

Egyptian Food Subsidy Policies in the 2000s: A Descriptive Policy Review

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1. Introduction

This short article is to make a brief review of Egyptian food subsidy policies in 2000s, as a preliminary note for the full study to be prepared in the coming year 2016.

During the decade of 2000s, Egypt experienced a series of dynamisms of economic liberalization, global food crises, and political upheavals on the eve of the 1.25 Revolution in 2011. As many indicated, subsidy policies, mainly for food and energy, have been among critical pillars for the tangible social policies provided to people in the country since Nasser era in 1950s~1960s. Together with public sector recruitment/employment system, this extended subsidy system in the country used to formulate the welfare pillars in the Egyptian state capitalism, seeking to achieve both economic growth and social welfare at the same time, in an integrated manner but at quite high prices (Harik 1998, Nagasawa 1998). The decade of 2000s witnessed high economic growth but not necessarily equal distribution of the wealth among the nation.

This short article is based on a tentative hypothesis that describes the target decade as the period when the Egyptian state capitalism attempted to gradually abandon its pillars for social welfare functions in an inherited way since 1990s, but the serious global food crises in 2007/08 forced it to readopt while modifying its extensive policy tools.

While focusing on the food subsidy system which is considered to possess more relevance to the vulnerable in the country, this short article confirms basic aspects: budgetary transition and policy changes for the decade in the following sections respectively.

2. Budgetary Transition with reference to subsidy system in 2000s

Food subsidy system in Egypt has comprised the following two components:

- Ration cards that offers to all households pre-determined monthly quota of

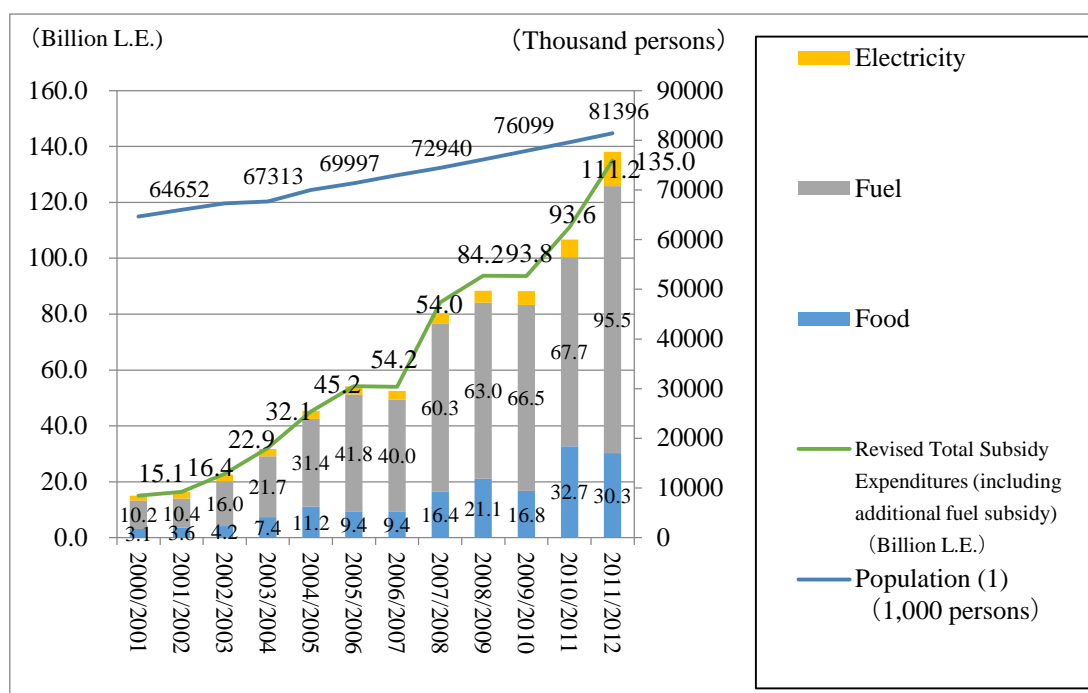
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subsidized commodity items (basically rice, sugar, oil and tea, in addition to other items which have been adjusted in cases), according to the number of household members; and

- Subsidized bread (*aish baladi*), available to everyone².

