

Impact of Governmental Policies on Poverty in Egypt

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Introduction

The safety net to protect the poor has not been effective in Egypt. Social spending includes education, health, food subsidies, and social transfers. Egypt's main safety net is the food subsidy system in terms of both costs and coverage. Food subsidy comprises two systems: (1) a ration card that offers eligible households a pre-determined monthly quota of basic foodstuffs, including rice, flour, tea, sugar and oil depending on the number of persons registered on the card; and (2) subsidized bread available to everyone. The food subsidy program is crucial for meeting the daily food needs of poor households. It is important because it provides vital commodities at cheaper prices when compared with regular market prices, and it frees a portion of the household budget to be spent on other essential non-food items, such as education and health care. In 2015, the government introduced a new food subsidy system by which every eligible households can obtain free goods of value of LE15 per month per person, from specific grocery shops of family market. This allowance was increased to LE18 by beginning of 2016 and by the end of 2016, it was increased to LE20 because of high inflation shock that experienced after currency devaluation.

1. Social Solidarity Pension

1.1. Overview

Social Solidarity Pension (SSP) are governmental pensions directed to families with no source of income, target the poor and ensure supporting those who are deserving of pensions. It includes the following five types of pensions:

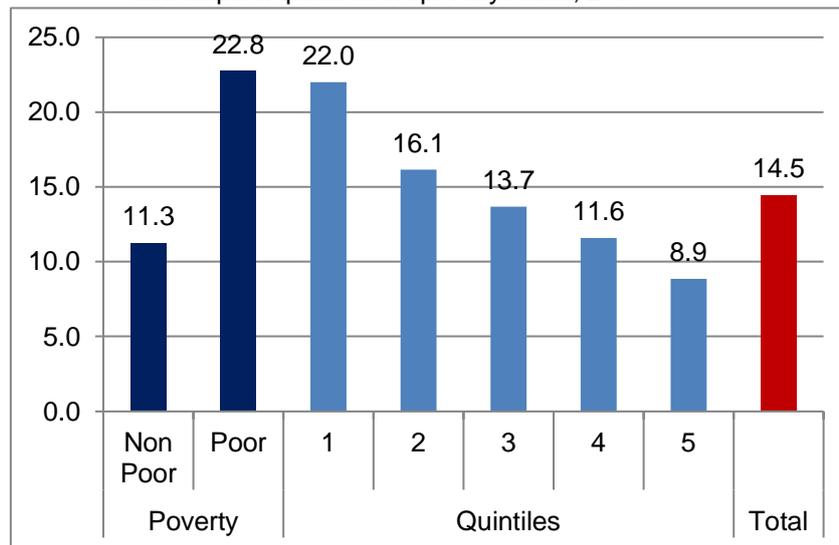
1. Assistance for Adult (elderly, widows, divorced, orphans, children of divorced, disabled)
2. Assistance for children
3. Scholarships
4. Assistance for Martyrs (the families of civilians martyrs due to military actions)

5. Transfers from government for persons not included by law of the social security

Individuals who received SSP are called *Direct Beneficiaries* of SSP, while households who have at least one member received SSP are called *Indirect Beneficiaries*.

Overall, about 15% of households have at least one member receive SSP, with more advantage towards poor households, where 23% and 11% of poor and non-poor households respectively are indirect beneficiaries of SSP as shown in Figure 1. Households in the first consumption quintile (poorest quintile) are more likely to receive SSP than those in higher quintiles. Slightly more than one fifth of households (22%) in the first poorest quintile received SSP, declined to 16% in the second quintile and decreased to 9% in the richest quintile (fifth quintile).

