Egyptian Center for Economic and Social Rights

Submission To

United Nations Special Rapporteur on Extreme Poverty and Human Rights

Consultation:

The Human Rights Impact of Fiscal and Tax Policy

Extended Deadline:
20 December 2013

TAXATION

1. Is your government's tax policy compatible with the obligation to use maximum available resources to realize economic and social rights? If not, why? Do obstacles of a national or international nature impinge on your government's ability to mobilize the maximum available resources through taxation?

Successive governments in Egypt have continuously cited low available resources to justify shortcomings in realizing economic and social rights, and combatting growing poverty. It is important to note that Egypt's public revenues are quite low when compared to other middle income countries. World Bank data shows that Egypt's tax-to-GDP ratio is considerably lower than comparable countries. Thus, reforming the tax system should be utilized to increase taxes on the higher-income brackets and to tax transactions that remain untaxed, like capital gains and profits.1 However, Egypt lowered the individual income tax of the top income bracket in 2009.2 Further, Global Financial Integrity estimates that the Egyptian public coffers lost on average $3bn per year to illicit financial flows between 2001 and 2010. Yet, Egypt has not undertaken any policies to combat this dangerous phenomenon. Likewise, proposals to conduct a national debt audit to determine the legitimacy of debts contracted under Mubarak have largely been ignored; instead Egypt continues to spend about 15% of its public budget to service debt, as will be show later.

International Assistance has, since the outbreak of the Egyptian Revolution in 2011, hampered local initiatives to reform the tax system and make other economic reforms. Whether it be the IMF loan negotiations, which have dictated Egypt's planned shift to the use of a uniform Value-added Tax, even before the loan agreement was signed, or Egypt's dependence on loans from Gulf countries, all these forms of unsustainable dependence on these regressive forms of income, have replaced much-need policy efforts to reform the tax system, and to ensure generating enough revenues on the one hand, and using the maximum available of these sources for the realization of economicand social rights.

2. In general, would you say that the tax regime is regressive or progressive? Why? Please provide examples (for instance: proportions of wealth, income, and consumption taxes in total revenue; distributional impacts of tax schemes between and within households, including deduction and exemptions for women, people living in poverty, single household heads, or based on marital status). What are the shares of tax revenue paid by different groups and the rate of taxation on different social groups?

The fact that Egypt's tax revenues need to increase is indisputable. Taxes made up around 68% of the total state revenues in 2011-2012 and 2012-20133. Therefore, tax reform should play a major role in increasing state revenues. However, the tax reforms suggested by the November 2012 Economic Reform Program, the Economic Reform Initiative of February 2013, as well as the amendments to the tax legislation, as published in the official gazette in December 2012, fail in two ways: First, they fail to increase the tax revenue through widening the base of tax payers, and second, they fail to exempt the poor and lower-income citizens from bearing the greater burden of these tax reforms.

1 UNDP, *Arab Development Challenges,* above n 26, at p. 50.
2 UNICEF, *Identifying Fiscal Space: options for economic and social development for children* (December 2011), p. 13.
3 The State's General Budget. The Ministry of Finance. http://www.mof.gov.eg/English/Papers_and_Studies/Pages/The-State-Budget.aspx

In observing the major shortcomings of the tax reforms, there are certainly alternative models for tax reforms that can mobilize revenues without burdening the citizens, especially the lower and middle-income citizens, with the greater cost of reform.

A Real Progressive Income Tax:

For Individuals and Corporations

While the tax reforms claim to be progressive4, they fail to translate this rhetoric into reality. Not only do the lower-income individuals bear the greater burden of the tax reforms, but the tax amendments fail to increase the tax burden levied on high incomes and luxurious consumption in a way that would minimize the burden on lower incomes and necessity goods. For instance, citizens earning an annual income of EGP 45,000 pay the same tax rate of 20% as citizens earning EGP 500,000. This is the case because the income brackets created by the reform plan put these completely different incomes in the same bracket (4th bracket). In fact, the "progressive tax" is applied exclusively to the lower incomes, between EGP 5,000 and EGP 45,000, where incomes from EGP 5,000 to EGP 30,000 pay a 10% tax rate, while incomes from EGP 30,000 to EGP 45,000 pay a 15% tax rate. In other words, the progressivity of tax rates stop at a very low income, the EGP 45,000. Also, all annual incomes above EGP 5,000,000 are taxed at a 25% flat rate, with no differentiation. In order to speak of a progressive taxation system, the tax reforms should include the same progressive increase of the tax rate as the income increases for higher incomes too. In addition, the 4th bracket (from 45,000 to 500,000) should be broken down into two brackets, with different tax rates. But also the incomes from 500,000 EGP to 5,000,000 EGP should be broken down in one or two more brackets. This will be highly useful, not only in mobilizing more revenue from higher incomes, but also in shifting the cost of reform a little towards the higher incomes.