The Graph 1 shows the budgetary transition for subsidy expenditures and population growth in 2000s. Approximately 70% of the total subsidy expenditures has been allocated to fuel subsidy, while the remaining parts have been shared by electricity and food subsidies. It should be noted that the actual expenditures for fuel started to be publicly announced by the Government of Egypt since 2007/08. Regarding the food subsidy, it is noticeable that the expenditures jumped after 2007/08, which was for responding to the global food crisis as elaborated in the following section.

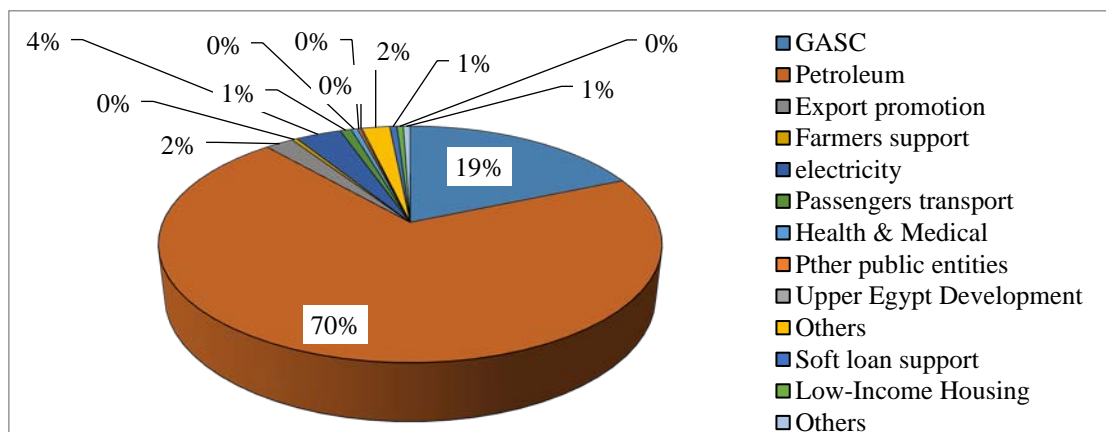
Graph 1: Egypt: Population Growth and Subsidy Expenditures By Items
(2000/01-2011/12)



Source: CAPMAS (2013)

² WFP (2011), p.25. As of March 2016, the quota of subsidized bread has been limited up to 5 loaves per day and per person through the smart card (a new ration card which has been implemented). The price of 1 loaf remains at 5 piastre, or 1 L.E. for 20 loaves (7.8 L.E./US\$ as of March 2016; previous rates are shown in Annex 1).

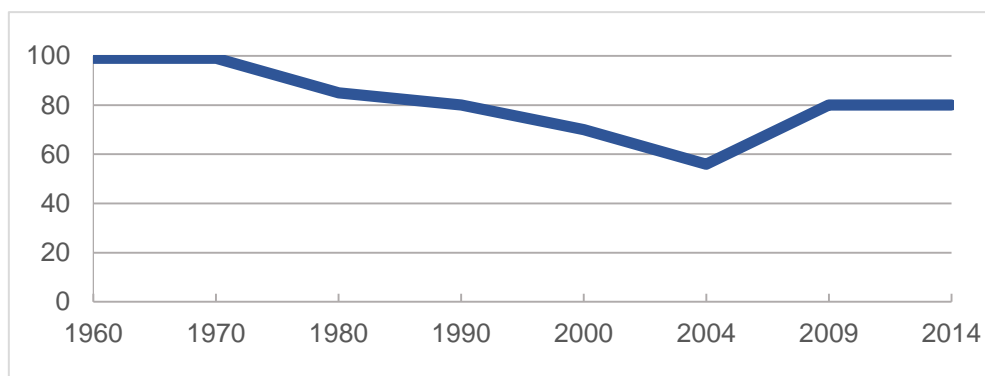
Graph 2: Subsidy Breakdown (2012/13)



Source: Ministry of Finance (2013)

The number of ration card holders has not been clearly publicized by any governmental documents, except some verbal remarks by ministers reported by medias. As elaborated in the following section, however, the ration cards are widely possessed by the population (Graph 3).

