

# **Fighting Against Poverty in *EGYPT*: Reflection on Recent Governmental Social Protection Policies**

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## **Abstract**

**Purpose** – The purpose of this study is to investigate the poverty situation and its determinants/causes in the Egyptian case and how the government tried through different policies and programs to alleviate the poverty and its side effects on the whole economy. We examined the feasibility of government programs and policies to eliminate the poverty across the past five years. This study provides insightful findings and, hence, contributes to the area of poverty in Egypt. The paper is organized as follows; we review the global review of poverty, then discuss the current situation of poverty in Egypt and investigate the government efforts in poverty reduction, finally provide some policy implications.

**Design/methodology/approach-** The study employs the case study approach and analytical description to analyze the historical trend of poverty in Egypt and how the Egyptian government changes its policies to alleviate poverty.

**Findings** - Targeting poverty reduction in Egypt requires intervention by increasing public spending allocated on social services as it appears to be the most influential type of government expenditure on poverty alleviation in Egypt.

**Keywords** – Poverty, Social Protection, Spending, Subsidies, Cash Transfers.

**Paper type** – Research Paper.

## ملخص

**الغرض** - تهدف هذه الدراسة إلى تحرى وضع الفقر ومحدداته / أسبابه في الحالة المصرية وكيف حاولت الحكومة من خلال تبني سياسات وبرامج مختلفة التخفيف من حدة الفقر وأثاره الجانبية على الاقتصاد ككل. تقوم الدراسة بفحص مدى جدوى البرامج والسياسات التي تبنتها الحكومة في الحد من الفقر خلال السنوات الخمس الماضية. ومن ثم، تقدم هذه الدراسة نتائج ثاقبة وبالتالي تمثل قيمة مضافة لمجال دراسات الفقر في مصر. ويتم تنظيم هذه الورقة على النحو التالي؛ تستعرض الدراسة أولاً وضع الفقر على مستوى العالم، ثم تتناول الوضع الحالي للفقر في مصر واستعراض أبرز الجهود الحكومية في الحد من الفقر، وأخيراً تقدم الدراسة بعض التوصيات لصانعي السياسة في مصر.

**المنهجية** - تستخدم الدراسة نهج دراسة الحالة والوصف التحليلي لاستعراض التطور التاريخي للفقر في مصر وكيف تقوم الحكومة المصرية بتعديل سياساتها للتخفيف من حدة الفقر.

**النتائج** - أن سياسة الحد من الفقر في مصر تتطلب التدخل من خلال زيادة مخصصات الإنفاق العام على البرامج الاجتماعية، حيث أن تلك البرامج أثبتت كونها من أكثر أنواع الإنفاق الحكومي تأثيراً في التخفيف من حدة الفقر في مصر.

**الكلمات الدالة** - الفقر، الحماية الاجتماعية، الإنفاق، الدعم، التحويلات النقدية.

**نوع الدراسة:** ورقة بحثية.

## **1. Introduction**

The world has experienced dramatic environmental and socioeconomic changes in recent decades. Phenomena like population growth, rapid urbanization, climate change, and the increase in natural disasters and pandemics have affected the social and economic development in many parts of the world. Because of these different factors, which are summarized under the term “global change”, many people have become more vulnerable to the negative effects of these risks. Poverty being the aspect of this paper is prevalent in large parts of the world and is one of the largest challenges in the 21st Century.

Social protection (SP) comes at the heart of the 17 Sustainable Development Goals (SDGs), constituting the third target associated with the first SDG of eradicating poverty (SDG1.3). This target calls for “implementing nationally appropriate social protection systems and measures for all, (...), and by 2030 achieving substantial coverage of the poor and the vulnerable” (UN General Assembly, 2015). Social protection represents all forms of schemes, whether contributory (such as social insurance) or non-contributory (such as social assistance and food security) that help maintain living standards and reduce poverty and vulnerability in a sustainable way over the life course (ILO, 2017; Selwaness & Messkoub, 2019).