The lack of progressivity in Income taxes extends to corporations as well. With the latest amendments, all corporations are taxed at a flat rate of 25%, regardless the size, or the annual profits of the corporation! While the decision to unify the taxes for corporations at 25% was useful in one way, it is because the differentiation between the tiers of corporations in the past system was random, not having much to do with the size or activity of the corporation. a different two-tiered system is needed to 1) encourage small corporations and help them grow, 2) encourage some small-scale informal sector activities to formalize their status and join the tax base, 3) to make bigger-size and larger-profit corporations pay more than smaller-scale businesses. This system can be an attempt to mobilize more revenues and realize more justice in the distribution of the effects of reforms. Having said that, increasing taxation on some corporations is not likely to discourage investment – as argued by some – as it has been illustrated by the World Bank in its "Ease of Doing Business Report" of 2013, when concluding that Egypt taxes corporations at a rate below the global average, and that doing business is deterred in Egypt by the complexity and the long bureaucratic procedures of the tax system5.

4 "Increase the progressivity of the tax" is a term used both in the November 2012 Economic Policy Plan and the February 2013 Economic Reform Initiative.

5 "Ease of Doing business in the Arab Republic of Egypt," Doing Business 2013.http://www.doingbusiness.org/data/exploreeconomies/egypt/

Widening the Tax base:

Individuals and Corporations

While the tax reforms articulate "widening the tax base" as the path towards increasing tax revenues, the reforms as they stand fail to show any signs of widening the tax base. In particular, the tax reforms fail to adequately address the problem of the informal sector, and the taxation of capital gains. Because the suggested tax reforms are limited to restructuring the income brackets, and the percent of taxes levied on certain goods and services, they fail to increase the tax base, and instead burden the existing tax payers with additional taxes, while continuing to ignore the large sector of tax evaders. While the February 2013 Economic Reform Initiative dealt with the informal economy in a short paragraph, its solutions were vague and rhetorical. For instance, the Economic Reform Initiative suggested the lessening of the bureaucracy, to encourage the informal sector to formalize. Indeed, the complicated bureaucratic processes are likely to be responsible for many individuals and corporations to evade the tax system6. However, "lessening the bureaucracy" does not give any concrete answer to the problem: for instance, does it entail lessening the number of payments that need to be made to the tax revenue Authority annually? Does it include a move to computerized Tax Systems? Does it mean decreasing the amounts of different taxes that need be paid, or unifying some of the confusingly dissimilar tax rates?

In addition, the tax reforms once again failed to tax capital gains. While the Tax Revenue Authority created a great upheaval when it decided to collect taxes from shareholders from QNB's (Qatari National Bank) acquisition of NSGB (national Societe Generale Bank), and to go after Orascom Construction Industries (OCI) for the 2007 sale of its cement business to Lafarge (SA), the Monetary and Economic Committee of the Shura council decided in its 7th of April session to cancel the Capital Gains Tax that was planned and already starting to being implemented.7 The Capital Gains Tax, which was announced to stand at 10 per cent, was only to be charged on initial transactions of any security in the secondary market following the initial public offering (IPO) and on acquisitions if the deal exceeds 33 per cent of the company's capital or shareholder rights. Individuals were to be exempted from these taxes8. Even this minimal tax was cancelled. The failure to levy even a small CGT is yet another failure to widen the base of tax payers, while the shifting positions of the government and the Shura Council on the CGT and other taxes, and the inconsistencies of the economic policy, have already stirred concerns on the side of the investors, thus depleting tax incentives provided to the investors9, whether the uniform income taxes, or the 0% rate CGT.

