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## **The New Export Support Program Redistributes the Map of Relinquishing Foreign Currency Proceeds**



The Ministry of Investment and Foreign Trade informed the export councils of the details of the new export support program.

Export councils' officials revealed to "Al-Borsa News" that the new program changes the percentage of relinquishment of foreign currency export proceeds. Under the new program, the minimum relinquishment percentage will be 40% of the export proceeds in the engineering industries sector, and up to 70% in the agricultural crops sector

The councils' officials expect to hold meetings in the coming period with Hassan Al-Khatib, the Minister of Investment and Foreign Trade, to present their demands regarding the reconsideration of export support rates in the new program. The rates have been reduced by 70% for all programs, which the councils view as insufficient to meet their aspirations for increasing export proceeds.

[\*\*Link\*\*](#)

## Our Views

The government's announcement of reducing the allocations for Export Support Program in the 2024/2025 draft budget, compared to the previous year has raised several questions, particularly given that this is the government's sole policy for stimulating exports. Further, the government had announced in its program in July 2024 that it aims to increase the average value of Egyptian exports to \$103.4 billion during 2024-2026. This is especially significant considering the growing importance of the program in light of the fierce competition faced by exporters in global markets, as many countries have adopted numerous and more explicit programs to support their exports compared to previous periods.

Therefore, this issue of “**Views on News**” attempts to analyze some aspects of the export support program, with a view to answering three specific questions:

1. To what extent did the government's approach to implementing the export support program differ at the start of its implementation compared to the period after 2011?
2. How important is the export support program in boosting Egyptian exports in practice, and what role does it play in compensating for the constraints faced by exporters?
3. To what extent does the export support program in Egypt compare to the programs offered by other countries offer to promote their exports?

Brief analysis of the evolution of budget allocations to the export support program and their impact on Egyptian exports

- Egypt initiated the export support program in 2002<sup>1</sup> to compensate exporters for the constraints they face in the business environment which weaken their ability to compete in foreign markets. The program was initially entitled “Export Support Program” rather than “Export Subsidy Program” as it has recently been referred to.
- The budget allocated for export support varied over the years as shown in the following figures. Regarding FY 2023/2024, which specifically highlights the current issue, the budget allocations to export support amounted to about \$773 million. However, the actual disbursements during the year were not announced. Further, new changes were introduced to the export support program for the period (1/7/2024-30/6/2025), reducing its budget allocations. The new changes also decrease the basic and additional support rates for all programs by 70%, as well as the fund allocations to other programs under the umbrella of the export support program.
- Analyzing both the allocated budget and actual disbursements of the program from its inception to the present, as illustrated in Figure 1, reveals differences between two phases: Phase One: From the beginning of the program's implementation in 2002 until 2009/2010, and the subsequent period from 2010/2011 to 2022/2023, as follows:"

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<sup>1</sup> The program actually started a few years before 2002 for the benefit of the ready-made garment industry only. Later other sectors were included.

### Phase I, from the beginning of the program in 2002 until 2009/2010:

That period saw a clear trend towards increasing the amounts allocated and disbursed for the program.<sup>2</sup> In fact, in some years, the disbursements exceeded the allocations. In 2005/2006, for example, while the budget allocation for export support amounted to about \$175.5 million, the amounts actually disbursed were estimated at about \$203.5 million. This reflects the government's recognition at that time of the importance of the export support program, and the response to external shocks such as the global financial crisis. The allocations for export support reached their peak during that period, estimated at about \$756.5 million in 2008/2009.

### Phase II, the period 2010/2011-2022/2023:

- During that period, the budget allocations for the export support program generally took a downward trend.
- The actual disbursements were lower than the announced budget in 2010/2011 and during 2017/2018-2022/2023. The gap between the announced budget allocations for the program and the actual disbursements reached its widest in 2010/2011, 2020/2021, and 2021/2022, with only 72%, 56%, and 60% of the allocations were disbursed, respectively. However, while the gap in 2010/2011 could actually be

