SHMFF does not perfectly fit its business model. As a public service authority (with an affiliated special fund), selling residential units and recovering the majority of the cost it incurs from the beneficiaries makes the case for its restructuring into an Economic Authority.

The CBE mortgage financing initiatives may have significant implications for the State budget over the coming years.

Private sector participation (as real estate developer) in the affordable housing program is weak. The private sector can be expected to contribute to efficiency gains in the development, construction, operations and maintenance for affordable housing through the use of technology, better management and construction practices, especially if the demand risk is eliminated through a strict sequencing of units’ allocation/construction as is now the case for the public sector construction.

According to law 93 of 2018, all land allocated to social housing is provisioned free of charge to the SHMFF, which is not applicable to the private sector. This partially justifies the weak private sector participation under such conditions and may imply a missed opportunity for mobilizing private capital, which could help creating fiscal space.

Avail land at its market value to all developers (public and private sector), and channel all types of subsidies through the State budget. This would facilitate the monitoring of the true cost of the program, reflect the real value of subsidy and ensure the most efficient use of public funds.

Regulatory reforms are needed to unlock part of the large stock of vacant housing units, for example through facilitating the registration of residential units, creation of incentives for an increased resorting to rental arrangements and strengthen the enforcement of rental contracts.

Increase the clarity and transparency of the SHMFF financial position. Information could be improved by adopting the accrual basis of accounting where all the assets (e.g., stock of unsold units) and liabilities (i.e., commercial bank loans) would be presented on the balance sheet, while ensuring continuing oversight and visibility of SHMFF transactions by MOF. This should enable policy makers to better assess the overall program performance and associated cost.

School feeding coverage is significant, but survey data suggests many eligible students may not be making use of program benefits.

Availing school meals of adequate quality to all eligible students in public schools could necessitate additional spending.

Improving administrative capacities at the central level as well as the district and school level is key to addressing issues of access and quality of the meals provided. This would incur greater use of monitoring data through the existing implementing arrangements that include a range of stakeholders at the local and national level to identify and address issues of accessibility as they occur.
<table>
<thead>
<tr>
<th>Emerging Initiatives (FORSA, Haya Karima...etc)</th>
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<tbody>
<tr>
<td>➢ Cash Plus” initiatives. cover a range of social protection programs that focus on building sustainable livelihoods and promoting job creation, as these cannot be addressed solely through cash transfers.</td>
</tr>
<tr>
<td>➢ Haya Karima program: lack of official information and strategic documentation on the program, and its total allocated budget.</td>
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<tr>
<td>➢ The institutional framework of the Haya Karima initiative is expected to be complex, given its multi-faceted objectives and as evidenced by the multitude of entities involved.</td>
</tr>
<tr>
<td>➢ Routinely monitor and evaluate the pilot to lay a robust foundation for scaling-up in the future and to enhance the program’s impact on poverty reduction and employment creation.</td>
</tr>
<tr>
<td>➢ Raise efficiency by continuing to harness existing delivery systems used by TKP and Daman and coordinating with other institutions across levels of government; leverage digital platforms, technology and efficient monitoring &amp; evaluation practices so that programs can be adjusted based on evidence.</td>
</tr>
<tr>
<td>➢ Continue linking FORSA with other programs and initiatives such as Haya Karima and encourage more involvement from the private sector.</td>
</tr>
<tr>
<td>➢ A well-coordinated and effectively implemented Haya Karima presents a momentous opportunity to raise the welfare impact of social protection and fiscal policy.</td>
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<thead>
<tr>
<th>SOCIAL INSURANCE/PENSIONS</th>
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<tbody>
<tr>
<td><strong>Key Finding</strong></td>
</tr>
<tr>
<td>Overall Social Assistance Spending</td>
</tr>
<tr>
<td>➢ The 2019 reform was a major milestone, with many positive steps on strengthening institutions.</td>
</tr>
<tr>
<td>➢ Reform generated significant tilt towards fiscal sustainability at the expense of benefit adequacy, questioning overall sustainability. The parameters of indexation, valorization, and minimum pension generates very low protection in medium to long run.</td>
</tr>
<tr>
<td>➢ Early retirement provisions are being called to revisions by the politicians for being too restrictive.</td>
</tr>
<tr>
<td>➢ There is no guarantee that NOSI would not run negative balances, which will force NOSI to keep significant part of reserves in money and near money instruments. Limited progress on setting up fully fledged investment function is a major risk to the quality of the reserves management</td>
</tr>
</tbody>
</table>
### On the Spending Levels

