Social Justice Platform (SJP)- Egypt
An Independent Research Initiative of ECESR

The Human Rights Impact of Economic Reform Policies
(The Case of Foreign Debt and International Financial Obligations in Egypt)

Submitted to the: Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights

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A Background on Conditionality, its basic failures and effects.

In 1991 Egypt agreed with the IMF to a rescue package to revive its economy crumbling under a debt crisis. The Egyptian economy was battered during the late eighties with increasing trade and fiscal deficits, and mounting external debt burdens that soared over 46 Billion USD, marking 150% of the country's Gross Domestic Product (GDP) at the time. This was coupled with the structural weaknesses of the Egyptian economy manifesting in its weak primary and secondary sectors, trade deficit of over 30% and over-reliance on volatile hard currency sources such as tourism, remittances of Egyptian nationals abroad, and Suez canal revenues, already suffering from the oil glut of the 1980s, the first Gulf War[1] wreaked havoc on an economy that was already in tatters. In these grim times Egypt turned to the IMF, World Bank, ADB and other international financial institutions for help; the rescue package was appraised at 562 million USD, and to access it Egypt had to implement (a universal) structural adjustment program, ERSAP, well known to many countries of the global south at the time. The most important of its components was the total liberalization of foreign trade and removing price controls, a floating currency exchange system, lowering the subsidies bill especially for energy, and cutting the remaining subsidies for pesticides and fertilizers by a half.

[1] The Invasion of Kuwait by Iraq, and the subsequent liberation of Kuwait and Operation Desert Storm.

Meanwhile the government would also have to implement a comprehensive sales tax and start an accelerated program of dismantlement and privatization of state-owned industrial enterprises, with the intent of shrinking the state's economic role, and establishing the conditions for a free market economy. Against all these policies that were certain to hurt the impoverished and vulnerable the most, the agreement established the Social Fund for Development (SFD) as the cushion to the blow which would prove incredibly ineffective. So, it was then that government of Egypt, and the IMF-led international financial cartel agreed that the Egyptian government would abandon its social, economic and developmental role, in favor of short term fiscal balance.

This shift is critical, as it reflects a shift in development policy in Egypt, and arguably throughout similar countries in the global south: development policies went from being "structural policies", to being "targeted policies". The structural approach to development benefits from the economic and social rights framework, where developmental policies are seen as a restructuring of the economy, in ways that are redistributive, ensure industrialization, job-generation, as well as legislatively ensure universal state protections to the populations, in the form of price controls of basic necessities, unemployment benefits, employment programs, and maximizing budgetary social spending to ensure universal health care coverage, and a system of free universal education, at least in the primary stages. This structural approach to universal economic and social rights is very different from the "targeted" policies we have moved to. Targeted policies are in fact not developmental, and act simply as "quick-fixes" to rising poverty, unemployment, deteriorating education and health attainment, and other violations of Economic and social Rights, under a neoliberal regime that obligates the state to shrink its social spending, tax the masses, and then reallot a small portion of its spending towards "cash transfers" to the poor, which the neoliberal policies continuously reproduce. This, needless to say, becomes a vicious cycle of poverty production and poverty reduction, followed by more poverty production, only to instigate more targeted reduction, etc.

While the IMF-led coalition of international financial institutions did acknowledge the fact that Egypt suffered from structural problems that caused its fiscal deficit and external-debt crisis, it failed to address them completely, choosing instead to focus on temporary fiscal balance, the ERSAP was also accompanied by large debt cancellation from major creditors as due thanks for the country's conditioned participation in the First Gulf War, which in turn helped alleviate a great deal of financial strain (external debt) on the Egyptian economy. By 1994 Egypt's imports had increased by 4.3%, exports decreased by 11.4%, widening the trade deficit even more, by a staggering 47.3%, which meant that instead of solving the problem of the trade deficit that siphons Egypt's hard currency, the ERSAP– making Egyptian enterprises less competitive due to the scaling down of subsidies, and the liberalization of trade- had actually worsened the problem, even if it did temporarily "wipe out" the current accounts deficit. Capital expenditure was reduced from 16% of the GDP to only 7%, marking a pivotal moment of the abandonment of Egypt's then ailing infrastructure that would later lead to ludicrously outdated equipment and methods remaining in use in Egypt to this day. During the same period, inflation was driven down from 21% to 6.3%, while unemployment jumped from 9.5% to over 11%, all these factors were taken into consideration when in the completion report Egypt's ERSAP was described as "successful and it helped put the economy of Egypt on a sound sustainable position where it has continued to experience high growth rates."[2]. This "success" managed to lower poverty rates in the short and medium run to reach a low of 16.7% in 2000, but its long term effects contributed directly to the acceleration of poverty rates that crossed over 27.8% in 2015.

