Fiscal Systems and Social Justice in Egypt. Response to Millennium Challenges

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Abstract
This paper studies the relationship between Egypt's achievements in relation to the Millennium Development Goals (2000-2015) and the fiscal policy parameters. In Egypt, and despite ever-rising government revenues and expenses, achievements of MDGs were mixed at best. There has been some improvement in education goals, due to higher and more gender-equitable distribution of school enrollment, as well as lower infant mortality rates and longer life span. On the other hand, poverty levels have been rising, coupled with an alarming increase in malnutrition.
We postulate that these mixed results can be explained by the dynamics of revenues and expenses policies. The ability of the country to support policies aimed at reducing poverty, hunger and illiteracy depends on its ability to raise taxes and fund social programs. On the revenues side, there has been an inordinate reliance on sales and indirect taxes, resulting in an increased burden the poor part of the population. A widening budget deficit was largely covered through increasing public debt. Servicing this debt became the largest item in government expenditure, outstripping government salaries and wages and crowding out investment resources for the private sector. These policies added to the precarious conditions of the poor people, who find less employment opportunities and have to carry the burden of high interest payments through a regressive tax system. On the expense side, the real value of the wages of public employees and pensions declined.
As Egypt moves towards a new strategy to achieve a second round of social policy objectives, namely the Sustainable Development Goals, a closer discussion concerning the social and economic policy objectives and a commensurate fiscal policy is required.

keywords: Egypt, Budget, Millennium Goals, Fiscal Policy.

1. *Introduction*

This research is an extension of an earlier paper by El-Sabie and Soliman on “Fiscal Policies and Equity: The Case of Arab Government’s Post-revolutionary Budget”. While the earlier paper focused on equity issues, this paper extends the research to the Government's social and developmental program. One improvement introduced is the use of a common yardstick to gauge the performance of the Egyptian policy makers in the area of social development and equity, namely the UN Millennium Development Goals (MDGs) and, more specifically, in the area of poverty alleviation, health, education and social justice.

These goals, universally accepted, and largely followed by the Egyptian government since the early socialist days of the 1960's have come under severe pressure due to limited budgetary resources and changing priorities. Moreover, the commitment of the Egyptian governments to pursue these goals came under severe scrutiny as the political elite switched to a more capitalist orientation, especially under the last Prime Minister of the Mubarak regime, Dr. Ahmed Nazif, 2005-2011. During this period drastic reductions in income taxes were introduced, while the government continued an active program of privatization of state enterprises, including with the sale of a number of public sector banks and state enterprises. The state also shaved many of the social programs and reduced subsidies and public employment.

Despite a significant increase in foreign direct investments and a rapid increase in GDP growth, these positive trends were not widely shared and income distribution continued to deteriorate. Also, a large increase in government expenditure was not matched with a commensurate increase in revenue. The resulting increase in deficit was largely financed through borrowing from local banking sector. In the end, the government had to decide whether it should curtail spending on essential programs or to service its debt. A third option of raising taxes was pursued, which resulted in a wider coverage of the general sales tax, originally introduced in 1991; subsequently, an alternative 13% general value added tax was introduced under the International Monetary Fund (IMF) program in November 2016.

2. *A Bumpy Ride for Budgetary Policies*

Governments, especially those democratically elected, may look at their revenue raising and spending activities as part the system for setting their political priorities. Policy makers would always have to balance between the population's demand for services and their ability to keep the electorate happy as to the level of taxation which they consider to be reasonable and equitable (Schick, 2007).

In other words, the social welfare function, as viewed from the politicians' point of view, includes both the level of services offered and the level of acceptance of taxation, especially from powerful social groups. In the case of Egypt, the latter group would include, the rich and high-income classes, i.e. those who are able to save, invest, and finally support the politicians.

Since the "open door" policy of President Sadat in 1974, there has been a tacit understanding that the government will guarantee certain levels of basic goods and services, through a combination of price subsidies or ration cards. Also, the government was the employer of last resort for many years. As budgetary pressures continued, the government had to face the uneasy choice of reducing services or raising taxes. This social contract was gradually modified or diluted as neo-liberal policies began to dominate the political scene especially, with the onset of the new millennium and the rise of the star of the heir-apparent "Gamal Mubarak", the chosen son of the President. These new policies were embodied in an accelerated privatization program, a new tax Law No. 91 (Ministry of Finance, 2005) which reduced the highest tax brackets on personal income from 30% to 20%; similarly, for company taxes the highest marginal rate was reduced from 32% to 20%. The same law forgave previous tax evaders, provided they agreed to settle part of their unpaid taxes and register with tax authorities.

Despite a marked increase in the GDP growth rate, the resultant prosperity was not felt by the majority of population. A World Bank report frankly asserted that, during 2005-2010, "Unfortunately, Egypt’s economic growth was neither sustained nor inclusive, and even periods of rapid growth have not resulted in poverty reduction or improvements in shared prosperity" (World Bank, 2015). Many commentators attribute the January 2011 Revolution to rising income disparities and increased economic difficulties for the majority of the population.

The post-revolutionary policies adopted various reform slogans. All the same, the impact of these ideologies on the economic conditions of the population was mixed.

We shall discuss in this paper how the achievement of the UN agreed Millennium Development Goals was affected by the fiscal regime followed by the Egyptian government between 2000 and 2005. For the rest of this paper, we shall first present an overview of the status and performance of the State budget. Then present Egypt's success in achieving 2000-2015 MDGs. Finally, we shall relate this performance to fiscal variables.

