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**POVERTY REDUCTION POLICIES
IN EGYPT:**

AN OVERVIEW

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I. INTRODUCTION¹

During the 1970's and early 1980's, Egypt achieved significant progress in social, economic and political development. Enjoying high rates of economic growth within this period (GDP grew by about 9 per cent), the Egyptian government substantially increased expenditures on social services leading to improvements in household welfare. However, financial reliance on foreign aid, quasi-rental income earned by the state as a result of exogenous rises in oil prices, and remittances for Egypt's development progress subsequently led to economic deterioration requiring implementation of reforms.

The 1980's have witnessed a situation where two groups that are traditionally described as poor- wage laborers and small landholders have enjoyed an improvement in their position as a result of an increase in rural wages and remittances. However, remittances and increased wages are vulnerable to fluctuations in the price of oil. The decline in oil prices, consequent decline in revenue and increased debt affected the poverty situation indirectly through decreases of public expenditure and development programs related to the poor.

In 1987, the government responded to the deteriorating situation with a series of economic reforms to reduce the budget and external accounts deficit. The reforms included steps to reduce barriers of trade and price distortions in the economy. The economic reform and structural adjustment program (ERSAP) launched in 1991, entails a stronger shift from a centrally planned economy with a relatively small private sector to decentralized, market based and outward oriented economy in which the private sector plays the leading role. The main components of this program are: a major reduction in the fiscal deficit; initiation of financial liberalization, including deregulation of interest rates and unification of the Exchange Rate system; establishment of a treasury bill market; liberalization of most prices and the adjustment of energy prices closer to their opportunity costs; and real and financial sector reforms, as well as privatization and public enterprises reforms.

Egypt has been successful in reversing a trend of declining growth that persisted since the mid-1980's. Real GDP grew at an average of 4.0 per cent since 1990, real per capita GDP grew at 1.8 per cent, and inflation has been brought down from a high of 21.1 per cent in 1991/92 to 7.2 per cent in 1995/96. The budget deficit was reduced to 1.3 per cent of GDP as of 1995.96, and the balance of the current account improved. Most macro economic indicators point to the success of Egypt's structural adjustment program in achieving macro economic stability. Egypt now enjoys a strong fiscal stance to embark on the "high-growth" trajectory predicted by the World Bank (1997).

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These achievements however, must be viewed within the context of the challenges of unemployment and poverty that Egypt must still contend with. In 1995, unemployment in Egypt stood at 10-13 per cent of the labor force, and there is evidence of considerable unemployment, specially, in the informal sector. Poverty in Egypt is still high, and though there is disagreement over its levels, evidence suggests that its trends have been increasing over the period 1991-1996. The persistence of poverty among certain socio-economic groups during this period points to the existence of certain economic and social factors underpinning the perpetuation of poverty across generations. The whole question thus becomes: what has Egypt done regarding poverty, equity and redistribution?

The study attempts to answer this question. Chapter two presents a poverty profile in Egypt and describes changes since 1981/82. Proximate sources of poverty changes at the macro-economic level are presented in chapter three. Chapter four and five describe strategies implemented in Egypt to reduce poverty at the macro, meso and micro levels. In chapter six additional policies and actions for poverty alleviation are suggested.

II. POVERTY PROFILE FOR EGYPT

This study provides a regional analysis of the levels, trends and sources of poverty in Egypt over the period 1990/91-1995/96. The analysis is based mainly on information obtained from two household budget surveys, the Household Income Expenditure and Consumption Survey (HIECS). These surveys were conducted by Central Agency for Public Mobilization and Statistics (CAPMAS), the national statistical agency in Egypt. The analysis will be supplemented by information availed through other surveys or social indicators and data.

For this study per capita consumption was used as the basic welfare indicator. The cost-of-basic needs method was used to construct absolute per capita region-specific poverty lines from unit data for 1995/96. Regional poverty measurements were estimated using the Foster-Greer-Thorbecke class of decomposable poverty measures, namely, the headcount index (P0), the poverty gap index (P1) and the poverty severity index (P2).² Given the importance of correctly targeting poverty alleviation interventions at the regional level, this study has adopted a strong regional focus. Geographically, Egypt is divided into seven regions: Metropolitan, Lower Urban and Lower Rural, Upper Urban and Upper Rural, and Border Urban and Border Rural. The estimated poverty lines and measures ensure that regional differences in factors such as relative prices, tastes, activity levels as well as size and age composition of poor households are accounted for.

2.1 Poverty lines and measures for Egypt

In 1995/96, overall poverty in Egypt stood at 25.3 per cent, using the lower poverty line (Table 2.1.). Thus almost 29 per cent of the population in Egypt, or approximately 16.8 million, could not obtain their basic food and non-food needs. The poverty gap index was 5.79 per cent, implying an average poverty deficit of the poor of L.E. 202 at Metropolitan prices. Using the upper poverty line, overall poverty in Egypt rises to 42 per cent, representing almost 24.5 million individuals. Poverty levels are slightly higher in urban areas, based on both the lower and upper poverty lines. The difference in poverty measurements between urban and rural areas is wider when using the upper poverty line, indicating an expenditure distribution that is more skewed towards the lower levels in urban areas.³ In 1995/96, almost 7.2 million people in urban areas were ultra poor i.e. could not attain minimum food and non-food requirements, compared to 9.5 million in rural areas.

