

The Political Economy of Food Subsidy Reforms in Egypt since 2000s: Swinging between universalism and targeting?

Yuko Ido

Introduction

This article examines how the food subsidy programme in Egypt has been altered in response to significant events that occurred since 2000s. This period can be divided into two phases: the first period of 2008-2014, when the country experienced global food crises and the January 25th 2011 Revolution, followed by unstable interim governments and the second period starting from 2014 when the current Sisi regime came into power.

As is well known, subsidy policies, mainly for food and energy, have laid the foundation of tangible social policy instruments in Egypt since the Nasser era in the 1950s and 1960s. Together with free education for all and public sector recruitment of graduates for realising employment security¹, this extensive subsidy system have been offering a minimum safety net for wider population with limited wages. It forms the basis of the Egyptian welfare system, endorsed in national slogans of the former governments that aimed to achieve both economic growth and welfare simultaneously and in an integrated manner (Hansen 1991, Harik 1998, Nagasawa 1998).

Unlike the energy subsidy, which was severely criticised for favouring the wealthy classes², the food subsidy programme in Egypt has been viewed as the rightful ‘entitlement’ of the people (World Bank 2010) or at least their right to food. Noticeably, this perception evolved gradually within the context of an authoritarian ‘social contract’, where the state provides people with food and basic services at low prices in exchange for their political freedom. However, because of a series of crises in the Egyptian society and the resulting imbalance in social order, this old ‘social contract’ has become under

¹ This policy was abolished in 2004 by the Nazif Cabinet (2004-2011) under the Mubarak regime.

² Cuts in energy subsidy were announced in July 2014, with a plan to gradually eliminate the subsidy over the next 5 years. Energy subsidy accounted for approximately 70% of the total subsidies offered to the people of Egypt.

scrutiny and its legitimacy questioned (UNDP 2008, Tsuchiya 2011, Lahcen 2014). Discussions over subsidy reforms need to be understood not only from the perspective of financial burdens or system efficiency and effectiveness, but also from a political economy perspective. In this regard, a relevant question to ask is ‘Who is entitled to subsidy within a new system under a new “social contract”?’

In existence for more than six decades, Egypt’s extensive food subsidy system has been at the receiving end of a number of criticisms. The three main issues that have been identified are non-targeting of beneficiaries, leakage in the supply chain and wastage of subsidised items during storage, especially wheat. International trends in food subsidy suggest that targeting is the most efficient and effective public policy option. For example, with targeting, Mexico succeeded in gradually abolishing and transferring its universal food subsidy programme into a conditional cash transfer programme. On the basis of these global trends, experts have identified that the topmost priority for Egypt’s existing food subsidy system is reforming its almost universal ration card system into a more effective targeting system that focuses on real beneficiaries in need.

How has the government responded to the criticisms and the pressure to reform the extensive food subsidy system? Despite change in governance after the January 25th Revolution in 2011, have policy reforms continued? To answer these questions, this article examines the trajectory of events experienced in Egypt during the aforementioned periods. Section 2 describes the background of the food subsidy system, focusing on institutional changes, budgetary transitions and targeting discussions. Section 3 reviews governmental responses to food crises. Lastly, Section 4 provides an overview of the new food subsidy system introduced under the current regime and some challenges that it has faced. As for the interim governments in the post-Revolution period, before the President Sisi came into power, when competent professionals participated and proposed relevant reforms, this work has not been able to cover their contributions adequately because political instability prevented their implementation. This study relies on a combination of literature analysis and interviews of key stakeholders in Egypt³.

³ The author’s field surveys were conducted four times: from February to October in 2014 and from February to November in 2016 for around three months in total. The author is thankful to the Institute of Developing Economies, Chiba, Japan, for their financial support in enabling these field surveys to be accomplished

1. Food Subsidy in Egypt

1.1. Framework of Egyptian Food Subsidy System

The food subsidy system in Egypt has oscillated between expansion and reduction, and between universalism and targeting. Its origin can be traced to 1941 when the government was required to provide certain necessities⁴ to the people during war (Adams 2000). Although it was not because of targeting, both supplied items and their quantities were limited with controlled expenditures. During the period of expansion, subsidies were extended to everything from bread and basic foods to housing, transportation, etc. In this era of Arab socialism under Nasser – from late 1950s to the 60s – the financial burdens incurred because of the subsidies attracted domestic and international attention. President Sadat then accepted a proposal by the International Monetary Fund (IMF) to cut the bread subsidy. This led to the January 1977 riot or the Bread *Intifada* (Nagasawa 1984, World Bank 2010). The incident was not only a trigger for the government to expand subsidies again in terms of items covered and budget, but it also became a milestone for the food policy in Egypt in the following decades. The Mubarak regime did initiate some reform steps in subsidy, but without clear announcement until the 2000s.

In the recent years, after repeated additions and removal of subsidised items and quantities (before the New Subsidy System has been introduced in 2014), the food subsidy in Egypt has come to comprise the following two components:

(1) **Ration cards** that offer to all households a pre-determined monthly quota of subsidised commodity items (flour, sugar, edible oil and tea, in addition to other items which have been adjusted in cases) in proportion to the number of household members. There are two types of ration cards: fully subsidised and partially subsidised. As discussed later, paper ration cards are being replaced by electronic chip-based cards, called Smart Card.⁵

(2) **Subsidised coarse brown bread ('aīsh baladī) with 82% extraction**⁶, which was

⁴ The rationed items were confined to edible oil, sugar, tea, and kerosene in those days.

⁵ Under the Smart Card, rationed items were initially set to 20 items, then gradually increased to almost 100 as of 2016.

⁶ The term of extraction refers to the rate of extraction of flour by grinding the wheat. The higher rates of extraction, the more flour is produced out of the wheat. The 100% extraction means the whole wheat. Though there seemed a flour type of 86.5% extraction in Egypt in 1980s, according

available to everyone without ration cards, is now distributed at a limited quota with the Smart Card.⁷ Weights per loaf have changed from 150 grams early in 1980s to 130 grams to 100 grams in the recent years. Breads of 76% extraction called *tabāqī* are half-subsidised, while those with 72% extraction, called *shāmī* and *fīno*, are not subsidised.

1.2. Responsible Institutions

Who is responsible for the food subsidy system in Egypt? The principal organisation responsible for the food subsidy system is the Ministry of Supply and Internal Trade (formerly the Ministry of Social Solidarity and Social Justice). However, because of the extensive nature of the programme, a number of other stakeholders are also involved (Figure 1). Under the Ministry, there are core agencies: General Authority for Supply and Commodity (GASC),⁸ which is responsible for the procurement wheat from domestic and international sources and is the biggest wheat buyer in the international market, and the Food Industry Holding Company (FIHC),⁹ which manages subsidised food items. FIHC is in charge of 7 public flour mill companies, who have 80 branches throughout the country (FAO & EB 2015). There seem some overlapping in the scopes of work between GASC and FIHC, especially at distribution level. Detailed analysis, however, is difficult at the time of writing due to lack of structural information of FIHC.

Though the scope of work and the responsibilities of the Ministry of Military Production are not documented, it is suggested that their activities are quite widespread and influence the food industry, including subsidised items. During times of bread scarcity, the domestic media and newspapers have carried reports of the Military distributing bread and food items.

