

Summary Notes on the Roundtable Discussion entitled:

**"Behavioral Economics: A New Perspective for Economic Analysis - Applications on Local Development"**

Tuesday 20 March 2018, from 10:00 am to 12:00 noon

**Speaker:**

Dr. Mohamed El Koumi - Assistant Professor, the American University in Cairo

**Discussants:**

Major General Abu Bakr al-Gendy, Minister of Local Development

Eng. Ahmed El-Sigini - Chairman of the Local Administration Committee, the Egyptian Parliament

**Chair:**

Eng. Tariq Tawfiq, Vice Chairman, ECES

**Moderator:**

Dr. Abla Abdel Latif, Executive Director and Director of Research, ECES

**The Main points addressed by the speaker:**

- The behavioral economics approach can be used in public policy and in making decisions to achieve development and societal goals by studying individuals' behavior.
- The main objective of the behavioral economics approach in public policy can be summed up in four objectives: for policy to be easy, attractive, social and timely (EAST).
- The behavioral economics approach helps to identify the behavioral biases of individuals towards a particular problem, and guide the appropriate nudges, which in turn change the behavior of individuals to achieve better policy results.
- Nudges can be defined as simple, influential changes in the behavior of individuals in order to achieve better results.
- There are different types of individual behavioral biases, most importantly:
  - Loss aversion
  - Regret aversion

- Overconfidence
  - Optimism
  - Status quo bias
  - Present bias and Framing effect bias
- The behavioral economics approach can be used to solve societal problems, such as running traffic stop signs, high consumption of electricity in certain areas or waste of water. In such cases, the behavioral biases that affect the individual's stance and policy formulation to solve these problems are determined based on the behavioral considerations of citizens. Examples used in other countries include:
- **Britain:** to limit driving at high speeds on public highways, a behavioral analysis approach is used, with a smiley emoji appearing if the driver complies with the prescribed speed, but a sad emoji if the driver exceeds it. Thus, the driver gets an instant reaction to his/her behavior without waiting to be penalized for the violations committed. Hence, specific messages are sent to citizens, guiding them to good behavior and avoiding misconduct.
  - **South Africa:** the government has applied the same method to improve citizens' behavior in water consumption. The outcome was saving 4 liters of daily water consumption per household.
  - **The State of California** has applied this approach to reduce electricity consumption in high-consumption areas by publishing the consumption rates for each area. Individuals, whose consumption exceeds these rates, get their electricity bill with an angry emoji on it as a stimulus to modify their behavior. This approach has been applied to 290 homes in the State of California, and had a good impact on both the short and long terms.
- With increased attention paid to behavioral economics globally, many countries established behavioral guidance units within governments, including Arab countries such as Lebanon (Nudges), Saudi Arabia (the Center for Strategic Development, Behavioral Insight), and Qatar (Qatar Behavioral Guidance Unit). By 2020 all Gulf states will have a behavioral guidance unit.
- By using nudges to influence the behavior of individuals through social norms, policy makers can reduce unwanted behavior or encourage positive behavior of individuals. This method is done by combining descriptive and injunctive standards.
- Timely-feedback can be used in many areas such as fundraising. Experience has shown that holding a dialogue with someone who has benefited from grants for 10 minutes can raise the total value of donations by 171 percent.
- Social recognition can also change the behavior of individuals and thus achieve better results for public policies (non-financial incentives such as "the employee of the month" award).
- Behavioral economics can be used to achieve financial inclusion by addressing the behavioral biases against loan interest and applying a credit union for the poor at the village level, similar to the Rotating Credit and Savings Association (ROSCA) model, which is widely spread in the Egyptian society.

- In cooperation with the Ministry of Local Development, the credit union was tested in one of the Fayoum villages during the period 2014 - 2016. The union included 100 members. Practical trials were applied to measure the social capital, finding that the participant individuals in the credit union have the highest social capital compared to others. The trial has been successful in improving the lives of the poor who may be looking for a source of financing for their projects without resorting to interest-bearing loans, especially that the interest rate for micro-enterprises is as high as 200 percent.

