



Food Subsidy and Social Assistance Programmes in Egypt; Assessment and Policy Options // Karima Korayem

Social policy in Egypt includes a food subsidy and a Social Assistance (SA) programme. The food subsidy system includes two main subsystems: a ration card (RC) which offer RC holders specific quotas of subsidized commodities (sugar, oil, rice, and tea), and subsidized Balady Bread (BB), which is distributed through market outlets on a first come, first served basis. The SA programme targets specific causes of poverty –like unemployment, loss of spouse, divorce. This policy brief assesses the two social policy measures and suggests ways to raise their efficiency. It concludes that in the current Egyptian context food subsidies in kind are a preferred way to ensure that the needs of the poorest are met.

This Policy brief:

- Reviews the Egyptian Ration Card (RC) and the Balady Bread (BB) subsidy systems and they are assessed from the perspectives of consumers, BB producers, BB and RC distributors, and from the standpoint of their targeting efficiency.
- Shows that the subsidized commodities (BB, sugar, oil, rice, and tea) are efficiently distributed in the urban sector, while inefficiently distributed in the rural sector.
- Assesses the cash transfer Social Assistance programme with respect to its *sufficiency, coverage, targeting, and delivery mechanism*.
- Points to evidence that the Social Assistance system is insufficient to meet need. There is contradictory evidence with regard to its targeting efficiency.
- Argues that functioning of the market economy in Egypt is not as efficient as it could be potentially because the government's role is missing and the market economic power is mainly with the producers vis-à-vis the workers and consumers.
- Concludes that for these reasons food prices can rise fast and outstrip the capacity of the government to raise social assistance which implies that subsidy in-kind is the appropriate choice for Egypt.

Food Subsidy

The RC and the BB subsidy systems are assessed from the perspectives of consumers, BB producers, BB and RC distributors, and from the standpoint of their targeting efficiency. From the consumers' perspective almost all households use their RCs to buy sugar and oil, and less of them buy rice and tea. The main reasons for the RC holders who do not buy one or more of the subsidized goods are bad quality and lack of cash. Two thirds of food-subsidy allocations in Egypt go to BB. Almost 80 % of surveyed households in urban areas and 65 % in rural areas consume the subsidized BB. Almost all participants highlighted the BB problems as over-crowded queues, insufficient quantity allowed per person, being obliged to get up before sunrise to get the BB, or to pay extra money to get the bread at home. The quality of the BB is a major concern. Households who receive SA are more likely to purchase the subsidized bread. A quarter of households are willing to pay a double price to get better-quality bread. Less than 5 % of the households in both urban and rural areas prefer to get a cash subsidy instead of subsidized bread. From the distributors and producers perspectives, almost all distributors mentioned that all the commodities are available and the waste in the RC commodities, represented by the unsold quantity, is the highest in tea, then rice, and lastly oil. However for BB, almost 82 % of producers in rural and 67 percent in urban areas reported that the individual BB quota is insufficient to meet the consumers' need. From the targeting perspective, the efficiency of the BB and the ration-card system was assessed by estimating

the expenditure and price elasticity of the five subsidized items, the average household's expenditure on the subsidized food commodities in the target group, the distribution of the five subsidized commodities to low-, middle-, and high-expenditure households in the urban and rural sectors, and the distribution of the RCs, the number of the RC beneficiaries, the wheat flour (82 % extraction), and the BB bakeries on the governorates' level. It was found that the expenditure and price elasticity of the five subsidized commodities is positive and less than one in urban and rural areas indicating that these items are necessary normal goods, and the average household's expenditure on the subsidized commodities is higher in the three lowest expenditure brackets as compared to the ratio in the two highest expenditure brackets indicating that the subsidized food commodities are more important in the budget of lower-expenditure households as compared to those with higher expenditure, and that 81 % of the BB and about 80 % of the RC commodities are allocated to the low- and middle-expenditure urban households (the target group) implying that the subsidy waste in the urban sector is around 19 % for the BB and about 20 % for the RC commodities. However, in the rural sector about 64 % of BB and 58 % of the RC commodities are allocated to the low- and middle-expenditure households, implying a subsidy waste of about 36 % for BB and 42 % for the RC commodities. Accordingly, the subsidized commodities are efficiently distributed in the urban sector, while inefficiently distributed in the rural sector. On the governorates' level, it was found that the RCs, the RC beneficiaries, the wheat flour (82 % extraction) and the BB bakeries are unequally distributed, with less (more) allocated to the governorates with high (low) poverty level.

Social Assistance Programme

The SA programme includes a Monthly Assistance Plan, and One-Time Assistance Plan. The objective of these programmes is to provide financial assistance to needy households who are not covered by other insurance plans. The SA programme was assessed with respect to its *sufficiency, coverage, targeting, and delivery mechanism*. To assess the *sufficiency* in meeting the cost of living of the recipients, the average annual SA per recipient, which is LE 999.6 in 2008/09, is compared with the annual per capita extreme poverty line, the annual per capita total poverty line, the average annual expenditure on food and beverages, and the annual total consumption of the lowest household's expenditure bracket (less than LE 2000 a year). It has been found that the SA represents 68,4 % of the extreme poverty line, 50,8 % of the total poverty line, 93,8 % of the food expenditure, and 64,6 % of total expenditure of the lowest expenditure bracket. From the