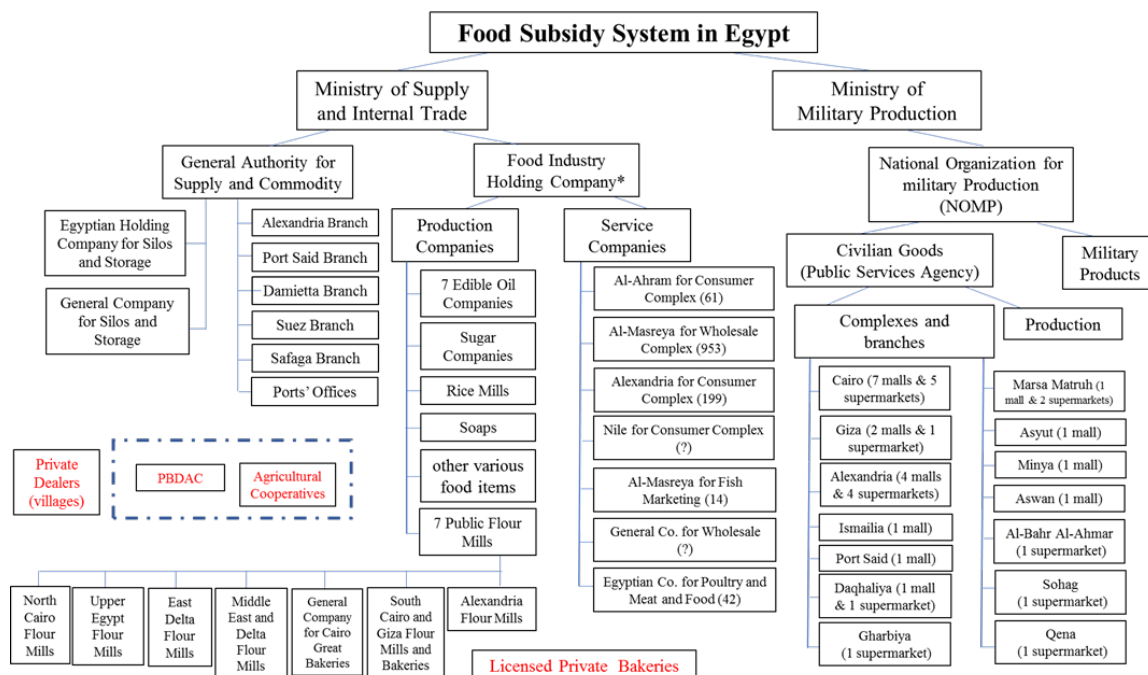
to an unpublished document by the Ministry of Supply (1984), the subsidized *baladi* bread currently refers to 82% extraction which is a standard for everywhere in Egypt.

⁷ WFP (2011), p.25. As of March 2016, the quota of subsidized bread distributed through the smart card is up to 5 loaves per day and per person. The price of a loaf is 5 piasters (0.05 L.E), or 1 L.E. for 20 loaves (7.8 L.E. /US\$ as of March 2016; previous rates are shown in Annex 1). The price of one loaf was 1 piaster for 30 years until 1983-84 when it increased to 2 piasters and then to 5 piasters in 1988-89.

⁸ GASC has been established by the republican decree No. 1189 in 1968 to overcome crises in the Egyptian market during the period from 1967 to the following years as an initial purpose.

⁹ FIHC has been transferred from Ministry of Investment to Ministry of Supply in April 2014.

Figure 1: Stakeholders in the Subsidy System



Source: Author’s compilation based on websites of ministries and organizations

Note: PBDAC (Principal Bank for Development of Agricultural Credit) and Agricultural Cooperatives are not affiliated to the Ministry of Supply, but have supported for procuring domestic wheat at village levels instead of GASC. PBDAC offers storages (shona) and conducts payment procedures, while Agricultural Cooperatives receive wheat from farmers and transport to storages. As elaborated in Section 4, the involvement of private dealers in collecting wheat at villages were revealed by the disguised domestic wheat.

1.3. Budgetary Transition of Subsidies

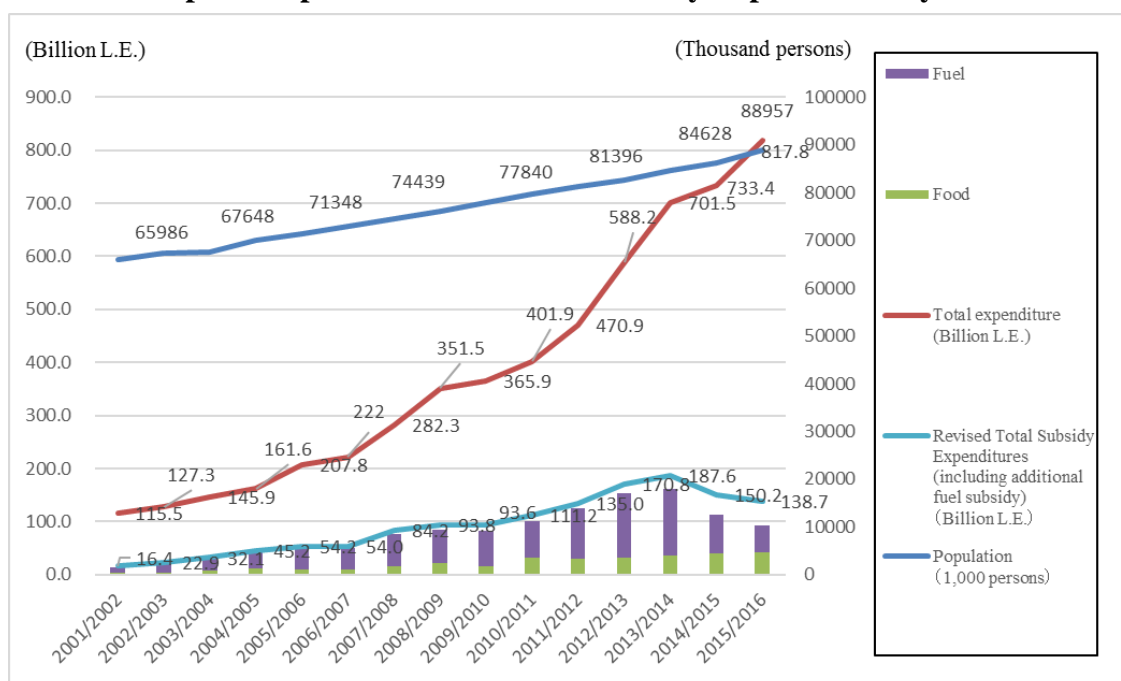
Graph 1 shows the changes in subsidy budgets and population growth from 2000 to 2015/2016. Historically, energy subsidy accounted for the dominant share of the total subsidy expenditure: approximately 70% of the total expenditure before 2014/2015 when the subsidy cut was implemented (Graph 2). The rest of budget was allocated to electricity and food subsidies. It should be noted that the actual expenditures on fuel were publicly shared only since 2007/2008, under the Nazif Cabinet; therefore, earlier discussions on the share of food subsidy in the total expenditure were based on different figures from the ones we see.¹⁰ Graph 1 reflects this modification for 2001/2002 to 2004/2005.

The expenditure on food subsidy rose sharply after 2007/2008, in response to the global

¹⁰ Adams (2000) already noted the two types of subsidies in Egypt: explicit subsidies, such as food and transportation, and implicit subsidies, such as water, electricity and oil products.

food crisis, as discussed in the following section. Total subsidy expenditure peaked in 2013/2014 and then began to decline gradually from 2014/2015 when the austerity policy led to cuts in subsidy expenditure. However, despite the introduction of the new food subsidy system, expenditures on food subsidies have continued to increase because of increase in the subsidised items and losses caused by alleged frauds (as elaborated in Section 4).¹¹ Nevertheless, overall subsidy expenditures have been strictly managed over the past few years, especially compared to the rapidly increasing total expenditure. Expenditure on subsidies no longer increases by a factor of population growth, as the case used to be.