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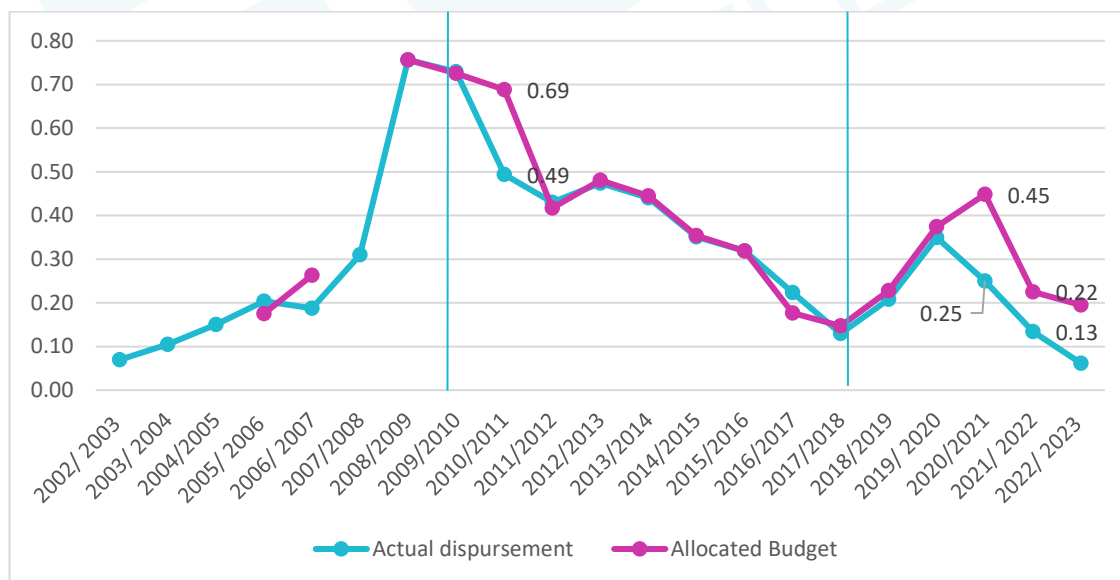
<sup>2</sup> There is no available data on the budget allocated for refunding export burdens prior to 2005/2006, as well as for the years 2007/2008 and 2008/2009.

attributed to political instability, this is not the case for the other years, in which the gap could be attributed more to spending priorities.

- It is also noted that even when the government actually disbursed the entire budget allocation, as realized in some years, the disbursement process was usually long, driving exporters into a liquidity shortage until they receive their export support dues.

Therefore, it can be said that following 2011, the export support program didn't receive the same priority it used to have in the previous years. The government has regarded the program more as a liability rather than an attempt to reduce constraints encountered by exporters, which are not even related to their activities.

**Figure 1. Evolution of the budget allocations for export support and actual disbursements during 2009/2010-2022/2023**



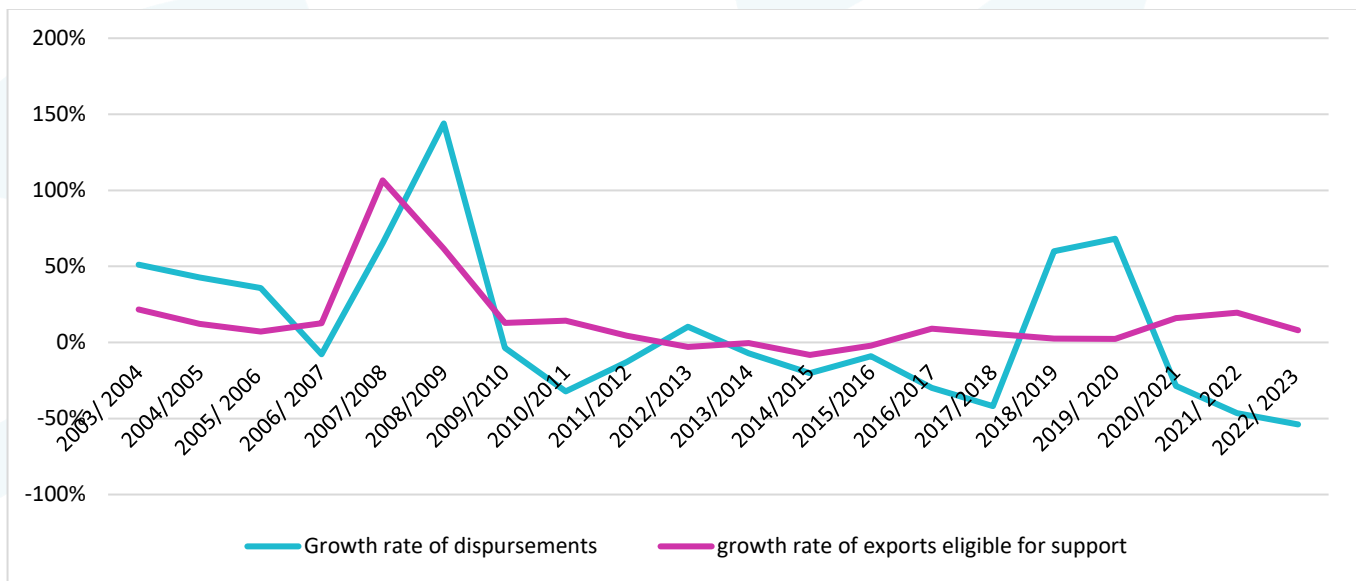
Source: Ministry of Finance, Financial Statement of the State's General Budget, and Analytical Statement of the Draft Budget for various years.