## **2. A Global Overview of Poverty**

### **2.1 Definition of Poverty**

The notion of **poverty** is determined in different ways, by different institutions. The United Nations High Commission for Refugees (UNHCR) defines “poverty” as: a human condition characterized by the sustained or chronic deprivation of resources, capabilities, choices, security and power necessary for an adequate standard of living and other civil, cultural, economic, political as well as social rights (UNHCR, 2004).

Poverty can be seen in absolute and relative terms. Absolute poverty refers to subsistence below minimum, socially acceptable living conditions, usually established based on nutritional requirements and other essential goods, while, Relative poverty compares the lowest segments of a population with upper segments. Also, it can be chronic or temporary, and sometimes closely associated with inequity, correlated with vulnerabilities and social exclusion.

**The Global Multidimensional Poverty Index (MPI)** is based on non-monetary deprivation and has three dimensions: health, education and standard of living. These three dimensions are declined into ten indicators that are supposed to better describe the situation of poor households and individuals. The Global MPI characterizes deprivation and poverty at the individual and/or household level. In this approach, when necessary, characteristics observed at the household level are considered to be valid for all members of that household (AbdelKhalek, 2021).

## 2.2 Measuring Poverty

Income poverty measurements generally use the physiological deprivation model to assess lack of access to economic resources (**income**) to satisfy basic material needs. A person (or household) is considered poor if the person's (or household's) income cannot acquire the basket of goods and services **used to define a threshold for poverty**. The monetary value of the basket is **the poverty line** and the population of people and households **whose incomes are below this line**, is then derived through **a head count**.

**The poverty line** determines the threshold of income or expenditure, separating poor and non-poor people. Most countries use multiple poverty lines to capture monetary versus non-monetary measures of poverty, and how people's and household incomes are distributed around the poverty line, hence the determination of relative poverty and absolute poverty.

**The incidence of poverty (headcount index)**, determines what percentage of the population (or households) live below the cut-off point. In this way, the headcount index states the proportion of the population whose income falls below the poverty line. As a result, different poverty lines yield different headcount indexes within a given income distribution pattern (Devinit, 2019).

The headcount ratio, alone, is not sufficient in determining how populations are compared with the rest of the population living above the poverty line. Measuring the **poverty gap** (how far below the poverty line a person or a household is – also known as depth of poverty) captures the average shortfall in income of the population living below the poverty line.

Squaring the poverty gap (**severity of poverty**) gives an indication of inequality among the population living below the poverty line, in other

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words a measure of the severity of deprivation of those living in absolute poverty (Devinit, 2019).

In addition to analyses of the population below the poverty line, **the concept of inequality** analyses the whole population. Inequality measures analyse the distribution of the total population using various indicators of wellbeing including wealth, land ownership, educational attainment health and so on.

## 2.3 Global Poverty Rate

According to the recent published data from Poverty and Inequality Platform (PIP) of the World Bank, the global poverty rate (at the US\$1.90 poverty line) in 2018 is 8.6 percent, down from 9.1 in 2017, equivalent to a decline by 28 million poor people between the two years. This confirms a continued reduction in extreme poverty at the global level, although at a slower pace in more recent years, as previously noted. In fact, global poverty fell by 2.8 percentage points between 2012 and 2015 (from 12.9 percent to 10.1 percent), and by 1.5 percentage points between 2015 and 2018.

**Table 1: Regional and Global poverty estimates in 2018, April 2022 update revisions<sup>1</sup>**

Region	Survey Coverage (%)	\$1.90				\$3.20				\$5.50			
		Headcount ratio (%)		Number of poor (mil)		Headcount ratio (%)		Number of poor (mil)		Headcount ratio (%)		Number of poor (mil)	
		Jun 21	Apr 22	Jun 21	Apr 22	Jun 21	Apr 22	Jun 21	Apr 22	Jun 21	Apr 22	Jun 21	Apr 22
East Asia and Pacific	97.5	1.2	1.2	25	25	7.1	7.4	148	154	24.7	26.4	514	552
Europe and Central Asia	89.4	1.1	1.0	5	5	4.2	4.0	20	20	11.9	11.7	58	58
Latin America & Caribbean	86.7	3.7	4.0	23	25	9.2	9.9	58	63	22.5	23.7	143	151
Middle East and North Africa	50.9	7.0	7.1	27	27	19.9	19.7	77	76	44.4	44.0	172	170
Rest of the World	82.4	0.6	0.6	7	7	0.8	0.8	9	9	1.3	1.3	14	14
South Asia	21.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Sub-Saharan Africa	72.6	40.4	38.9	436	420	66.7	65.4	719	705	86.1	85.3	928	920
East & Southern Africa	60.4	43.7	44.0	281	279	68.2	68.8	439	442	86.4	86.7	556	558
Western & Central Africa	90.6	35.5	31.4	155	137	64.3	60.4	280	263	85.5	83.1	372	362
<b>World Total</b>	<b>69.9</b>	n/a	8.6	n/a	656	n/a	23.2	n/a	1760	n/a	42.9	n/a	3259