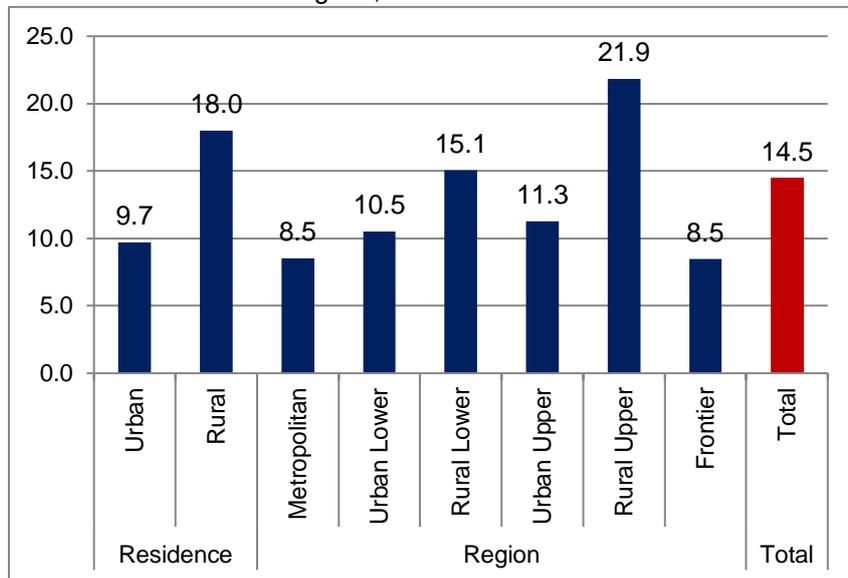
Figure 1: Percentage of direct and indirect beneficiaries of SSP according to consumption quintiles and poverty status, 2015



Source: CAPMAS, 2015 HIECS, Authors calculations

Figure 2 shows the differences between urban and rural residences regarding the benefitting households from governmental SSP. Almost 18% of individuals in rural areas are considered direct or indirect beneficiaries of SSP, compared to only 10% among urban individuals. Almost 22% of individuals in rural Upper Egypt are benefitting - whether direct or indirect - from SSP, compared to only 9% of individuals in Metropolitan region.

Figure 2: Percentage of direct and indirect beneficiaries of SSP according to residence and regions, 2015



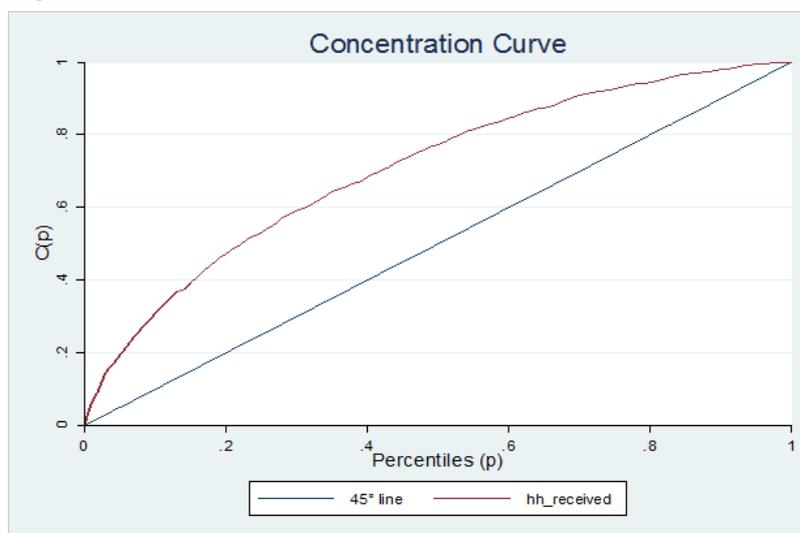
Source: CAPMAS, 2015 HIECS, Authors calculations

1.2. Impact of SSP on Poverty

➤ Is SSP Pro Poor?

Figure 3 shows the benefit incidence curve for direct and indirect beneficiaries of SSP in 2015. The incidence curve shows that benefitting from the SSP is pro poor targeted, where very poor individuals are more likely to benefit from the SSP than wealthier people are.

Figure 3: Benefit Incidence curves for Direct and Indirect Beneficiaries of SSP



Source: CAPMAS, 2015 HIECS, Authors calculations

➤ Impact of SSP on Poverty Status

Table 1 shows the impact of receiving SSP on poverty status and poverty gap on different regions. It shows that SSP has great impact on poverty status of households in Egypt, where poverty rate increased by almost 4 percentage points (from 27.8% to 31.5%) if households did not receive the governmental SSP. Poverty rate declined by almost 4 percentage points in both urban and rural areas after considering the benefit of the governmental SSP. Similar results are observed regarding different regions as shown in the same table.