Graph 1: Population Growth and Subsidy Expenditures by Items



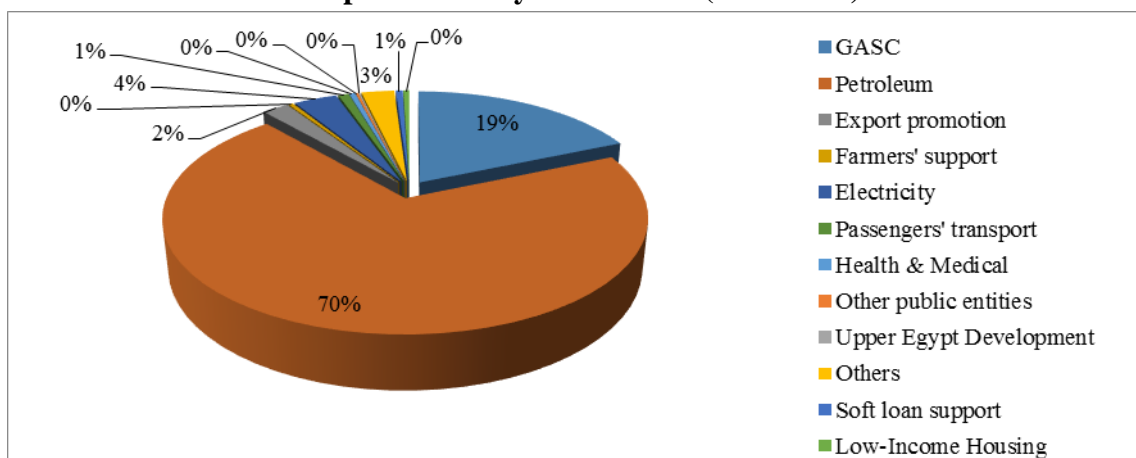
Source: Author's compilation from CAPMAS (2013, p. 26) & (2016); Statistical Year Book, MOF (2005-2016), Monthly Bulletins.

Note: (1) 'Revised total subsidy expenditures' here refers to the expenditure including fuel subsidy payments during the period from 2001-02 to 2004-05 that were not published before the Nazif government.

(2) Figures for 2014-15 and 2015-16 are preliminary, as of December 2016.

¹¹ The subsidized items by ration card (Smart Card) were initially 20, but increased later.

Graph 2: Subsidy Breakdown (2012/2013)



Source: Ministry of Finance (2013)

1.4. Ration Cards

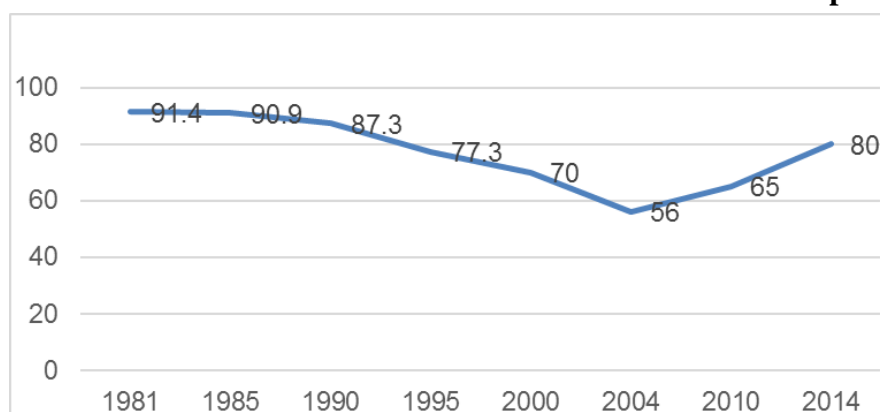
The total number of ration card holders was not known, except through ad-hoc verbal remarks from ministers reported in the media. IDSC (2016) clarified, however, that the number of ration card holders (full and partial subsidised) was 38.3 million in 2008. The figure rose to 63 million in 2009 and to 63.5 million in 2010. As estimated in Graph 3, historically, the number of ration card holders was very high. However, because the official figures did not reflect the reality in terms of consumption and distribution, the government needed to introduce a new system of Smart Cards. Obtaining real data on ration card holders is a key step towards initiating targeting options.

The availability of comprehensive studies on ration card holders in Egypt is limited. The Egyptian Cabinet's Information Decision Support Center (IDSC) and the World Food Programme (WFP) conducted small-scale field surveys and published their findings in 14 volumes *Egyptian Food Observatory*, from 2011 to 2013. According to the publications, they selected equal-sized samples across 10 governorates (sampling numbers varied from 540 households, with 2391 persons, for the first survey published in September 2011 to 1,679 households, with 7,739 persons, for the last survey published in October-December 2013), and found varied distributions of ration card holding, varying from 73% to 83.6%. This confirms a high rate of dependence on ration cards among households.

Another census of ration card holders is in the form of opinion surveys conducted by Public Opinion Poll Center under IDSC (POPC-IDSC 2009, 2010, 2011, and 2016). These surveys were possibly undertaken for the implementation of new ration card system

(Smart Card). Since each survey had a different scope of sampling in different governorates, a comparative analysis based on these opinion surveys is difficult. However, it is noteworthy that these surveys documented the actual real problems faced by the people: problems of the old ration card system, difficulties faced by subsidy store owners in transitioning to the new Smart Card, etc. Given that IDSC, a policy-oriented governmental think tank that was especially active during the Nazif Cabinet, was tasked with determining awareness about Smart Card among people¹², it was involved in the process of data collecting as well as information dissemination among the wider population. Communication strategy on reforms requires the government to articulate policy changes to the people before implementation. It is likely that these opinion surveys were one step in that direction.

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



Source: Author's compilation from K. Korayem (2001); A. Ghoneim (2012); H. Ghoneim (2013); local newspapers

2. Institutional Changes and Reform Attempt before the Global Food Crisis

2.1. Ministry Level

In 2000s, some important institutional changes were introduced in the subsidy system in Egypt. A new ministry – the Ministry of Social Solidarity – was established in 2005 by merging two ministries: the Ministry of Supply and Internal Trade and the Ministry of Insurance and Social Affairs. The newly established Ministry of Social Solidarity

¹² According to the Public Opinion Poll Center (2009), the level of awareness about Smart Cards was rather low from 9% of the total respondents in 2005, increasing to 49% in 2009 (Valid respondents: 1,249 persons in 2009).

absorbed only the supply portfolio from the abolished Ministry of Supply and Internal Trade (without internal trade) and the social affairs portfolio from the Ministry of Insurance and Social Affairs. The insurance portfolio was transferred to the Ministry of Finance¹³. These changes were a part of the government's attempts to evolve into a more market-oriented economy while ensuring that the poorest parts of the society were the beneficiaries of the Ministry's services, and not the universal targets.

Before this institutional change, the Ministry of Supply was responsible for the food subsidy system, since the World War II. The ministry was also in charge of the portfolio of domestic trade, including state-run supermarkets, which it handled for a long period until 2005. With several changes in the two portfolios, namely subsidy provision and domestic trade, the Ministry of Social Solidarity survived the last days of the Mubarak rule until the Revolution period. In the aftermath of the Revolution in 2011, when Gouda Abdel Khalek, Emeritus Professor of Economics in Cairo University, was appointed as the Minister of Social Solidarity and Social Justice, the ministry had lost the subsidy portfolio but he succeeded in bring it back.¹⁴ Under the provisional government, the Ministry of Social Solidarity and Social Justice again changed its name to the original one: the Ministry of Supply and Internal Trade.

2.2. Implementation Level

Institutional changes in the supply sector were not confined to ministries. Barring the General Authority for Supply and Commodity (GASC) which, despite pressure for reform, has continued to manage wheat procurement from abroad and domestic farmers, other implementing organisations, such as the FIHC, public flour mill companies and storage companies working for the national food subsidy system, began to be restructured in 1990s, within the framework of public sector reform and privatisation. Through this process, although the system was completely controlled at the centre, the sector opened to private service providers downstream. Currently, around 90% of the subsidised food services are provided by private licensed bakeries and subsidy stores, while the rest is provided by public entities.