Source: PIP

<sup>1</sup> The regional poverty estimates included with this update stop in 2019, before the start of the COVID-19 pandemic. Evidence emerging from the implementation of these surveys shows that the pandemic has not only had an impact on poverty, but also on data collection methods and on the methodology used to construct the household welfare aggregate needed for poverty measurement.

## 2.4 Causes of Poverty

The following are the major causes of poverty:

- **Inadequate access to clean water and nutritious food:** Lack of access to food and clean water can lead to preventable illnesses like diarrhea, and the suffer doubles when people are forced to travel for distances to acquire healthcare or visit clinics. They also spend the little sum of money remains on medicine. Poverty deprives vulnerable populations of money and assets, and can knock a family from poverty into extreme poverty. The availability of clean water is another issue. Water sources are not always available, and if available, they are often located far from poor, rural communities. It was estimated that females may spend around 200 million hours every day walking long distances to fetch water. This time could be spent in money earning, or in education to help secure a future job.
- **Little or no access to livelihoods or jobs:** Without a job or a way to make money, people will face poverty; however, it's easy to assume that if someone wants a job, they could have one. That is not the fact, particularly in developing and rural parts of the world. Decreasing access to productive land (often due to conflict, overpopulation, or climate change), and overexploitation of resources like fish or minerals, is putting increasing pressure on many traditional livelihoods.
- **Inequality:** There are many different types of inequalities in the world, but no matter what is the type of inequality, it generally means the same thing: unequal or no access to resources needed to keep or lift a family out of poverty (Haveman, 2018).
- **Poor education:** Not every person without an education is living in extreme poverty. However, most of the extremely poor don't have a sufficient level of education, since there are a lot of barriers stopping children from going to school, such as; not affording to send children to school and working instead, also, some families don't see a benefit in educating girls.
- **Climate change:** Climate events like drought, flooding and severe storms can have huge impact on communities already living in poverty, and that's because many of the world's poorest populations rely on farming or hunting and gathering to eat and earn a living. Thus, when natural disasters leave millions of people without food, it pushes them further into poverty.

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- **Lack of infrastructure:** A lack of infrastructure- from roads, bridges, and wells to cables for light, cell phones and internet- can isolate communities living in rural areas. Also, travelling farther distances to access basic services not only takes time, it costs money, keeping families in poverty (Haveman, 2018).
  - **Limited capacity of the government:** Not every government can provide social welfare programs for people who need healthcare or food assistance, and without this safety net, nothing can stop vulnerable families from backsliding into extreme poverty.

### **3. An Overview of Poverty in Egypt**

Poverty issue is one of the main problems facing the Egyptian economy as it is a major obstacle for any reform or development. Egypt is one of the countries that suffered from poverty since 1960s.

#### **3.1 Causes/ Determinants of Poverty in Egypt**

Low income is not the only feature of poverty in Egypt. It is often associated with malnutrition, higher incidence of child mortality and morbidity, lower education levels, poor housing conditions, limited access to basic services of water and sanitation, widespread inequality caused by government corruption, lack of employment opportunities, and an inadequate education system.

A paper by (AlAzzawi, 2015) suggests that **household size and composition** have an important impact on the probability of being poor. Other characteristics of the household head are also important determinants of poverty, in particularly education and sector of employment.

