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Views on the Crisis

The Export Support System



General Introduction

ECES initiated a set of studies to analyze the implications of the Corona crisis on the various variables and sectors. Now it is time to move to the second stage, which is to put forth the strategic pillars for the post-corona phase in the Egyptian economy, taking into account the new global economic situation imposed by the crisis.

This series of new reports focuses on a detailed discussion of a set of drivers of change, i.e., issues that, if properly addressed, are expected to cause major developmental strides for the Egyptian economy. These issues may have been dealt with previously, but were not adopted in the required manner and therefore need

revisiting or perhaps these issues were not addressed in the first place despite their importance.

This series of reports follows a descriptive and quantitative analysis approach according to the nature of the topic.

Each report focuses on an issue through three main aspects. Firstly, a clarification of the importance of focusing on this issue and the rationale behind it, followed by a quick description of the current situation. Then a detailed discussion of the proposed change method and timeframe whether it be medium-term / long-term changes. Finally, it identifies the parties responsible for implementation, preconditions for success and the most important expected results.

“Supporting exporters and impacted businesses to reduce job layoffs, and to keep essential operations running by postponing social contribution payments for employees, extending tax exemptions, providing wage subsidies to maintain workers on payroll, temporarily suspending loan repayments, and extending concessional credit support during the COVID-19 crisis.”

***United Nations
Economic and Social
Commission for
Western Asia (ESCWA)***

First: Why is the export support system considered one of the drivers of change?

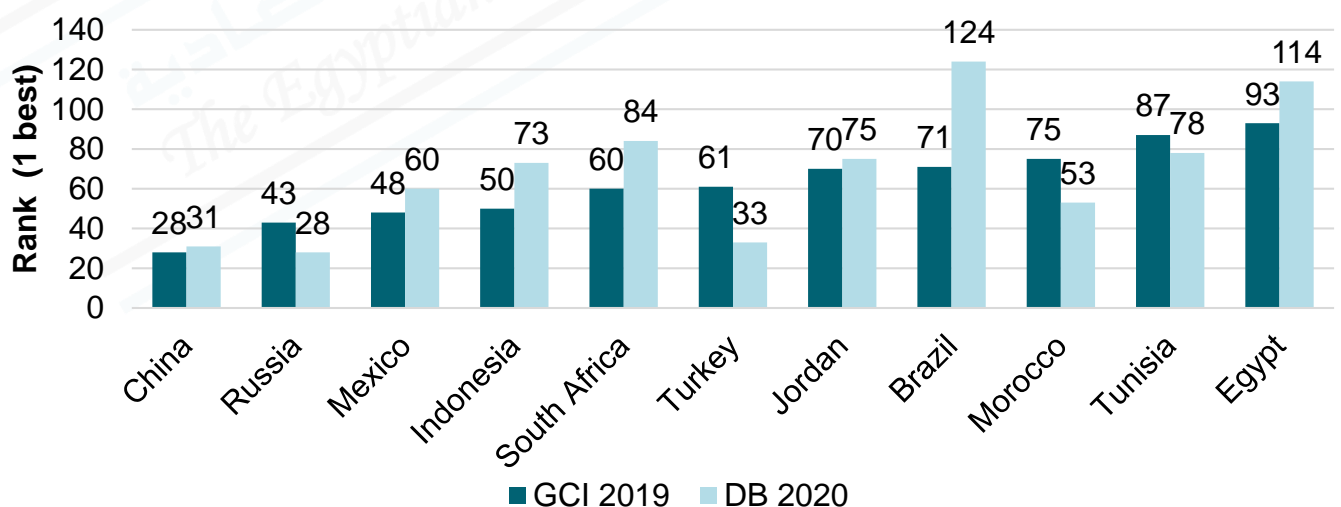
- All countries in the developed and developing world support their exports, whether directly or indirectly, using various tools, including tax exemptions, credit facilities, providing land at nominal prices or contributing to spending on technological development or infrastructure related to logistics and transportation services, or participating financially and administratively in marketing efforts and other means of support.
- This support is of particular importance in the Egyptian case for the following reasons:
 - The export support program is the only tool used to implement the objectives of industrial policy, and therefore it must be perceived as a type of investment rather than a consumption subsidy, especially that the rate of return on each pound is very high, equivalent to 1:10 on average in the form of export value¹. The return varies between various export sectors. For example, the rate of return on the engineering, marble, granite and furniture industries

¹ This rate was calculated for the year 2007/2008, where the rate of return per pound was 1.4 dollars. Although there are no similar accounts for the following years, with the devaluation of the currency, this percentage is expected to increase, and thus the importance of the program increased to avoid the negative effects of global crises and political events in Egypt.

programs was estimated at \$2.8, \$2.4, and \$1.7, respectively.

- This Support is considered a compensation to exporters for Egypt's weak competitive position, the deterioration of the business environment, and the high transaction costs associated with exports as shown in Figure 1. This comes as a result of the complexity of export procedures, multiplicity of decisions and their conflict and the different interpretation between the different parties as well as weak coordination between all actors. Hence, the persistence of this weakness in Egypt's competitiveness is a justification for the continued need for this support program.