Concerning poverty gap, Table 1 shows that not only the headcount rates decreased by receiving SSP, but also the poverty gap is declined. Poverty gap is declined from 8 to 5.7 when households received SSP. The impact of SSP on poverty gap in rural areas is higher than that in urban areas.

Table 1: Impact of receiving SSP on poverty rates and gap by residence and regions, 2015

	Actual Rate		Rates when removing SSP		Impact of SSP	
	Headcount	Poverty gap	Headcount	Poverty gap	Headcount	Poverty gap
Residence						
Urban	16.90	3.01	19.8	4.41	2.87	1.40
Rural	35.95	7.64	40.4	10.67	4.42	3.03
Regions						
Metropolitan	15.11	2.64	17.87	3.87	2.76	1.23
Urban Lower	9.67	1.22	12.69	2.38	3.02	1.16
Rural Lower	19.71	2.90	24.25	4.93	4.54	2.03
Urban Upper	27.40	5.32	30.48	7.33	3.07	2.00
Rural Upper	56.70	13.70	60.98	18.02	4.27	4.32
Frontier	22.48	5.33	24.47	6.45	2.00	1.12
Total	27.76	5.65	31.52	7.98	3.75	2.33

Source: CAPMAS, 2015 HIECS, Authors calculations

➤ Are Direct Beneficiaries always Poor or Vulnerable and Deserve the SSP?

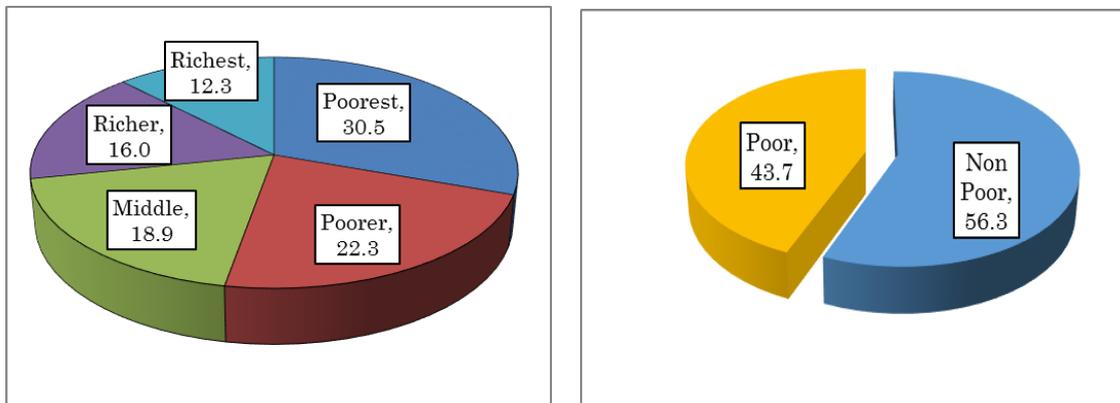
There is an important question should be asked to policy makers: Are those beneficiaries poor or at least vulnerable to deserve the SSP? Or are those people representing the poorest portion in the country?

Looking at the distribution of beneficiaries of SSP according to poverty status and consumption quintiles as presented in Figure 1, the data shows that there are some leakages and under-

coverage of SSP program. Taking one criterion for SSP targeting does not capture the poverty status of beneficiaries. Figure 4 shows that 56% of beneficiaries of SSP are non-poor, and accordingly they do not deserve the benefits of the SSP program (leakage). On the other hand, Figure 1 shows that only 23% of the poor are benefitting from the SSP program, which indicates that 77% of the poor deserve benefitting from the program but they excluded (under-coverage).

Similar results are observed when considering the consumption quintiles, where only 31% of households benefitting from SSP program are in the poorest quintile. On the other side, there exists 12% of households who benefitted from SSP are from the richest quintile as shown in Figure 4.

Figure 4: Distribution of indirect beneficiaries of SSP according to poverty status and quintiles, 2015



Source: 2015 HIECS, Authors calculations

The above analysis shows that SSP has a great impact on poverty status of beneficiaries, where SSP beneficiaries are most representative among the poor. However, some of beneficiaries are non-poor; this confirms that there are some leakages in distributing the SSP.

Individual beneficiaries' characteristics present the leakage and under-coverage of SSP program, and do not capture the poverty status of beneficiaries. For that reason, a composite criterion (includes all characteristics together) should be applied for targeting to present the poverty status of beneficiaries.