² See Appendix 1 for discussion on choosing a basic welfare indicator, constructing poverty lines and measuring poverty.

³ The vulnerability of the poverty measurements to the poverty lines selected cautions against resorting to single figures of poverty measurements to indicate poverty levels and changes over time. It also points to the importance of understanding the methods deployed in making poverty comparisons to ensure the *robustness* of the poverty measures obtained.

TABLE 2.1. REGIONAL POVERTY MEASURES, 1995/96 (PER CENT)

Region	Lower poverty line			Upper poverty line		
	P0	P1	P2	P0	P1	P2
All Egypt	29.25	5.79	1.58	42.46	10.13	3.32
All Urban	29.03	6.48	1.95	42.87	11.67	4.24
All Rural	29.00	5.59	1.52	41.87	9.28	2.89
Metropolitan	24.80	5.60	1.70	37.96	10.55	3.92
Lower Urban	28.73	5.79	1.60	45.81	11.54	3.94
Upper Urban	35.46	8.60	2.80	47.59	13.52	5.09
Lower Rural	25.24	4.32	1.05	39.25	8.00	2.30
Upper Rural	32.96	6.45	1.78	43.63	9.55	2.93

Source: Calculated from HIECS 1995/96. CAPMAS.

2.2 Poverty profile

Regional poverty in Egypt in 1995/1996

The incidence of poverty is the highest in Upper Egypt. Using the lower (ultra) poverty line, poverty incidence is highest in Upper Urban region (35.64 per cent), followed by rural Upper Egypt (32.96 per cent) and is least in the Metropolitan region (24.8 per cent) (Table 2.1). The ranking of regions remains unchanged for other measures of poverty, indicating that not only do poor households in the Upper Egypt region represent large proportions of their population, but that their expenditure level is far below the poverty line. The only exception is for the Lower Rural region, which has the least poverty gap and poverty severity indices. In general, rural areas in all regions have lower poverty measures than their urban counterparts.

The picture is somewhat different when using the upper poverty line. The Upper Urban region has the greatest incidence, depth and severity of poverty, where 48 per cent of individuals are poor. The Upper Urban region exhibits the highest inequality among the poor; it has the highest poverty gap and severity indices and the largest value of average deficit of L.E. 394. Poverty is still concentrated in rural areas. Upper Rural region has the highest contribution to national poverty. Almost 29 per cent of the poor in Egypt live in the Upper Rural region when using the lower poverty line and 26.3 per cent when using the upper poverty line; yet its share in poverty far exceeds its population share (24.9 per cent). The metropolitan region contributes by a smaller share compared to its share in population and its share to overall poverty increases with the distribution sensitive measures, reflecting the low standards of living of the poor in this region.

The above conclusions may differ from those of other studies, even those relying on the same data sources. This may be due to the estimation of region-specific poverty lines, which have constant real values across regions and over time. Prices of most non-food commodities and services and of some food items are higher in Metropolitan areas. Therefore, controlling for regional differences in the cost of living and for temporal changes in the cost of living within regions has resulted in higher poverty lines for Metropolitan and urban regions, and hence the different regional ranking observed.

Poverty measurements were also estimated at the governorate level. In urban areas, poverty measurements are highest in Sohag and lowest in Port Said (the incidence of poverty in Sohag is 12 times that of Port Said). In rural areas, poverty is highest in Assuit and lowest in Giza.⁴

Demographic characteristics

Poverty is often associated with malnutrition, higher incidence of child mortality and morbidity, lower education levels, poor housing conditions or limited access to basic services of water and sanitation. An examination of the distribution of welfare in Egypt should therefore focus on the characteristics of those populations falling below a given poverty line, in addition to their numbers. This analysis is of particular value to policy makers entrusted with the design and targeting of poverty alleviation strategies. The section will provide a profile of the poor, in terms of age and household composition, employment characteristics, education attainment, housing conditions.⁵ The major policies at the macro-economic level that have contributed to these characteristics are analyzed in the next section.

Household size

Poor individuals tend to live in larger households. Average household size for poor individuals was 7.2 and 6.8 in urban and rural areas respectively, compared to 5.6 and 4.8 for the non-poor. Poor households also tend to have a larger number of children and fewer members in the working age. In urban areas, The dependency ratio is 61.3 per cent for the poor compared to 41.4 per cent for the non-poor in urban areas, and respectively, 77.5 per cent and 60.4 per cent in rural areas.