Egypt's experience in the 1990s with the IMF- conditioned economic policy reforms points clearly to the IMF priorities in setting, and following up the implementation of these programs: it seeks short-term growth, with little consideration to either the long-term effects on growth, or to other effects, including rising inequality, soaring unemployment rates and dramatically increasing poverty.

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[2] Egypt Structural Adjustment Loan 1991-1994 completion report. *African Development Bank*. March 1999

It is also clear that the IMF's ERSAP did not fix any of the underlying problems that led to the crisis, but instead worsened them by forcing a neoliberal model with a one-size-fits-all mentality ignoring Egypt's developmental history, infrastructure, institutional culture, as well as a long socialist and welfare legacy. It is clear that the trade liberalization forced during the ERSAP directly contributed to the widening trade deficit, also the reduction of pesticide and fertilizer subsidies and the flooding of cheaper foreign goods meant crushing many of the nascent industries and small producers further weakening the primary and secondary sector and forcing Egypt -now a developing nation, lower-Middle income country, and previously an industrializing nation- into a hollowed-out consumption economy model.

Conditional Economic Policy as a major cause of Uprisings in 2011.

Between the Completion of the 1991 package and the 2015/ 2016 IMF/ WB packages, Egypt has had ten "Article IV consultations" with the IMF in 1999, 2001, 2002, 2004, 2005, 2006, 2007, 2008, 2010, and 2014. Of these two stand out: the 2010, and 2014 consultations. In 2010 the IMF remarked that Egypt's "Reforms reduced fiscal, monetary and external vulnerabilities, leaving some room to maneuver on macroeconomic policies in the event of negative shocks." This statement would be rendered ironic less than a year later, when the Egyptian economy is sent tumbling in the aftermath of the 2011 Uprisings (as part of the so-called Arab Spring), which precipitated major capital flight, rapid currency devaluation, and the erosion of Egyptian foreign exchange reserves. The same irony would ensue when the IMF negotiates another loan agreement in May 2011 with a country that did not even transition to an elected government, after Mubarak abdicated in February 2011. The negotiation for a $4.8bn loan with the IMF had the usual stated objective of lessening the state's budget deficit and facilitating a significant inflow of foreign loans and direct investment from bilateral and multilateral partners. The loan, however, was to be conditional on the same set of austerity reforms: Specifically, the IMF has asked the government to decrease expensive subsidies on fuel and food, and to increase state revenue through implementing a fully-fledged Value-Added Tax, that would replace the Sales Tax, but also apply to Services (instead of just products). While the popular outcry against the

IMF in 2012 has stopped the negotiation that the Muslim Brotherhood government was undertaking with the Fund, the Fund relentlessly pursued Egypt, only succeeding to secure a loan agreement under the repressive government of Abdelfattah El-Sisi. The Fund's initial policies of dismantling the universal protections provided by the Egyptian state to both its local businesses, and its citizens, had spurred the economic and social rights violations that led to the 2011 Uprising. Instead of addressing the root causes, and the structural problems with Egypt's economy which reproduces poverty and inequality, the Egyptian government -in a race to gain international trust and reclaim Egypt's reputation as business-friendly- agreed to a dual package by both the WB and the IMF, which we will discuss in the last section.