3. Status and Performance of Egyptian Budget 2001-2016

A study of the status and performance of the Egyptian Budget for the New Millennium shows certain distinct features. These include excessive reliance on sales and indirect taxes as a main source of revenue, burgeoning deficit as ordinary revenue does not cover the budget expenses, declining share of subsidies and wages in total expenses and increased share of interest payments as national debt grows.

i. Heavy Reliance on Indirect Taxes

It is an established fact that the Egyptian budget relies mostly on indirect and sales taxes. This trend accelerated after 2011 (2013). Before the January 2011 Revolution, the fiscal authorities relied mostly on commodity taxes to respond to its expenditure pressures. K. Ikram concludes that the main purpose of the tax system in the period of 1965-2000 was to raise revenue (Ikram, 2006). He emphatically states that “considerations of incentive, efficiency and equity were less evident”. He further observes that the Egyptian tax system during this period was largely regressive, as 50 to 60% of the tax revenue was coming from commodity taxes.

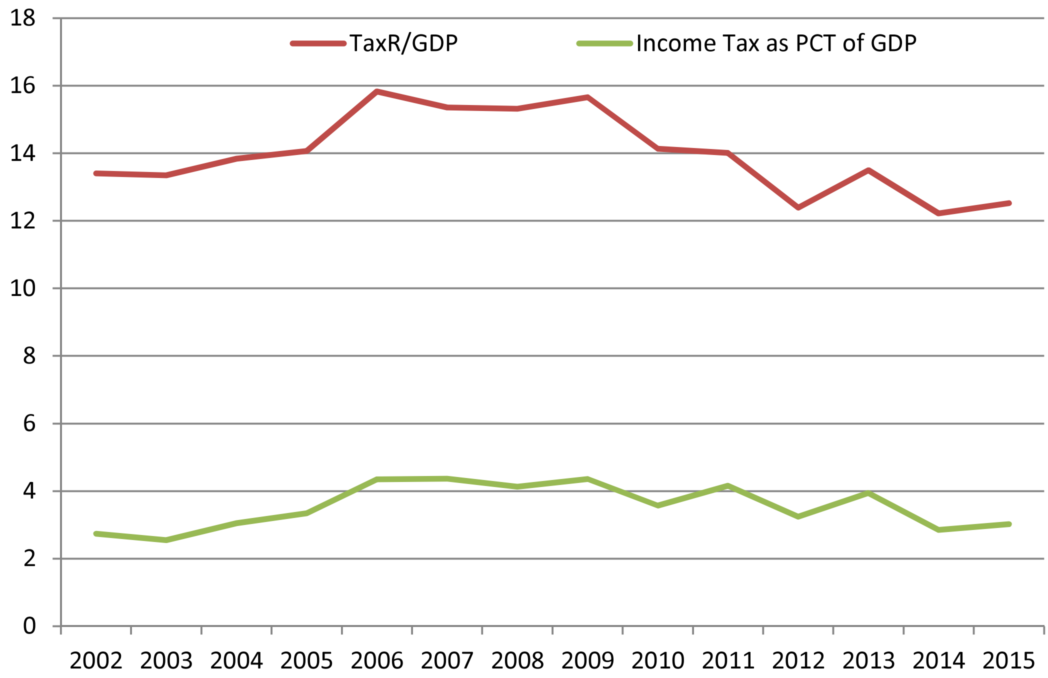
The author's own analysis shows that this statement held even more true in the decade preceding the January 2011 Revolution. Despite a robust increase of taxes on incomes and capital gains, the increase in commodity taxes was faster. At the end of the period, the tax on incomes and profits even declined (2013).

According to World Bank data, the share of taxes on incomes, profits and capital gains initially rose from 40.6% of total tax revenues (2005 financial year) to 51.2% (2008 FY); then, it declined to 44.9 % (FY 2011). It is to be noted that almost 80% of tax revenues reported as taxes on incomes, profits and capital gains came originally from Government and public companies. These include the Suez Canal Authority, the General Organization for Petroleum (which receives all oil revenues), public sector banks and electric energy companies (World Bank, several years).

Those revenues should be categorized as return on public property rather than taxes on profits. We also find that the tax effort in Egypt is low compared to other countries of similar per capita income, and reliance on taxes on incomes and profits is dwindling - rather than increasing - with respect to GDP growth. In sum, most of the increase in tax revenue in the new millennium was attributed to sales and indirect taxes. It goes without saying that this heavy regressive tax structure burdens the poor.

Fig.1 shows progress of total and direct taxes as percent of GDP: both continued to decline during the period 2006-2015.