Figure 1. Egypt's performance against a group of selected countries in the Global Competitiveness Index 2019 and the Doing Business 2020 Index

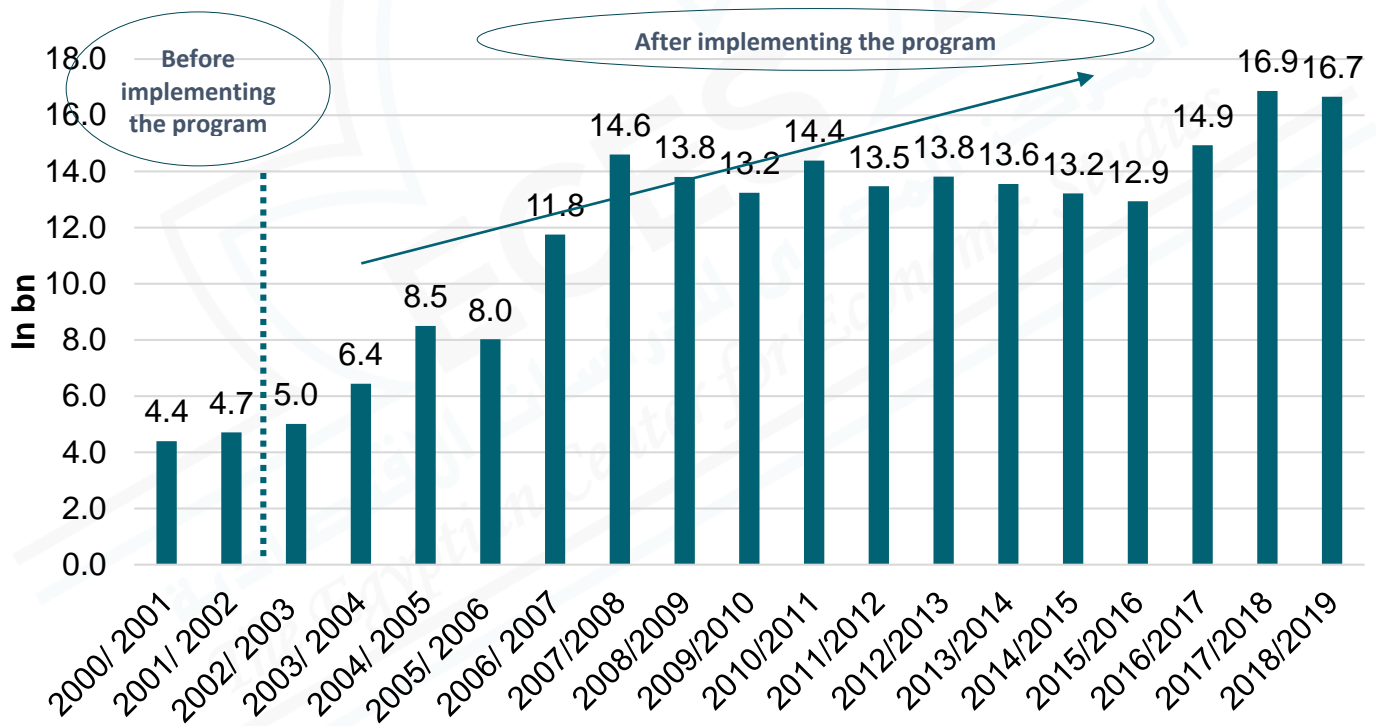


Egypt's ranking in the Global Competitiveness Index out of 141 countries, and in the Ease of Doing Business out of 190 countries.

Source: World Bank, World Economic Forum.

- Since its inception in 2002, the program has led to an increase in Egyptian non-oil exports, as shown in Figure 2. Thus, this support has an effective role in increasing exports, in addition to other factors such as currency devaluation and entering into preferential trade agreements.

Figure 2. Development of Egyptian non-oil exports during 2000 / 2001-2018 / 2019



Source: Central Bank of Egypt, annual report, various issues.

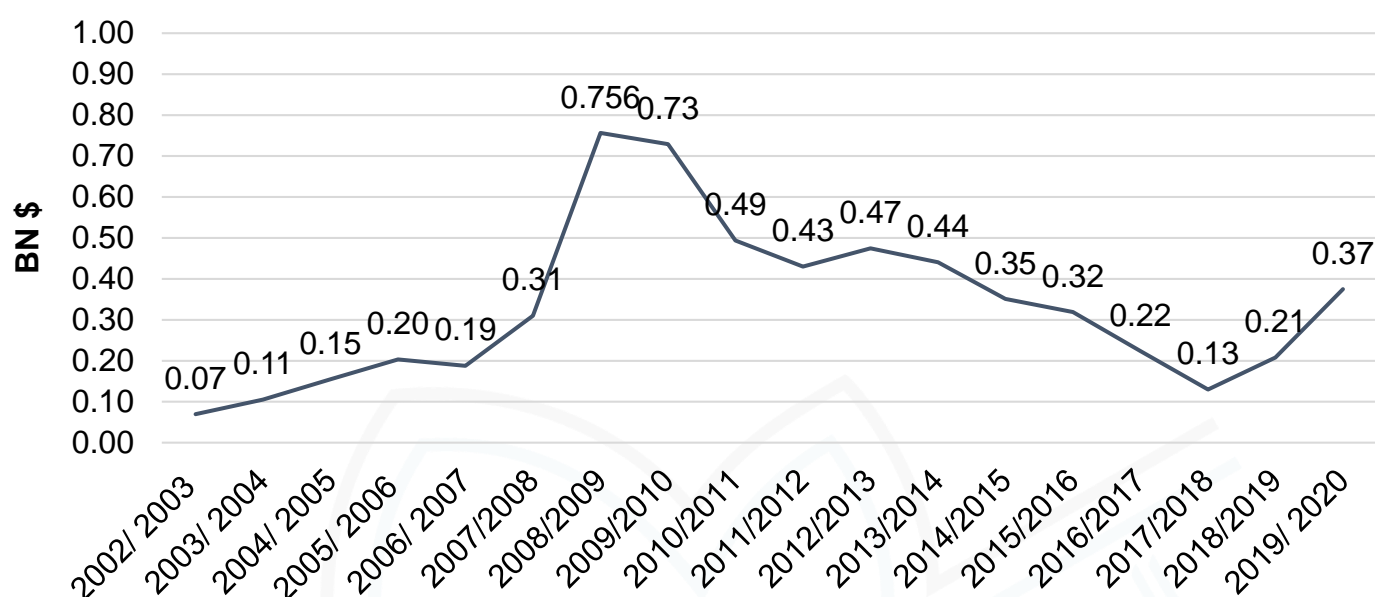
- The importance of export support programs has magnified after the Corona virus pandemic as it resulted in a slowdown in global economic activity and a decrease in production. This is expected to intensify competition between countries to increase their market share, even at the expense of other countries.²
- Moreover, the Corona pandemic has financially hurdled the performance of exporting companies. The decline in external demand and disruption of international trade led to a decrease in these companies' liquidity. Therefore, the continuation of the program is necessary to ensure the continuity of these companies and their ability to compete. Furthermore, it boosts investor confidence in the State's support for production activities and their competitiveness.
- Finally, improving the export support system enhances institutional development and the move towards increased governance, which will be reflected in a drastic reduction in the transaction costs of the export process. Hence, the export support system can become a model for institutional transformation in general.