It is noteworthy that the IMF, in its 2014 Article IV consultation to Egypt, fails to see its own policy conditionality as possibly playing a role in the rising discontent in Egypt. In fact, the 2014 report concludes "Following four years of political uncertainty and economic slowdown, the authorities have started implementing policies to raise growth, create jobs and restore macroeconomic stability". Not only did the IMF elect to ignore the absence of inclusive economic vision and the haphazardly management of the economy, it also provided a positive view of the economic policies implemented at the time, which included major subsidy cuts starting in fiscal year 2013/2014, increased taxation on consumption in preparation for the implementation of a 14%-VAT, as well as legislative measures to "protect investors" from any liability in cases of fraud, embezzlement of public funds or corruption (through the following laws: Decree of Law no.32/ year 2014 and Decree of Law No. 16 for year 2015 amending some provisions of the Criminal Procedures Law, Issued by law No. 150 for year 1950).[3]

2015/ 2016: More loans to fix the old loans

[3] For more information on legislative changes please consult p.17 of "Above the State: Multinational Corporations in Egypt". 2015. The Egyptian Center for Economic and Social Rights. Available at: http://ecesr.org/wp-content/uploads/2015/02/MNCs-English-2nd-Edition.pdf

According to data from website of the Central Agency for Public Mobilization and Statistics (CAPMAS), Egypt's official poverty rate increased from 19.6% in 2005 to 27.8% in 2015. The impoverished region of Upper Egypt suffers from a much higher poverty rate, where 56.7% of the population in rural areas lived in poverty in 2015. In addition, Egypt's youth is hit unequally by poverty; more than half of Egypt's youth lives below the poverty line.

Despite fairly progressive protections for economic and social rights in the new 2014 Egyptian Constitution, the government continues to fall short of achieving its promises, especially in terms of increasing spending on education and health, as well as ensuring progressive taxation, including taxing corporate profits and capital gains. This has consistently failed to materialize. Similarly, Article 38 promises progressive taxation to achieve social justice and economic development. Nevertheless, the government not only fails to tax income from capital gains, it also has also sliced the tax rate on corporate income and high-end personal incomes (above 1 million Egyptian Pounds) from 30% to a flat rate of 22.5%. As discussed further below, the government also introduced a regressive value-added tax (VAT) in 2016, which exacerbated inflation rates.

In 2015/ 2016, the Egyptian government announced that intends to borrow 21 billion USD over 3 years from multiple sources, to 'handle' a deep economic crisis. The rescue package included a 12 billion USD loan from the International Monetary Fund(IMF), a 3 billion USD loan from the World Bank (WB), 1.5 Billion USD from the African Development Bank (ADB) and 4.5 billion USD from other sources totaling 21 billion USD over 3 years, from the same institutions that rescued Egypt 25 years prior and sang its praises since then. The same structural problems cited in 1991 were cited again in 2016, and the same conditions for disbursement were extended. The conditional policies were acute, demanding the implementation of a 14% VAT, the further dismantling of the energy subsidies into half, the liberalization of Egypt's currency (exchange rates), and a World Bank requirement to decrease public salary spending, which could only be realized with major layoffs.

The collective effects of these economic reforms were as follows: a 30% increase in gasoline prices, a 30-40% increase in prices of household electricity, with a huge knock-on effect for a wide range of food and transport costs.[4] The Central Bank floated the Egyptian pound in early November, right before the loan was approved, after devaluing it from 8.8 to 13 pounds to the US dollar earlier in the same week. The exchange rate today stands at more than 18 pounds to the US dollar. This liberalization came in parallel to the VAT coming into effect, and had the effect of the Egyptian Pound losing 50% of its value, slashing with it people's savings and already stagnated salaries.[5] The immediately resulting increase in overall inflation (32% in April 2017, hitting the hottest rate since 1991) has particularly hit food prices, affecting vulnerable households and their ability to consume food items: Prices of Food items have increased by 40% as of February 2017, in comparison to February 2016.[6]

So, even a casual observer that didn't bother to delve into the negative effects of the 1991 ERSAP on the Egyptian economy would realize that conditionalities, even from the World Bank and African Development Bank- supposedly the more benign faces of the international financial institutions- are not concerned with development, or improving the quality of life, but rather in the security of back-payments and ensuring that the burden of economic mismanagement and economic crises is shifted to the population, instead of investors, banks and private enterprises.