- **Key Findings**
  - Low and declining spending on pre-tertiary education results in a paradox in the composition of the education budget. Staff salaries absorb a 92 percent share of total expenditures, yet there is an insufficient number of teachers for public primary classrooms. This paradox largely emanates from insufficient spending that crowds out non-personnel current and capital spending requirements.
  - There is considerable strain on public primary education due to a shortage in the number of teachers and classrooms. The teacher shortage was aggravated by the public teacher hiring freeze during a period of sustained growth in the primary student population. Resorting to hiring temporary teachers and distributing students across multiple shifts during the day has an unknown impact on the quality of learning.
  - The construction of classrooms is not keeping up with demand for education. Student-teacher Ratios (STRs) and Student-classrooms Ratios (SCRs) are significantly higher at the primary level than any other level of education. Public primary STR and SCR is falling significantly below the private sector; closing the gap through public spending will require significant resources.

- **Policy Recommendations**
  - Develop a framework for adding public school teachers, specifying the criteria for teacher recruitment by level and governorate. Prioritize primary level.
  - Estimate capital spending needs at governorate level to reduce the practice of double shifting and overcrowded classrooms.
  - Expand resources to primary education.
  - Improve planning and costing functions at the Ministry of Education; Prepare medium-term expenditure frameworks.

### On the Budgeting Process

- **Key Findings**
  - Public education budgeting is highly centralized, based largely on a historical approach and is weakly connected to national priorities.
  - Access to private tutoring is concentrated at high socioeconomic status families.

- **Policy Recommendations**
  - Transition to formula-based funding and performance dialogue to support learning, and progressively shift responsibility for expenditures management to service providers.
  - Inclusion of equity targets in the budget process.
  - Improve integration of financing, HR and education data to improve planning, execution and evaluation of public funding for education.
  - Conduct PFM and HR in depth assessments to identify options to increase agility and responsiveness of funding.
<table>
<thead>
<tr>
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<th>Policy Recommendation</th>
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<tr>
<td><strong>On Access to Early Childhood Education (ECE)</strong></td>
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<tr>
<td>➢ Enrollment in pre-primary/KG programs is limited, even though access to ECE has strong future outcomes on education.</td>
<td>➢ Conduct a costing for universalizing access to KG through public and private provision.</td>
</tr>
<tr>
<td>➢ Pre-primary net enrollment differs vastly based on socioeconomic status.</td>
<td>➢ Develop a PPP modality for private KG expansion.</td>
</tr>
<tr>
<td>➢ Supporting early years education through access and quality increases the likelihood of capitalizing on reform in secondary education and revamping the general preparatory exam.</td>
<td>➢ Universalize access to KG.</td>
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<tr>
<td><strong>On Budgeting Process</strong></td>
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<tr>
<td>➢ Government funding not linked to any performance-based outcomes or system-level objectives, but rather based on historical allocations and negotiations between each public higher education institution and the Ministry of Finance.</td>
<td>➢ More focus on measuring results and performance in higher education – i.e., quality of education, graduate learning and employment; research production as well as relevance and impact on local and national development.</td>
</tr>
<tr>
<td>➢ Linking results to financing through formula-based funding or performance contracts</td>
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<tr>
<td>- A new funding formula could include a mix of input-based indicators, such as enrollment, as well as performance-based measures such as on-time graduation, graduates’ employment, and research productivity.</td>
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<tr>
<td>- Performance contracts where MOHESR and potentially MOF discuss with each university a multiannual performance agreement and funding envelop. These agreements should take into account differences in disciplinary costs and quality across institutions.</td>
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<tr>
<td>➢ Reforming the current legal environment to allow for the shift from a line-item budgeting to a formula-based one with responsibility for expenditure decisions resting with the institution.</td>
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## On Funding Mechanism

- **Key sector outcomes are not collected**, including completion rates, graduates’ labor market outcomes, and research productivity.

- Collecting data on key sector outcomes and putting in place strong monitoring and quality assurances systems.

- Establish new funding mechanisms, which should be implemented gradually, e.g., in a small-scale pilot that includes few universities and/or a portion of public funding. This should reduce resistance to changing current funding mechanisms, provide policymakers with sufficient time to build support for the formula-based funding among key stakeholders, and identify any implementation bottlenecks that might hinder the new mechanisms.