2. Food Subsidy

Ration cards in particular are intended simply to ensure all Egyptians received a reasonable quantity of essential food items. However, the program has persisted since World War II, although with varying scope and size, and has become a strong symbol of the broader social contract between the government and the population. Ration cards are issued by the government

to allow vulnerable households to purchase basic food products at subsidized prices. In the following subsection we evaluate the effectiveness and impact of food subsidy systems on poverty.

2.1. Consumption of Subsidized Commodities

Food subsidies are badly targeted, as Figure 5a and Figure 5b show, 71% of persons in the richest decile received food subsidies and 87% of individuals in the second richest deciles in 2015. Moreover, the richest deciles received 7% of total food subsidy benefits and the richest half of the population received 46% of benefits. If food subsidies are well targeted and all the food subsidy benefits go to poorest 50% of population, benefit allowance would have been doubled and poverty will decline.

Figure 5a: Distribution of food subsidy benefits among deciles

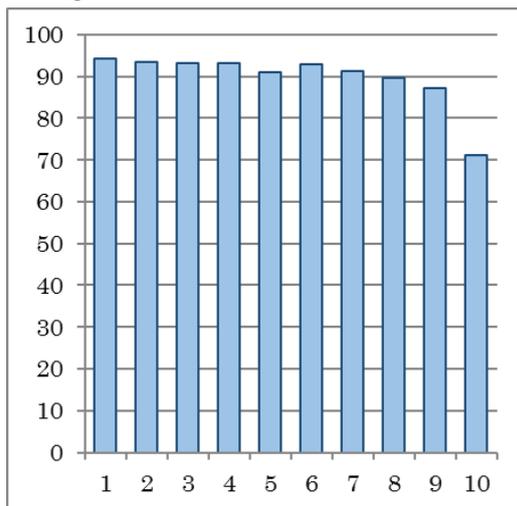
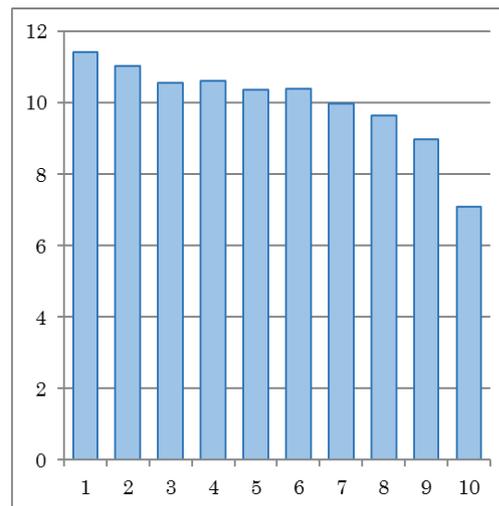


Figure 5b: Share of benefits across deciles



Source: CAPMAS, 2015 HIECS, Authors calculations

Table 2 shows that in 2015 about 90% of Egyptian benefitted from ration cards system, and total benefits received from ration cards allowances amounted to LE201 per person per year and another LE96 benefits from subsidized (*baladi*) bread. Compared to 2011, coverage of ration cards system had increase from 75% to 90%, while the per capita benefits from *baladi* bread had declined from LE166 in 2013 to LE96 in 2015¹ and benefits from ration cards had increased

¹ Total benefit of any subsidized commodity = cost of subsidized commodity at market prices - value that households paid. As subsidized commodity is at low quality, and its quality is similar to that consumed by the first quintile, market price of subsidized commodity is evaluated at the median price of the corresponding commodity, experienced by the first quintile.

from LE113 to LE201. When we consider the inflation effect we can realize that benefits in real terms from food subsidies had declined 12%.