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6 "Ease of Doing business in the Arab Republic of Egypt," Doing Business 2013.http://www.doingbusiness.org/data/exploreeconomies/egypt/

7 Mousatafa, Noha. "Scrapped Capital Gains tax Another Sign of Slapdash Economic Policies". Egypt Independent. 8 April 2013. http://www.egyptindependent.com/news/scrapped-capital-gains-tax-another-sign-slapdash-economic-policies

8 Ahram Online. "Egypt Cabinet Approves Capital Gains Tax, Raises Income Taxes". 7 November 2012. Ahram Online.http://english.ahram.org.eg/News/57464.aspx

9 Namatallah, Ahmed A. "Egypt's Stocks Drop to 3-Month Low as Authority Announces NSGB Tax. Bloomberg News. 26 March 2013. http://www.bloomberg.com/news/2013-03-26/egypt-stocks-drop-to-3-month-low-as-authority-announces-nsgb-tax.html

Not the time for Price increases:

GST on luxury items only

The constant attention given to the General Sales Tax (GST) is a case in a point. While the regressive GST already makes up about 38% of all tax revenues (2012-2013 general Budget), this in comparison to the 2012/13 individual income tax of about 12% and an 2012/13 corporate income tax of about 12.8%,10 the government in its latest tax reforms showed yet again willingness to increase the GST on some items, some of which may be critical to food and housing prices. While the newest Economic Reform Initiative limits the GST increase to 6 items, temporarily, the amendments made to the taxation law included increasing the GST on a variety of items, including food oils and goods produced from potato, flour and wheat.11 Not only does the increase of GST translate into an increase in prices, but it also translates into additional burdens on the citizens, especially when the GST is imposed on necessary goods and services, and not simply on luxurious products. The move to limiting the GST increases to 6 items is a good step towards protecting the lower-income citizens from the increasing prices; however, the planned move to a unified VAT as reiterated by both Economic Programs is worrying, as it will ultimately deplete the protection the state had granted to the citizens through exempting key products from taxes, or lowering taxes on crucial items. Therefore, the state should consider simplifying the GST system, and unifying some of its items under specific categories that deal the importance of the product and the effects of increasing its prices, without forcing a one-size-fit-all on all products and services.

In sum:

Regressive in tax base: Many transactions remain untaxed, especially business transactions, stock market profits, investment income and capital gains, dividends, interest, gains from stock market, and rental income.

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10 Khalil, Heba. "The Tax System and Its Latest Amendments: Same Old Policies and Neglect of Alternatives at Hand." The Egyptian Center for Economic and Social Rights. 12 January 2013.

11 Al-Gareeda Al-Rasmia. The Official Gazette. Issue 49, Annex A. 6 December 2012.

UNCALCULATED EXEMPTIONS

In addition, income tax exemptions show that a uniform exemption in income tax for the first 12 thousand pounds per year of income applies12 While this refers to extremely low incomes (still below legal minimum wage in Egypt of 1,200 LE per month), this exemption includes only the extremely poor, not all of those below poverty line. In addition, there are no calculated exemptions, for instance, for single women heading households, or for families with a big number of children, etc.

3. What is the tax/GDP ratio of your country? Would you say that the tax regime allows the State to: a) raise adequate resources to ensure the realization of human rights, including sustainable financing of social protection systems; b) mitigate poverty and inequalities; and c) ensure that rights of disadvantaged and marginalized individuals and groups are not disproportionately affected? Please explain. If the answer was negative, why are different rates or other types of taxes not in place?