## On Public Spending and Cost-Sharing

- Higher education institutions are heavily dependent on government public funding to cover their expenses.

- A steady rise in demand for higher education and insufficient government spending to keep pace with the rising demand.

- Explore new cost-sharing arrangements, including performance-based funding, matching funds, competitive grants, and student loans. Matching funds could be used to improve the research productivity of higher education institutions, while competitive grants could be used to enhance the relevance, quality, and research productivity of programs in high priority areas.

- Incentivize revenue generation – done internationally through matching funds and/or capacity building programs as well as regulatory changes to ensure that universities can generate and properly spend their revenues. As each type of these financing mechanisms serves a different purpose, a combination of these mechanisms could be used.

- Legislative reforms may be required for some of these funding mechanisms.

## On Equality of Opportunity

- Large socio-economic gap in access to tertiary education.

- New universities to provide equal access to all qualified students regardless of their financial status or socio-economic backgrounds.

- A comprehensive student financial aid system that includes a mix of needs-based scholarships/grants, student loans, and work-study programs. These mechanisms could be used to target specific type of students (e.g., students from poor families) or steer students into specific programs (e.g., female students into STEM fields).
On Private Provision

- Private enrollment accounts for a small share of tertiary enrollment
- The low share of private enrollment is driven by:
  - Limited supply of private institutions, especially private universities
  - High cost of attending private institutions and limited financial support to students
  - Strict laws and regulations that govern the establishment and management of private institutions
- Develop predictable and transparent regulations of the private sector
- Provide private institutions with flexibility in determining fees, admission, and program offerings
- Develop strong and predictable monitoring and quality assurance systems to ensure the quality of education services delivered by private institutions
- Provide targeted financial aid to qualified students from middle and low-income families to attend private institutions
- Allow all universities, including private universities, access to competitive research funding

On University Admission System and Graduates Employability

- A chronic oversupply of graduates in low employability fields, driven in large part by the current university admission system. Specifically, selection into higher education is based solely on students’ score on the secondary education exit examination, which results in concentration of large share of students in low employability fields.
- Higher education institutions do not collect data on outcomes of graduates
- Public higher education institutions have limited flexibility in designing programs, especially at the undergraduate level, that respond to the diverse needs of students and changing demands of the labor market.
- Aligning the university admission system with labor market needs to improve outcomes of higher education graduates. This would require:
  a. Collecting systematic and regular data at both the national and institutional levels on the labor market outcomes of graduates, e.g., through tracer studies. This data will be essential to inform the review and design of tertiary programs and identify areas for improving the quality of these programs, understand the experiences of tertiary graduates in the labor market and identify any skill shortcomings.
  b. Provide higher education institutions with flexibility in program offerings. Considerations might be given to increasing partnerships with the private sector, e.g., local employers and industry associations, to enhance the labor market relevance of the university programs and improve employability of graduates

On Research Capacity and Output

- Limited research output of Egyptian universities, due to several factors:
  a. Lack of adequate funding for research
  b. Low capacity of teaching staff
  c. Poor conditions of university equipment, labs, and university facilities
- Conduct an in-depth analysis of research capabilities of universities, including capacity of teaching staff, available funding for research, and main factors hindering the research productivity of universities.
- Provide incentives to universities and teaching staff to increase their research productivity, through targeted funding, such as
matching funds, competitive grants, and performance-based incentives.

➢ **Improve the research infrastructure of universities**, including labs, equipment, and facilities.

➢ **Encourage collaborations across universities** by providing incentives to establish research clusters.

### HEALTH

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<thead>
<tr>
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<tr>
<td><strong>On Spending Levels</strong></td>
<td></td>
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<tr>
<td>➢ Government spending on health is inadequate and inefficient, and does not lead to desired health outcomes. Despite tremendous improvement in many maternal and child health outcomes and rapid increase in life expectancy, Egypt still has a high burden of stunting, burgeoning disease burden from NCDs and high prevalence of risk factors such as diabetes and hypertension, as well as the challenges associated with rapid population growth.</td>
<td>➢ Increase in government health spending to boost investment in human capital and be on par with other countries of similar economic potentials.</td>
</tr>
<tr>
<td>➢ Going forward, several factors will exert immense pressure requiring additional revenues, namely: (i) the acceleration of the rollout of UHIS and the associated expected increase in spending on governance, premium subsidy to the poor; and investment on boosting public providers’ capacity. and (ii) a protracted COVID epidemic that necessitates further expenditures on vaccinations, treatments and disease preparedness.</td>
<td>➢ Spending on preventive care could be expanded, especially on centrally managed programs. The current spending on preventions is relatively low, which will result in higher burdens of medical spending under the UHIS in the future. Introduction of mandatory screening programs e.g., prostate, colon and breast cancers etc. have proven as solid worthwhile investments in many countries around the world. Further, the NCD management programs under the 100 Million Healthy Lives Campaign could be further expanded to tackle the NCD burden and avoid costly complications in future years.</td>
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On Funding Mechanisms