### ECES Presentation:

- Behavioral economics is a new trend in the world. It has many applications that have been used by various entities including banks. It combines economics and psychology, and examines the psychological factors behind individuals' decisions, which could be used extensively for community development by creating developmental programs that address individuals according to their needs, culture and many other psychological considerations that affect certain behavior.
- Mashroaak "Your Project" can benefit from behavioral economics. This is a project launched by the Ministry of Local Development in March 2015 to finance small and micro enterprises.
- To date, 86,472 projects have been financed with total loans of LE 5 billion. Commercial activity accounts for 74 percent of the total loans granted. Notably, the financing of productive activities, particularly agricultural projects, is very weak. The project's performance is better in some governorates such as Qena, Damietta and Asharqeya, than others. Women received 31 percent of total loans granted.
- "Your Project" currently offers a unified funding program for all categories, but there are different financing needs depending on the stage, type and location of the project.
- The efficiency of "Your Project" can be improved through behavioral economics by providing appropriate financing programs for each category depending on the stage, type and location of the project. The program can provide additional services coordinated by "Your Project" with other entities such as services related to procedures, technical support, marketing for customers, and bank and non-bank financing, and provide a person at each location to provide technical advice to customers.
- Target specific activities in coordination with other entities, taking into account the economic potentials of each targeted governorate, such as projects for manufacturing intermediate components for import substitutes, service projects complementary to industrial activity, craft projects and the projects of "your job near your home."
- The need to provide an integrated ecosystem in all governorates, which respects the characteristics of governorates and the different community groups through which entrepreneurship is promoted and sustainable employment is generated in a way that combines economic efficiency and social justice.

## Main points of discussion:

- The government needs to adopt behavioral economics applications as a tool to achieve better results in policy implementation.
- American economist Richard Thaler won Nobel Prize for Economics in 2017 for his contributions to behavioral economics, a science that has received international attention in recent years.
- At the level of local development, behavioral economics applications can be used to promote community participation of citizens and maximize the use of resources.
- Localities lead the US economy today; they can trigger an educational, cultural and economic revolution in any country. The use of the behavioral economics approach in community development can lead local governments to revolutionize different countries (the Bottom-up approach).
- Behavioral economics applications can be used in solving the garbage problem by influencing social norms. The solution to this problem requires mainly societal awareness. This does not mean that the government should abandon its responsibilities, but that the commitment of citizens greatly reduces the efforts made by the Government.
- The behavioral economics approach can be used to reduce corruption in the State bureaucracy, along the lines of the Corruption Perception Index issued by the Information and Decision Support Center.
- There are successful applications of the behavioral economics approach to encourage self-employment and reduce child labor.
- Behavioral economics applications can be used to improve Egypt's ranking in the Global Entrepreneurship Index, which was 71 in 2018, especially if more attention is paid to the opportunity perception index.
- The need to develop a clear schedule for the transition to decentralization in Egypt and to create a competitive environment among the governorates to be measured through an index similar to the World Competitiveness Index issued by the World Economic Forum.
- A real change in localities is conditional on the full and effective implementation of the Civil Service Law, Local Administration Law and Planning Law.
- The need to benefit from the study conducted by ECES to improve the efficiency of "Your Project" in order to achieve double results in 2018, both in the number of beneficiaries or the volume of project financing, as the recovery index of loans granted to the project clients amounted to as high as 97 percent.
- A unified law is currently being prepared for temporary licensing of various activities other than industrial activity, which will help to improve the efficiency and effectiveness of various financing programs.
- The need to delineate responsibilities in the application of analytical economics to ensure the success and completion of the experiment. Many previous projects ended up unfinished due to absent delineation of roles and responsibilities among various bodies.