Graph 3: Estimated Number of Ration Card Holders to the Total Population in Egypt (%)



Source: A. Ghoneim (2012), H. Ghoneim (2013),

3. Institutional Changes and Policy Measures Taken in 2000s

With regard to the Egyptian food subsidy system, the decade of 2000s could be roughly divided into two: before and after the global food crisis in 2007/08. General trends could be summarized as follows. The Nazih Government, which started in 2004 up to the 1.25 Revolution in 2011, initiated various reform measures to modify the subsidy system including institutional changes and starting a new project of introducing smart card (new ration card system) in 2000s. It was noteworthy that, in 2004 when the

Nazif Government was formed, Egypt devaluated its currency, which had significant meaning for consumer prices. But the Nazif Government, before the Food Crisis, was continuing to undertake several reforms in ration card system.

The following sections confirm the institutional aspects before the Crisis and the Government's responses to the Crisis.

3.1 Institutional Changes Before the Global Food Crisis

During 2000s in Egypt, there were some important institutional changes regarding the subsidy system. Concretely, a new ministry, the Ministry of Social Solidarity was established in 2005 through merging two ministries: the Ministry of Supply and Domestic Trade, and Ministry of Insurance and the Social Affairs. Then newly established Ministry of Social Solidarity absorbed only the supply portfolio from the abolished Ministry of Supply and Domestic Trade without domestic trade portfolio, and social affairs portfolio from the Ministry of Insurance and Social Affairs. The insurance portfolio was transferred to the Ministry of Finance³. It was apparently in a context of the Government's attempts to transform its economy into more market-oriented system while more focusing on the poorest parts of the society as beneficiaries of the Ministry's services, not the universal targets.

Table1: Important events and measures regarding Food Security and Food Subsidy System in Egypt in 2000s

2004	- Devaluation of Egyptian Pounds
2005	- The Ministry of Social Solidarity established (merging the Ministry of Supply and Domestic Trade and the Ministry of Social Insurance and Social Affairs)
2006	- Avian influenza affected millions people's livelihoods in Egypt - Smart Card Project was launched by the Ministry of Social Solidarity in collaboration with the Ministry of Administrative Development
2007-08	- Global food price crisis - Government of Egypt expanded its food subsidy system: <ul style="list-style-type: none"> • Included additional 15 million people (total number of beneficiaries: 63 million people, namely 80% of the total population) • Increased quotas of already subsidized food items <ul style="list-style-type: none"> • Raised public sector basic wages (by 30%) and pensions (by 20%) • Reduced import tariffs by 6.5% on food items during 2008 • Banned rice export in April 2008 (~late in 2009)

Source: FAO (2013), UNDP (2011), website of the Ministry of Supply and Domestic Trade

³ UNDP (2011), Strengthening the Capacity of the Ministry of Social Solidarity, Ahmed O. El-Kholei, Development and Environment (CDE), p.1.

The Ministry of Supply, before this institutional change, used to be a responsible for the food subsidy system in Egypt, tracing back to the World War II. A portfolio of domestic trade, including state-run supermarkets, was added to the Ministry later and remained for a long period until 2005. Having experienced with several institutional changes in the responsibility of those two portfolios, namely subsidy provision and domestic trade, the Ministry of Social Solidarity survived through the last moments of the Mubarak Regime up to the Revolution period. By the time, under the provisional government aftermath the Revolution in 2011, when Dr. Gouda Abdel Khalek became the Minister of Social Solidarity, the Ministry had lost the subsidy portfolio and he needed to take it back to the Ministry⁴. Under the provisional government, the Ministry of Social Solidarity and Social Justice again changed its name into the original one, the Ministry of Supply and Domestic Trade with the same Minister.

