EGYPTIAN EXPORT SUBSIDY PROGRAM

RESPONSIBLE ENTITIES:

- The Prime Minister
- The Ministry of Finance
- The Ministry of Trade and Industry

CHALLENGE	RECOMMENDATION	STATUS/NOTES
To date, neither the Prime Minister nor the Board of Directors of the Export Development Fund (EDF) has officially issued any decision regarding the mechanisms for implementing the proposed new system for supporting Egyptian exports. One of the challenges that hinder exporters from fulfilling the documents required for receiving export subsidies in a timely manner is the requirement that they must provide an export certificate issued by the Customs Authority, which takes up to a year. FEI has already called for revisiting this requirement.	Amend the rules so that the percentage of export subsidy is not less than 40%, in line with the definition of Egyptian (domestic) products contained in Law No. 5 of 2015—products satisfying the proportion of domestic industrial components. Review and amend all sectoral programs that benefit from the export subsidy program (each sectoral program specifies the percentage of export subsidy it is entitled to); a number of these programs include many sectors with no requirement for a specific percentage of domestic value added in exports to enjoy the export rebates, these include: leather, leather products, and footwear program; artifacts and handicrafts; spinning and weaving; home furnishings; ready-made garments; and garment accessories. Revisit the sectors that are already benefiting from export support; target those sectors that can actually contribute to achieving a quantum leap in industrial exports; thus, support should be directed to specific goods that are exported to specific countries, rather than adopting an undifferentiated, one-size-fits-all approach. Review and amend the percentages of domestic value addition included in other programs that provide export rebates for industries with domestic value added of less than 25%. These include programs covering the following industries: furniture, engineering industries, medical industries, pharmaceuticals and cosmetics, chemical industries, marble and granite, and insulating materials. Carryout out a thorough performance evaluation of the Egyptian Exports Subsidy Program (EESP), with a focus on assessing its impact on the rate of growth of industrial exports since its launch in 2001. The evaluation should also provide an analysis of each of the industrial sectors, identify the winners and losers, as well as to measure the impact of the support provided on the profitability and competitiveness of exported products. The results of the evaluation should serve as the basis for designing a forward-looking comprehensive strategy to develop Egyptian exports.	In July 2019, the Board of Directors of EDF announced the approval of a new LE 6 billion export rebate program for the fiscal year 2019-2020. This program entails allocating, 40% of the total budget, LE 2.4 billion, for cash payments to exporters, while another 30% of the program, LE 1.8 billion, will be deducted from liabilities that exporters owed to the Ministry of Finance. The remaining LE 1.8 billion, 30% of the program, will be used to boost the infrastructure and capacities of export operations. The implementation mechanisms of the program center on determining the value of rebates at the sectoral level and allocating a budget for each sector separately. The allocation of each sector will be revisited every 6 months, and reallocation of funds will be decided upon as needed. In this regard, the eligible sectors include the food industries; spinning and weaving, ready-made garments, home furnishings, and engineering industries; chemical and fertilizers; building materials, refractories and metallurgical industries; building and construction materials; agricultural crop; printing and packaging; medical industries; as well as leather, furniture; and artifacts and handicrafts. Exports not benefitting from the export rebate program will continue to benefit from the Shipping Africa Program, which will receive an allocation of LE 40 million. Additionally, under the continued the Air Cargo Program, LE 100 million will be allocated to EgyptAir to support the shipping of Egyptian exports. LE 100 million will also be allocated to the EDA in order to continue holding pooled fairs through a transitional phase until the end of 2019. The new program focuses on industrial deepening, aiming at increasing local manufacturing by a minimum of 40%, as well as encouraging exports of small and medium-sized enterprises by providing additional export rebates, over and above the already established rates: an additional 1% export rebate for medium-sized enterprise exports and an additional 2% export rebate for small enterprise exports respectively.

	Carryout sectoral studies of the upstream industries relevant to each of the industrial sectors, including: - Identifying production gaps and prioritizing the imports which the upstream industries require. -Examining the feasibility of substituting these inputs with locally produced inputs, taking into consideration local demand and competitiveness in global markets. - Consider the following fundamental underpinnings when designing the export support program: - Improving the international competitiveness of Egyptian exports should be the priority; providing cash subsidies to exporters against the delivery of export invoices should be secondary. Price is not the only consideration that determines competitiveness, non-price factors, including product quality and the efficiency of the production process (the technical, human, and administrative components) are equally important. - Replacing imports with domestic production is no less important than exporting, especially that it contributes to the same strategic objective of reducing the trade deficit and providing hard currency. - Priority, in terms of land allocation and licensing, should be given to industries with high export potential or which are the least import-intensive. - Export support and import substitution programs should be linked to a range of non-monetary incentives, such as facilitated access to land allocation, extending utilities to land plots, the provision of utilities, labor training, customs, and tax incentives, and the promotion of modern production techniques. - Export support programs should give adequate attention to promoting industrial deepening and the effective targeting of support to reach the most deserving industries.	The program also provides additional incentives—export rebates—to companies to encourage export expansion. It grants large and medium-sized enterprises an additional 10-15% rebate for exports that show 20-30%+ growth, and small enterprises will receive an additional 20-30% rebate for exports that show 20-30%+ growth. Exporters located in free zones will receive 50% less export support than non-free zone exporters.