➢ There is insufficient focus on spending on key health concerns, such as malnutrition and family planning. While spending on prevention is relatively low, several recent large public health programs under the 100 Million Healthy Lives Campaign had very positive health benefits and good return on investment.

➢ Explore innovative sources for revenue generating streams to address the growing healthcare needs. Ideas to generate more revenues could range from the introduction of earmarked taxation (such as sugar tax), and consolidate the fiscal space to raise more fund for health. In addition, there should be a re-prioritization of the health sector (reallocations from other sectors), particularly considering the comparative impact of health on economic recovery and growth after COVID-19.

➢ Forecasting and actuarial modelling exercises need to be carried out/updated to identify the expected future financing needs.

On the Budget process

➢ The current line-item budget does not link to clear performance, and does not provide sufficient flexibility or financial incentives for performance in public sector health facilities.

➢ A combination of program-based budget for large public health program, and global budget for public facilities could replace the current line-item budget, to better align budget with health system targets, and improve flexibility and efficient utilization of the budget. Alongside this change responsibility for expenditure decisions can be progressively shifted to the service providers.

➢ Establishing a routine health system monitoring mechanism and link performance to financing. With the ongoing reforms, and the IT system development under UHIS, new data collection mechanisms will become available, such as electronic medical records, claims data, pharmaceutical data, household surveys, and facility administrative data. These should also aim at collecting data on disease burden and health needs, service availability and quality, service utilization, government spending, and out-of-pocket spending, to enable better analysis of health system efficiency and effectiveness to achieve health sector goals. Moreover, understanding the rationale behind the behaviors and challenges of service provision and utilization are also critical to improve health system responsiveness.
On Efficiency of Spending

➢ Health resources are not efficiently distributed. The health sector suffers from a human resources skill mismatch (over supply of pharmacists and dentists), under-staffing in remote and under-developed areas, and idle capacities in primary health care (PHC) and hospitals.

➢ Despite the prioritization, investments have not resulted in higher utilization of primary care facilities. This suggests that the investment in infrastructure did not directly lead to improvements in service quality.

➢ Government spending on primary care centers and hospitals needs to focus on the spending categories that can improve quality. The low health worker salary scale in public sector and consumable/pharmaceutical supply chain management weaknesses have constrained the service quality despite investment to improve infrastructure.

➢ New compensation and non-tangible benefits need to be developed immediately to halt the internal and external brain-drain of the health workforce.

➢ More detailed diagnostics are needed to precisely identify the bottlenecks of care quality, for public investment.

On Equity of Spending

➢ Health resources are not equitably distributed. Households with the least access to healthcare are located in Upper Egypt governorates, which have higher poverty rates and lower per capita public spending on health than other governorates.

➢ Currently, more budget resources are invested for the non-poor and more developed regions. This is understandable in the context of having most of the tertiary and specialized services and health workforce concentrated in urban and metropolitan centers.

➢ OOP payments remain the dominant source of financing, accounting for 62 percent of current health spending. More than 30 percent of households incur catastrophic health spending, and 7 percent are pushed below the poverty line due to OOP payments. 62 percent of OOP payments are spent on medicines and products.

➢ A new model of deconcentrating the specialized and tertiary centers to fall outside the urban centers and spread out to most geographic regions is required. This could be gradually achieved through government mandates and moratoriums on specific services to discourage further growth in the large urban areas.

➢ On the contrary, more investments in primary health care facilities should be sought in urban settings to compensate for the service deficits in that category.

➢ Maintain government support to subsidize the poor and vulnerable population and the disadvantaged regions, such as upper Egypt.
### Disease Surveillance and Management

- **Outdated data and health surveys.** The previous NHA was conducted in 2008, and many household health surveys were outdated.