In 2011, tax revenue amounted to 13% of the total GDP. While this number compares relatively low to other countries – such as Turkey (25%), Spain (32%), or Italy (43%) – tax revenue makes up between 60% and 70% of Egypt's total revenue.13 Yet, it is difficult to assess whether tax revenue will then be used to finance social protection systems, to mitigate poverty and inequalities, or to ensure the rights of disadvantaged and marginalized individuals. The Egyptian government seems to not perceive taxation as a tool to reach such goals. Taxation is used, as can be seen in the recent reforms made in the tax system, as merely a means to decrease the budget deficit and to fuel economic growth. Value Added Taxes (VATs) and other forms of indirect taxation make up a staggering 37.7% of the total tax revenue, while corporate income taxes stand at 12.8%, property taxes at 7.27%, and capital gains at 0.04%.14 This composition illustrates that the government does not aim to apply a model of progressive taxation, as the poor are likely to suffer the most from this set-up; seeing that indirect taxation and VATs make up the highest component of tax revenue. Furthermore, there are no intentions to change this composition, as the state continues to perceive the increase in VATs and the removal of subsidies as a solution to the financial challenges the country is facing. Another illustration of how the current tax system does not aim to apply a model of progressive taxation can be seen in the state's lack of desire to change the current tax exemption limit. The ceiling for exemptions currently stands at 5,000 LE (740$) per year,15 which has not changed since 2005 despite the annual inflation rate that reaches 13% at times. It is also noteworthy that Egypt's social safety net system is very deficient and applies a regressive subsidy system where the richest quintiles in society benefit the most from the government's subsidies. For instance, the richest quintile receives benefits from almost 60% of the fuel subsidies.16 This misallocation of funds can be attributed to the government's lack of ability to prioritize and to perceive taxation as a tool to provide its citizens with their needed social and economic

12 El-Gebaly, Abdel-Fattah, "Tax Policy and Social Justice in Egypt," The Egyptian Center for Economic and Social Rights, pg. 27-28

13 Khalil, Heba. "The Tax System and Its Latest Amendments: Same Old Policies and Neglect of Alternatives at Hand," The Egyptian Center for Economic and Social Rights January 2013

14 Ibid

15 Ibid

16 Joint Submission to the UN Committee on Economic, Social, and Cultural Rights, "Egypt Factsheet,"

rights. The inability to make such priorities can be reflected in the Egyptian budget, where the most necessary of sectors receive the least amount of funding –far less than global averages and what Egypt is bound to through international agreements.

4. How does the government guarantee that the design and implementation of taxation measures, as well as monitoring of their impacts, are carried out in accordance with principles of public participation, transparency, non-discrimination and accountability? Are there special mechanisms to protect these guarantees, in particular for marginalized and vulnerable groups?

The government exerts very little effort in guaranteeing that the design and implementation of tax measures are carried out in accordance with principles of public participation, transparency, non-discrimination and accountability. Tax reforms passed by a presidential decree in December 2012, in the absence of a parliament, were sold to the public as a "sin tax."17 Public figures claimed that tax rates would only increase for luxury products, such as beer, alcoholic drinks and cigarettes. In reality, a broader range of essential goods are set to become subject to higher, more regressive taxes; this is a clear case of lack of transparency and manipulation of public opinion. Once the new taxes were implemented by then President Mohamed Morsy, many protested the new changes, pushing the President to revoke the decision the next day and to postpone the implementation of the increases on indirect taxation. However, it is still unclear until this day whether any increases will occur. At the time, many stipulated that these increases were in line to an agreement with the IMF, which was also a process that lacked transparency. Other than the fact that public is usually unaware of which goods and services in particular will be subject to more taxation, the government does not apply any special mechanisms to protect the guarantees of public participation, transparency, non-discrimination, and accountability.

5. If the government has recently introduced tax cuts, which sectors of society have benefited most? How has your government justified any reduction in revenue, which may result from these tax cuts? What is your country's corporate tax rate?

No tax cuts have been recently introduced despite that there were demands to increase those that would lie in the first tax bracket in order to be exempted from taxation. Moreover, taxes are increasing for the fifth tax bracket – which is the highest – as the cut-off income has been decreased to include all those receiving income more than 1,000,000 LE a year, reduced from previously being 10,000,000 LE a year.18 While this can be considered a good step towards a more just tax system, no efforts are being made in increasing the group exempted from taxation.

17 Ibid

18 Khalil, Heba.

6. What is the fiscal pressure on the financial sector? Would you characterize the financial sector as paying a fair share of taxes? On what basis?