² It is useful to review support allocations, especially in times of crisis, as happened in 2008/2009, when support allocations were increased from about \$300 million to \$756 million, in a response from the Government to the global financial crisis.

Second: Brief description of the current export support system

- Annual average support allocations since the beginning of the program were estimated at about \$330 million. The highest value was in 2008/2009, when it was estimated at about \$756 million. A decline in the value of allocations is noted after the global financial crisis which persisted until 2018/2019, as shown in Figure 3. In general, these allocations are considered low, especially when compared to the program's objectives, and in light of the fact that it is the only tool used to achieve the objectives of industrial policy, in addition to the positive impact of this support on increasing Egyptian exports, as mentioned above.

Figure 3. Evolution of the value of allocations of the export support program during 2002 / 2003-2018 / 2019



Source: Ministry of Finance, analytical statement of the state budget for various years.

The export support system is mainly about refunding a percentage of the exporter's export invoice that varies according to the value-added / local content ratio. There are also other components in the program such as the exhibition support program, air freight support program, and others. The program has been modified more than once, most recently in 2019, albeit this last change is not yet clear.

Table 1 in the Appendix presents components of the export support system that have been implemented as of 7/1/2016 compared to components of the proposed system for 2019. We can summarize the differences between both into two sets. The first comprises differences in the general rules of disbursement,

while the other comprises differences in the technical components of the program, as follows:

- **Amending the general rules for disbursement**

- In the 2019 program, the mechanism used in refunding the amounts due to the exporters has changed, so that the export support is now disbursed to companies according to the following rates: 40% in cash, 30% dues to the Ministry of Finance, and 30% for export infrastructure, excluding the air freight program.
- A prescribed quota has also been set for each sector benefiting from the program, with the termination of spending on the program with the depletion of prescribed quota or end of fiscal year, whichever is earlier.

- **Modification in the components of the program:** According to Table 1 in the Appendix, modifications made in 2019 increased the procedural complexity of the program without necessarily achieving the program's objectives. An example is the complexity of calculating the value added, especially after the involvement of the Industrial Development Authority in calculating the value added based on tracing the component during the production process instead of drawing it straight from the company's balance sheet.

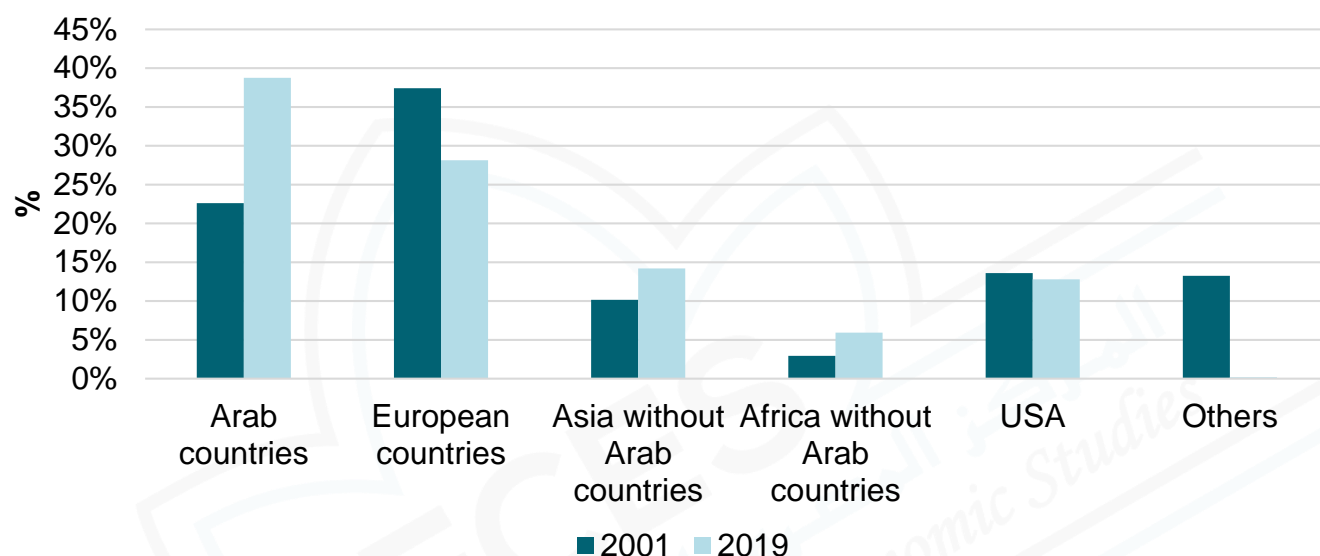
Third: Deficiencies in the export support system

Although implementation of the program has resulted over the years in an increase in the value of Egyptian non-oil exports, it suffers from design deficiencies. This resulted in the failure to achieve the required dynamism in terms of diversification of markets or products and their compatibility with global demand trends, in addition to targeting the increase in the value added of Egyptian exports and expanding the exporters' base. The program's lack of incentives to enter new markets, or to drive enterprises to develop their products, resulted in the stagnation of the geographical distribution of Egyptian exports and their technological structure.