As for the evolution of growth rate of exports from sectors eligible for export support, and its relation with the actual disbursements during the period 2003/2004-2022/2023 shown in Figure (2), we note the following:

- Clear fluctuations in the disbursement rates from one year to another, specifically in recent years, when the government attempted to pay the arrears to exporters.
- The fluctuation in disbursements is not associated with a decline in the growth rate of exports. However, the growth rates of Egyptian exports have been notably weak and almost stagnant over the years, with the exception of a specific boom during the global financial crisis that was associated with exceptional increases in export support at the initiative of the government at that time.
- It is also noted that increased disbursements in recent years did not lead to leaps in exports similar to those realized during the two years of the global financial crisis. This indicates that exporters are facing different conditions despite the political stability from 2014. This is due to the continued constraints that necessitated the establishment of the program in the first place, and even their increase, in addition to the severe liquidity shortage due to overdue reimbursements.
- This means that the export support program is not the only factor affecting the growth rates of exports, and that there are many other internal and external factors. Even if the entire program is halted, exports

would not stop, but would continue to grow but at rates that fall short of Egypt's export potentials, and its pressing need for sustainable hard currency inflows that can only be achieved through increasing exports, which, in turn, requires increasing investment and production.

Figure 2. The growth rate of exports covered by the export support program, and the growth rate of actual disbursements, 2003/2004-2022/2023



Sources: Ministry of Finance, Financial Statement of the State's General Budget, and Analytical Statement of the Draft Budget for various years; Trade Map, December 2024.

\* Export data have been converted from a calendar year to fiscal year to be consistent with the export support data.