It is no coincidence that indebted countries that rely on borrowing to ford their crises rarely escape the cycle, or that what Rosa Luxemburg referred to in her essays the "Accumulation of Capital" in 1913 Khedivate Egypt, still rings true for the third republic[7] in 2016. Fact of the matter is while loans have been rebranded after the second world war to be for rebuilding and development, their foundational concerns did not witness a paradigm shift. Conditionalities

[4] Esterman, Isabel. Brace yourselves for Higher Electricity Prices. Mada Masr. August 10, 2016. http://www.madamasr.com/en/2016/08/10/feature/economy/brace-yourselves-for-higher-electricity-prices/
[5] Hadid, Diaa. Painful Steps Help Egypt Secure $12 Billion IMF Loan. The New York Times. November 11, 2016. https://www.nytimes.com/2016/11/12/world/middleeast/egypt-gets-final-imf-approval-for-12-billion-loan.html
[6] CAPMAS. Main Indicators. http://www.capmas.gov.eg/Pages/StaticPages.aspx?page_id=6163
[7] First Republic (1953-1971), Second Republic (1971-2011), Third Republic (2013-current)

remained a powerful tool in the hand of the creditor institutions to push for ideologically motivated reforms that gave the upper hand to the industrialized creditors at the price of catastrophic detriment of the populations of indebted nations. This reality of debt use for the reproduction of colonial economic control, means that for us, the developing world, there can be no meaningful development, nor attainment of economic and social rights.

The only way for us to relieve the harm done since the high time of colonialism would be to rethink the concept of international debt and what it represents in terms of both dependency and human rights. To fundamentally reorient it from the one-size-fits-all conditionalities point of view, where success is measured in market terms; by the ability to balance current accounts temporarily and pay back international obligations to a system.

A word on Economic and Social Rights in the Age of Neoliberalism

Economic and social rights do not sit comfortably with neoliberal ideology. Neoliberalism as an ideology has space for civil and political rights, the first generation of Human Rights, but strongly clashes with economic and social and cultural rights, particularly because these positive rights require state intervention, a practice condemned by neoliberal ideology as fascist or socialist. In order to fulfill economic and social rights, states need to intervene: states intervene on behalf of populations, to protect their livelihoods, ensure the end of hunger, poverty, free public primary education for everyone, decent jobs with decent salaries, access to healthcare, infrastructure, as well as access to the right to free association and free expression. Above all, and in clear violation of IMF recommendations and conditions, states use maximum available resources to fulfill these economic and social rights. In fact, the IMF and World Bank recommendations to Egypt throughout the past 26 years, and well into the 2015/2016 agreements articulate and require **<u>the exact opposite:</u>** shrinking budgets, shrinking subsidies, slashing social spending on education, health, infrastructure, as well as deregulating the labor markets in ways that deprive workers of their basic workplace rights under the ILO conventions, including the right to strike.

Finally, Egypt’s experience illuminates the intricate connection between political repression and regressive austerity measures. Egypt’s 2012 IMF negotiations were not possible due to the political freedoms enjoyed by the citizens at the time, which allowed them to engage in various activities, strikes and protests, to pressure the Muslim Brotherhood government to stop the negotiation. The same was not true for Egypt after the regime change in 2013. It is remarkable how closely such unpopular neoliberal reforms have necessitated increasing restrictions on freedoms and closing channels of accountability. The heavy presence of security forces during the Fund’s visit to Egypt in November 2016, which ensured protestors are not gathering to object to the regressive measures it is imposing, is a case in point. It offers a clear example of the fact that neoliberal reforms require an authoritarian framework and a lack of accountability to ensure their implementation, given their deeply felt impact in the everyday lives of ordinary people.