As has been emphasized in this document, the majority of tax revenue is collected through income taxes and taxes on goods and services. The division of the total tax revenue is divided asfollows:19

State General Budget – Total Taxes 2012-2014	100%
Total Taxes on Goods and Services	37.73%
Taxes on Petroleum Authority and Suez Canal Profit (Nationally Owned Bodies)	25.79%
Taxes on Other Companies Profits	12.80%
Individual Income	11.21%
Total Taxes on Property	7.27%
Taxes on Capital Gains	0.04%
Other	5.16%

From this division, we can deduce that the financial sector is not paying a fair share of taxes and that the ordinary citizen, affluent or not, is bearing the most costs. As can be seen from the above table, individuals pay the around the same amount of taxes as corporations (11.2% and 12.8% respectively), not taking into account the additional burden they face with indirect taxation on Goods and Services (VATs) – which alone, is almost 40% of the total tax revenue. Unfortunately, citizens are not receiving the kinds of services that they would expect from the expenses they are bearing through taxation. It is on this basis that many communities across the nation have resorted to stop paying taxes in protest; which can be illustrated in the experience of Tahsin – a small village in the Egyptian delta – among a number of other impoverished communities across the nation.

7. Are there any particular industries that receive tax subsidies (for example, agriculture, housing)? Are these subsidies related to government's commitments to specific human rights (for example, right to adequate housing or food), or do they follow other human rights-based rationale?

The following types of profit and revenue accruing to juristic persons are exempt from taxes under Law No. 91:

Profits from reclamation or cultivation of reclaimed land for a period of 10 years starting from the date of beginning the activity

Profits from animal, poultry and fish production for a period of 10 years starting from the date of beginning the activity

19 Ibid

However, due to corruption and lack of oversight, these two exempted types of profit and revenue areabused.20

By the same token, these are exemptions with NO human rights rationale, a mere tax incentive to investors:

Revenues from investments in securities that are listed on the Egyptian stock exchanges

Returns on bonds and securities listed on Egyptian stock exchanges and returns on investment funds established in accordance with the Egyptian stock exchange law

Distributions and profits obtained by Egyptian-domiciled persons from their participation in other-domiciled juristic persons.

Returns on securities issued by the Egyptian Central Bank and held by juristic persons or the returns from dealing in those securities.

8. Has your government proposed or supported increased intergovernmental tax cooperation? What is its official position on tax havens? What is its official position on illicit flows of capital, e.g. measures to stop transfer pricing, proposals on country-by-country reporting, automatic exchange of information, disclosure of beneficiary ownership?

Egypt participated in a special meeting of ECOSOC on "International Cooperation in Tax Matters," in June 2013, demonstrating its intention to cooperate in such an initiative. In this meeting, Egypt agreed with other participating countries on the need to strengthen international cooperation in tax matters and on the important role that the UN can play in countering international tax avoidance and tax evasion. Among the recommendations that Egypt agreed to is one proposed by Mr. Thomas Neale, of the European Commission to fight against tax fraud and tax evasion; including a fight against tax havens. Furthermore, it supported the G-77 proposal on the conversion of the Committee of Exports into an intergovernmental body that would provide developing countries with a level playing field through having an "equal voice" todevelopedcountries.21

9. Has your government proposed or supported international tax policies such as a financial transactions tax? If so, please specify in which form. If not, please explain the nature of its objection. Do revenues from such taxes (if in place) go into general revenue or are they earmarked for specific sectors or programmes? If the latter, which programmes?

No, it has not proposed or supported international tax policies, out of fear of displeasing investors as shown above with the capital gains tax.

20 An example of this is illustrated in: El Badrawi, Mahinour, "From Hasaneyeen to Palm Hills: comparing state land policies," Egyptian Center for Economic and Social Rights

21 Details on this meeting can be found through visiting: http://www.un.org/esa/ffd/tax/2013ITCM/Tax_newsletter6_june2013.pdf

10. Is your government party to international investment or trade agreements that curtail your country's capacity to levy taxes, or the capacity of your partner country/ies to levy taxes? Is your government party to investment contracts or concessions that restrict your government's ability to levy taxes on certain companies or sectors? What measures (if any) were taken to mitigate impacts of these limitations on your country's (or other countries') ability to raise adequate resources in order to fulfill human rights obligations?