2.3. Reform Attempt in the Nazif Cabinet

¹³ UNDP (2011), Strengthening the Capacity of the Ministry of Social Solidarity, Ahmed O. El-Kholei, Development and Environment (CDE), p.1.

¹⁴ According to an interview conducted by the author (2016/03/01).

The Mubarak regime adopted a cautious approach to reforming the subsidy system in the first decade of its governance so that people would not notice immediately. For example, without clear announcements, sizes, and weights, the quality of the subsidised *baladi* bread declined. It seemed like an unwelcome measure of ‘self-targeting’, discouraging people from purchasing subsidised foods. This policy was accompanied with cuts in the subsidy budget and a drop in the number of ration card holders. It lasted for around 25 years until the establishment of the Nazif Cabinet (Graph 3). This phase can be regarded as a period of transition from universalism to targeting in the context of Egypt’s subsidy system.

The Nazif Cabinet initiated various reform measures to modify the subsidy system including institutional changes and the introduction of Smart Card in the 2000s. Importantly, in 2004, when the Nazif Cabinet was formed, Egypt devalued its currency, which had significant implications for consumer prices. However, before the food crisis, this government implemented several reforms in the ration card system (Table 1).

Table 1: Important Events and Measures Affecting Food Security and the Food Subsidy System in Egypt in 2004–2016

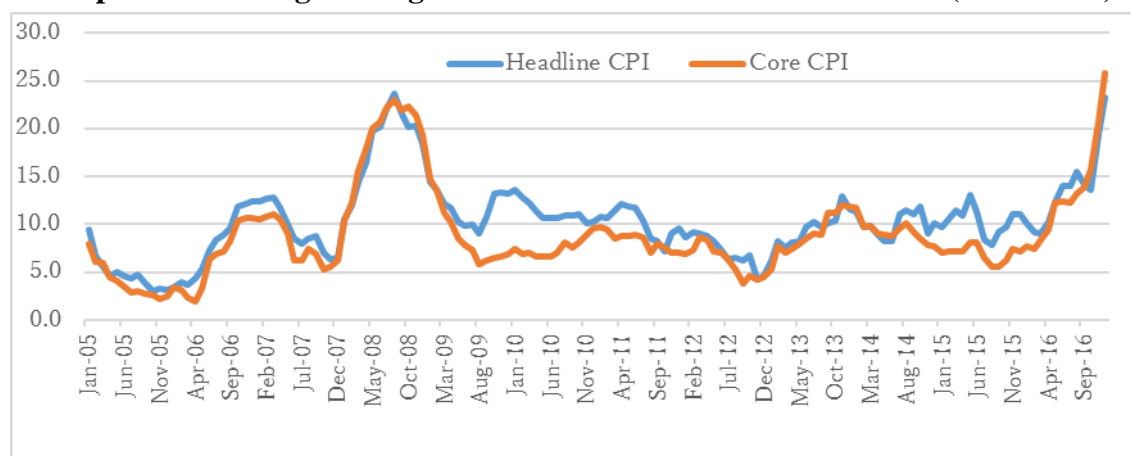
| | |
|---------|---|
| 2004 | Devaluation of the Egyptian pound |
| 2005 | The Ministry of Social Solidarity was established (merging the Ministry of Supply and Domestic Trade and the Ministry of Social Insurance and Social Affairs) |
| 2006 | Avian influenza affected millions of livelihoods in Egypt |
| 2007-08 | The Smart Card Project was launched by the then Ministry of Social Solidarity in collaboration with the Ministry of Administrative Development |
| | Global food price crisis |
| | The 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 subsidised food items ➤ Reduced import tariffs by 6.5% on food items during 2008 ➤ Banned rice export in April 2008 (~late in 2009) |
| 2014.4 | ➤ Raised public sector basic wages (by 30%) and pensions (by 20%) |
| 2015.10 | Implementation of the Smart Card in some governorates (New subsidy system) |
| | Corruption in food supply, i.e., illegal mixing of domestic wheat and imported wheat, was uncovered. |
| 2016.8 | Minister of Supply, Mr. Khaled Hanafi, resigned in response to the corruption allegation |

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

3. Responding to the Global Food Crisis

The global food crisis in 2007-08 affected many parts of the world, including Egypt. It is considered as one of the factors that led to the subsequent political instability in the region (Lagi & Bertland & Bar-Yam, 2011). Many governments responded to the crisis by increasing subsidies and cash transfers, raising public servants' salaries and pensions, cutting taxes, and so on (IMF 2008, Pinstруп-Andersen 2015). For fuel and food subsidies, the countries in the MENA region in particular, which originally depended on various subsidy schemes for their social protection, incurred heavy expenditures. The countries with the highest food subsidies 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%) (World Bank 2010). In Egypt, where food expenditure accounted for more than 60% of the budget in the poorest households, rapid increases in food prices were a massive setback for the people (Aboulenein, et al 2010). The inflation rate in the country reached an all-time high of 23.6% in July 2008 (Graph 4). Interestingly, the recent spikes in the inflation rate since January 2016, mainly because of energy subsidy cuts and the introduction of 'floating' foreign exchange rates, are expected to be higher than levels of the 2008 food crisis.

Graph 4: Percentage Changes in Headline and Core CPI Inflation (2005–2016)



Source: Central Bank of Egypt; Monthly Statistical Bulletin (2005–2016).

Note: Per CBE's definition, Core CPI excludes regulated items and fruits and vegetables from the headline CPI, which includes all items.

As listed in Table 1, the Nazif Cabinet implemented different measures to respond to the crisis. They changed their direction of subsidy policy: they focused on exploiting the existing infrastructure by expanding its scope and coverage to tide over the global crisis. The changes in the ration card system reflect the drastic shift in the government's attitude (Table 2).

From 2004 to 2006, the first period of Nazif Cabinet, ration card system was in a shrinking phase: ration card holders were entitled to only few commodity items and in limited quantities. The situation reversed after 2007 when the impact of the global food crisis affected people's daily lives in Egypt. The Nazif Cabinet responded to the crisis by utilising and expanding the existing subsidy system, which it had once attempted to confine to targeted beneficiaries. This was because, despite being 'inefficient' and 'flawed', the subsidy system was the only established distribution mechanism that the government had access to before the abrupt crisis. Watson (2013) summarises the situation aptly in a study of countries affected by the global food crisis: 'Governments preferred policy changes with lower costs, such as changing the level of a currently existing policy rather than introducing a new policy' (Watson 2013, p.20). Another factor enabled the use of this approach in Egypt: strong feelings of entitlement and resentment widely and deeply embedded in the society.