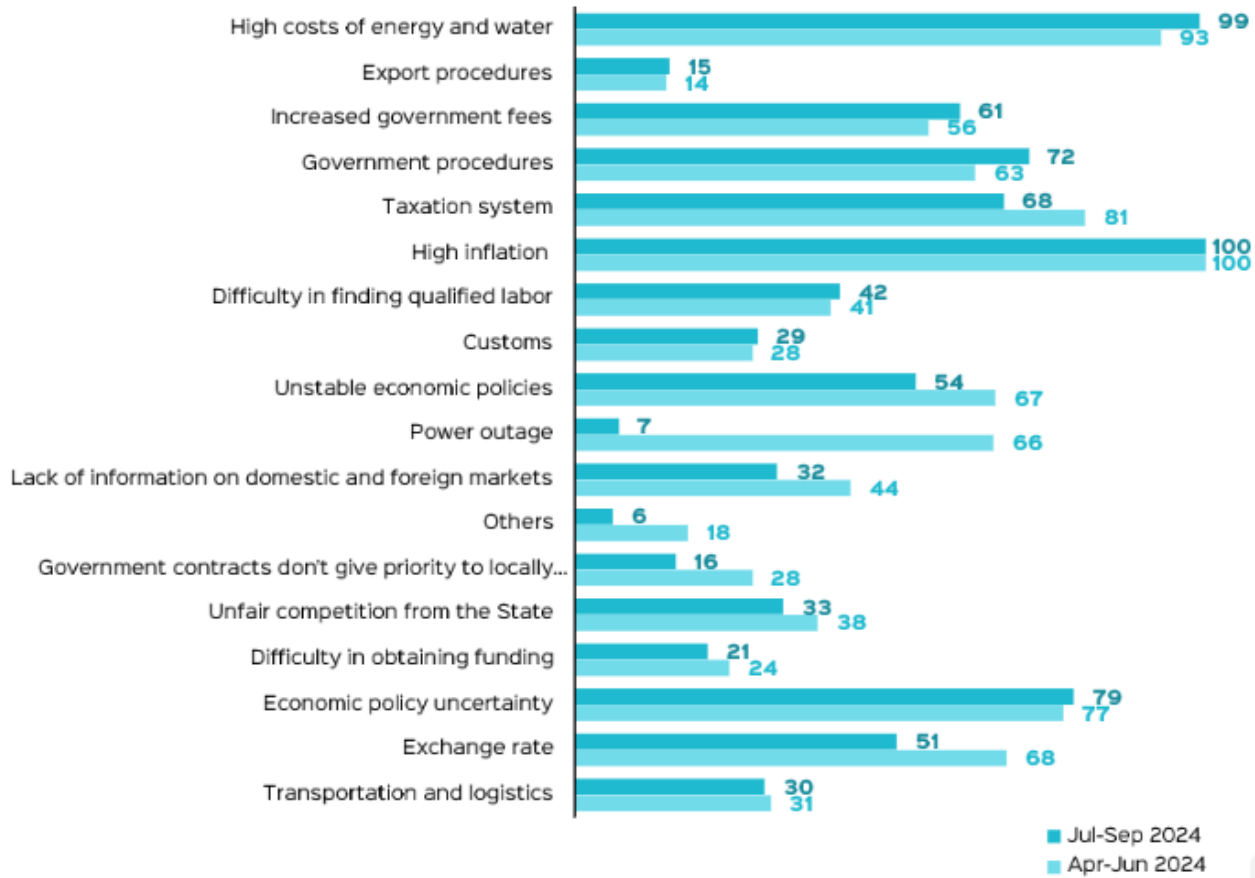
Given that the export support program was originally designed to compensate exporters for constraints that hinder their ability to compete with other countries, the question now pertains to the continuation of exporters' suffering from these constraints, and to what extent does the program contribute to compensating them for such constraints? The following section will attempt to answer this question.

## The role of the export support program in compensating for the constraints facing exporters

- In general, exporters in Egypt suffer from various problems in the business environment that are not necessarily related to the export process. According to the most recent issue of the Business Barometer, issued by the Egyptian Center for Economic Studies in December 2024, covering the period July-September 2024, high inflation, high costs of energy and water, problems related to the taxation system, bureaucratic government procedures, increased government services fees, and unpredictable economic policy orientations, came at the top of the most severe constraints in the business environment in Egypt, as shown Figure (3) below.



Figure 3. Constraints facing the Business Community in Egypt during July-September 2024 compared to April-June 2024



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Source: Egyptian Center for Economic Studies (ECES), 2024, Business Barometer, Issue No. 72, (July-September 2024).

- These problems are further compounded by other constraints in the business environment related to foreign trade, especially with regard to imports. Exporters have to import many production requirements, either because they are unavailable in the local market, or if available, do not possess the specifications and quality required to compete in foreign markets and meet customer requirements, as evidenced by many studies, including those conducted by the Egyptian Center for Economic Studies

tracing the steps of the export process for a number of products.<sup>3</sup> Table 1 below shows the constraints faced by exporters and the impact thereof on their competitiveness in foreign markets.