Figure 1 - Income Tax and Total Tax Revenue as Percent of GDP



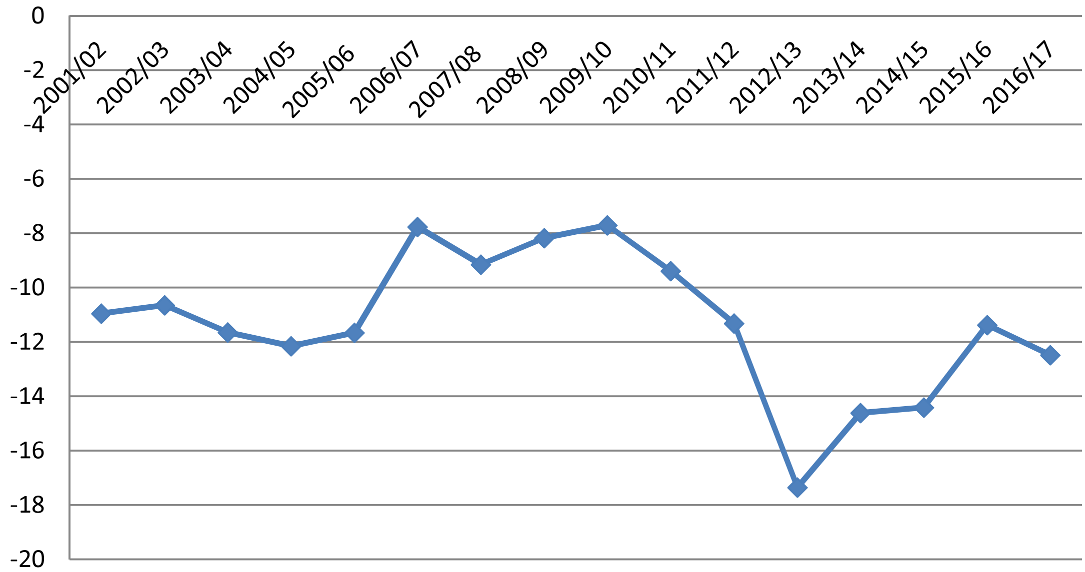
Source: Calculated by the author from WB data (World Bank, several years).

ii. Burgeoning Budget Deficit

The last years of the Presidency of Hosny Mubarak have seen a large increase in budget deficit. This trend increased greatly in the years following the January 2011 Revolution.

As Fig. 2 shows, the cash deficit of the budget reached a record 17% of GDP in FY 2013/14.

Figure 2 - Budget Cash Deficit as Percent of GDP, 2001-2016

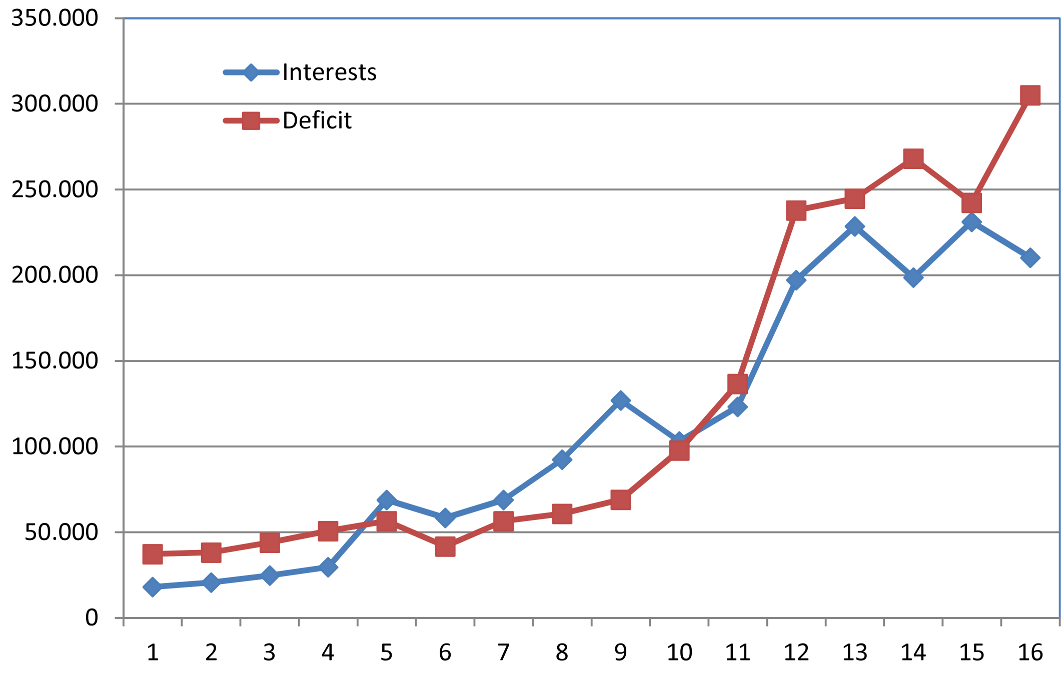


Source: Calculated by the author from Ministry of Finance (MOF) and World Bank data, several years.

iii. The Illusive Search for a Balanced Budget

Whether a government spends more because it is able to raise revenue or, on the contrary, it raises revenues in order to spend more, has always the dilemma. Not surprisingly, in a study about Egypt and Jordan the authors conclude that "empirical findings for Egypt indicate a unidirectional causation from revenue to spending, with higher revenue leading to higher spending (AbuAl-Foul & Baghestani, 2004). In fact, the relationship between revenue and spending was never ambiguous. It seemed that the fiscal authorities in Egypt followed a policy definable as "spend first, and raise revenue or debt later". A similar result is reached for Pakistan (Jamshaid, Iqbal, & Siddiqi, 2010).

Figure 3 - Interest Expense and Total Budget Deficit, 2001-16



Source: World Bank, several years.