Another study by (Jolliffe, 1999) examined the determinants of poverty in Egypt for both rural and urban areas; the study suggested that household size (**Demographic factors**) has a significant negative effect on living standards for both rural and urban families. **Education** is considered as a strong determinant of living standards for both the rural and urban. The average years of schooling, the level of parents' education, are indicated to have large impacts on average living standards and poverty levels. The study also finds that the household's asset base turns out to be an important determinant of its living standard. Owned land and the value of livestock have a significant positive effect on per capita consumption of the

household in rural areas. Finally, the study argued that unemployment significantly lowers household living standards in both rural and urban areas.

(**Laithy, 2011**) Claimed that the unemployed are not necessarily the poor or the illiterate, and rather, the overwhelming majority of the unemployed are certificate holders. Meanwhile the **informal sector** has been increasingly growing and absorbing a high percentage of poor workers working informally, without social protection, with low wages, low productivity, and working under bad conditions.

In summary, the main pillars cause poverty in Egypt are the widespread inequality, the gap between education outcomes and market demand and many other problems associated with geographical and demographic factors such as household size, and level of household head education.

### 3.2 Performance and Indicators

CAPMAS's latest published survey on income, expenditure and consumption for 2017/2018 (HIECS 2017/2018) applied on 26,000 families from all governorates, announced that who earns less than LE 8,282 (US\$ 501.03) annually and \$1.3 daily, lives under poverty line. Furthermore, the National Poverty rate rose to 32.5 percent in 2018 from 27.8 percent in 2015 (see table 2).

**Table 2: Poverty Rates and Growth in Egypt (2004-2018)**

Year	Poverty rate	Poverty growth rate
2004/2005	19.6	17.4
2008/2009	21.6	10.2
2010/2011	25.2	16.6
2012/2013	26.3	4.4
2015	27.8	5.7
2017/2018	32.5	16.9

Source: CAPMAS 2020.

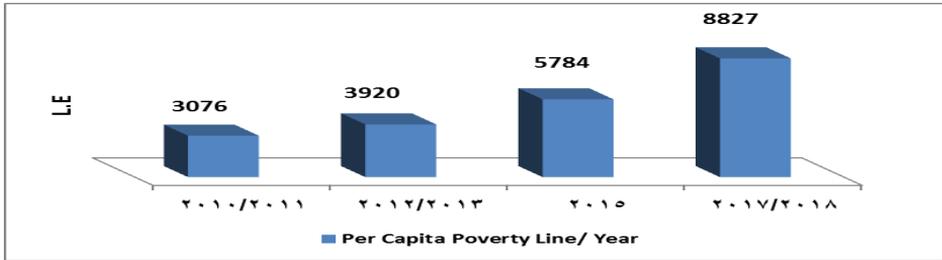
Additionally, there are vast regional differences in rates of poverty. Poverty levels are higher in rural areas, based on both the lower and upper poverty

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lines. (El-Laithy, 2000). According to (Armanious, 2018), half of the poor live in Upper Rural Egypt, while its population share is 25%. Assuit followed by Sohag and Qena are the poorest governorates where two thirds of population in Assuit and Sohag are poor. In accordance with HIECS 2017/2018, Seven out of 10 poorest governorates in Egypt, are located in Upper Egypt, the highest percentage of poverty was recorded in Assuit and Sohag, with 66.7 percent and 59.6 percent respectively. According to the survey, about 75.8% of families with over 10 members, 73% of families with 8-9 members, and 7% of families with 1-3 members are living in poverty. Meanwhile the average annual household expenditure increased to EGP 51,400 annually, compared to EGP 36,700 in the previous survey in 2015, while the average family income hiked to EGP 58,000 per year in 2017/18, against EGP 44,200 during 2015.

Also, despite the improvement in rural areas in Upper Egypt, 52% of its population is still unable to secure their basic needs. This segment includes 40.3% of the poor people across Egypt. Furthermore, CAPMAS revealed that food and beverages expenditure increased to account for 37.1% of total household expenditure in 2017/18, compared to 34.4% in 2015. While the share of health care spending decreased to 9.9% of household expenditure, from 10% in 2015. Also, the share of education expenditure decreased to 4.5% of the total household expenditure, compared to 4.8% in 2015.