Table 2: Changes in Measures Affecting the Ration Card System in 2004–2011

| Year | Ministerial Decree (date) | Contents |
|------|---------------------------|---|
| 2004 | 75 (Mar 16) | Changes in the quotas of additional subsidised commodity items |
| | 82 (Mar 24) | Changes in the prices of additional subsidised commodity items |
| 2006 | 56 (Apr 22) | Removal of four additional subsidised commodities (macaroni, beans, lentils, and ghee) from the ration cards |
| 2007 | 69 (Jun 24) | Issue of high-subsidy cards to people eligible for a cash transfer (social solidarity) who did own ration cards |
| 2008 | 7 (Jan 28) | Inclusion of those born between 1988 and 2005 into the ration card system |
| | 50 (May 25) | Revision of prices of additional subsidised commodities: sugar for 3 L.E./kg, oil for 5 L.E./kg and rice for 2 L.E./kg |
| | 62 (Jun 4) | Issue of high-subsidy cards to all citizens with current ration cards |
| | 79 (Aug 8) | Distribution of additional amounts of rice, sugar, and edible oil via ration cards |
| 2009 | 31 (Apr 28) | Criteria for the new ration card system: <ul style="list-style-type: none"> ➤ All recipients of social cash assistance (Sadat and Mubarak Solidarity Pension) ➤ 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 |

| | | |
|------|------------|---|
| | 84 (Sep 9) | <ul style="list-style-type: none"> ➤ Underage children with no parents or fixed income ➤ Non-public sector pensioners with pensions less than 400 L.E./month <p>Additional criteria to Decree 31 (2009):</p> <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 |
| 2011 | 15 (Feb 1) | <ul style="list-style-type: none"> ➤ Government and public enterprise sector workers with salaries less than 1,000 L.E./month <p>Modification to Decree 84 (2009) especially on new ration cards for special protected groups: Pensioners with pensions less than 1,200 L.E and government and public sector workers with salaries less than 1,500 L.E.</p> |

Source: Author's compilation from Ghoneim (2012), pp.15-16 based on IAAM 2 (2009), and website of the Ministry of Supply and Internal Trade (<http://www.msit.gov.eg/ar/index.php/2013-02-20-08-51-24/2015-06-17-11-50-18>)

4. New Food Subsidy System: From 2014 to present

4.1. Expected Theoretical Mechanism

The Smart Card is a core component of the new food subsidy system which has been prepared since the Nazif Cabinet. The accelerated implementation of this new subsidy, however, has started from 2014 under the current Sisi regime. As Table 3 shows, a series of ministerial decrees have been announced, quite frequently during 2014-16, stipulating details with regards to Smart Card and subsidised items.¹⁵ This electronic ration card has replaced the old paper-based ration card, and on the basis of household information, each Smart Card is credited with 15 L.E. per person per month (Photos). Smart Card holders are able to purchase subsidised items, foods and other items up to the credit amount per month. Subsidised *baladi* bread did not have quota limits earlier, but is currently limited to 5 loaves per person per day. If a card holder reduces the spending on *baladi* bread, the amount saved on the card can be used to purchase other items in the first week of the next month.

¹⁵ It was noteworthy that under the then Ministry of Supply, Khaled Hanafi, monthly reports of the Ministry started to be issued on the website almost regularly, which was a significant change in terms of accountability of the Ministry.

Table3: Important Ministerial Decrees for the New Subsidy System: 2014-15

| Year | Ministerial Decree (date) | Contents |
|------|---|---|
| 2014 | 215 (Jun 26) | <p>Detailed decree about Smart Cards (new ration card):</p> <ul style="list-style-type: none"> ➤ No household limits for Smart Card application; 15 L.E. credited to each person per month. (Article 1 Section 3: 1.3) ➤ 7 L.E./person to be added during Ramadan (1.4) ➤ Food Industry Holding Company (FIHC) and its subsidiaries are responsible for provision of subsidised foods. (2.1) ➤ The company responsible for issuing Smart Card is required to credit the amount allocated to each household based on household information. This company is responsible for making Smart Cards available and for informing FIHC, in the middle and at end of month, about payment amount, in order to complete payment procedures. (3.1) ➤ From August 2014, the company implementing the Smart Card system is to receive, as administration cost for each Smart Card transaction, 1 L.E. from the citizen and 1 L.E. from the General Authority for Supply and Commodity (GASC). (3.3) |
| | 237 (Aug 1) Announcement (Aug 18) | <p>Modification of Decree 215 (2014) on prices for subsidised items</p> <p>New Subsidy System in each governorate:</p> <ul style="list-style-type: none"> ➤ No price sanctions for wheat flour bakeries purchasing from flour mills ➤ No limits on flour quantities required by bakeries per day ➤ New subsidy system for (fully subsidised) <i>baladi</i> bread is applicable to bakeries producing (half subsidised) <i>tabaki</i> bread as well. ➤ 5 loaves of <i>baladi</i> bread are allowed per person per day (40 loaves maximum per household per day). A household that reduces its spending on <i>baladi</i> bread can purchase different subsidised items using the saved amount in the first week of the next month. ➤ Standardised weight of a loaf of <i>baladi</i> bread is 100 grams (1,160 loaves are to be produced by 100 kg of wheat flour). ➤ 5 piaster (qurush) per loaf of <i>baladi</i> bread* ➤ The Ministry of Supply and Internal Trade is responsible for financing gaps in bread production cost. |
| | 301 (Oct 21) | <ul style="list-style-type: none"> ➤ The shortfall in bread production cost is to be transferred to the bakery owner via bank account every day. <p>Modification of Ministerial Decree 483 (1987) and detailed</p> |

| | | |
|------|--------------|---|
| 2015 | 312 (Oct 27) | operational conditions for contractors dealing with subsidised items (sanitation of bread production environments, refrigeration device, taxation certificate, insurance certificate, etc.) |
| | 340 (Dec 4) | |
| | 349 (Dec 17) | Modification of Ministerial Decree 215 (2014) on transactions utilising Smart Card and contractors dealing with subsidised items |
| | 1 (Jan 4) | Modification of Ministerial Decree 215 and 237 (2014) on prices of subsidised items |
| | | Modification of Ministerial Decree 312 (2014) on transactions utilising Smart Card and contractors dealing with subsidised items |
| | | Modification of Ministerial Decree 215, 237 and 340 (2014) on prices of subsidised items |

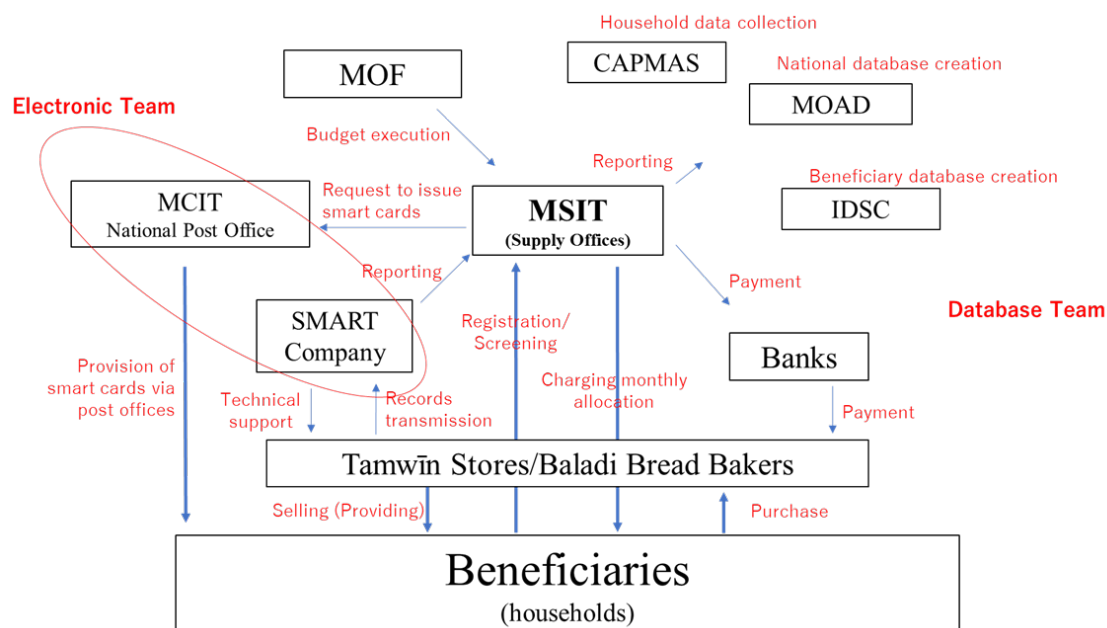
Source: Author's compilation from monthly reports of the Ministry of Supply and Internal Trade (<http://www.msit.gov.eg/ar/index.php/2013-02-20-08-51-24/2015-06-17-11-50-18>)

Note: The unit of piaster does not exist. 5 piasters is the equivalent to 0.05 L.E., and a pack of 20 loaves is sold at 1 L.E.