- The export support program should not be overextended, it should be treated as a phased program designed to activate the system of export development and address the imbalances that the earlier programs suffered from. It will not necessarily lead to increasing exports as desired. Increasing exports require undertaking an integrated approach to addressing the shortcomings in the investment environment in a holistic manner, closing all the gaps in the industrial sectors by focusing on industrial deepening, reducing imports, identifying specific high value added products and targeting them to increase exports to targeted countries. In other words, increasing exports requires undertaking a methodological effort that reaches all corners of the relevant state bodies. FEI is concerned that continuing with the export support program in its current configuration will not yield the intended results—significantly increasing exports, and ultimately, the responsibility for the failure will fall squarely on the shoulders of the program.

The support provided to exports should be dynamically linked to the changes in the exchange rate. This is particularly important as the recent strengthening of the Egyptian pound against the US dollar, as well as the high inflation rates negatively affected the competitiveness of the domestic products.

Streamline procedures, and ensure that funds are released to exporters in a timely manner; failure to do this will render the program unsuccessful.

The Export Councils, which are advisory bodies that are neither elected nor part of the executive branch, are still operating on the basis of the ministerial decree that was issued to regulate them; the decree is valid through the end of 2019.

The Following are some key issues that need addressing:

-There is a fee for one of the required export rebate application forms; this is a flaw in the regulations.

- The settlement of overdue export rebate arrears owed to a number of companies for the period ending July 1, 2019, remains ambiguous. It was announced that the Ministry of Finance will offset these arrears with outstanding tax liabilities. It is not clear, however, how this issue will be resolved for companies with no outstanding tax liabilities for the prior years.

- Does the export support program allocate a specific fixed amount of funds for each sector? In the case that the volume of exports in one particular sector necessitates the disbursement of funds that exceed the sector's allocation, how will this situation be resolved?

- Should Export Councils, which are advisory bodies that are neither elected nor part of the executive branch have the prerogative to decide who is entitled to receive export support?

- The status of free-zone companies is ambiguous.

- How will export rebates be treated by the Tax Authority, and what mechanisms will be used to disburse the rebates?

Application processing fees should only be imposed by law.

Respond to the memo submitted by FEI and FECOC concerning the issue of export rebate allocations, and the extent to which they are commensurate with the actual volume of exports.

The government's response to the concerns raised by the Export Councils highlighted the following:

- Efforts will be made to create a legal framework for Export Councils by early 2020.

- Export support is not to be limited to member companies in the Export Councils. However, a number of Export Councils require membership to receive support, particularly with respect to health and safety approvals, and fulfillment of other relevant requirements.

- The fee imposed on one of the required export rebate application forms is not prescribed by law; rather, it is imposed via an administrative decision made by the Export Councils. This issue will be addressed in the legal framework that will be developed.

- Settling export rebate arrears will be subject to the new mechanism, which will be applied beginning July 1, 2019. Arrears for time periods before July 1, 2019, will be subject to the old mechanism. This will increase the burden on the EDF, especially that the rebate mechanism for these arrears has not been decided upon yet. EDF board discussed the settlement of arrears owed to companies for the period ending December 31, 2017.

- Large businesses may receive full support with regard to shipping (this does not address cases where the amount due to the business exceeds the 30% prescribed for technical support).

-Five export councils are contributing LE 6 million towards automating EDF operations.

- To settle overdue export rebates, the government will randomly select a number of companies with outstanding tax liabilities and offset it with the overdue export rebates; the government will explore mechanisms for settling overdue export rebates for companies with no outstanding tax liabilities. (FEI and FECOC responded to this proposal by highlighting that this will ultimately boil down to rewarding companies that are delinquent in meeting their tax obligations, and penalizing compliant companies that fulfill their obligations on time.)

- Specific amounts of funds are being separately allocated to each sector for export rebate purposes. These allocations will be reviewed periodically to determine their adequacy. (FEI and FECOC notes that this adds more ambiguity to the export support program implementation mechanisms.)

The continued support and incentives offered to industries result in financial obligations that exceed the current budget of the ESF; this practice affects its capacity to satisfy its obligations towards factories and business owners.	Set up a mechanism, whereby ESF's debt owed to a business can be transformed into credit in favor of the business; the credit can then be used by the business to pay any dues or meet other delinquent obligations owed to the government.	