The poverty line is defined as the minimum income deemed adequate for an individual to meet their basic needs. These poverty lines are changing over time to reflect the most recent consumption patterns of the population. The poverty line in Egypt increased from L.E. 482 pounds in 2015 to L.E. 735.5 monthly in 2017, which was, given the high inflation that increased from 10.9% in 2015 to 23.5% in 2017 (see figure 1).

**Figure 1: Evolution of Poverty Line in Egypt**

Source: CAPMAS

As part of the country's economic reform program supported by a \$12 billion bailout package from the International Monetary Fund in 2016, the government floated the currency, slashed subsidies on fuel, services, and utilities, and imposed a value-added tax which affected people purchasing power. Phasing out fuel subsidies would create more room in the budget for better-targeted social spending and more investment in health, education, and public infrastructure, which could alleviate the burden on people. Furthermore, the expansion of targeted cash transfer programs, such as Takaful and Karama that has designed to protect the poor through income support and covered 9.4 million individuals by 2018 would help in support people's income directly. However, the poorest 10% of Egypt's population receive 28.2% of the allocations of Takaful and Karama programs, while the poorest 40% receive 70% of these allocations (Samir, 2019).

#### **4. Social Protection Policies adopted by the Government to fight poverty**

The eradication of poverty, empowerment of women, youth and people with disabilities, and the achievement of balanced regional development are the core principles of Egypt's national sustainable development strategy.

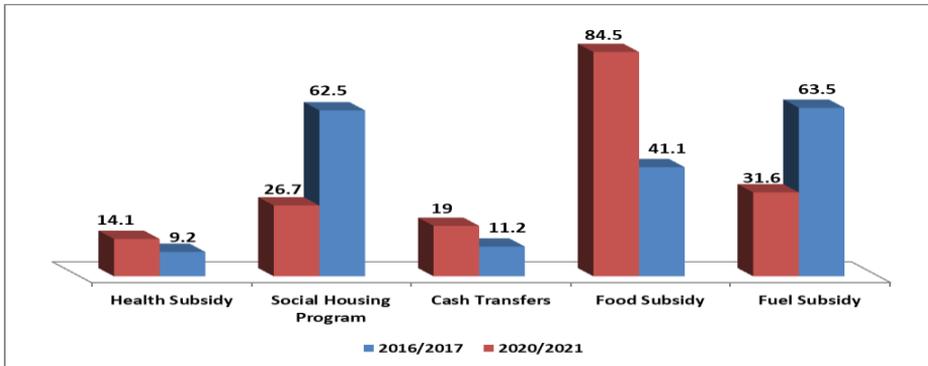
Since 2016, Egypt has adopted a significant reform program to phase out energy subsidies with the aim to redirect the savings from energy subsidies to social spending. Between 2017 and 2020, spending on energy subsidies declined from 4% to 0.3 % of GDP. This was allowed by a combination of energy subsidies removal and declining global oil prices.

Accordingly, the Government is committed to improving the effectiveness of social programs and on expanding them to cover more poor and

vulnerable citizens. This is in addition to launching programs designed to empower women, young people and the poor.

The Government has sought to improve the allocation of its social programs by revisiting the targeting and the means of social protection they provide. As a result, the allocation structure of these programs has been changed (Figure 2). There is less reliance on direct price subsidy, especially for fuels, and an increased reliance on delivering cash transfers, whether conditional like Takaful and karama program; or unconditional, such as the social solidarity pension (Daman pension) and expanding spending on health subsidy including health insurance, medicines and infant formula subsidy, program of the treatment on the expense of the state (PTES),....etc.

**Figure 2: Spending on Subsidies and Social Programs in Egypt**



Source: Ministry of Finance

#### **4.1 Conditional Cash Transfer Programs: Takaful and Karama (TKP)**

These programs provide cash benefits conditional on health and education behaviors of recipients. The programs provide income support to households with children less than 18 years of age, the elderly poor, orphans, widows and people living with disabilities. In FY 2020, 0.3% of GDP was allocated to cash transfer programs TKP and Daman.