Examining the geographical distribution of exports in 2001 and 2019, reveals the limited diversity of Egypt's export markets, especially to major world markets that are witnessing a significant increase in the demand growth rate. Arab and European countries not only account for about two-thirds of Egyptian exports, the percentage of Egyptian exports to Arab countries increased by 16 percentage points, while they declined in the European and American markets between both years by 9 percentage points and 1 percentage point, respectively. Despite the increase in the share of African markets and non-Arab Asian countries during the two years in question, as shown in Figure 4, this increase is still limited

compared to the size of these markets and the rate of demand growth in them.³

Figure 4. Geographical distribution of Egyptian non-oil exports in 2001 and 2019

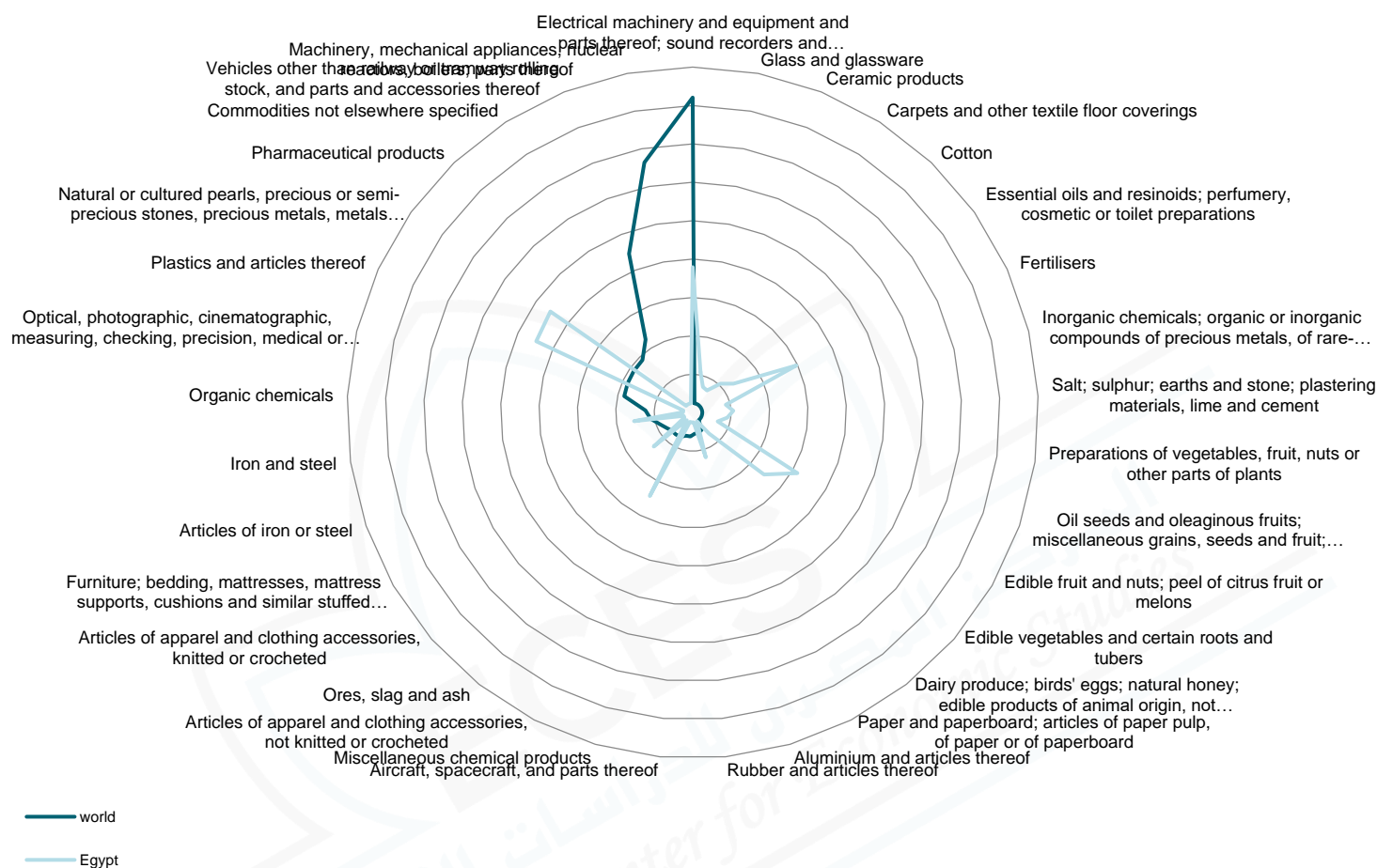


Source: ECES calculations based on UN COMTRADE statistics.

On the other hand, Egyptian exports are concentrated in products with low/medium technological content, and consequently, a large gap remains between the structure of Egyptian exports and that of global exports (Figure 5).

³ ECES is currently conducting a detailed study on promising markets in various export sectors.

Figure 5. Share of the top 20 Egyptian export products compared to their share in global exports in 2019



Source: ECES calculations based on UN COMTRADE statistics.

Finally, the program fell short of achieving one of its main objectives, which is to expand the base of exporters and diversify products since, only a limited number of major exporters and products benefit from the program.

Below are the most significant shortcomings of the program, both in terms of design and in the institutional and financial aspects associated with the implementation of the program.

