

# POVERTY AND AUSTERITY

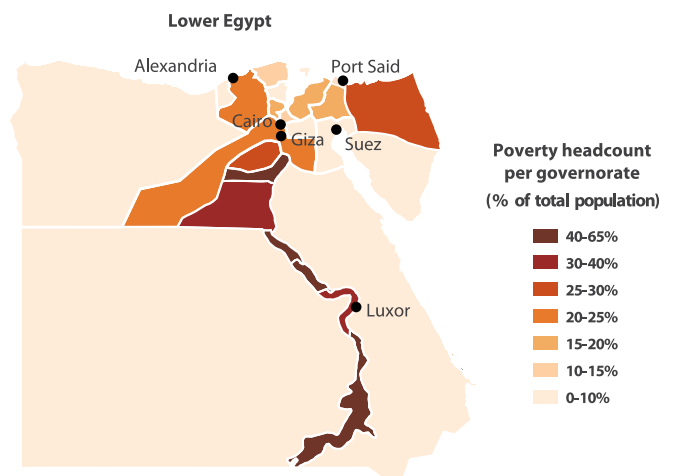
*In its last Universal Periodic Review in 2010, Egypt accepted two recommendations on combating poverty, especially through intensifying its efforts at wealth redistribution and ensuring the inclusion of all citizens. Nevertheless, in the context of a serious economic crisis facing the country, the focus has been on short-term austerity measures that risk having long-term adverse impacts on the economic, social and cultural rights of Egypt's most vulnerable.*

**EGYPT'S ECONOMIC CRISIS IS WORSENING EXISTING PATTERNS OF POVERTY AND INEQUALITY.** A severe economic and social decline is gripping Egypt. The country's continued political turmoil has resulted in a steep drop in foreign investment and tourism, compounded by the enduring economic crisis in Egypt's Southern European export markets. Annual GDP growth plummeted from 5.1% in 2010, to 1.8% in 2011 and has hovered at around 2% since (World Bank, 2014). By May 2014, the Egyptian pound had lost more than 19% of its value (Namatalla, 2014). The budget deficit has also continued to increase, up from 10.8% of GDP in 2012 to 11.5% in 2013 (Daily News Egypt, 2013).

The country's economic crisis hits an already vulnerable population, compounding long-standing patterns of social deprivation. Over a quarter of the population (26.3%) lived below the national poverty line in 2012/13 (CAPMAS, 2014). Similarly, 27.1% of children in Egypt live below the country's lower poverty line (MoF, 2014). As shown in the graph below, the national poverty rate increased by nearly 50% in the decade and a half before the revolution. This suggests that economic growth, which was steady over the same period, did not result in improvement in the lives of ordinary Egyptians. There are also vast regional differences in rates of poverty.

to 15.7% in 2012/13 (CAPMAS, 2014). According to UNICEF, more than half of children living in urban slums experience multidimensional poverty, levels similar to those observed in the poorest rural areas, in particular in the dimensions of accessing appropriate shelter, water and sanitation, as well as nutrition, education and health (UNICEF, 2014).

Poverty headcount by governorate, 2008

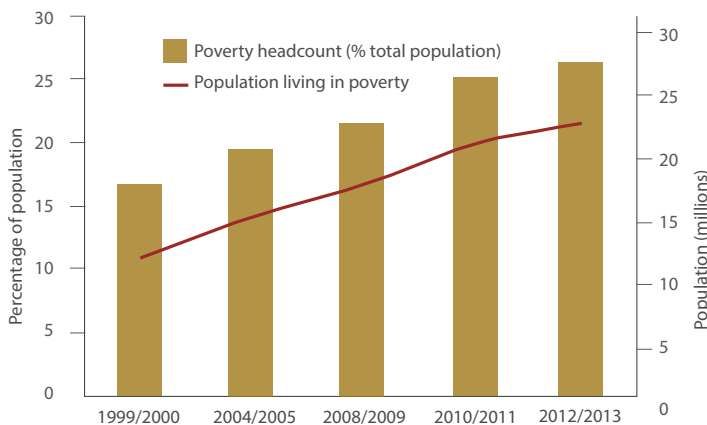


Source: Laithy, based on 2008/9 HIECS

**Suggested Question: What is Egypt doing to reverse the alarming rise of poverty and inequality in the country?**

**EGYPT HAS FAILED TO TAKE ADEQUATE LEGISLATIVE, ADMINISTRATIVE AND, IMPORTANTLY, BUDGETARY MEASURES TO ADDRESS POVERTY AND INEQUALITY.** Instead, the focus has been on short-term austerity measures. As well as cutting food and fuel subsidies, as discussed in Factsheet 9, raising revenue through increasing regressive taxes (largely on goods and services) has been almost exclusively prioritized. For example, sales tax exemptions on several essential commodities have been removed (ECESR, 2013). Moves to replace Egypt's sales tax with a Value-Added Tax have also begun. Although these potentially retrogressive measures

National Poverty Rates 1999/2000 - 2012/2013



Source: CAPMAS, 2014

In Upper Egypt, around half the rural population lives in poverty (CAPMAS, 2014). That said, urban governorates have also seen a notable jump in poverty rates, from 9.6% in 2010/11

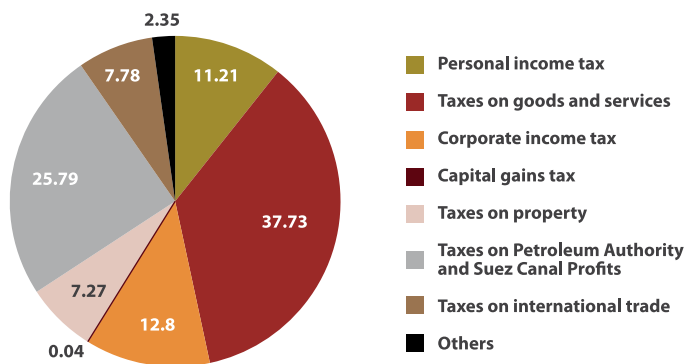


would have a long term adverse impact on the economic, social and cultural rights of many, they have been proposed, and in some cases enacted, without civil society participation, nor prior assessment of their human rights impacts or careful consideration of more equitable alternatives.