- **Thirty percent of Egyptians use private pharmacies as the preferred choice of care,** and most prefer to seek care at private facilities. This raises concerns about the quality of care at public facilities.

- **Conduct National Health Account (NHA) and household surveys more regularly and frequently.**

- **Improve disease surveillance.** With lessons learned during COVID-19, strengthen the data system for disease surveillance, capacity planning, and emergency response.

- **Utilize the MOHP database, 100 Million Healthy lives campaign database for better disease surveillance and management.**

### On UHIS\(^\text{15}\)

To ensure fiscal sustainability and good outcomes, UHIS will need to resolve several challenges, including enrollment of citizens who are non-poor and working in the informal business sector, diversifying revenue sources, transforming public providers’ autonomy, capacity, and quality to re-align resources to maximize output and reduce waste in health facilities, improving quality of care, and engaging private sector providers effectively.

- **Conduct a comprehensive process evaluation in governorates that have already joined UHIS.** The aim is to measure the impact of introducing the new UHIS on health service utilization and health expenditures in governorates that have already introduced UHIS. Due to the absence of baseline data collection, it will not be possible to conduct an impact evaluation in the governorates that have already joined UHIS. A process evaluation, however, can shed light on key operational challenges, assess procedures and functions, and gather population perspectives on the rollout of UHIS. Such information can help to tailor the rollout of UHIS in other governorates.

- **Design an impact evaluation for governorates that have yet to join UHIS to measure the impact before and after the rollout.** This would involve collecting extensive baseline data. The evaluation could examine the effects of UHIS on increasing primary care and hospital utilization and its impact on healthcare expenditure and some intermediate health status indicators. In addition, it should aim to measure the impact of UHIS on financial status, including the impact on non-healthcare consumption, out-of-pocket (OOP) health expenditure and on financial distress from health shocks.

- **A large network of private providers needs to be contracted by UHIA, as these play an important role in service delivery.** It’s important to have an effective contracting strategy with the private providers, set appropriate fee schedule, and provide financial incentives for private providers for quality health care.

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\(^\text{15}\) The Universal Health Insurance System (UHIS) is a social solidarity system through which medical services (diagnostic and treatment services) are provided to all citizens, and the government bears the cost of medical treatment of the most vulnerable. In this system, beneficiaries are allowed to choose the service provider and the whole family is the unit of insurance coverage (not just the individual).
➢ Investment to build up institutional capacity at implementing agencies (UHIA, GAHC, GAHAR, UPA) and establish monitoring and evaluation (M&E) mechanisms to monitor progress and performance, and to generate lessons and learning to inform mid-term adjustment and future reforms.

➢ Expand enrollment of the informal non-poor population, by:

- Strengthening the beneficiary identification mechanisms and premium collection enforcement through collaboration with the Ministry of Social Solidarity and Tax Authority.
- A recent randomized controlled trial in Indonesia found that the non-poor informal workers were more likely to enroll and continue to pay premiums if the government initially subsidized their premium contribution (i.e., for six months).

➢ Conduct focus groups discussions and qualitative research to better understand the barriers to enrollment.

➢ Regulations should be adjusted to license private providers to deliver primary care packages. The restriction of primary care to public providers have limited the access to primary care. Allowing private providers to deliver primary care is likely to improve the service accessibility, and improve quality of care through introducing healthy competition.

➢ Functional IT system. UHIS relies on good and interconnected IT systems at UHIA, GAHC, health facilities, and GAHAR. Based on the IT system, data analytics capacity needs to be strengthened for evidence-based management and reform.

➢ Update the benefit package to ensure the service coverage matches the disease burden and health care needs, while not covering unnecessary or low value services. Health technology assessment (HTA) could be used to identify the high-value services, and inform the regular review of UHIA benefit package.

➢ Contracting of private pharmacies. As the majority of OOP payments are spent on the purchase of medicines and medical products, contracting of private pharmacies under UHIS and expanding the basic drugs package are both critical to effectively reducing OOP spending.

➢ Improve quality of care at public facilities. UHIS financial coverage is likely to promote use of health services. This requires a matching supply-side capacity improvement. UHIS implementation needs to be coupled with continuous public facility clinical quality improvement funded by the government budget. In addition, strategic purchasing also requires significant provider capacity to internalize the incentive. Preparing providers for this change in financial transfers requires substantial investment in information technology in health facilities, in planning and M&E capacity, financial management and in accounting systems.