Egypt Public Expenditure Review for Human Development

Social Protection, Education & Health

September 2022
Fiscal consolidation reforms have been at the forefront of Egypt’s efforts to stabilize the macroeconomic environment in recent years.

While critical to macroeconomic stabilization, fiscal reforms have had some adverse implications, notably on low- and middle-income populations.

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.
OBJECTIVE

Informs government efforts to pursue its commitment to enhancing socioeconomic outcomes through more and better spending on human capital.

FOCUS

EFFICIENCY: How to reduce inefficient and wasteful spending and increase the impact of existing resources?

EQUITY: How to improve the distribution of public resources across income groups and geographical regions, (drawing on a fiscal incidence analysis)?

ADEQUACY: Are spending levels meeting the actual needs, and how do they compare to spending levels in peer countries?
Over the past two decades, Egypt has made substantial progress on improving basic human development outcomes, as part of its goal to boost human capital.

**HEALTH**
- Increased life expectancy
- Declined under-5 mortality
- Improvements in child health outcomes
- High levels of vaccination

**EDUCATION**
- Progressive policies towards universalizing education (NER of 75%)
- Nearly the entire primary age population is enrolled.
- Tertiary education: increase in GER from 7% to 39%.
Social protection programs have also evolved significantly, notably with the introduction of conditional cash transfers.

Different Programs for Diverse Challenges and Different – yet interrelated – Objectives

Poverty targeted programs are strongly pro-poor in their distribution.

### SOCIAL ASSISTANCE

Program spending across welfare distribution groupings, FY2020

<table>
<thead>
<tr>
<th>Distribution Grouping</th>
<th>Middle class and above (top 40%)</th>
<th>Next 30%</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
<th>80%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daman</td>
<td>20%</td>
<td></td>
<td></td>
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<tr>
<td>Takaful and Karama</td>
<td>40%</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Fuel subsidies</td>
<td>60%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ration cards</td>
<td>80%</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Bread subsidies</td>
<td>100%</td>
<td></td>
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### PENSIONS

A new Social Security and Pension Law adopted in 2019

A major milestone for the Pensions system

Important institutional and parametric changes:
- Merger Investment Fund
- Clearing past liabilities
- Change of retirement age
Despite the overall progress, important challenges remain.
HEALTH

- **NCDs**: the major burden of disease shifted from communicable to non-communicable diseases.
- **Fast Population Growth**: public sector healthcare provision has not been able to keep up.
- **Poor learning outcomes**: Despite some progress, only one in two students reach the low international benchmark in Mathematics and Science.
- **Unemployment rate**: rate is higher among university graduates.

EDUCATION

- **Percentage of Students Reaching the Low TIMSS* Benchmark**
- **Hospital beds (per 1,000 people) across peers**
- **Unemployment rate by education level**
The PER identifies some of the main drivers of underperformance.
All human development sectors will need an increase in government spending to undertake transformative changes and be on par with peer countries.
Financing

All human development sectors will need an increase in government spending to undertake transformative changes and be on par with peer countries.
Implications on Adequacy and Coverage

**Takaful & Karama**

The increased spending was efficiently allocated: 86% of beneficiaries are amongst the poorest 40 percent.

Yet, benefit levels are lower than typical CCT programs, and many poor and eligible households do not receive TKP.

**Adequacy of in the poorest 40 percent**

- **Market income deciles**
  - Adequacy (share of transfer in income)
    - 0% to 15%
    - 5% increments
    - Takaful and Karama

**Coverage of cash transfers**

- **Household consumption / income deciles**
  - Poverty rate ~30%
  - 0% to 100%
  - 20% increments
Implications on Adequacy & Coverage

Higher Education

Classrooms and teacher shortages are acute, especially in primary schools. Likely to widen without urgent corrective action.

The resource gap between public and private schools is large and growing.
Implications on Adequacy and Coverage

OOP payments remain the dominant source of healthcare financing (62%). Almost a third of households face catastrophic health expenditures; 7% have been pushed into poverty due to high OOP payments.

The distribution of resources (infrastructure and health workers) across governorates not fully aligned with the needs of the population.