**Suggested Question: How will Egypt ensure that introducing a VAT will not disproportionately burden poor households?**

**THERE IS CONSIDERABLE SCOPE FOR INCREASING REVENUE BY DISTRIBUTING A FAIRER SHARE OF THE TAX BURDEN.** Egypt's revenue-to-GDP ratio has remained considerably lower than comparable countries and has fallen significantly in recent years (World Bank, 2014). Egypt's estimated tax effort, defined as actual versus potential tax collection, was 0.72 in 2012, compared to 0.93 in Morocco, for example (IMF, 2013). Direct taxes, such as corporate and personal income tax, account for little of Egypt's tax base, while large income brackets mean that middle-income and high-income earners pay the same rate of personal income tax (ECESR, 2013).

Composition of tax revenue, 2012/13



Source: Own calculation based on Ministry of Finance, 2013

**Suggested Question: What plans, if any, does Egypt have to more towards a fairer distribution of wealth in the country, in line with its first cycle UPR commitments?**

**CONDITIONALITY OF ASSISTANCE SKEWS POLICY PRIORITIES.** Egypt has been sporadically negotiating for a loan with the International Monetary Fund (IMF), on-and-off since May 2011, though negotiations were suspended indefinitely in July 2013 (Aggour, 2014). In the meantime, loans from neighboring allies reached \$19.2 by the end of June 2014 (ECESR, 2014). Egypt's debt-to-GDP ratio stands at 90% (Trading Economics, 2014). This makes it the world's 19th-most indebted country.

While loans can be beneficial for increasing foreign currency reserves, they can have a detrimental impact on the economy as a whole; as the budget allocated to paying off loans increases, the budget deficit increases over many years. Further, there is a real risk that in the rush to secure international assistance, policy makers in Egypt, donor countries, and international financial institutions may pay insufficient attention or ignore

Egypt's human rights obligations, with detrimental impacts on the welfare of a population already suffering from increasing levels of poverty, inequality and deprivation.

**Suggested Questions: What decision-making processes ensure the acceptance of bilateral loans or aid assistance does not compromise the State party's human rights obligations?**

### RECOMMENDATIONS

Reduce the incidence of poverty and improve living standards of people by developing and implementing a comprehensive and human rights-based national poverty eradication program. Such a program should include specific measures to mitigate the adverse impacts of the current economic crisis, paying particular attention to disadvantaged and marginalized individuals and groups.

Fulfill the obligation to dedicate the maximum available resources to realizing economic and social rights by increasing, to the extent possible, budget allocations to social sectors such as housing, food, health and education, as well as by progressive tax collection policies and more effectively targeted subsidies.

In line with the recommendation of the Committee on Economic, Social and Cultural Rights, ensure that economic, social and cultural rights, particularly of the most vulnerable groups, are fully taken into account and not undermined in negotiations with international financial institutions.

Extend an invitation to the Special Rapporteur on Extreme Poverty and Human Rights to visit the country.

### ABOUT THIS FACTSHEET SERIES

This Factsheet was prepared by the Egyptian Center for Economic and Social Rights (ECESR) and the Center for Economic and Social Rights (CESR) in light of Egypt's appearance before the Human Rights Council's Universal Periodic Review in 2014. The 11 factsheets in this series accompany the joint submission on economic, social, and cultural rights in Egypt endorsed by 130 non-governmental organizations and labor unions.

### REFERENCES

**Aggour, S. 2014.** Rumors of IMF negotiations untrue: Finance Minister, *Daily News Egypt* (August 18, 2014)

**CAPMAS 2014.** Egypt in Figures

**Egyptian Center for Economic and Social Rights (ECESR) 2013.** The tax system and its latest amendments: same old policies and neglect of alternatives at hand

**ECESR 2014.** Analysis of Financial Statement for the financial year 2014/15 [Arabic]

**Egypt Daily News 2013.** Investment Minister: Budget deficit 11.5% of GDP for the 2012-2013 fiscal year, *Daily News Egypt* (May 11, 2013)

**IMF 2013.** World Economic Outlook Database, October 2013

**Laithy, H. 2009.** Arab Development Challenges Background Paper 2011: Poverty in Egypt 2005-2009

**Ministry of Finance (MoF) 2014.** Enhancing Equity for children in the context of the reform of energy subsidies in Egypt

**MoF 2013.** State Budget

**Namatalla, A. 2014.** Egypt Tempts Back Foreign Cash After MSCI Nod: Chart of the Day, *Bloomberg* (August 31, 2014)

**Trading Economics 2014.** Egypt Government Debt to GDP: 2002-2014 Data

**UNICEF 2014.** UNICEF Annual Report 2013 – Egypt

**World Bank 2014.** World Bank Data