These institutional changes, together with public sector companies, especially Food Industry Holding Company and public flour mill companies for food subsidy system, need to be studied further in more details within a broader context of public sector reform and privatization.

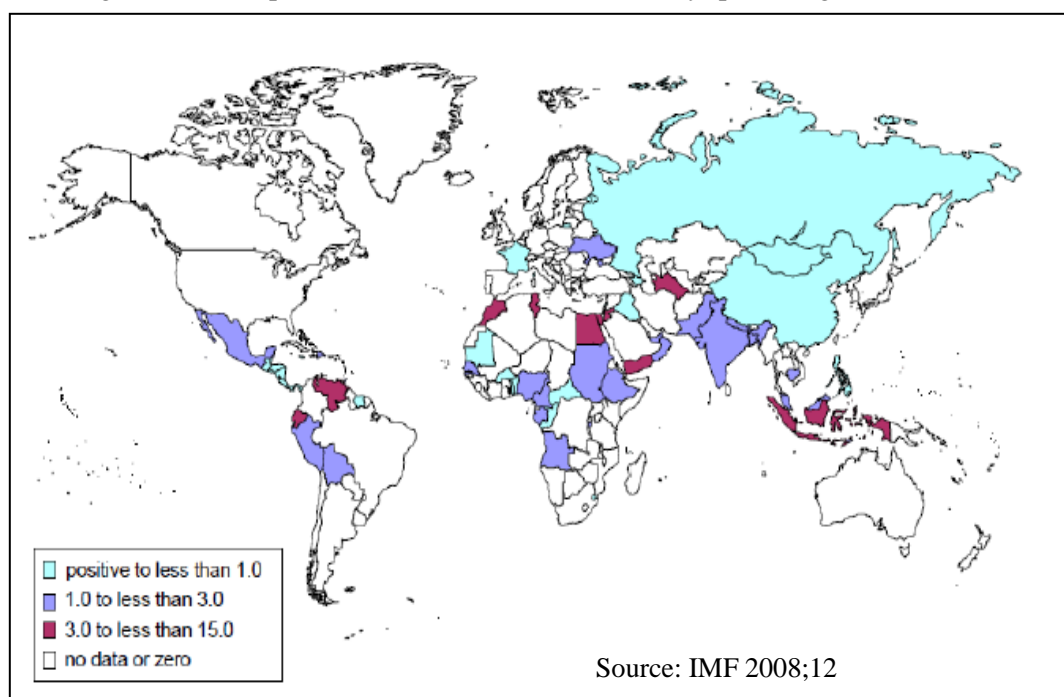
3.2 Responding to the Global Food Crisis

As many pointed out, impacts from the global food crisis in 2007/08 affected on many parts of the world, including the North Africa and Middle East which Egypt belongs to. This is considered to be one of the factors behind the following political instability in the region (Lagi & Bertland & Bar-Yam, 2011). According to IMF (2008), many governments responded to the Crisis, through increasing subsidies and cash transfers, raising public servants' salaries and pension, cutting taxes, and so on. Especially regarding fuel and food subsidies, the countries in the MENA region, where originally had been depending on various subsidy schemes for their social protection, were apparently outstanding in increases of their expenditures (Figure 1). According to WB (2010), the top countries for food subsidy as of 2008 were dominated by the countries in the region: Egypt (1.8% to GDP), Jordan (1.7%), Tunisia (1.5%), and Morocco (1.2%)⁵.

⁴ According to an interview by the author (2016/03/01).

⁵ World Bank (2010), p.5.

Figure: Total Expenditures of Fuel and Food Subsidy (percentage in GDP, 2008)



As mentioned in Table 1, then Nazif Government attempted to respond to the Crisis through different measures. At this stage, then Government changed its direction in reforming the subsidy system, instead, tried to take full advantage of this long-established infrastructure by expanding its scope and quantity, in order to survive the global critical moments. The ration card system seems to have represented this drastic shift in the Government's attitude, as seen in Table 2.