Law no. 186 of 1986 regulates the special exemption of taxation to foreign investors and to certain sectors. These sectors included activities of the Ministry of Defense pertaining to military production for arming purposes and any activities taken with aim of "national security." Furthermore, Egypt is party to a number of Free Trade Organizations, including COMESA, GAFTA, the EU Association, Mercosur, EFTA, Agadir, and an FTA with Turkey. Egypt is also a signatory party to around 100 Bilateral Investment Treaties – according to UNCTAD records.[22]Within these agreements, custom exemptions are made to many of the imports coming in from the signatory states and on the investments made by foreigners from countries that Egypt signed BITs with. This translated to a drop in the percentage of customs to total tax revenue from 17.6% in 2003/2004 to 7.6% in 2012/2013.[23] The measures taken to mitigate the impact of such limitations were simply to increase the revenue from other sources, including income taxes and taxes on goods and services; which explains why Value Added Taxes (VATs) have increased in previous years. This of course can act as an impediment to the state's ability to fulfill human rights obligations as it decreases the income of those most in need of the state's services.

22 Zayed, Hatem, and Heba Khalil, "Egypt and International Arbitration: Protection of Investor with no Consolation for Public Money," The Egyptian Center for Economic and Social Rights. PDF available at: http://ecesr.org/en/?p=421419
23 El-Gebaly, Abdel-Fattah, "Tax Policy and Social Justice in Egypt," The Egyptian Center for Economic and Social Rights,

SPENDING

1. Are gender equality and economic and social rights criteria considered in budget planning and execution? If so, how are they integrated and monitored? Since when? Have you or your government been able to track the effect of these criteria? If so, what results have you obtained by applying these criteria?

In a review of the planning of the budget for 2010/2011, the Egyptian state issued a document that posits that fair distribution among different social classes is necessary while taking into consideration gender equality.24 In so doing, the Egyptian budget was divided based on gender; yet, it demonstrated a wide disparity in the division. The Egyptian budget is divided into four main areas: Wages, Goods and Services, Interest, and Social Security, Subsidy, and Social Protection. Due to the imbalanced labor market between males and females, the allocation of funds was also imbalanced. For instance, in the 2010/2011 budget, under wages, the division was 57,947,768 LE for men and 32,268,650 LE for women. Under government procurement in goods and services, men received 13,204,730 LE and women received 7,810,883 LE. Under Interest, men received 300,073 LE while women received 152,232 LE (around half that of men). Finally, for Social Security, Subsidy, and Social Protection, men received 6,647,310 LE, while women received 5,235,472 LE. There have been no mechanisms by the government to ensure that this allocation reaches citizens as planned, and Civil Society Organizations (CSO) have not been equipped with the needed tools to make that assessment either. Furthermore, socio-economic differences are not taken into account in the design and planning of the budget.

2. Has your government engaged, or is it planning to engage, in fiscal austerity measures, such as cutting spending on social services? If so, what safeguards did, or will, it put in place to ensure that such measures are consistent with human rights obligations? Are the cuts temporary or permanent? Are they necessary in the sense that their absence would have meant greater harm to economic and social rights of the population? Has the government identified the minimum content of rights that should not be affected? Have the cuts been accompanied by mitigating measures to ensure that vulnerable and marginalized populations are not disproportionately affected? If yes, please provide examples of some of those measures.

Not only has the general spending on health, education and housing, as percent of the total budget expenditures, decreased over the past years, but a targeted measure to cut food subsidies, and key oil, electricity and gas subsidies have been led, without regard to more equitable alternatives, and without being accompanied by mitigating measures. While the subsidy system in Egypt is highly inefficient and very regressive, it still provides protection to the livelihoods of many poor Egyptians. For instance, 2011/ 2012 Energy subsidies make up about 20% of total state expenditures, 182% of public expenditures on education and 407% of spending on health.25 This calls for a need to reform. However, state plans to reform targeted increasing the expenses of the household-used Butane gas (prices were tripledby the end of 2012), prices of electricity equally increased for households, while remaining at the same rate for corporations and commercial use.

24 See the "Analysis of public expenditure on services based on gender," prepared by the Ministry of Finance. PDF available at (Arabic only): http://www.mof.gov.eg/MOFGallerySource/Arabic/Mwazna2010-2011/gender10-11.pdf

25 EIPR.Energy Subsidy in Public Budget: Proof of Social Injustice. Egyptian Initiative for Personal Rights. 2012.

3. What measures were put in place to ensure public participation, transparency, non-discrimination and accountability in the design and implementation of spending cuts and in the monitoring of their impacts? To what extent do these rely on disaggregated data by sex, age, income and place and up-to-date information on poverty?