Khalid Ikram (2006) had an interesting analogy. He proposed that expenditure was growing according to a geometric progression, while revenue was increasing only at a mathematical progression. He concluded that Egyptian authorities would spend first and then try to raise revenues or resources to cover these expenses. He estimates that budget deficit during 1981-1990 averaged 18% of GDP (Ikram, 2006, p. 65). Thanks to the Economic Reform and Structural Adjustment Program (ERSAP) concluded with the IMF in 1991, a drastic decline in expenditures, coupled with an increase in revenue, resulted in an overall decline in budget deficit, from 15.3% in 1991 to 0.9% in 1997. A change in the Government[1] in November 1999 brought back a period of reckless spending and renewed deficits. The deficit situation improved slightly in 2005-2010 but began to rise again after the January revolution of 2011. The last two budgets prepared after the conclusion of the IMF Standby Agreement of November 2016 estimated a large increase in revenues and a reduced deficit.

[1] Most of the hard ERSAP decisions were taken by the Cabinet of Dr. Atef Sedky (1987-95). The following cabinet of Dr. Kamal El-Ganzouri (Jan. 1996- Nov. 1999) pushed further in administrative and financial reform. Also, the privatization program was launched in earnest.

4. *Status of Achievement of MDGs*

The UN MDGs are the primary responsibilities of national governments with assistance from the global community. They can be grouped into 7 original goals, as follows (UN MDG Gap Task Force, 2015):

Goal 1: Eradicate extreme poverty and hunger

Goal 2: Achieve universal primary education

Goal 3: Promote gender equality and empower women

Goal 4: Reduce child mortality

Goal 5: Improve maternal health

Goal 6: Combat HIV/AIDS, malaria and other diseases

Goal 7: Ensure environmental sustainability.

An 8th goal was added regarding international cooperation and assistance, namely to "develop a global partnership for development." There was a lot of optimism about the possibility of achieving these MDGs in Egypt.

In a El-Saharty et al. study prepared by the World Bank (El-Saharty, Richardson, & Chase, 2005), Egypt was considered to be in a good position (in 2005) to achieve most of the MDGs. This study also states that Egypt's national priorities were in line with the MDGs, so the realization of these goals seemed to be feasible. It is our purpose in this paper to see if this was truly the case. We shall discuss how Egypt was successful in attaining three main MDGs, namely Poverty Reduction, Elimination of Hunger, and Education Attainment in detail.

i. Goal 1: Reduce Extreme Poverty

Although this MDG requires an action to reduce poverty rates by the end of 2015 to half the rate it was during the base year 1990/1991, the proportion of poor people, as measured by the national poverty line[2] (estimated at US $ 1.90), has been rising since 2004/05. The proportion of poor people rose from 19.6% in 2004/05 to 21.6% in 2008/09. This rise can be attributed to the economic, financial and food crises, and their economic, social and political impacts,

[2] The Egyptian poverty level was estimated, in 2015, at LE 482 per month. This is equivalent to US 1.90 per day at the then prevailing exchange rate. (28 percent of Egyptian population lives below poverty line: CAPMAS, 2016)

witnessed by the end of this period. Due to the events of the January 2011 Revolution, the poverty rate jumped to 25.2% in 2010/11 and then to 26.3% in 2012/13, with an increase of 22% in the poverty rate compared to 2008/09.

In 2015, the share of poor people was more than twice the rate targeted by the end of 2015, at approximately 27.78% (given that the poverty rate in the base year 1990/91 was 12.1%). This means that about 23.5 million people were unable to meet their basic food and non-food needs. It is even more worth noting that the poverty level was higher in rural areas and especially in Upper Egypt. On average, poverty ratios in rural governorates more than doubled the level reached in urban governorates.

The following table shows the development of poverty and nutrition indicators.

Table 1 - Development of Selected Poverty and Nutrition Indicators, 2000-2015

KPI/Year	2000	2004/05	2008/09	2010/11	20012/13	2015
Poverty rate (national)	16.74	19.56	21.56	25.20	26.29	27.78
Poverty rate (urban)	9.21	26.84	10.98	15.30	17.59	16.70
Poverty rate (rural)	22.07	10.06	28.94	32.30	32.38	36.13
Caloric deficiency	--	--	20.35	17.70	12.98	16.33

Source: Data prepared and kindly supplied by Prof. Heba El-Laithy, based on data from CAPMAS, Household Income, Expenditure and Consumption Survey (HIECS), various years. Cf. also Breisinger, Clemens et al., 2013, Tackling Egypt's Rising Food Insecurity in a Time of Transition, IFPRI, Policy Note, Washington, D.C.