Table 2: Some of changes in measures affecting the ration card system in 2000s

Year	Decree (date)	Contents
2004	75 (Mar 16)	- The quotas of additional subsidized commodity items changed
	82 (Mar 24)	- The prices of additional subsidized commodity items changed
2006	56 (Apr 22)	- 4 additional subsidized commodities (macaroni, beans, lentils, and ghee) removed from the ration cards
2007	69 (Jun 24)	- High-subsidy cards issued to all people eligible for cash transfer (social solidarity) who do not have ration cards
2008	7 (Jan 28)	- Those born between 1988 and 2005 added to the ration card system
	50 (May 25)	- The prices of additional subsidized commodities reset: sugar for 3 L.E./kg, oil for 5 L.E./kg, and rice for 2 L.E./kg

2009	62 (Jun 4)	- High-subsidy cards issued to all citizens with current ration cards
	79 (Aug 8)	- Additional amounts of rice, sugar, and edible oil distributed via ration cards
	63 (Apr 28)	- Criteria for the ration card system decided: <ul style="list-style-type: none"> * All recipients of social cash assistance * Widowed, divorced, or family supporting women * Chronically ill and those with special needs * Temporary seasonal and occasional workers * Street vendors, drivers, craftsmen, professionals with income lower than 400 L.E./month * Underage children with no parents or fixed income
	84 (Sep 9)	* Non public sector pensioners with pension less than 400 L.E./month - Additional criteria to Decree 63 (2009): <ul style="list-style-type: none"> * Unemployed * Those under investigation with educational qualifications but no work * Pensioners (Government, public, private sectors) with pensions less than 750 L.E./month * Government and public enterprise sector workers with salaries less than 1,000 L.E./month

Source: Ghoneim (2012), pp.15-16 based on IAAM 2 (2009)

It is noticed that, between 2004 up to 2006, the first period of Nazif Government, the ration cards had been in a shrinking mode in terms of commodity items and quantity which ration card holders were able to obtain through their cards. This turned to an expansion mode after 2007 when Egypt started to witness impacts by the global food crisis at people’s daily lives. The Nazif Government responded to the crisis by utilizing and expanding the existing subsidy system which it had attempted to reform by slimming it to focus on targeted beneficiaries. This was not only because the subsidy system had already been solidly established distribution mechanism in Egypt, even if evaluated as ‘inefficient’ or ‘flawed’ by many experts, but also because this system had been deeply rooted and imbedded in the society underpinning a strong feeling of entitlement among wider people.

4. Concluding remarks

Standing at the present in 2016, after the Sisi Regime has been formed, to review the policy changes in 2000s makes us realize a sort of continuity despite of all the political

transformation and discontinuations in governance before and after the Revolution in 2011. The most visible continuity as such is the smart card system, which has been often quoted by the reform stakeholders as a magic tool to solve almost all the problems in the subsidy sector; namely, eradicating leakage and consolidating data management regarding subsidy distribution (quantity of consumption, smart card holders' information, where to purchase, etc.). Since 2006, when this project to introduce smart card system was officially announced to launch, but had probably been prepared much earlier than this year, this project has apparently been handed to government by government to be realized or implemented finally in 2015 under the current Sisi Regime. Since this subsidy system has made a symbol in state-society relation in Egypt for a long period, it was not surprising for the governments to take long time to publicly announce and explain the purposes and functions of the smart card to people in Egypt.

In order to complement this quite brief reflection on the food subsidy in 2000s over the remaining year of the research project, a comparative analysis between Sadat period and Nazif period might be useful as they have some similarities (economic liberalization, increases in inequality and wider spread dissatisfaction among the population, dependency on subsidy system while other social safety nets remained under-developed) and differences (factors behind food crisis and riots, and so on).

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Annex 1: Exchange Rate in 2000s

Year	Official exchange rates (Egyptian Pounds per UD\$; period average)
2000	3.47
2001	3.97
2002	4.50
2003	5.85
2004	6.20
2005	5.78
2006	5.73
2007	5.64
2008	5.43
2009	5.54
2010	5.62
2011	5.93

Source: MOF (2011), Statistical Bulletin, December 2011