The Smart Card project was launched in 2006, under the Nazif Cabinet that was willing to promote e-governance, in several ministries, including the then Ministry of Social Solidarity (currently Ministry of Supply and Internal Trade and Ministry of Social Insurance and Social Affairs), Ministry of Administrative Development and Ministry of Telecommunication. IDSC (2016) is responsible for setting up the database of ration card beneficiaries. Although not acknowledged in IDSC's report (*ibid*, p.5), the presentation material of the Ministry of Social Solidarity (undated, but probably 2006) identifies other entities involved in the project: CAPMAS (Central Agency for Public Mobilization and Statistics) is responsible for collection and compilation of household information, and SMART (a smart card application company) is involved in implementation. The company was established in 2005, with an authorised capital of 200 million L.E. and 34 million in paid capital. Its main stakeholders include National Telecom Holding Company and the Egyptian National Post Office. The company has already issued more than 8.2 million cards in 16 governorates across Egypt and serves more than 60 million citizens.¹⁶ The stakeholders are described in Figure 2.

¹⁶ <http://www.egyptsmartcards.com/>

Figure 2: Stakeholders in the Implementation of the Smart Card System



Source: Author’s compilation based on IDSC (2016) data and information obtained from interviews
 Abbreviations: MSIT: Ministry of Supply and Internal Trade; MOF: Ministry of Finance; MCIT: Ministry of Communications and Information Technology; MOAD: Ministry of Administration Development; CAPMAS: Central Agency for Public Mobilization and Statistics; IDSC Information Decision Support Center at the Cabinet

In addition to replacing old ration cards with Smart Cards, the government also launched a public service campaign (Figure 3), titled ‘Haqq-na (our right)’ on TV and other mass media channels,¹⁷ encouraging people to register for their Smart Cards (Figure 4).¹⁸ Despite of the positive appeal of the campaign, a screening process was put in place for the Smart Card applications.¹⁹

¹⁷ <https://www.youtube.com/watch?v=N6fdr-jeepo>

¹⁸ Between October and November 2014, the author met several residents who had never heard of this campaign or the Smart Card. Most of them (i) were relatively old, (ii) had a digital information bias and (iii) were originally from Upper Egypt. Of course, these observations are personal impressions formed by author on the basis of limited information. Further studies on beneficiaries are awaited.

¹⁹ The author heard of several cases of rejections, one of which involved a senior male. His Smart Card application was rejected because he owned a shop. He, however, was dissatisfied with this decision as his income situation was not stable, and he regarded himself to be qualified to benefit from the subsidy (interview in Qasr al-‘Aninī, 2016/11/2).

Figure 3: Video Clip of ‘Haqq-na’ Campaign



Source: <https://www.youtube.com/watch?v=N6fdr-jeepo>

Figure 4: Application site for a Smart Card

Source: The website of the Ministry of Supply and Commodity and Internal Trade (<http://subsidy.egypt.gov.eg/CardCitizens/Login>)

Note: A customer service helpline (19765) has been established.

4.2. Tentative Assessment

It is evident from articles and studies published in the 2000s that the new subsidy system, with the introduction of the Smart Card, was expected to work like a miracle drug to all the ills that plagued the subsidy system in Egypt. Even in late 2014, scepticism over this

new system was rare. At the time of writing this chapter in early 2017, however, this system facing new but similar challenges to that faced by former governments: different types of frauds.

USDA’s Annual Report on Egypt (2016) summarises the observations on the new subsidy system:

| Strengths: | Weaknesses: |
|--|---|
| <p><u>1. Improved access to bread</u> (Disappearance of long waiting lines)</p> <p><u>2. Increased competitiveness among bakeries</u> (Price liberation of wheat flour of 82% extraction rate)</p> <p><u>3. Formalising service providers</u> (Linking 2500 bakers and another 2500 privately-owned grocery stores with the Ministry of Supply and the banking system)</p> <p><u>4. Established customer service helpline</u> (Feedback mechanism to improve the system)</p> <p><u>5. Improved database for better targeting</u> (Better data collecting mechanism on actual production and consumption of subsidised bread through the usage of redeemed points on the card)</p> | <p><u>1. Increase in the food subsidy budget</u> (From 35.5 billion L.E. (\$4.5 billion) in 2013-14 to 39.4 billion L.E. (\$5 billion) in 2014-15, with an increase of 17.4% in the first quarter of 2015-16 compared to the same period in 2014-15)</p> <p><u>2. Smart card fraud</u> (see the following section)</p> <p><u>3. Technical network</u> (Frequent connectivity issues disrupted the purchasing ability of end users)</p> |

Source: Author’s compilation based on USDA (2016), p.4

4.3. Frauds and Wheat Adulteration

(a) Smart Card Frauds

Many fraudulent uses of the Smart Card were reported in bakeries. Some bakeries even rented cards from beneficiaries to allocate the maximum daily quota of bread allotted. Other unscrupulous bakeries took advantage of beneficiaries’ lack of knowledge of the system. They entered a higher quantity of bread into their electronic readers than the

quantity given to the users and withheld the receipts tracking the beneficiaries' bread balance (USDA 2016).

Reuters, which has continued to cover wheat and subsidy issues in Egypt, reported another type of fraud of the 'master' cards. Using information gathered from bakers and traders, the news agency reported that employees at SMART, the implementing company, secretly produced and sold 'master' cards for several thousand dollars to bakeries, enabling them to reset the records and override the system. This hacking of the Smart Card system led to another problem: some bakeries requested much higher quantities of subsidised flour than they officially sold. Costing the country hundreds of millions of US dollars, the consumption of subsidised flour rose to 955,000 tonnes in early 2015 (from 750,000 tonnes in February 2014) in 12 of the 19 governorates where the Smart Card had been introduced (Reuter, 2016-03-15).

Ministerial Announcement 237 issued in August 2014 abolished flour price subsidies; public and licensed private bakeries currently purchase flour from mills at market prices. Therefore, theoretically, there should be no more incentives for public or licensed private bakeries to purchase and resell the flour in the black market, as there is no price gap. The author interviewed several bakeries in central Cairo and its suburbs in November 2014 and February 2016 – the owners said that they purchased flour at market prices. It is likely the problems reported by Reuters may have occurred during the interval between the legal enforcement and its implementation on ground. As recommended by an expert on reforms, strengthening of the monitoring mechanism is essential if the government intends to sustain this extensive intervention. Monitoring should not only cover the bakeries and mills but also extend to all other stakeholders, including the implementing company and the inspectors of the Ministry.