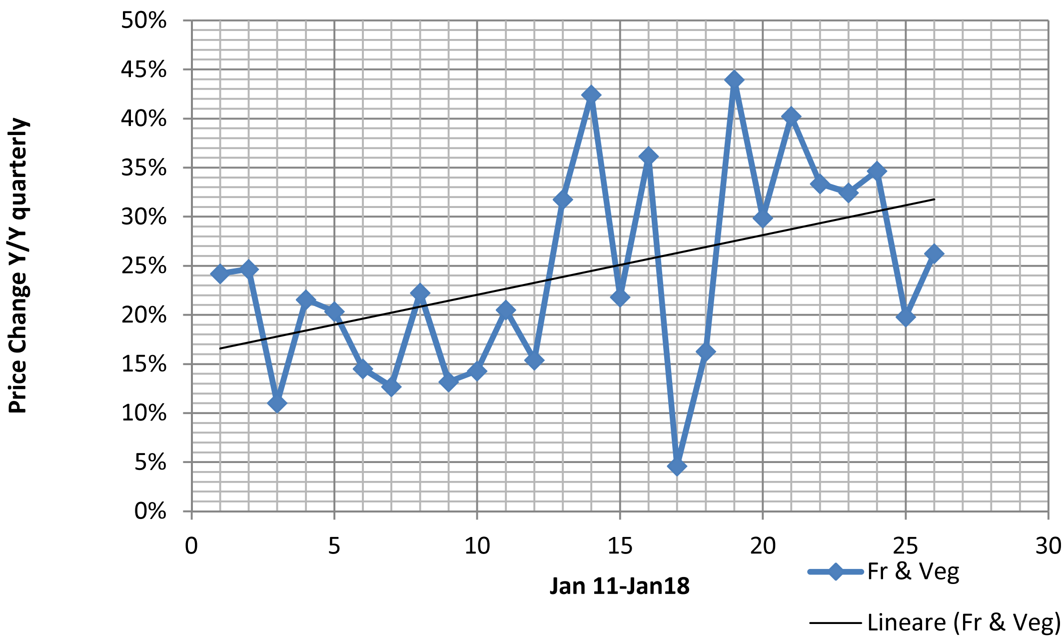
National data clearly show that there has been a continuous increase in the proportion of people falling below the poverty line. In addition to the failure to achieve the poverty alleviation goal, there was big disparity in the level of extreme poverty in various governorates, with rates of poverty at twice the national average in Upper Egypt.

A UNDP report ventured to assess the reasons for Egypt's failure to achieve significant reduction in poverty (UNDP, 2015) . It attributed the main reasons to fluctuating rates of growth, declining investment and saving ratio, and declining public investment to gross development investment (GDI). During the period from 2000/01 to 2007/08, the share of public investment in total development investment fell from 49.4% to about 35.3%. Though it rose to about 51.6% during the global crisis year of 2008/09, after the State had started to inject investment packages to stimulate and support the Egyptian economy, it soon fell to 33% (its lowest level) in 2011/12, then it rebounded again as of 2012/13, until it reached 37% during 2014/15. It was planned to reach 43.2% during 2015/16. This crucial contributor to poverty reduction was also unevenly distributed among various regions, with particular bias for urban and lower Egypt governorates.

The proportion of poor people is likely to have continued to rise in 2016-2018, due to the devaluation of the Egyptian Pound (EGP) by more than 60% and the subsequent rise in the price of food, fuel, transport and basic services.

Of particular note is the galloping inflation in the price of food items, especially fruits and vegetables. Although Egypt is almost self-sufficient in fruits and vegetables, it was surprising to see the rapid inflation in the price of these domestic products in response to devaluation of the Egyptian Pound in November 2016. The explanation lies in the fact that these products are affected by the increase in the cost of fuel, fertilizers, pesticides and other agriculture inputs. These in turn are directly affected by the removal of fuel subsidies, and export prices for petrochemicals and fertilizers. The following chart shows the year-on-year rise in the price of fruits and vegetables (an important component of Egyptian diet) during the period January 2011-January 2018 (quarterly figures). In recent years, the annual increase in Fruits and Vegetables Price Index reached 45%.

Figure 4 - Annual Inflation in Fruits and Vegetables
Quarterly Data (Jan. 2011-Jan. 2018)



Source: Prepared by the author from the Central Bank of Egypt, based on CAPMAS data.

The UNDP (2015) report indicates that another reason for failure to achieve these MDG's was the continued increase in unemployment rates, especially youth unemployment, which in 2013/14 had reached 39%. Other reasons for continued poverty are the low education levels, poor health and high population growth rates.

We believe that the explanation of most of the increase in poverty in Egypt is related to the dynamics of the State budget. These include the uneven distribution of tax burdens, the reduction in real government wages, and the quick withdrawal of the government from the area of public employment. Finally, the reduction of subsidies has meant, in effect, that poor people become more vulnerable to price increases and actual hunger.

Let us start by looking at wages. According to official statistics, and due to extreme popular pressure in the aftermath of the January 2011 Revolution, government wage bill increased from EGP 85,369 million in FY 2011 to EGP 225,513 million in FY 2016, i.e. a 164% growth. In the meantime, the general Consumer's Price Index (CPI) increased by only 93.1%, so in effect this would translate into an improvement in the standard of living of government workers. We shall not talk about possible maldistribution of government salaries, where certain groups and high officials were able to gain substantially higher salaries and retirement pensions than the rest. Even if the increase in wages was uniform, many would argue that the general CPI may not be the best measure of purchasing power. As government employees tend to have lower wages than the average, a higher percentage of that income goes to food and essential items. A more suitable price index would be the fruits and vegetables (F&V) price index published by the Central Bank of Egypt. This F&V has seen leaps and bounds since the January 2011 Revolution. According to CBE data the F&V Index increased by 219% in the six years following the revolution.

Using this index, we find that real government wages declined by 17.5%. Another item in the budget that affects the public is that of “subsidies”. This item may reflect real outlay by the government to reduce the cost of bread, oils and fuel distributed through ration cards or to special deserving group. The total amount of subsidies increased by 168.7% from EGP 102,974 million. Once again, if we applied the F&V Price Index, subsidies would have declined by 15.8% over the six post-revolutionary periods.