Table 1. Constraints facing exporters related to foreign trade

Constraint	Impact
<p>The costs associated with customs clearance in general are high and change frequently, such as:</p> <ul style="list-style-type: none"> <li>▪ Demurrage</li> <li>▪ Unloading</li> <li>▪ Transportation</li> <li>▪ Informal customs clearance costs</li> <li>▪ “Nafiza” costs</li> </ul>	<p>Inability of the exporter to offer a competitive price</p>
<p>Long customs clearance process, and the resulting additional costs, especially with regard to demurrage</p>	<ul style="list-style-type: none"> <li>▪ Higher production costs, as the long customs clearance process results in increased costs, most importantly demurrage.</li> <li>▪ Negatively impacting the exporter’s ability to adhere to delivery times, which is important for some industries, most notably the ready-made garments.</li> <li>▪ Exporters have to maintain an inventory of production requirements to ensure their ability to continue</li> </ul>

<sup>3</sup> See, for example, [Business Process Analysis of Exporting and Importing Few Specific Products: Import of Iron and Steel](#); [Business Process Analysis of Exporting and Importing Few Specific Products: Export of Home Textiles](#).

Constraint	Impact
	production and adhere to contracts, thus increasing storage costs.
Multiple inspection authorities	<ul style="list-style-type: none"> <li>▪ Exporters pay fees to multiple entities, resulting in higher costs</li> <li>▪ Long customs clearance process due the time spent by each entity to complete the inspection process.</li> </ul>
Other emerging issues	<ul style="list-style-type: none"> <li>▪ Recent changes in dealing with shipping firms, as well as new complications in the Food Safety Authority system in relation to governorate offices such as Alexandria.</li> </ul>

In light of the above, the importance of the export support program becomes pronounced in partially alleviating the negative impact of constraints facing exporters on their competitiveness in foreign markets, especially that it remains the only government policy to boost exports.

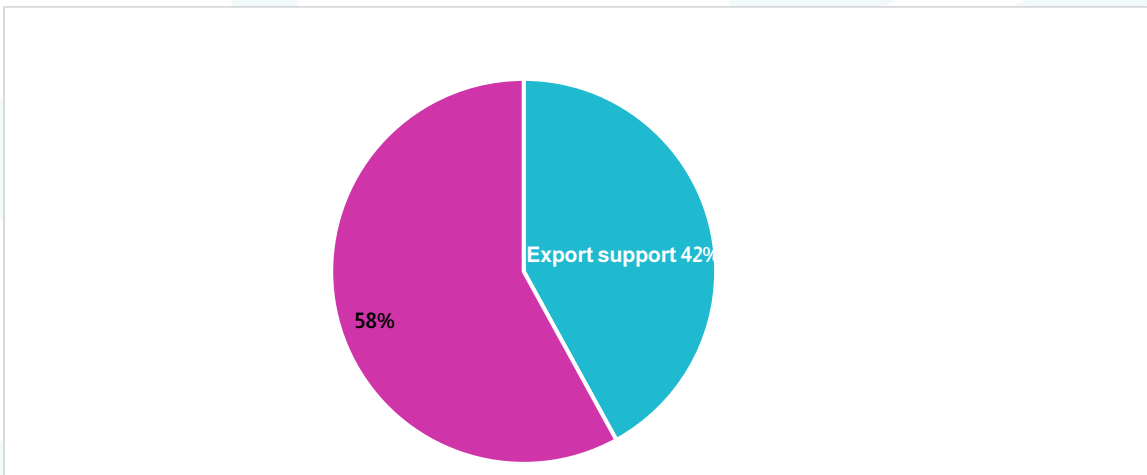
More importantly, a detailed analysis conducted by ECES on the ready-made garments sector during the first half of 2024 revealed that the amounts disbursed from the export support program cover only 42% of the total customs clearance costs borne by exporters,<sup>4</sup> as shown in Figure 4. Although this percentage was calculated for one sector, the situation doesn't differ much in

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<sup>4</sup> Although exporters do not bear customs duties when importing production requirements under both the Temporary Admission and Drawback systems, long procedures associated with the Drawback system impose additional burdens on them.

other sectors, and may even be worse due to technical considerations related to those sectors, as in the case of food industries.

**Figure 4. Percentage covered by the export support program of the total costs of customs clearance borne by exporters**



Source: Forthcoming study by the Egyptian Center for Economic Studies funded by the USAID.