(b) Disguised 'Domestic' Wheat

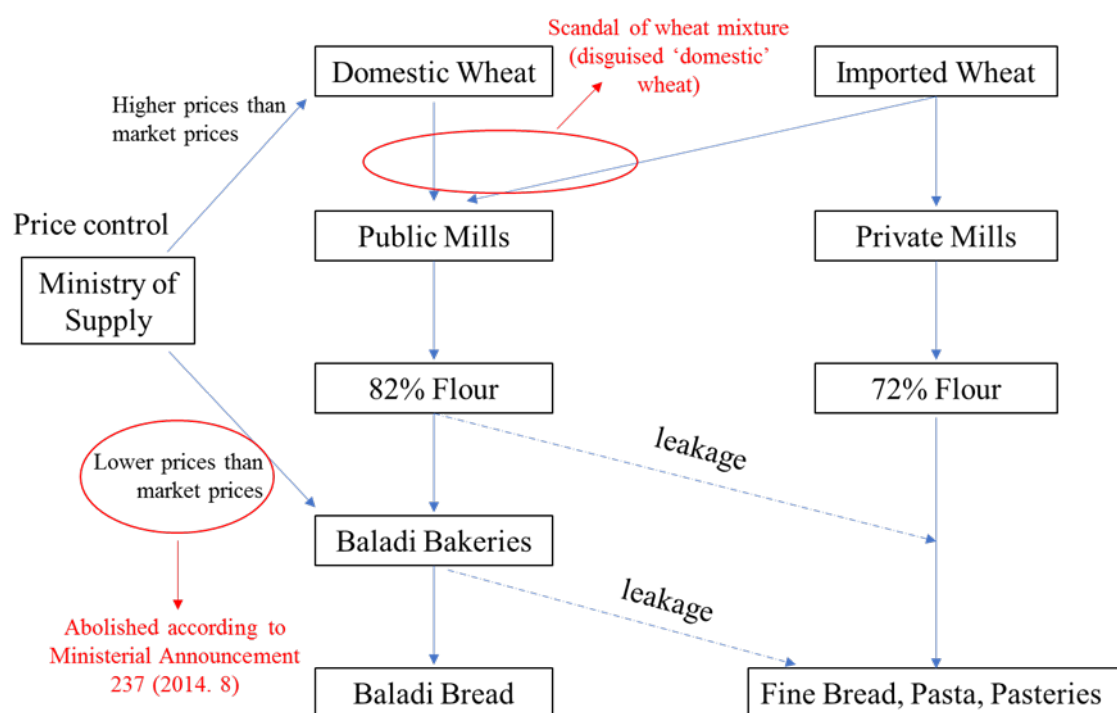
When Reuters reported a fraud in wheat deals in August 2014, the then Minister of Supply, Muhammad Abu-Shadi in 2014 denied the reports. He emphasised that GASC was involved in fraudulent rice deals, but not wheat (al-yaum al-sabi', 2014-02-23). Wheat deals are sensitive, for Egypt is the highest importer of wheat in the world. Around two and a half years after that incident, allegations of corruptions in wheat deals forced the then Ministry of Supply, Khaled Hanafi to resign.

Misrepresentation of domestic wheat production was another widespread controversy. The Egyptian wheat industry was characterised by two price interventions from the state: subsidised flour prices in the downstream and state-determined purchase price for

domestic wheat (Figure 4). The former was abolished by Ministerial Announcement 237 in August 2014; however, the latter continued to exist with a view to encouraging Egyptian farmers to produce more domestic wheat. Governmental purchase prices of domestic wheat were higher than market prices.

Reportedly, some private dealers and importers exploited this price gap: they purchased wheat from farmers at rates slightly higher than the market prices and mixed the domestic wheat with cheaper imported wheat (mainly Russian). They then sold the entire quantity of mixed wheat to the GASC as ‘domestic wheat’. This wheat scandal was reported in June 2015 by the domestic and international media. As a result, Minister Hanafi withdrew his statement of ‘increased domestic wheat production of 5.61 million tonnes, far more than 3.70 million tonnes initially assumed as the harvest for 2014’. Instead, he was forced to report the incident as ‘disguised domestic wheat’ production (Al-Masry Al-Yaum, 2015-06-04).

Figure 5: Simplified Wheat Supply Chain in Egypt and State Price Intervention



Source: Author’s addition to RDI Policy Brief, 1998, p.4

As a lesson from the wheat scandal, Reuters (2015/06/08) carried the following quote from a dealer: ‘without clear criterion or inspection methods on domestic wheat’s grade and quality, if unrealistic price setting continues, similar problems would repeat’. In

response to this scandal, the Ministry of Supply has reportedly established a committee comprising members from the Ministry, the Ministry of Agriculture and Land Reclamation, Trade Authority, and so on, to strengthen the control mechanism on fraudulent mixing of domestic and imported wheat. In October 2015, the Ministry announced a shift from higher purchase prices for domestic wheat to providing direct cash support to wheat farmers. These measures suggest that the government intends to continue with its intervention policy for the purpose of increasing domestic wheat production. This move is in the interest of national food security, in which the bread subsidy system is a core component. These steps are suggestive of the goal of ‘food self-sufficiency’ pursued by a government that has learnt from previous food and bread crises.

Conclusion

This study attempted to elaborate important changes in the food subsidy system in Egypt between 2008 and 2015 – a period of historical transformation in the country. It examined how the governments have responded to crucial incidents while under pressure to reform the food system, and what kind of measures were taken despite changes in power. Overall, during the studied period, the governments appear to have attached significant importance to the public distribution system. They have used the system by tweaking and altering some components in response to pressure. It could be indicated that the reform direction in the food subsidy in Egypt and its core policy instruments during the Nazif Government have laid a foundation for the post-1.25 Revolutionary governments, including the current Sisi government since 2014.

The first period (2008–2014) was characterised by drastic changes in the system, initiated during the Mubarak regime. This Nazif Cabinet pursued it further by focusing on targeted beneficiaries. However, as indicated by many scholars, these measures might remind observers of those adopted during the expansion of the system in the Sadat era, but in less ad-hoc manners. In the second period, starting in 2014, while it may be too early to evaluate, it appears that the pendulum is swinging back towards targeting objectives but in addition to measures such as increase in subsidised items, trials in the development of a beneficiary database through the introduction of Smart Cards, and other programmes (conditional cash transfer, etc.).

Retrospectively, for more than 65 years, the governmental approach to food subsidy has oscillated widely between expansion or universalism and targeting. This long presence of the subsidy system has, indeed, created a sense of shared entitlement among the people and birthed a huge industry of subsidised foods, especially *baladi* bread, involving many

stakeholders, public and private, formal and informal. Interestingly, while the role of the military in the Egyptian food subsidy system cannot be undermined, the scope of its activities and authority or its division of labour with other public and private entities remains largely unclear. Although the scope of this work does not call for uncovering these details, it is important to note that missing pieces prevent us from seeing the whole picture, while policies, institutions and systems are formulated and changed by multiple actors. Perfectly functioning policies and systems may not exist, but to develop better policies and systems, endless efforts to achieve transparency and accountability are essential for public trust. If the current government intends to continue with its food subsidy and related interventions, it should start with addressing the problems associated with the new Smart Card that have become apparent in the years after its implementation. Whether the government succeeds in gaining public trust or continues to follow past trajectories, or path dependence, remains to be seen.

References

- Abdel-Khalek, G., and K. Korayem (2000), *Fiscal Policy Measure in Egypt: Public Debt and Food Subsidy*, Cairo Papers in Social Science, Vol. 23, No. 1, Cairo.
- Aboulenein, S., H. El-Laithy, O. Helmy, H. Kheir-El-Din, and D. Mandour (2010), *Impact of the Global Food Price Shock on the Poor in Egypt*, Working Paper No. 157. Cairo: Egyptian Center for Economic Studies.
- Achy, L. (2014), *Breakdown of the Authoritarian ‘Social Contract’ and Emergence of New Social Actors*, in the Handbook of the Arab Spring: Rethinking Democratization, Routledge, Taylor & Francis Group, London.
- Ariza-Nino, E., R. Krentz, and I. Siddik (1998), *The Wheat Sector in Egypt: Policy Implications*, Policy Brief Issue No. 10, Reform Design and Implementation Unit, jointly sponsored by MALR/USAD Agricultural Policy Reform Program (APRP), December 1998.
- CAPMAS (Central Agency for Public Mobilization and Statistics) (2005-2016), *Statistical Yearbook*, Cairo.
- CAPMAS (2013), *A Study on Subsidy System in Egypt (dirāsāt manzūma al-da’am fī misr)*, reference number 2013_14606_136, May 2013, Cairo (in Arabic).
- Central Bank of Egypt (2001-2016), *Statistical Bulletin*, Cairo.
- Egyptian Cabinet’s Information and Decision Support Center (2012), *Subsidies System in Egypt: Facts and Views*, edited by A.H. Megahed, March 2012, Cairo (in Arabic).
- (2016), Opinion Survey of Egyptian Families on Baladi Bread and Butagas