**Takaful** (Solidarity) is a monthly conditional cash transfer for households with children aged 0-18 years, aiming at promoting capital accumulation by providing family income support while incentivizing poor households to invest in their children’s health, education and nutrition by imposing

conditions such as enrolment of children in schools and getting the necessary health check-ups.

**Karama** (Dignity), on the other hand, is a monthly unconditional cash transfer program aimed at promoting social inclusion through integration of the most vulnerable, namely the elderly (those over 65 years old), people with disabilities, and, in a recent addition, orphaned children.

Generally speaking, the program also has strong beneficiary outreach, support, grievance redress and social accountability systems across all governorates. It is worth noting that 86% of Takaful and Karama beneficiaries are amongst the poorest 40% of households. This signifies strong targeting performance relative to other major CCT programs around the world. (Elshahawany & Elazhary, 2021).

## **4.2 Hayat Karima**

This is a presidential, large, multi-dimensional social and economic development program. Launched in 2021, the program will focus on villages within all 175 rural districts over three years, with the first phase covering the poorest 1,413 villages in 51 districts. The initiative focuses on many developmental challenges related to rural areas, including poverty, basic services, local development and economic empowerment. The total allocated budget was not officially announced and has ranged between EGP 14 billion for the first year to 700 billion EGP over the entire project lifecycle.

The initiative aims to create an integrated framework consolidating efforts among government institutions, the private sector, civil society and development partners. An Inter-ministerial committee is responsible for the oversight and coordination, chaired by the office of the Prime Minister and comprising nearly twenty ministries.

The Hayat Karima program aims to rely as much as possible on local contractors to carry out infrastructure projects. There are also efforts to adopt a participatory approach and engage local communities during the planning and implementation to better respond to their needs. The program will incorporate direct support to existing TKP beneficiaries, as well as public works elements to develop:

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- Integrated infrastructure and basic services in villages, including water & sanitation, education, environment (solid waste), roads, irrigation & drainage, gas,... etc.
  - Direct support to poorest and vulnerable in selected villages (Social housing, social protection, health, and other social assistance).
  - Economic development opportunities to increase real incomes: large scale agricultural projects, credit provision to micro and small enterprises, as well as smaller artisanal, industrial or economic zones for local employment. (UNDP, 2021)

### **4.3 Social Housing Program**

To address the living condition dimension of poverty, Egypt has adopted a social housing project for low-income groups.. The Social Housing program launched in 2014 and aspires to improve the affordability of housing to lower income households by constructing 1 million housing units over five years.

The housing sector in Egypt has received increasing attention from the government in the past few years. Since 2014, Egypt has started the construction of 1.5 million housing units (an average of 225K housing units annually), almost equivalent to what has been built in the period from 1976 to 2014 (an average of 43K housing units annually) (MHUCC Press release, August 2021).

It is worth noting that the Program has contributed to greater social and youth inclusion, as a round 70 percent of the Program beneficiaries are below the age of 40 and 18 percent below the age of 30; and women beneficiaries constitute around 21% of the total.

With respect to the Program performance, it shows that on average over the past four years more than 75 percent of Program beneficiary households were among the lowest 40 percent of Egypt's households by income distribution and their share has steadily increased from 68 percent in 2015 to 80 percent in 2019 ( world bank program report, 2020).

### **4.4 Food Subsidies**

The food subsidies program is the largest social assistance program and one of oldest programs in the country dating from 1940, and is a key cornerstone of Egypt's social safety net. The food subsidy system in Egypt consists of three main components:

- The ration cards system: Beneficiaries are eligible to receive a monthly cash allowance of EGP 50 that could be spent on a group of goods within a basket of over 100 products sold in administered outlets with monitored prices.
- The Baladi bread: each individual is entitled to 5 loafs per day for a subsidized price of 5 piasters, as opposed to its cost ranging from 60-65 piasters per loaf, while the government compensates bakeries for the difference between the selling price and the production cost. Consuming less bread, however, implies more points added to the beneficiary's card to purchase other goods available under the ration card system. This "point-based incentive system" converts each loaf of bread saved from beneficiaries' daily consumption to point's equivalent to money (10 piasters for each loaf of bread saved).
- The flour warehouse subsidy: certain beneficiaries can choose not to buy subsidized loaves of bread and instead receive monthly flour subsidy for 10 kilograms of flour per citizen (around 4.3 million beneficiaries in FY22 official food subsidy estimates). (MoF Budget Statements, various issues).