Table 2: Some indicators concerning subsidized food commodities by governorate

	% share of subsidized goods out of		Annual per capita benefits	% of beneficiaries
	Food expenditure	Caloric intake		
Cairo	5.93	32.70	268	76.59
Alexandria	4.25	32.91	261	73.13
Port Said	5.00	35.68	255	89.24
Suez	5.34	39.87	277	91.17
Damietta	10.02	44.55	426	95.51
Dakahlia	6.58	37.39	309	88.57
Sharkia	6.10	38.56	313	95.34
Qualiobia	7.39	42.86	307	91.14
Kafr el Sheikh	6.95	40.16	331	98.34
Garbeyya	7.65	38.03	350	98.92
Menoufia	7.65	43.51	359	94.00
Beheira	6.89	39.29	320	97.19
Ismailia	7.46	43.54	344	93.52
Giza	9.09	41.41	303	90.25
Bani Suef	8.52	53.10	365	98.39
Fayoum	5.14	41.19	237	89.55
Menia	7.28	54.36	329	94.37
Assiut	7.97	50.19	296	96.09
Sohag	9.78	37.35	250	95.39
Qena	6.79	28.39	185	91.90
Aswan	5.39	36.95	188	74.59
Luxor	4.73	25.31	162	68.21
Frontiers	5.80	40.86	287	83.59
All Egypt	6.79	40.04	297	89.71

Source: CAPMAS, 2015 HIECS, Authors calculations

2.2. Impact of Food Subsidies on Poverty

Although food subsidies provide only a small proportion of total per capita consumption in Egypt, the incidence of poverty in Egypt would have increased from 27.8 percent to 32 percent in the absence of food subsidies in 2015. The reduction in poverty gap due to consumption of subsidized commodities is 25 percent (1.4 percentage points). At the governorate level, the largest increase in poverty when food subsidy is removed is in Beni-Suef followed by Behera

governorate (Table 3). This analysis is very important if the government wants to mitigate the impact of food subsidy removal. Cash transfers is one option but the food security aspects should be taken into consideration.

Table 3: Poverty Measures when removing food subsidies

	Actual Rate		Rates when removing food subsidies		Change in Headcount (in % points)	Change in poverty gap (in % points)
	Headcount	Poverty gap	Headcount	Poverty gap		
Cairo	17.48	3.32	21.56	4.14	4.08	0.82
Alexandria	11.62	1.61	13.39	2.15	1.77	0.54
Port Said	6.76	0.70	7.86	1.01	1.10	0.31
Suez	17.11	2.88	19.47	3.64	2.36	0.76
Damietta	17.95	2.68	21.97	3.72	4.02	1.04
Dakahlia	15.14	2.18	20.08	2.98	4.94	0.80
Sharkia	14.13	1.89	17.32	2.59	3.19	0.70
Qualiobia	13.15	1.77	17.57	2.60	4.41	0.83
Kafr el Sheikh	19.37	2.90	24.75	4.06	5.38	1.17
Garbeyya	16.51	2.23	21.74	3.27	5.24	1.04
Menoufia	15.99	2.53	20.89	3.59	4.90	1.05
Beheira	23.65	3.36	30.21	4.74	6.55	1.38
Ismailia	24.12	4.40	30.07	6.10	5.95	1.70
Giza	28.62	5.63	34.46	7.18	5.84	1.56
Bani Suef	43.06	7.61	49.91	10.38	6.85	2.78
Fayoum	35.69	6.48	39.81	7.95	4.11	1.46
Menia	56.72	13.24	62.83	16.62	6.11	3.38
Assiut	66.01	18.11	70.34	21.56	4.32	3.45
Sohag	65.82	18.41	70.04	21.19	4.22	2.78
Qena	57.80	14.83	60.66	16.51	2.86	1.69
Aswan	48.61	11.33	52.24	12.67	3.63	1.34
Luxor	41.16	6.84	44.09	7.90	2.93	1.07
Frontiers	22.45	5.33	27.16	6.33	4.71	1.00
All Egypt	27.76	5.65	32.33	7.06	4.56	1.41

Source: CAPMAS, 2015 HIECS, Authors calculations

Conclusion

Food subsidies are badly targeted, 71% of persons in the richest decile received food subsidies and 87% of individuals in the second richest deciles. Moreover, the richest deciles received 7% of total food subsidy benefits and the richest half of the population received 46% of benefits. If

food subsidies are well targeted and all the food subsidy benefits go to poorest 50% of population, benefit allowance would have been doubled and poverty will decline.

The incidence of poverty in Egypt would have increased from 27.8% to 32% in the absence of food subsidies. The reduction in poverty gap due to consumption of subsidized commodities is 25% (1.4 percentage points).