Form the above, we conclude that government is using inflation as a way to redistribute tax burden. The losing party is comprised of fixed income earners, government employees and pensioners.

ii. Goal 2: Elimination of Hunger

As mentioned above, one of the MDGs is the improvement of the nutritional status of the population and the reduction of hunger. Here again, Egypt failed to make much inroads in this area.

As the World Bank observes, “Income poverty is strongly linked to incidence of food insecurity and malnutrition in Egypt, where 15.9% of the population were found to have poor access to food” (World Bank, 2015). Poverty and food insecurity in Egypt have risen significantly over the three years following the January Revolution. The World Food Program (WFP) (The Status of Poverty and Food Security in Egypt: Analysis and Policy Recommendations, based on analysis of the CAPMAS 2011 Household Income and Expenditure and Consumption Survey [HIECS], 2013), estimated that 13.7 million Egyptians, or 17% of the population, suffered from food insecurity in 2011, compared to 14% in 2009. Available data shows some improvement in subsequent years, but the degree of children malnutrition continues to be high.

Another in-depth study of the Egyptian nutrition status asserts that the high “stunting rates” for children below 5 years of age “are usually seen only in developing countries with much lower national income levels than Egypt's” (Ecker, Al-Riffai, Breisinger, & El-Batrawy, 2016). Findings show that the poorest families spend more than half of their average households on food and often buy less expensive, less nutritious food.

The economic cost of malnutrition is substantial. According to the WFP (World Food Program, 2018), it is estimated that the economic and social cost of child undernutrition in Egypt in 2009 was EGP 20.3 billion and, in the absence of measures to combat it, this cost is expected to increase to EGP 26.8 billion by 2025. In addition to income poverty, low levels of nutrition awareness and unhealthy eating habits contribute to malnutrition among poor and vulnerable households.

According to a previous study by the WFP (World Food Program, 2013), malnutrition rose in 2011, with a stunting rate of 31% in children under five years of age, up from 23% in 2005[3]. The same report indicated that “in nine governorates across all regions in 2011, just over half of children under five were estimated to suffer from anemia, classified as a ‘severe public health problem’ by

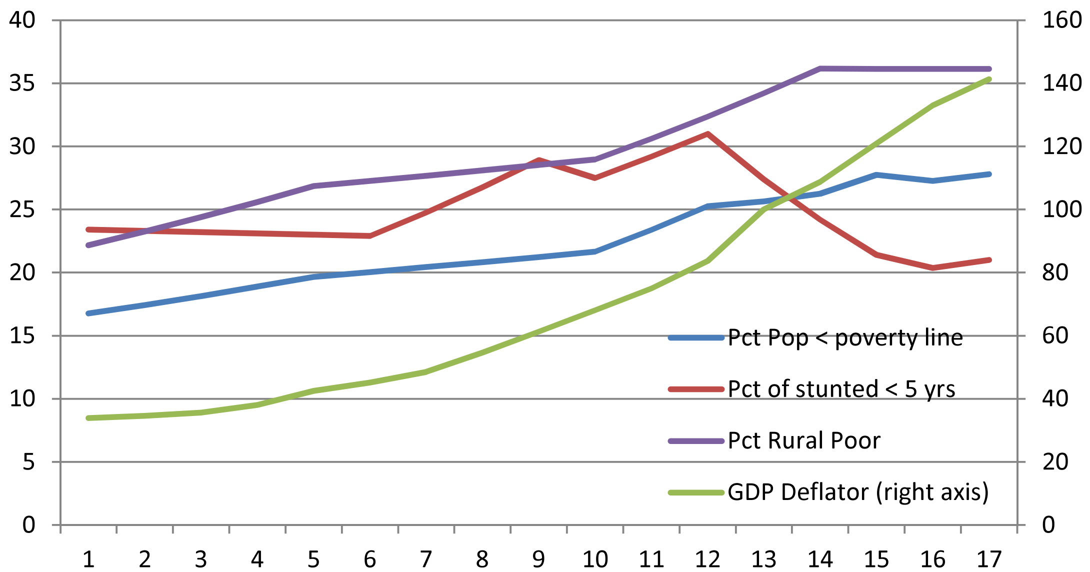
[3]Stunting reflects chronic malnutrition; it is irreversible and stops children from reaching their full physical and mental potential. The stunting rate is the percentage of children under five whose height relative to age is below minus 2 standard deviations (for moderate and severe stunting) and minus 3 standard deviations (for severe stunting) from the median height for age as per the WHO Child Growth Standards 2006.

the World Health Organization."

We have alluded above to the relationship between rising inflation and increased poverty. The following Figure 5 relates the percentage of population below poverty line to inflation, as adjusted by GDP deflator (World Bank, several years).

In this graph, we find an interesting relationship, as it shows how increased poverty goes hand in hand with inflation (as adjusted by GDP deflator). This is almost intuitive, as poverty is measured by the ability to purchase a certain basket of goods and services. As prices go up faster than income levels, the percent of people who cannot afford to buy such basket increases. If we add to this graph the percent of "Rural Poor", which is much higher than the national average, we can easily see that this ratio moves in tandem with inflation, as adjusted by GDP deflator. The same figure shows that the stunting rates began to decline after 2011. This is a welcomed change, but it is difficult to reconcile it with increased poverty levels in years following 2011.