- Systems, March 2016, Cairo (in Arabic).
- & Public Opinion Poll Center (2011), *Egyptians' Opinions on Ration Card: Comparative Report*, November 2011, Cairo (in Arabic).
- (2010), Opinion survey of subsidized (tamwīn) shop owners in several governorates regarding a trial of electronic ration cards, April 2010, Cairo (in Arabic).
- (2009), Opinion survey of residents regarding ration cards, April 2009, Cairo (in Arabic).
- & World Food Programme, *Egyptian Food Observatory*, Issue 1, September 2011-Issue 14, October–December 2013, Cairo.
- Food and Agriculture Organization of the United Nations (2013), *Food Security and Nutrition in the Southern and Eastern Rim of the Mediterranean Basin*, FAO Regional Office for the Near East, Cairo, 2013.
- & European Bank (2015), *Egypt Wheat Sector Review*, FAO Investment Centre, Rome, 2015.
- Food Industry Holding Company, website (<http://www.food-industries.com.eg/>) (Accessed 4 February 2017)
- General Authority for Supply and Commodity, website (<http://www.gasc.gov.eg/index.htm>) (Accessed 4 February 2017)
- Ghoneim, A. F. (2012), *The Political Economy of Food Price Policy in Egypt*, United Nations University, UNU-WIDER, November 2012.
- Ghoneim, H. (2013), *Ration Cards in Egypt: Targeting, Leakage, and Costs*, German University in Cairo Working Paper No. 36, October 2013.
- Harik, I. (1998), *Economic Policy Reform in Egypt*, The American University in Cairo Press.
- International Monetary Fund (2008), *Food and Fuel Prices-Recent Developments, Macroeconomic Impact, and Policy Responses, An Update*, the Fiscal Affairs, Strategy, Policy, and Review and Research Department.
- Iwasaki, E., and H. El-Leithy (2013), *Estimation of Poverty in Greater Cairo: Case Study of Three 'Unplanned' Areas*, *African Development Review*, Vol. 25, No. 2, 2013, pp. 173-188.
- Korayem, K. (2013), *Food Subsidy and the Social Assistance Program in Egypt: Targeting and Efficiency Assessment*, *Topics in Middle eastern and African Economies*, Vol. 15, No. 1, May 2013.
- (2000), The Impact of Food Subsidy Policy on Low Income People and the Poor in Egypt, in Abdel-Khalek, G., and K. Korayem, *Fiscal Policy Measure in Egypt: Public Debt and Food Subsidy*, *Cairo Papers in Social Science*, Vol. 23 No. 1, 2000, Cairo.

- Marco L., K. Z. Bertrand, and Y. Bar-Yam, *The Food Crises and Political Instability in North Africa and the Middle East*, New England Complex Systems Institute, Cambridge, USA, August 2011.
- Ministry of Defence and Military Production, website (http://www.mod.gov.eg/mod/Mod_GSO.aspx) (Accessed 4 February 2017)
- Ministry of Finance (2005-2016), *Financial Monthly Bulletin*, Arab Republic of Egypt.
- (2009), *Financial Statement of the Draft of State's General Budget for Fiscal Year 2009/2010*, Arab Republic of Egypt, April 2009.
- (2007), *Financial Statement of the Draft of State's General Budget for Fiscal Year 2008/2008*, Arab Republic of Egypt, April 2007.
- Ministry of Social Solidarity (undated), A presentation material, titled 'A project of household database (*mashru'a qa'idat bayanat al-usra*)', on the website of Ministry of Supply. (Accessed 1 December 2015)
- Ministry of Supply and Internal Trade, website (<http://www.msit.gov.eg/ar>) (Accessed 10 January 2017)
- (2014-2016), *monthly reports*, Arab Republic of Egypt.
- Nagasawa, E. (1998), *Developmentalism in the Middle East -Formation of Etatism in Egypt (Chuutou no kaihatsu taisei -ejiputo ni okeru etatism no keisei)*, in Akira Suehiro ed., *The 20th Century Global System 4: Developmentalism*. Institute of Social Science, the University of Tokyo (in Japanese).
- (1984), *Egypt: Food Subsidy and Urban Poor (Ejiputo: shokuryou hojokin to toshi hinkonsou)*, in Mijiya, Kazuo ed. *Development and Integration in the Middle East (chutou no kaihatsu to tougou)*, Institute of Developing Economies, Japan.
- Pinstrup-Andersen, Per edition. (2015), *Food Price Policy in an Era of Market Instability*. A study prepared by the United Nations University-World Institute for Development Economics Research (UNU-WIDER), Oxford University Press, Oxford, UK.
- Sen, A. (1995), *The Political Economy of Targeting*, in Van de Walle, D. and K. Nead, *Public Spending and the Poor*. Baltimore and London: John Hopkins University Press.
- Tsuchiya, I. (2004), *Wheat Distribution System in Egypt in transition - Changes in Wheat Distribution Structures and Food Subsidy System (Henkakuki wo mukaeta ejiputo no komugi ryutsuu-komugi ryutsuukouzou to shokuryou hojokin seido no henshen)*. *Gendai no Chutou (Contemporary Middle East)*, January 2004, Institute of Developing Economies, Chiba, Japan (in Japanese).
- (2011), *Social Contract and Economic Policy in Egypt (Ejiputo ni okeru shakai keiyaku to keizai seisaku)*, in Takeji Ino ed. *Transformation of Social Contract in Egypt (Ejiputo ni okeru shakai keiyaku no hen'you)*, March 2011, Institute of Developing Economies, Chiba, Japan (in Japanese).
- United Nations Development Programme (2008), *Egypt Human Development Report*

- 2008 – *Egypt's Social Contract: The Role of Civil Society*, UNDP.
- (2011), *Strengthening the Capacity of the Ministry of Social Solidarity*, El-Kholei, A.O., Development and Environment (CDE), October 2011.
- UN Inter-Agency Assessment Mission on Soaring Food Prices: Government of Egypt, FAO, WFP, World Bank, IFAD, and NEPAD (IAAM1) (2009), *Macro-economic Analysis and Review of Poverty in Egypt*, Working Paper 1.
- Usami, K. (2011), A Critical Study on Social Policy in Argentine (Argentine ni okeru shakai seisaku no hihanteki kousatsu), in Murakami K., ed., *Social Policies and Governance in the Emerging Countries* (Shinkou shokoku ni okeru shakai seisaku to touchisei), Institute of Developing Economies, Chiba, Japan (in Japanese).
- USDA Foreign Agricultural Service (several years), *Egypt Grain and Feed Annual Reports*, USAD-Global Agricultural Information Network.
- Watson, D. D. (2013), *Political Economy Synthesis: The Food Policy Crisis*, WIDER Working Paper, No. 2013/050, ISBN 978-92-9230-627-4.
- World Bank (2014), *Inside Inequality in the Arab Republic of Egypt*, Washington, 2014.
- (2010), *Arab Republic of Egypt: Egypt's Food Subsidies: Benefit Incidence and Leakages*, Report 57446, September 2010, Social and Economic Development Group, Middle East and North Africa Region, Washington.
- World Food Programme (2008), *Vulnerability Analysis and Review of the Food Subsidy Program in Egypt*, October 2008.
- (2011), *Secondary Data Analysis of the Food Security Situation in Egypt: Egypt*, May 2011.
- (2013), *The Status of Poverty and Food Security in Egypt; Analysis and Policy Recommendations (Preliminary Summary Report)*, World Food Programme, Egypt.