3-1 Problems related to program design:

- The export support program is designed in the absence of a detailed industrial development strategy, in addition to the absence of transparency regarding the continuation of the program or its modification into a new system.
- The export support program is the only mechanism geared towards achieving the goals of industrial policy in general and increasing exports in particular, which means that the program is assigned more than one goal to serve industrial development, which is theoretically incorrect and practically impossible.⁴
- The program is modified without having a clear vision of the objective of amendment. These modifications are also carried out without assessing the performance of the program in previous years and without taking into account the views of exporters (of different sizes).⁵ Continuation of the 2019 program despite the exporters' objection to the method of calculating value added, is an example of weak consultation with the key stakeholders—the exporters.

⁴ Theoretically, there must be a policy for each goal.

⁵ Export councils are dealt with, but in a limited way, and export councils do not include small exporters.

- Lack of a careful study of required operational procedures. For example, in the 2016 program, the implementing regulations for the deepening of the local industry program and the export infrastructure program were not mentioned, and the details of support for exhibitions were not clear.
- The absence of specific quantitative and qualitative targets for the program,⁶ whether at the macro or sectoral levels. This results in difficulty of evaluating the program and the extent to which each of its components achieves its goal as well as, the reasons behind failing to achieve those goals so as to continuously work on improving the program. The existence of these targets becomes even more important in the case of multiple programs that serve one goal, such as those aimed at supporting small and medium enterprises.
- Design and development of incentives is conducted in isolation of the real problems faced by exporters, as well as without reference to detailed marketing studies.
- Nothing in the program guarantees continuous improvement of the efficiency of use and distribution of its resources.

⁶ In other words, products characterized by high value added, innovation or energy saving, or entry into new markets characterized by high demand.

2-3 Institutional and Financial Problems

- The system of export support has been characterized since its inception by the weak institutional framework regulating it, whether at the level of program management within the Ministry of Trade and Industry or at the level of the organizational relationship between the ministries linked to it financially and operationally, headed by the Ministry of Finance, as shown below:

a. Managing the program within the Ministry of Trade and Industry: Despite numerous attempts to develop the export support system, it focused mainly on the technical side and neglected the institutional development of the main body concerned with implementation of the program, namely the Export Development Fund, and other related bodies. These include the Industrial Development Authority and the Egypt Expo and Convention Authority (EECA). This institutional weakness within the system is ultimately reflected in the low efficiency of the program implementation and delay in disbursing export dues, if available, as well as the complexity of the procedures associated with the introduction of any new products, even if it is innovative and promising.

b. The organizational relationship between the ministries linked to the program financially and operationally: The institutional form of the relationship between the Ministry of Trade and Industry and the Ministry of Finance in Egypt differs with regard to this program from the prevailing norm in countries that implement similar programs. While other countries provide adequate financial allocations to the party responsible for developing and implementing the program (as in the case of South Africa to achieve flexibility and speed in disbursing financial dues), we find that in the Egyptian case the Ministry of Trade and Industry, which is the legitimate owner of the export support program, has no control. The Ministry of Trade and Industry obtains these allocations periodically upon a request submitted to the Ministry of Finance to obtain its approval of these allocations and their disbursement. Although this institutional weakness has existed since the beginning of implementation of the program as previously mentioned, it did not lead to any problems as long as the financial resources needed for the program were available, as required by the Ministry of Trade and Industry and provided by the Ministry of Finance. But with the beginning of decline in resources after the January

25th Revolution, this weakness became more evident as the Ministry of Finance was reluctant to provide resources to the point that accumulated receivables of the exporters reached EGP 20 billion. This ended up with almost complete control assumed by the Ministry of Finance over the program from a realistic and practical point of view, as the Ministry of Finance directly determines the percentage of receivables that companies receive and the method and time of disbursement. The matter reached the point of launching new initiatives for the Ministry of Finance on disbursement, thus turning the institutional weakness into an institutional failure.

Finally, this institutional weakness has exacerbated in light of the Corona crisis, as many changes have occurred, whether in the value of allocations or in terms of payment, the latest of which is the immediate payment initiative of 85% of export dues, which we will be discussed below.

3-3 Immediate payment initiative of 85% of export support dues

In an attempt by the government to pay the arrears owed to exporters and the resulting liquidity crisis in these companies, a new initiative was recently launched by the Ministry of Finance to speed up the payments of all export arrears, which was called the "immediate payment initiative of 85%". The initiative involves disbursing 85% of the exporters' dues with the Export Development Fund for documents completed up to 6/30/2020 with a 15% deduction as an expedited payment rate. Disbursement is done through the banks participating in the initiative. A mechanism has been identified to implement the initiative and its implementation phases, as well as the documents required from companies to join the immediate payment initiative. Finally, the initiative includes other mechanisms to disburse arrears in the event that the company does not wish to benefit from the 85% initiative.

In what follows, we shall mention the shortcomings of the initiative, both in terms of the philosophy of the initiative or implementation.

a. In terms of the philosophy behind the initiative

- The initiative raises a question about the reasons for delay in applying the clearing method in paying the exporters' dues and not applying it right from the beginning, thus

avoiding the accumulation of dues, as well as delaying the even better approach of the government payment of the exporters' dues on a monthly basis.⁷

- The 15% deduction included in the initiative from the exporters' dues is an inappropriate approach for the following reasons:
 - The repercussions imposed by the Corona crisis on exporters, ranging from the decline in external demand, supply disruption, and the resulting liquidity problems, makes this approach unfavorable to export and increases the problems of exporters, as it weakens the ability of Egyptian companies to continue in the face of fierce competition after the breakout of the Corona virus.
 - The 15% deduction reflects a lack of understanding on the part of government of the nature of the export support program and the resulting government's obligations towards exporters. The export support system is a program with developmental objectives in the first place. Therefore, exporters' dues should not be dealt with in the same way as commercial paper. At the same time, these receivables are the rights of exporters

⁷ As announced by the Prime Minister.

and must be returned in full, plus the interest of late payment. If it is necessary to deduct this percentage, then take into account the small exporters whose dues do not exceed five million pounds, as deducting this percentage from that group will expose them to heavy losses that threaten their continuation, and conflicts with the government's support of this group.