### **The global environment facing exporters:**

In addition to the deteriorating business environment in Egypt, Egyptian exporters face a highly competitive global market, especially in light of the efforts of various countries around the world to stimulate their exports by implementing a wide range of programs covering all stages of the export process. These programs have increased in recent years, with countries now openly promoting them, which was not the case before when they were limited in scope and primarily focused on supporting production rather than exports directly. Comparing the programs implemented by other countries to support their

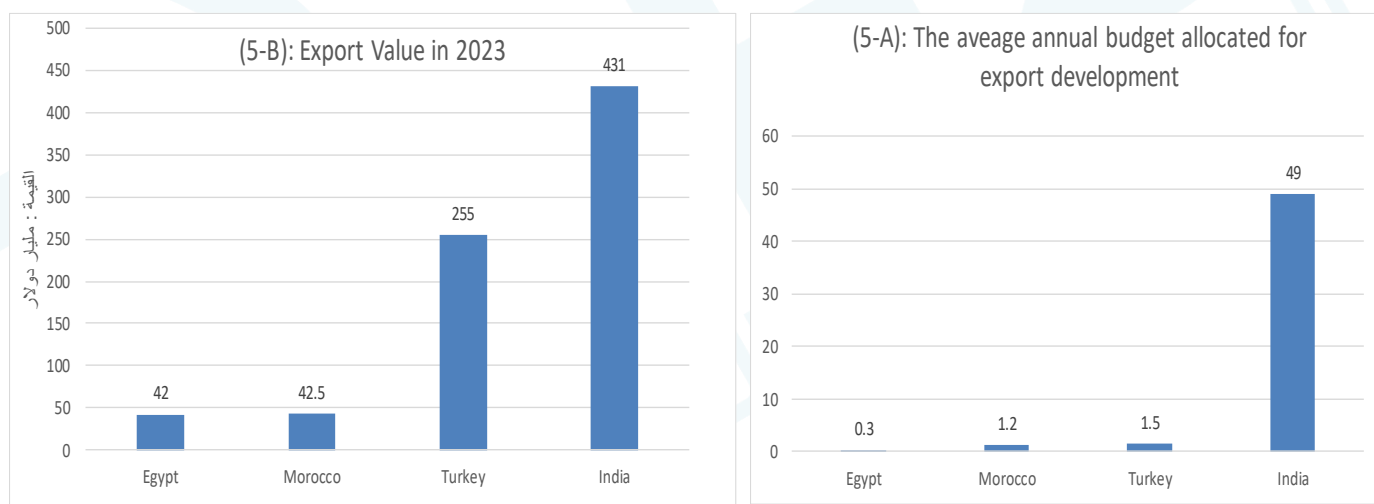
exports, specifically China, Turkey, India, and Morocco, with Egypt's efforts in this regard, we note the following:

- The budget allocated to supporting exports in Egypt is weak compared to these countries (figure 5a shows the average annual allocations to export promotion in Egypt and other countries.)
- Offering multiple programs to support their exports, as opposed to the implementation of one single program in Egypt. For example, the support availed by both China and Turkey to enhance their exports ranges between providing financial support through various export credit agencies, to direct financial support for some export industries. All countries also provide shipping and transportation support, and are keen to facilitate export procedures and modernize the related infrastructure.
- Relying on multiple sources of financing to support exports according to the nature of the implemented program. In addition to the Government budget, countries rely on public banks such as the China Development Bank, the Export Credit Agency in Turkey (Eximbank), and export insurance institutions. They also benefit from international institutions such as the World Bank, the Asian Infrastructure Investment Bank, and other international institutions that support development efforts, as is the case in Morocco and India.
- Bolstering technological content in exports by implementing programs that support innovation, which is absent in the case of the Egyptian export

support program. For example, in the case of China, support focuses primarily on exports with a high technological content, electronics, and clean energy. In Turkey, India, and Morocco, programs provide special support for design, innovation, and sustainability.

The strength of the export promotion programs implemented by these countries is reflected in the value of their exports, as shown in Figure 5b.

**Figure 5. Relation between the export development budget and the value of exports**



Source: Trade Map, 2023; data and information on the value of exports and the export support programs implemented by other countries based on a study conducted by the Export Council for Chemical Industries.