Figure 5 - Relationship between Poverty Indicators, Child Stunting and Inflation. (2001-2017)



Sources: data are computed from sources of Fig. 1, (World Food Program, 2013), and (World Bank, several years). Data for stunting is available from CAPMAS' "HIECS" survey years: 2001, 2007, 2011and 2015. Other years were interpolated or extrapolated by the author.

There are several explanations for this contrary trend. One is that the new governments after the January 2011 Revolution increased food subsidies or direct food and child milk grants to lactating mothers. Another explanation is of a long-term nature, as the spike in stunting children of 2011 was a direct result of the Bird Flu epidemic of 2008 and the subsequent culling of the national stock of chicken. This crisis was responsible for an inordinate increase in chicken and meat prices, which could have caused child undernourishment with a time lag. As chicken supplies were replenished, the nutritional situation improved. Finally, there is an important trend towards charitable donations of food under various initiatives. One of these is the Food Bank Campaign, which started before 2011 and was responsible for distributing substantial sums in food aid.

What is alarming about the Egyptian case is that it seems that Egypt was moving in the wrong direction regarding global trends in three main MDG areas, namely poverty reduction, income distribution and quality of education. In most countries, according to the UNDP Human Development Report (UNDP, 2016), there has been significant decline in the prevalence of extreme poverty during the millennium years. Globally, the percentage of population living below the extreme poverty rate ($1.90 a day) is "estimated to have declined to less than 11% in 2013, a drop of more than two-thirds from its level of 35% in 1990. This achievement was particularly remarkable in East Asia and the Pacific, where the proportion of people living on less than $1.90 a day fell from 60.2% in 1990 to 3.5% in 2013, and in South Asia, where the proportion fell from 44.6% to 15%". By contrast, in Egypt the trend showed the opposite direction, especially in the new millennium. In a WFP study (World Food Program, 2013), the percentage of poor population (i.e. those who could not meet food and non-food basic needs) increased from 16.7% to 25.2% between 1996 and 2011. This meant that the number of poor increased from 9.9 million to 20.1 million during those 15 years. The trend continued in 2014/15.

One potential reason for the increase in the number of poor people is the growth of prices of essential food items. A significant percentage of poor families depended on subsidized food items to ward off hunger. According to the previously mentioned WFP study, about one third of the caloric intake of poor families came from subsidized food. As the government moves, after the advice of the IMF, to reduce subsidies, the percentage of poor people is expected to rise.

Accordingly, any reduction in food subsidies due to budgetary pressures (and hence not compensated by monetary transfers) would affect the nutrition and health status of the population at large.

Another factor that led to increased poverty rates was the observed continuous erosion in real wages as a result of the liberalization of the economy and the move towards a more market oriented economy (Assaad, 2002). Also, according to Said (2002), "Between 1988 and 1998, wages have significantly declined in real terms…for almost all sectors" (Said, 2002). This trend towards lower real wages continued after the January 2011 Revolution (2013).

In sum, higher inflation rates and reduced employment opportunities have all led to increased poverty. Other analysts have found evidence that the IMF-sponsored Structural Adjustment Programs (SAP) led to increased poverty and increased unequal distribution of income. Most of these results can be explained by SAP-related inflation (Oberdabernig, 2017). From all of the aforementioned we have a clear picture about the status of MDGs in Egypt. On the one hand, there has been an unquestionable improvement in the economic welfare of the country as a whole as GDP continued to rise over the last 20 years, albeit at different rates. On the other hand, it does not seem that this growth has reached all segments of society.

In our case, this clearer reliance on debt has even more serious ramifications on equity. Rich people benefit from deficit financing in two ways. The first is the increase in government expenditure on goods and services normally consumed by the wealthier class that benefits more frequently from the new roads and infrastructure projects, especially in new suburban settlements and beach destinations. They also benefit of the majority (up to 80%) of fuel and energy subsidies. On the other hand, interest payments end up in the pockets of rich savers.

iii. Goal 3: Millennium Education Goals

The MDGs are also concerned with enrollment in primary education and improving literacy. Egypt has a good record in this level of education, but enrollment is not an exhaustive indicator. The right question is whether students are learning enough during their hours at these schools. Many studies noted that a rapid expansion in school enrollment was associated with a decline in the quality of education. El-Sabie and Soliman (2013) observed that "Stressing a policy of equal opportunity for all in a country with limited resources meant the primacy of quantitative considerations at the expense of quality. In Egypt, progress made in higher enrollments was offset by the declining quality of education in general."