SA recipients perspective, 95 % of the recipients in the field survey emphasized that the amount of the SA, which is LE 83,3 monthly, is not sufficient to meet their needs. The additional amount needed according to them is, on average, LE 270 and LE 264 for the urban and rural households respectively. According to their answers, the sources for filling the gap between the SA and their needs are, in sequence, "kind people", children work, father's work, charitable associations and mother's work. To assess the SA coverage the number of the SA recipients is compared with the number of households (assuming that each SA recipient supports one household) and the number of individuals living on the extreme poverty line and on total poverty line. It was found that the SA recipients represent 85,7 % of the extreme poor households and 14,1 % of the extreme poor individuals, and 22,2 % of poor households and 4,5 % of poor individuals in Egypt. Successful *targeting* means consistency between SA distribution and poverty. On the governorates' level, the highest SA coverage is in Cairo with the lowest poverty ratio (5,3 %), and the lowest coverage of SA is in Assiut with the highest poverty ratio (60,2 %) which shows that the SA are not well targeted to the poor. On the household's level, targeting is assessed by comparing the purchasing behavior of the RC holders with and without SA since the SA recipients are supposed to be the poorest. It is found that the SA recipients buy more of the RC goods and less of the non-subsidized commodities as compared to the RC holders without SA. This shows that SA are well targeted to the relatively poor in the RC holders' group. Finally, the SA *delivery mechanism* assessment shows that the distribution mechanism of the SA is satisfactory.

Alternative Policy Options for Food Subsidy and Social Assistance

Options include (i) considering altering the balance of cash subsidy vis-à-vis the current in-kind food subsidy (ii) and measures to improve targeting and reduce subsidy waste.

(i) The subsidy system in Egypt includes the two types: in kind system (BB and RC commodities) and cash system (the SA). For the subsidy recipients, the cash system gives them the freedom of choice while the in-kind subsidy guarantees to the recipients the necessary commodities at low subsidized prices. For the subsidy providers (governments and NGO,s), targeting the subsidy to the eligible is the crucial issue. The appropriate choice between the two subsidy types depends on four factors:

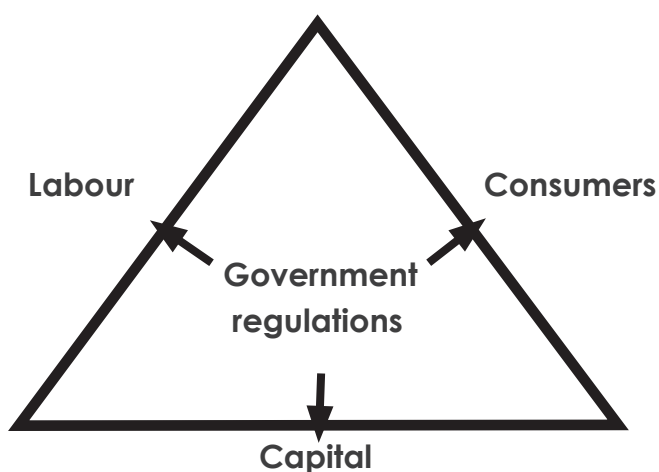
(i-a) The characteristics of the target group. If the target group is living in relative poverty, cash subsidy is a good choice, but if they are living in absolute poverty, in-kind

subsidy provides an appropriate safety net for them.

(i-b) The objective of the subsidy system, which can be a specific target, like providing necessary food commodities to the target group to protect them from hunger and malnutrition; in this case, subsidy in kind will be the best choice. But, if the objective is to raise the relative standard of living of the target group who lives in relative poverty, cash subsidy will be the best choice.

(i-c) The economic status of the subsidy provider. To keep a constant level of purchasing power to the recipients, the social assistance cash subsidy has to be increased at the same pace as the rise in market prices. In countries with poor or average economic resources, the increase in cash subsidy will always lag behind the inflation rate, making the subsidy beneficiaries suffer from the increasing cost of living and the non-satisfaction of basic needs. In this case, in-kind subsidy is the best alternative for the recipients.

(i-d) the functioning of the market economy which can be described as a triangle, the three sides of which have to be kept in balance in order to function efficiently. The first side of the triangle represents the producers and traders who own the capital and the power of hiring and firing; this is the strongest side. The second side of the triangle represents the workers who have their labour to offer. This side of the triangle could be fragile, if each worker supplies his labour on his own, and could be strong if the supply of labour is represented by labour unions. The third side of the triangle is the consumers. This side could be weak if the consumers act individually and buy whatever he/she finds in the market, and could be strong if they have consumer protection organizations which support them against market cheating.



The functioning of the market economy will be successful and efficient if there is a balance of power between the three sides of the triangle enforced by the government. However the functioning of the market economy in Egypt is not as efficient as it could be potentially because the government's role is missing. The market economic power is mainly with the producers vis-à-vis the workers and consumers. This is due to the lack of laws and regulations that weaken the producers' power, the non-existence of the labour unions to fight labour exploitation, and the ineffectiveness of the existing consumer protection agencies.

Assessing these four factors in Egypt's case, one finds that the target group's members are living in absolute poverty, the objective of the food subsidy system is to provide them with the necessary food commodities at affordable prices, and the government is not capable of increasing a cash subsidy at the same pace as the increase in prices. The outcome of the unbalanced triangle is indeed the rise in prices over time, especially food prices which most of the budget of the poor is spent on. Accordingly, these four factors imply that subsidy in-kind is the appropriate choice for food subsidy in Egypt.

(ii) Policy options to improve the subsidized commodities distribution to the eligible include providing a second type of BB at a relatively higher, but affordable, price to middle-income households, while keeping the current cheap BB for the poor; mixing maize flour with wheat flour to reduce the BB production cost; and specific measures to exclude the non-eligible from the RC holders. Other policy measures can be suggested to improve the SA targeting and increase its coverage. The report on which this policy brief is based provides full details of these specific recommendations.

This Policy Brief is based on the study "Food Subsidy and Social Assistance Programme in Egypt; Assessment and Policy Options" that Karima Korayem prepared for the Ministry of Social Solidarity and World Food Programme, in collaboration with Cairo Demographic Center, October 14, 2010.

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