**HHs Catastrophic Health Expenditure**

<table>
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<tr>
<th>Percentage</th>
<th>2015</th>
<th>2017</th>
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<tbody>
<tr>
<td>&gt; 10% of Income</td>
<td>29%</td>
<td>31%</td>
</tr>
<tr>
<td>&gt; 25% of Income</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>&gt; 40% of Income</td>
<td>1.60%</td>
<td>2%</td>
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**Number of primary health care units per 100,000 population**
The Spending Mix

- Food subsidies program is the largest SA program (1.4% of GDP); generates significant poverty impacts given its large coverage amongst the poor.

- Cash transfers have higher effectiveness in reducing poverty, meaning their impact on poverty can be higher if using the same resources.
Learning requires a package of complementary interventions. Spending on education should reflect this careful balance between the various inputs to learning.

The bulk of public spending is allocated to teachers' salaries.

Early grades are underfunded.
Despite being the most cost-effective intervention, preventive care absorbs only 1% of health spending in Egypt - the lowest among all comparator countries.

A third of current health spending is on medical goods, among the highest shares in comparator countries → public’s preference of using private pharmacies as the point of care and lack of prescription enforcement.
Understanding how education budgets are formulated is imperative to understanding their impact on resource use and distribution.

By exploring the distribution of financial and non-financial resources, the GoE can identify and target segments of the population and geographic regions where additional funding would be most effective.
The high level of coverage and low allocative efficiency is met with low adequacy.

Despite recent reforms, more efforts are needed to reduce the system’s leakage to wealthier households.

Per student spending varies substantially across public universities in Egypt.

In the Health sector, large disparities among governorates in the distribution of locally administrated funds.

Government spending on health per capita (excluding centrally administered programs)
The program aspires to improve the affordability of housing to lower-income households. Objective: one million housing units over five years.

- The program absorbs a large amount of funding from the State budget (0.4% of GDP).
- A complex institutional arrangement → large indirect subsidy.
- The full cost of the program is difficult to capture without a consolidated financial reporting mechanism for all cost borne by different institutions.
- The rental component - meant to serve the lowest-income households - did not take off sufficiently after six years of implementation, despite low rent value.
In Basic Education

- pre-primary education not compulsory,
- provision significantly lower than the number of eligible children.
- Only 22% of children from the lowest socioeconomic status households enroll, compared to 55% for the highest.

In Higher Education: large expansion in capital spending to establish new technological and national non-profit universities

- Provides students with more education opportunities, reduces pressure on public institutions, and increases competitiveness.

• BUT requires measures to:
  - Ensure equity in access to reduce socio-economic gaps in enrollment.
  - Improve the ability of public universities to recruit and retain teaching staff.
### Other Cross-Cutting Challenges and Suggested Actions

<table>
<thead>
<tr>
<th>Topic</th>
<th>Description</th>
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<tr>
<td><strong>Domestic Revenue Mobilization</strong></td>
<td>Increased spending must be met with enough resources to preserve the fiscal consolidation path.</td>
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<td><strong>Medium Term Planning</strong></td>
<td>Build up institutional capacity at implementing agencies on adopting Medium Term Expenditure Frameworks, prepared jointly with MOF.</td>
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<td><strong>Budgeting process</strong></td>
<td>Depart from historical budget allocations and shift towards clear criteria, service delivery targets and outcomes (formula-based budgeting).</td>
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<td><strong>Workforce Plans</strong></td>
<td>Well-designed mechanisms to improve work conditions to attract and retain the needed qualified human resources. Brain Drain in the Healthcare System</td>
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<tr>
<td><strong>Data Collection &amp; Performance Monitoring</strong></td>
<td>Integrating Sector’s management information systems with budget data to link budget to performance and needs.</td>
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The PER identifies financing and sector-specific challenges in three important human development areas: Education, Health and Social Protection.

Increased government spending is part of the solution. It should however be associated with sectoral reforms to improve the quality and effectiveness of spending.

An important consideration: ensure that any increase in spending is managed in a prudent fiscal setting so that the change is sustainable. Enhancing revenues and reducing low-priority spending are critical.
The investment-heavy task of ‘catching up’ can be mitigated by progressive actions taken today.

THANK YOU