- The percentages obtained by exporters are actually lower than those after deducting due taxes.
- This approach generally reflects the government's move towards reducing the program's budget, which began with the amendment of the export support program in 2019. This trend contradicts the state's endeavor to encourage Egyptian exports and increase them to \$100 billion annually, as well as the program's objectives, especially those related to industrial development, foremost among which is supporting the export infrastructure, increasing access to and diversifying export markets, developing exports of small enterprises and expanding the base of exporters.
- No clear direction has been announced by the state regarding the details of the export support system after June 30, 2020,

and it is unclear if the requirement to complete the tax, customs and other files has been canceled.

- Finally, it is unclear how the transfer of the government's export support dues to commercial banks will be handled and how its liabilities will be dealt with in the long term, especially since public banks have been used increasingly as tools for the government in handling debts.

a. In terms of operational challenges:

The initiative faces many ambiguities in implementation, the most prominent aspects of which are as follows:

- Although clearing is one of the means to deal with accumulation of government debts to exporters by providing their other needs with the same value, all initiatives in this regard have failed due to lack of clarity of implementation mechanisms. For example, clearing through land allocation in Egypt was faced with the problem of the multiple entities responsible. As for clearing with taxes, the problem is that most companies' files with taxes are open,⁸ and it is unclear whether this clearing will occur within the 30% limit announced in 2019 or will exceed it.

⁸ There are always unresolved disputes with the Tax Authority and thus the corporate tax position is indeterminate.

- There is no clear mechanism for the 30% clearing rule for companies located in free zones that are exempt from taxes, or for factories located in internal areas that have no tax debts.
- The announcement of the initiative included referring to three other initiatives, namely: investment expansions, small-scale exporters, a clearing initiative with one of the following entities: the Egyptian Tax Authority, the Real Estate Tax Authority, the Customs Authority, with the absence of details on these initiatives.
- There is a disbursement bias, as priority has been linked to the existence of an account for the company with one of the banks participating in the initiative, which is not understood and represents an unjustified bias and carries an undue additional burden for the company by forcing it to open an account with the initiative banks. Whatever the bank with which the company deals, its account can be settled through usual clearing between banks.
- Determining a period of one month (from 11/1/2020 - 30/11/2020) to complete the submission of applications for the 85% initiative means depriving companies that did not fulfill their documents during that period from the export subsidies due.

Fourth: Proposals to develop the system in a way that maximizes benefit thereof

4-1 Philosophy of the Proposals:

The philosophy is based on three basic elements:

- The current stage requires speed in responding to the requirements of exporters in light of intense competition for limited export markets, which entails an easy mechanism to regulate the relationship between the Ministry of Finance and exporters to ensure the speedy payment of their dues.
- The need to design a detailed export support program for a longer term that is linked to a detailed strategy for industrial development and within a sound institutional framework for its implementation, similar to the experiences of other countries that have had successful industrial policy, such as South Africa, or promoted exports in general, such as China, Turkey, Bangladesh, and Vietnam.
- Since the financing of the program is linked to achieving its quantitative and qualitative goals, there is an urgent need to regulate the institutional and financing relationship between the Ministry of Finance as a financing agency and the Ministry of Trade and Industry as the legitimate owner of the program and place it in its proper context.

4-2 Basic principles upon which the proposed amendment is based:

In light of the above problems, a new review of the export support system must be conducted. The proposal is based on a number of important principles, namely:

- The export support program cannot be responsible for achieving all of the industrial policy objectives.
- The program must be designed in light of a clear industrial development strategy.
- Export support is considered a kind of investment, not a consumption support, and therefore it should not be seen as a burden on the state budget.
- The export support program is an investment by the state that must achieve full returns, translating into an increase and diversification of exports, and hence must be designed accordingly.
- Exporters' recovery of their financial dues through the program does not necessarily represent an increase in their profits, but rather a guarantee of their continuation in the export process and their ability to compete internationally. This ultimately translates into the sustainability of Egypt's foreign exchange earnings from exports.

- Exit from the program is linked to the elimination of basic obstacles that were the reason for its design. Therefore, its continuation is linked to the completion of structural and institutional reform programs that directly ease the burdens of investors in general, and exporters in particular, which are currently underway albeit slow.
- Improving the institutional framework related to the export support system is no less important than developing the program components, as it is the primary guarantor of implementation efficiency.

3-4 Proposals:

4-3-1 Implementing a simplified program for export support (for two years)

- Reviewing the 85% initiative to ensure that the shortcomings mentioned above are avoided, and to implement the Prime Minister's instructions regarding availing exporters' dues on a monthly basis.
- Designing a simplified export support program based only on providing basic support using the same stable percentages of local content (according to the 2016 program) in addition to the air freight program.
- This simplified program is to be implemented for a specific period of one or two years due to the exceptional circumstances

imposed by the crisis on the global and local economy, to guarantee continuation of exports, production and employment.

- Determining a specific share for each sector from the budget allocated for the export support program. That share is determined based on the share of each sector in total exports, with an addition of 10% to motivate exporters to promote their exports.
- In the case of setting sectoral targets, these targets must be realistic and well thought out so that they can be achieved.
- Automation of work procedures within the Export Development Fund to ensure quick payment of receivables and increase the efficiency of the disbursement process.
- Evaluating the simplified program every six months to improve it and to ensure that any implementation obstacles are removed. In the meantime, the new, detailed export support program should be prepared, to be implemented in the next stage.