**\* Note: Chinese exports are estimated at \$3.38 trillion in 2023.**

**We conclude the following from the analysis above:**

- Export promotion should be a top priority in government policies, especially in light of Egypt's foreign exchange shortage. Exports are one

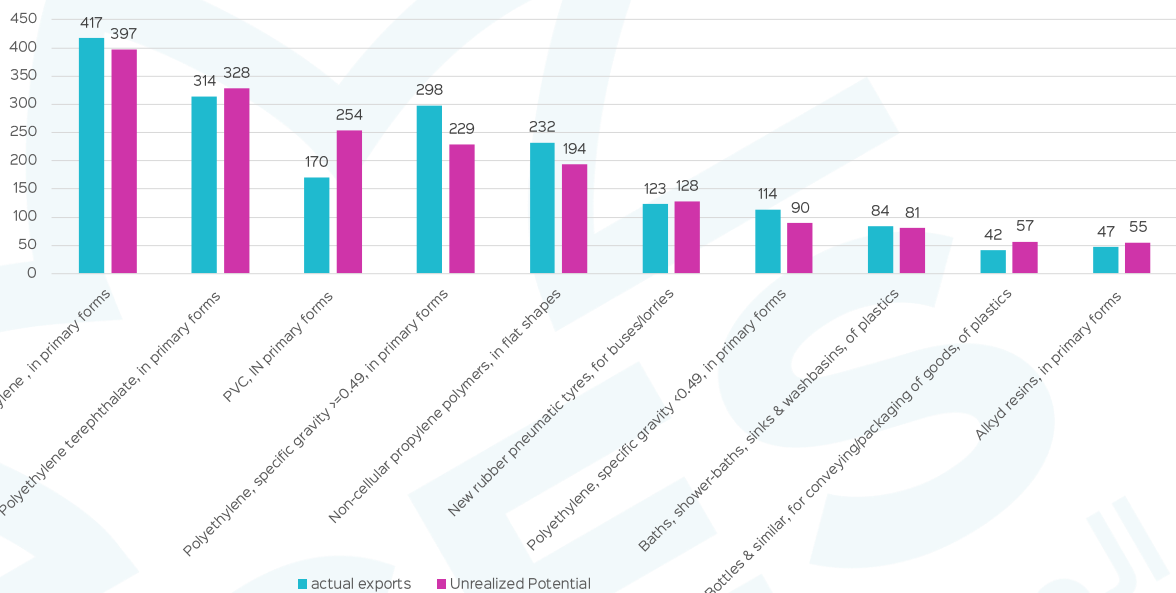
of the most sustainable sources of foreign exchange and the least affected by internal and external shocks.<sup>5</sup>

- The Export Support Program should not be viewed as a grant from the government that can be reduced or eliminated. Rather, it is an urgent necessity to be able to compete in foreign markets and achieve government export targets, and not just to serve the interests of exporters.
- Export Support reimbursement to exporters greatly affect the growth rates of Egyptian exports and the ability to realize their full potential. Despite the increase in the value of Egyptian exports, their growth rates are still modest, whether compared to other countries or compared to Egypt's export potential in all sectors, as shown in the export potential map (figure (6) below shows an example).

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<sup>5</sup> Despite the importance of tourism as a source of foreign exchange, it is greatly affected by internal and external factors.

Figure 6. Export potential of selected plastic products



Source: ITC, Export Potential Map, 2024.

- Achieving a boom in exports is conditional on implementing a variety of programs and policies that address the various constraints and problems faced by exporters. Trade facilitation measures lie at the heart of these policies in order to alleviate the burdens borne by exporters.
- It is essential to diversify funding sources for the different programs aimed at export development, and explore opportunities to benefit from international institutions in this regard.

It is worth noting that the Government has announced that it would launch a comprehensive package for exporter, as outlined in the news, which aims to settle all outstanding dues for exporters and handle the export file with flexibility



This is a step in the right direction, as there is an urgent need to revisit the program to adapt to the changing local and global environments. In fact, a review is needed of the government's entire perception of supporting Egyptian exports, especially manufacturing exports.

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