No measures were taken to ensure citizens' rights in accessing information or monitoring impacts regarding public spending, particularly in the case of spending cuts on health and education services. Although the ministry of finance has shown increased levels of transparency regarding publishing information, publishing the enacted budget of fiscal year 2013/2014 was delayed from July 2013 to October 2013 for reasons associated with the political circumstances at the time. Once the changes regarding the budget were adopted by the current temporary government, documents were published immediately on the website. Yet, statements from the Minister of Finance were quite shocking, as he mentioned the increase in the budget while stating that the sources of this increase will not be revealed. The absence of such measures are more apparent once investigating budget allocation, where evident inequality of public spending regarding health and education services across governorates is clear.

Nevertheless, the government is clearly demonstrating efforts in publishing its information on a more readily basis, increasing transparency, and allowing citizens to hold their government accountable; which can be an important tool for citizens and civil society organizations to illustrate the violations of economic and social rights.

4. What is the distribution of expenditure between different social groups (e.g. women-men, rural-urban, different age groups)? What percentage of the national budget does your government allocate and spend on health services, public education, and social welfare compared to military expenditure?

In this question we can shed light on the government expenditure allocated to health, or moreappropriately its misallocation. The distribution of expenditure is usually made public by the government in the forms of wages, interests, purchase of goods and services, and subsidies, grants and social benefits. The end value of expenditure is not usually known, and thus we can use data concerning the expenditure patterns of the different social groups to understand the allocation of expenditure to them. Public expenditure on health accounts for 25% from the government as opposed to 72% from out of pocket expenditure (NHA 2008/2009). The remaining (2%) is paid for by external sources and private employers.Only half of the populationis covered by health insurance, and the lowest percentagesfor populations covered is found in the rural areas of Upper Egypt followed by the rural areas in Lower Egypt, where they account for 19.4 % and 24.2% respectively.26 This increase essentially reflects an increase in the out of pocket expenditure and a decrease in government spending and accountability for health services. An increase in expenditure was also most noticeable for those outside the labor force as opposed to those working for pay. Expenditure on public hospital services account for only 2.2% out of a total of 15.4% of total hospital services utilization. It is noteworthy that the percentage of expenditure on private hospitals is much higher than that for public hospitals for all the segments of the population, accounting for 6.7% for the poorest segment to 14.1% for the richest segment.27 That being said, we find that 65.35% of health units with beds are found in the private sector, as opposed to 54.65% in the public

26 Egypt Household Health Expenditure and Utilization Survey, p.71, 2009/2010

27 Ibid, p. 26

sector. In general, female spending is higher than that of males, where the former spend 23% more than the latter, which can be explained by the fact that the informal sector of the economy accommodates more females than males and thus fewer females are covered by health insurance.28 If we come to look at household income, we find that even though the highest income segments spends the most on healthcare services, the lowest income segments are the most to spend on health out of their households income accounting to 21% as opposed to the highest income spending which accounts to 13.5%. The poorest segment are the most likely to use public facilities for health care, however we find that most of its utilization is on pharmacies or private clinics. They are also less likely than others to use HIO (health insurance facilities) as they are less likely to be insured.29 The rate of being uninsured is higher for females, those living in rural areas, and those in the lowest income segment.30 As for age, we find that from the age of 5, health expenditure increases by around 40% for each age group. The highest expenditure is for those over the age of 60, and for the age group below five as infants and toddlers are in need of continuous health care.31