4-3-2 The new detailed export support program

The starting point towards setting up a new program for export support is to develop a detailed strategy for industrial development, of which the export support program is one of the tools. This should achieve four objectives:

1. Give sufficient time to determine the method of calculating the value added which represent the core of the program, instead of the highly complex mechanism that was introduced in the 2019 program.
2. Determining key performance indicators and specific quantitative and qualitative targets through which the program can be evaluated at the macro and sectoral levels. The target value for increasing exports must be linked to the increased quality of these exports in order to achieve higher value added and technological content so as to exit the current structure of Egyptian exports dominated by raw materials and products with low value added and technological content. The export commitments by exporters must also be matched with clear commitments by the government to solve the problems of exporters (large and small) with a clear timeframe. This is especially important given the fact that solving these problems is the starting point for setting up a system for exiting this program.
3. Freeing the program from the industrial development goals that can be achieved more effectively through other programs.
4. Finding a mechanism to financially sustain the program and a mechanism for exiting it while improving the business environment associated with exports.

The implementation of the new program requires:

1. Complete clarity and ease of the implementing procedures for each of its components and the role of the bodies entrusted with implementation.
2. Existence of quantitative and qualitative targets for the programs and linking them to the size of the program's financing, while determining the source of financing away from the direct control of the Ministry of Finance over disbursement of receivables. Among the proposals offered here for further study is the existence of a real role for the Export Development Bank in financing export operations, as it currently does not go beyond the role of a normal commercial bank. Also, including the program within the budget of the Ministry of Industry and Trade programs and accordingly obtain annual funding from the Ministry of Finance, as is the case in other countries.
3. The need to target the diversification of the geographical distribution of Egyptian exports, especially to the African continent, which is considered a natural market for Egyptian products but is currently dominated by China and European countries. When setting up a program aimed at increasing access to the African continent, it must be taken into account that this program should be separate, and not to link the

support provided to it with other programs within the export support program.

4. Expanding the exporters' base by encouraging small exporters. In this context, exporters must be given additional comprehensive support within the framework of the exhibition support program, as well as adopting the "Big Brother Approach" and subcontracting⁹ methods through which interconnectedness is achieved between large and small exporters in a way that leads to improved quality as well as greater flexibility in the export structure.¹⁰ It is also imperative to determine the time period for taking advantage of exhibition support to achieve the required balance between small and large exporters in terms of supporting exhibitions.
5. Radical development of the institutional framework that governs the program, including the digital transformation of the export support system, which will achieve the following objectives:
 - Transforming the process of disbursing exporters' support dues into a lean process that ensures the speedy obtainment of exporters' dues.

⁹ Like in the case of "your job next to your home" initiative.

¹⁰ In the sense of granting greater ability to producers to export various products that are not included in their production lines, as well as the ability to fill large orders that exceed the production capacity of the factory.

- Clarity of procedures and their automation to increase the efficiency of implementation and reduce room for corruption.
- Full cooperation and coordination between all parties to achieve the goals of the program, foremost of which is increasing the role of commercial representation offices in obtaining export opportunities.
- Linking the export support system electronically with all parties associated with the export process, especially the Customs Authority, the Export Development Fund, and the Export Councils.
- Ability to evaluate and follow up all aspects related to the program and its implementation whether in relation to the performance of the employees of the Export Development Fund or the system as a whole.
- Contributing effectively to the country's digital transformation system.

Appendix

Table 1. Export Support Programs for 2016 and 2019

Program	Objective	2016	2019	Comment on programs
Deepening of local industry Program (Basic Support)	Deepening local industrialization	<ul style="list-style-type: none"> • An increasing percentage of the export bill is disbursed with the increase in the value added / local content • The Federation of Egyptian Industries presents a program to deepen industry for each beneficiary sector • Free zones benefit from the program at rates ranging between 60% - 75% of the basic percentage obtained by exporting companies in the interior regions. 	<ul style="list-style-type: none"> • Setting a minimum (40%) for the value added / local content in order to benefit from the program, while phasing the support ratios obtained by companies according to the value added / local component ratio • Free zones benefit from the program by 50% of the basic percentage obtained by exporting companies in the interior regions 	<ul style="list-style-type: none"> • The modifications made in the 2019 program with regard to the value added / content have resulted in duplication in determining the value added, in addition to complexity in the method of calculating it from the operational side. • Although the 2016 program lacks implementation details about the industry deepening program that is supposed to be implemented through the Federation of Egyptian Industries, the cancellation of this program in 2019 reinforces the existing status of some projects and does not stimulate deepening.
Export Infrastructure	Provision of services that benefit the various export sectors	<p>It includes a group of the following sub-programs:</p> <ul style="list-style-type: none"> • Exhibitions Support Program. • Supporting shipping lines. • Supporting the guarantee of exports to African countries. • Establishing an additional plant for pesticide residues. 	<p>It includes the following set of sub-programs:</p> <ul style="list-style-type: none"> • International exhibitions • Transportation support, including all types of transportation • Implementing a program through the Industrial Modernization Centre (IMC) for training, granting specialized quality certificates and technical support 	<ul style="list-style-type: none"> • The 2016 program included a mix of programs to support the financial and physical infrastructure for exports. Despite the absence of criteria by which these programs were selected, especially those related to physical infrastructure, as well as the absence of controls for export councils submitting

		<ul style="list-style-type: none"> • Establishing a refrigerated yard for exports of agricultural crops. • Establishing a laboratory to measure the energy efficiency of household appliances. • Developing the ultra-high voltage laboratory owned by the Ministry of Electricity in order to enable it to award an internationally accredited quality certificate. • Supporting Egyptian pharmaceutical companies, Class A, according to the classification of the Ministry of Health, to obtain the FDA or EMEA certification. • Other services requested by the export councils 		<p>requests to add more projects that fall under the export infrastructure, the cancellation of all programs for the physical export infrastructure in the 2019 program means that one of the main obstacles facing exporters has not been addressed.</p> <ul style="list-style-type: none"> • Although the 2019 program included a program implemented through the IMC, the effectiveness of this program ultimately depends on the efficiency of the IMC in providing its services. • In both programs, there is ambiguity in the executive regulations related to exhibition support program.
Upper Egypt and border areas development	Supporting companies located in Upper Egypt and border areas	Granting an additional 50% of the basic support for exporting factories in Upper Egypt and border governorates.		Despite the importance of this program and its continuation in 2019, there is no accurate assessment of the extent to which companies have benefited from it in previous years and the extent of the need to amend it.