According to the HIECS data for 2017/2018, the food subsidy system covers most of the poor, vulnerable and middle-income groups. The coverage of food subsidy reached 88.5% of households, with 80.2% among households in urban areas and 95.5% among households in rural areas (Armanious, 2020). Additionally, the share of the population receiving ration cards and bread subsidies seems to have declined from 88 percent and 74 percent of households in the top two deciles in 2017/2018 to 76 percent and 60 percent in 2019/2020 respectively. This implies that the richer household deciles are benefiting less from the program. (MOF, 2021).

#### **4.5 Universal Health Insurance System**

Egypt has embarked on a new universal health insurance (UHI) system to cover all Egyptians by 2032, in line with the UHI law enacted in 2018. The implementation of the first phase started in Port Said in 2019 with gradual geographic expansion to follow. When fully implemented, the system is expected to ensure quality health services and adequate levels of financial protection for all citizens. The family is the main insurance coverage unit within the new system, in contrast to the existing system, which provides

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uncoordinated, separate coverage to each family member, leaving some uninsured (Eleiba, 2020).

UHI is a compulsory system based on social solidarity, where those who cannot afford contributions will be exempted, based on a decree issued by the prime minister to regulate exemptions (UHI law, Article 2). The public treasury shall bear insurance contributions on behalf of the insured, including the unemployed, the unable to be employed or for those whose unemployment benefit period expired, as well as dependent family members. Those who are unable to pay contributions are exempted, and also those with chronic diseases and tumors (Eleiba, 2020).

#### **4.6 School Feeding program**

While the program is not poverty targeted, its incidence appears to be higher among the poorer segments of the population, suggesting some degree of self-selection. Ensuring that school meals of adequate quality are available and fully accessible could necessitate additional spending.

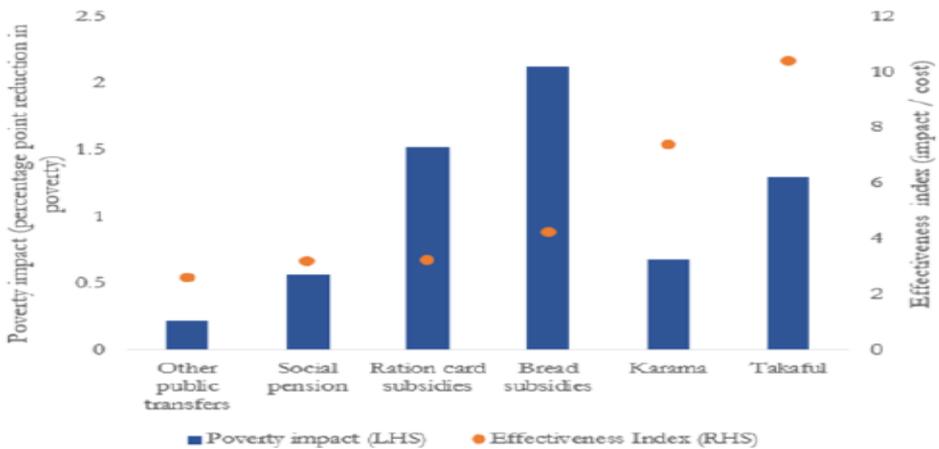
Egypt has a longstanding school feeding program in place, providing important support to children attending public schools. School feeding programs are seen to contribute to fighting malnutrition and food insecurity, serve as an incentive for school enrolment and attendance, while also alleviating the financial burden on poor families by securing meals for their children. This applies to Egypt where the national school feeding program is considered an essential pillar of Egyptian safety net programs, delivering daily fortified snacks/meals to school students. The program targets all students in public and community schools, aged 4-12 years. Coverage is currently estimated at 16.6 million students although the number is likely to increase if Al-Azhar schools are taken into account (UNDP, 2021).