There is a huge discrepancy found between the health services in rural and urban areas. According to CAPMAS32, the percentage of beds in rural areas accounted for only 7.3 % to total number of beds, whereas the percentage of health facilities in the rural areas accounted for 25.3% as opposed to 75% in urban areas. Further, misallocation of services is found in the distribution of doctors, where 33.4% of certified doctors are allocated to the three main urban governorates; Cairo, Giza and Alexandria – while 9% are allocated to the Upper Egypt region which accounts for almost 30% of the population. The percentage of ambulance service points can be taken as another indicator for misallocation of services between the different regions of Egypt, whereby 35% are allocated for Cairo, Giza, Alexandria which account for 21.8% of the total population according to the 2009 CAPMAS survey, whereby in Upper Egypt, ambulance service points accounted for 20.3% to service 28.9% of the population, and in Lower Egypt the percentage was 32.3% to service 44.5% of the population.33 These representative figures of the misallocation of health resources are essentially a representative of the small budge allocated to it. According to government's budget for the financial year 2013/14, the percentage of national budget allocated to health is 4.02 %, education accounts for 9.92 %, social protection for 23.5%, and defense for 3.79 %. However, "Estimates of the military economy range from 5 to 40% of GDP, with no accurate figures available due to exemptions of oversight" (Joint Submission for the Committee for Economic, Social and Cultural Rights, Periodic Review of Egypt, 2013, p. 12).

5. What percentage of the national budget goes to service debt? Is that level of payments consistent with spending needed to comply with your government's human rights obligation?

In the 2013/2014 national budget, the percentage allotted to the repayment of local and foreign debt reached 14.0%. It is noteworthythat the budget has witnessed particularly low budgetary allocations to the most essential of sectors; including health, education, housing, water and sanitation, and social security. It is also criticized for reductions in food subsidies and the increasing recourse to regressive indirect taxes. The misallocation of funds in the

28 Egypt Household Health Expenditure and Utilization Survey, p.38, 2009/2010

29 Ibid, p. 41

30 Ibid, p. 73

31 Ibid, p.39

32 CAPMAS, Health Statistics 2011

33 CAPMAS, Ambulance Statistics, 2009

budget can be illustrated when noting that the budget allocated to the repayment of the foreign and local debt service is more than the health and education sectors combined. Hence, the level of spending allocated to these sectors is not adequate when measuring the extent to which the government complies to its human rights obligations.

In negotiating with international financial institutions, the Egyptian government puts a number of matters at risk;including its international human rights obligations, its commitment to limit the violation of essential rights in the transitional period, and the proliferating percentage of the budget that will go to loan repayment. Ultimately, the result of these faulty negotiations is that the government is tied by its duties to repay loans and unable to fulfill its duties towards its citizens.

6. What is your assessment of the Government's capacity in terms of tax collection, treasury management, budget execution, accounting and auditing?

Egypt's capacity is lacking in two important respects: one in reaching out to the vulnerable households, to identify those most in need of tax exemptions, or those in need of subsidy assistance or cash transfers or other. A key problem with any solution under study at the moment is the governments' inability to reach the vulnerable households, and the poor institutional capabilities which leave subsidies prey to corruption and theft. Whether it is through ration cards, or cash transfers, there is a persistent administrative problem that needs to be tackled first.

Smart cards can be a good way to allocate subsidies to its beneficiaries. But whether the smart cards system is successful or not, will depend on the state's ability to manage and administer this system. So far, the state's ability to manage a similar system, the ration cards system for food goods, was very questionable. Several studies have shown that the most vulnerable household either have no access to the ration cards, or are allowed insufficient amounts of subsidized goods on their ration cards. Most notably, the Egyptian Food Observatory, a body of the Cabinet showed in a report that, in 10 governorates sampled, on average 20.1% of vulnerable households do not hold a ration card for subsidized food. These numbers are even higher in the governorates of Cairo (36.9%) and Alexandria (32.1%)34. There is nothing in the government plan to suggest that the same inefficiency will not be repeated in the reformed energy and food subsidies, in case smart card systems are introduced for farmers, drivers or households, or even cash transfers are planned as mitigating measures.

And secondly, there is lacking in tax authority's capacity to collect taxes efficiently. The large informal sector, which continues to grow, means that the tax base by default is much narrower than the potential tax revenue. There have been little if any attempts to think about ways of encouraging the informal sector to register or pay taxes, even in the form of tax incentives or low tax rates.

34 Egyptian Food Observatory, Food Monitoring and Evaluation System: Quarterly Bulletin, Issue 9 (July- September 2012). Available at:http://documents.wfp.org/stellent/groups/public/documents/ena/wfp253450.pdf.

Egyptian Center for
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