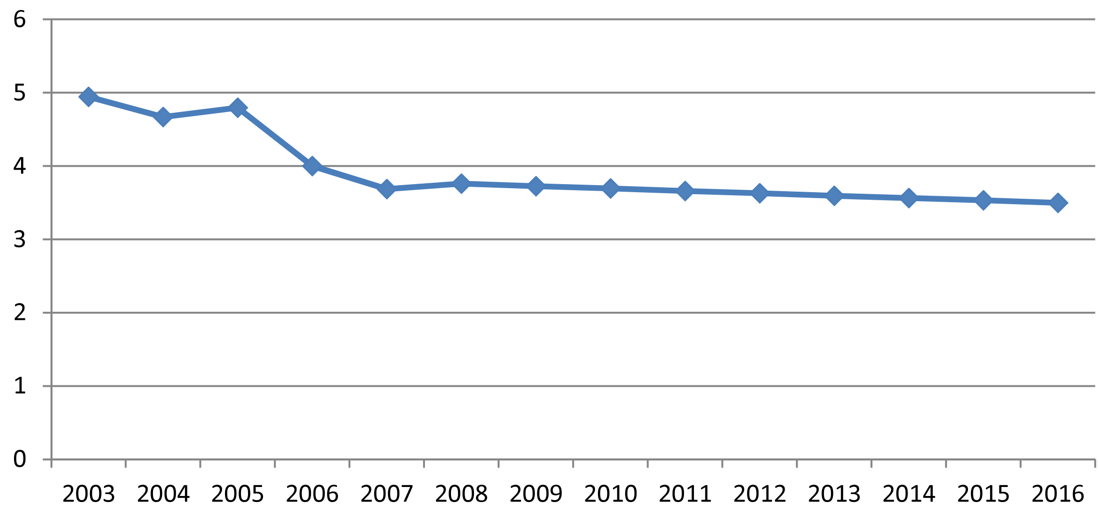
Official data show significant improvement in primary school enrollment between 2000 and 2015: this indicator has increased from 88.5% to 97.7% for males and from 84.0% to 98.0% for females, showing that plurality and gender equality have been almost achieved (World Bank metadata).

In effect, we note two contradictory trends: one that claims an increase in school enrollment and the other that indicates a decline in educational status. A report by Sywelem (Sywelem, 2015) indicates that illiteracy rates are still very high in Egypt, despite some improvement in younger generations. Illiteracy rate reached 56.5% for the age group over 60 years, while it was only 15.6% for the group 10-15 years. The report also quotes a recent and comprehensive (2010) Survey of Young People in Egypt (SYPE), which estimates that one third of those in the poorest households have never been to school and another 24% of them dropped out before finishing basic education. Failure to attend schools has its consequences, as illiterate people earn between 30% and 42% less.

There is strong evidence that access to quality education is not the same for various income classes or geographical regions. According to the World Development Report titled Learning, discrepancies in learning outcomes could be an indirect and invisible way of discrimination (World Bank, 2018, p. 16). The report also emphasizes that schooling does not necessarily mean "learning" (World Bank, 2018, p. 4).

While poor people fail to attend public schools, there has been a parallel trend for well-off families to rely on private lessons and private education. This trend coincided with less public spending on education as is depicted in the following graph.

Figure 6 - Percentage Public Spending on Education relative to GDP (2003-2016)



Source: World Bank, metadata for Egypt.

Access to “elite” faculties of higher education is highly related to income levels.

As an indication of lack of equal access, percent of students who belong to poorer families in primary education are estimated at 25% of all students. The percent goes down to 4% in higher and university education (El-Araby, 2010).

The same study indicates a continuous decline in government spending on education from 17% of total expenditure in 1999/2000 to 12% in 2007/08. A similar trend applies to the percentage of education expenditure to GDP, which declined from 5.8% to 3.7% for the same period.

Given this decline in spending on education, it is not surprising that Egypt occupies a low position in terms of quality of primary education. According to the Global Competitiveness Report, Egypt occupies the 134th place in terms of quality of primary education out of 138 countries, while it enjoys a more advanced rank, i.e. 29th, in terms of primary enrollment (World Economic Forum, 2016).

Equally disturbing is the rank achieved by Egyptian students in internationally supervised competitions in math and sciences (US Department of Education, 2015). According to this report, the percentage of Egyptian secondary school students who reach a “High” score was only 5%, compared to 8% in Lebanon and 81% in Singapore.

It goes without saying that efforts to improve the outcome of education and equal access to all income groups requires a substantial increase in the total spending on education, as well as increased efficiency and delivery of education services. According to El-Araby, education in Egypt accounted for only 12% of total budget expenses in 2007/08 (El-Araby, 2010), i.e. almost half the ratio accounted for by Morocco and Tunisia, two countries that were able to achieve great strides in educational attainments.

5. *Summary and Conclusions*

So far, Egypt has not been able to realize most of its accepted Millennium Development Goals due to the difficult situation of the state budget. Rising demands on the public expenditure and insufficient public revenue led to reduced expenditure on social services. In the meantime, conscious policy aimed at reducing government employment and real public wages increased unemployment and poverty in the society. Efforts to increase public revenues and reduce subsidies led to rising cost of government services and fees. In addition, reliance on public borrowing to cover budget deficit led to higher inflation and additional burdens on poor people. The outcome was an increase in poverty, as measured by the percentage of population below poverty line. The percentage of people suffering from undernutrition also increased.

International comparative studies should have warned us about these outcomes. Structural adjustments programs usually mean more sacrifices and eventually increased poverty levels (Oberdabernig, 2017). The Egyptian case is of particular interest, as the percentage of people below the poverty line has been increasing for the last 15 years at least. Promises of improved living standards after reform programs seemed to have been even more elusive. This dismal result is a strong condemnation caused by decades of failed neo-liberal economic policies.

In essence, we can simply conclude that Egyptian commitment to MDGs can only be assessed in terms of the overall budget situation and other political priorities, such as its readiness to tax the rich segment of the population, the ease of tax collection, level of corruption and other limitations. In addition, the poverty alleviation objective requires conscious and direct policy measures for income redistribution, enhancement of employment opportunities and food subsidies.

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