Exports increase¹¹	Encouraging exporters to achieve rapid growth in exports to enhance the country's foreign exchange earnings	<ul style="list-style-type: none">• An additional percentage of basic support is granted according to the following schedule: <table><tr><th>The rate of increase in exports</th><th>Large exporter</th><th>Small exporter</th></tr><tr><td>25% or more</td><td>30%</td><td>50%</td></tr><tr><td>15% - less than 25%</td><td>20%</td><td>40%</td></tr><tr><td>10% - less than 15%</td><td>10%</td><td>30%</td></tr></table>	The rate of increase in exports	Large exporter	Small exporter	25% or more	30%	50%	15% - less than 25%	20%	40%	10% - less than 15%	10%	30%	<ul style="list-style-type: none">• An additional percentage of basic support is granted according to the following schedule: <table><tr><th>The rate of increase in exports</th><th>Large and medium companies</th><th>Small companies</th></tr><tr><td>20% - 30%</td><td>10%</td><td>20 %</td></tr><tr><td>More than 30%</td><td>15%</td><td>30 %</td></tr></table>	The rate of increase in exports	Large and medium companies	Small companies	20% - 30%	10%	20 %	More than 30%	15%	30 %	<ul style="list-style-type: none">• Despite raising the minimum percentage increase in exports that is required for exporter to benefit from this incentive, might have the effect of motivating firms to increase their exports by a large percentage, but the additional support ratios may not be compatible with the costs incurred by the enterprise to achieve the required large increase in exports.• In both programs, the rates of increase in exports for all sectors were unified.• Medium enterprises were added to large companies in the 2019 program, which contradicts the treatment of medium companies as small companies in the Small Enterprise Export Development Program.
The rate of increase in exports	Large exporter	Small exporter																							
25% or more	30%	50%																							
15% - less than 25%	20%	40%																							
10% - less than 15%	10%	30%																							
The rate of increase in exports	Large and medium companies	Small companies																							
20% - 30%	10%	20 %																							
More than 30%	15%	30 %																							
Small enterprise export development	Create a new class of small exporters	<ul style="list-style-type: none">• Granting small exporters an additional 2% of basic support and 60% of the cost of the specialized quality certificate, and supporting them in foreign exhibitions with 80% of the cost, in addition to granting them an additional percentage of export support in the event that their	<p>An additional percentage is granted on top of the basic support percentage for small and medium companies as follows:</p> <ul style="list-style-type: none">• 2% for small enterprises• 1% for medium enterprises	<ul style="list-style-type: none">• The 2019 program has canceled many of the advantages that small enterprises obtained in the 2016 program, foremost of which is the abolition of preferential treatment for small enterprises in exhibitions support, which contradicts the state's direction to encourage small enterprises.																					

¹¹ According to the definition of the fund, small companies are those whose exports do not exceed one million dollars. Medium companies are those whose exports range from more than one million dollars to ten million dollars, and large companies are those whose exports exceed more than 10 million dollars.

		exports exceed a certain percentage as indicated above.		
Enhancing access to Africa	Increasing exports to the African continent	<p>In the case of exporting to Africa, with the exception of Libya, the exporter is given:</p> <ul style="list-style-type: none"> • An additional 2% on top of the basic support rate • Bears 50% of the shipping cost to Africa 	<ul style="list-style-type: none"> • This program has been canceled and replaced with a program to support transportation to Africa, according to which shipping to Africa is supported by 50% of the cost of transportation to Africa. • This program is applied only to exports that do not benefit from the Export Support Program 	<ul style="list-style-type: none"> • The 2019 program canceled two of the incentives provided to the African market, which contradicts the country's intention to increase its presence in the African market. Justifications behind this cancellation are unclear, especially since exports to the African market have increased in recent years, as shown in Figure 4, which partly indicates the effectiveness of these measures.
New markets	Expanding the export market base and encouraging exporters to open new markets	The exporter is granted an additional 50% of the basic support in case of exporting to Russia, China, South American countries and CIS countries.	This program has been canceled.	The 2016 program tried in a limited manner to create an incentive to open up new markets. In spite of the deficiencies of this attempt represented in identifying specific markets without clarifying the justification behind the selection of these markets, the abolition of this incentive in the 2019 program represents a step backward. It would have been better to provide this incentive the required dynamism through a detailed analysis of the promising markets in each of the sectors.
Raise the quality of the Egyptian industry.	Raising quality, especially for small enterprises.	Encouraging exporters to obtain specialized quality certificates, which are determined in cooperation with	This program has been canceled	The Industrial Modernization Centre programs included in the 2019 program involved a section for granting quality

		each Export Council, while supporting the small exporter to obtain a quality certificate as explained above.		certificates. This amendment contributes positively to raising the quality of Egyptian industry due to the training and technical support services provided by the Industrial Modernization Centre. However, the effectiveness of this program depends ultimately on the extent of efficiency of the Industrial Modernization Centre in providing its services as mentioned above.
Air Cargo Program	Support of the National Air Transport Company.	Position is unclear	There are no details.	The position of the air cargo program is unclear in both programs, as the 2016 program did not include any reference to the air cargo program, while the 2019 program referred only to exception of air freight program in the general rules of disbursement without explaining details of the air freight program.

Source: Prepared by the Egyptian Center for Economic Studies based on the rules of the export support program for 2016 and 2019.

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