#### **4.7 Evaluation of some Social Protection Programs Impacts**

The following figure presents impact that were generated from the latest published household survey (HIECS 2017/2018), Egypt's main social protection programs trigger a 6.5 percentage point reduction in poverty; the net impact from overall fiscal policy is 6 percentage as direct and indirect taxes lower the share of income that is consumable. Food subsidies and TKP trigger the largest reductions in poverty. These impacts are a function of beneficiary coverage and incidence amongst the poor (30 percent of the population) and benefit level received (adequacy). The effectiveness index

expresses poverty impacts over total spending allocated to each program. Whilst food subsidies have the highest impact on poverty reduction, they also attract the largest budget (1.4 percent of GDP). TKP yield lower impacts though these are achieved at much lower spending (0.3 percent of GDP). To attain a higher effectiveness in reducing poverty through social protection, increased spending should be allocated toward targeted cash transfers that bear more impact at lower costs.

**Figure 3: Effectiveness index and poverty impacts of 2019/2020 social protection spending in Egypt**



Source: World Bank & MoF (2021) Fiscal Incidence Analysis Tool for Egypt.

As shown in the above chart and discussed earlier, the constrained fiscal position of Egypt has triggered starting an economic reform to decline the expenditures on energy/subsidy to positively develop the social protection programs.

Cash transfers appear successful in reaching their objectives, though large coverage, given their significant impact on poverty reduction as well as support toward human capital acquisition. However, programs such as Food subsidies has already a significant impact on poverty reduction, yet this impact comes with higher costs and lower effectiveness as the substantial leakages to unintended income groups remain. Accordingly, there is still great pressure on the government to fully reform the system to prioritize the

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effective targeting of the poor. In addition, social housing program needs a comprehensive value for money assessment that accurately considers its overall high costs, compared to a relatively limited number of beneficiaries (Talaat, W., 2018).

### **Concluding remarks**

Government spending is an essential factor that could help alleviate poverty in many ways. The different types of government spending and their economic distribution contribute to people's income and human capital formation directly and indirectly. To formulate a good strategy to fight poverty in Egypt, information about the most influential budget sectors on poverty is needed; also, the response of governorates poverty rates to the allocated government spending along with governorates demographic characteristics would help in determining the suitable policies to reduce poverty and inequality between regions.

We could say that targeting poverty reduction in Egypt requires intervention by increasing public spending allocated on social services as it appears to be the most influential type of government expenditure on poverty alleviation in Egypt.

The government has been done a lot of comprehensive efforts to improve the living standards of the most vulnerable. These efforts include: social pensions, social housing program and food subsidies. These programs are being complemented with the Universal Health Insurance System. Moreover, a social package consisting of an additional increase in the salaries of public servants, an increase in pensions, and a progressive increase in tax credits has been implemented.

### **Policy implications**

1. Expand targeted cash transfers to cover most of eligible poor households needs be considered. However, such expansion should be preceded by very accurate and efficient targeting for the poverty high impact programs such as commodity program.
2. Improve targeting to increase participation of excluded poor households, especially in urban areas. By improving outreach for registration in poor areas, particularly urban areas, possibly using social workers (raedat), health units, or NGOs.

3. Work toward a comprehensive social protection strategy. A comprehensive, multi-sectoral strategy would continue to protect the poor and contribute to longer-term development goals, such as improved health and educational outcomes. Possible approaches include:

- Exploring synergies with the Ministry of Supply and Internal Trade on database management and sharing positive lessons from Takaful and Karama that may be relevant for the food voucher system, especially related to targeting.

- Coordinating with the Ministry of Health and Population to improve public health facilities and services, including family planning and nutrition; and considering de-emphasizing the Takaful conditionality requiring child health monitoring until there is greater clarity on the prevalence of child malnutrition and until healthcare workers are adequately trained to provide accurate measurement and advice regarding child nutrition

4. Continue to fund the social programs and expand coverage, many of the ultra-poor are not being reached yet. Expanding coverage to reach these households should be a priority.

5. Monitoring and evaluating the programs. Which provide additional guidance for programs implementation and assessing the impact of the planned program on household.

6. If inflation continues, an increase in transfers should be considered. In that case, a clear message that the transfers will be adjusted in line with prices would increase the perception that the program provides a reliable safety net.

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