Employment characteristics

In both urban and rural areas, the poor are generally wage earners, self-employed in marginal and unskilled activities, or unemployed. Urban had the largest percentage of poverty among "unemployed with no previous jobs category" (60.76 per

⁴ See Appendix 2 for a more detailed description.

⁵ A detailed profile with the corresponding tables can be found in Appendix 2.

cent compared to a national average of 49.56 per cent). In the rural regions, the category of individuals working without wages was prevalent among the poor. The categories self-employed without hiring others and wage earners are inversely related to welfare levels. Poor individuals belong to households with more working members than the typical household does, which implies that it is not the lack of work opportunities per se that causes individuals to be poor, but the size of income procured through the occupations of the poor. Private employment was more predominant in rural areas, whereas government and public sector employment was predominant in urban areas. In 1995/96, 73 per cent of all poor working individuals were employed in the private sector, with a higher prevalence in rural areas. Poverty incidence is highest among individuals with unclassified occupations (66.6 per cent and 49 per cent in urban and rural areas respectively). In urban areas, services' workers account for 24 per cent of urban poor, while in rural areas, agricultural workers account for 54 per cent of rural poor.

As the poor are mostly self-employed in the agricultural sector, wage policies enacted in the government and public enterprise sectors may have little effect on poverty. Likewise, legislation regarding minimum wages paid by private employers may affect only a fraction of the poor. It is evident that policies to reduce poverty must be aimed at self-employed workers in agriculture, particularly in Upper Egypt.

Education characteristics

Education is the strongest correlate of poverty, insofar as it determines the command of individuals over income earning opportunities through access to employment. Education was typically found to have a high explanatory power to observed patterns of poverty. The correlation between education and welfare has important implications for policy, particularly in terms of the distributional impact. This subsection will discuss the educational characteristics of the poor in terms of their educational attainment, school attendance, and type of schools accessed.

Over than 40 per cent of the poor population was illiterate, 38.4 per cent had primary education and only 1.6 per cent had university education. Poverty is highest, deepest and most severe for illiterate individuals, with poverty measures in urban areas being higher than in rural areas. Evidence further points to the existence of a strong relationship between the education of the head of the household and that of the household members. At the national level, 74 per cent of illiterate individuals belonged to households whose head was illiterate. The relationship was stronger in urban than in rural areas. Moreover, school enrolment of school-age children is considerably lower for poor households compared to the non-poor. In urban areas, the percentage of school-age children not enrolled was 12.4 per cent for the poor compared to 4.1 per cent for the non-poor. In rural areas, the corresponding figures were 27.6 per cent and 14.9 per cent. Consequently, the ratio of poor working children is higher than the non-poor (3.7 per cent and 1.6 per cent), which indicates the role of working children as a source of income to their poor families.

Housing conditions

Access to piped drinking water in Egypt has improved significantly over the past decade, reaching about 79 per cent of the population in 1996 (UNDP, 1997). Access is achieved either through indoor sources or through pumps located outside the dwelling. This is in addition to well water. Indoor sources of drinking water are more common among the better off individuals, while the other sources are more predominant among the poor.

At the national level, 79 per cent of the surveyed households were connected to public water networks and 65 per cent had indoor access to drinking water. Indoor access to drinking water was almost twice as much in urban areas as in rural areas (89 per cent and 49 per cent respectively). Dwellings with publicly supplied water were less common among the poor, but much of that may be attributed to differences in coverage between urban and rural areas. In fact, poorer regions have lower proportions of individuals connected to public water networks than the overall average. In all urban regions, the differences in access between the poor and the overall population were marginal; the main source of drinking water for the poor is the public water network. The differences however in indoor access to water between poverty groups were larger (82.7 per cent for the poor and 94.6 per cent for the non-poor). Differences across poverty groups are even wider in all rural regions. Only 48.6 per cent of the poor had indoor access to drinking water compared to 63.2 per cent of the non-poor in Lower Rural region, and 30.5 per cent and 46.1 per cent respectively in Upper Rural region.

Access to sanitation is a more sensitive indicator of poverty, as sanitation coverage has not kept pace with that of water. Overall, 44 per cent of the surveyed population was connected to sewerage network. Substantial differences exist in access to sanitation between urban and rural areas (see table 2.2), with the proportion of individual living in houses connected to a sanitation network being more than four times the proportion in rural areas (81.6 per cent and 19.9 per cent respectively). Equally significant differences exist across regions and poverty status. Access to sanitation is very low for poor individuals. The proportion of poor individuals with access to sanitation through a public network for the poor is only half that of the non-poor in the Upper Egypt region, whether in urban or in rural areas. In the Upper Rural region, only 3.2 per cent of the poor lived in dwellings connected to sewerage networks. Limited access to potable water and sanitation services has negative implications on the health status of the poor. In addition, their relatively poor quality is likely to promote spreading of infectious diseases.

TABLE 2.2. REGIONAL DISTRIBUTION OF ACCESS TO DRINKING WATER
AND SANITATION SERVICES BY POVERTY STATUS
1995/96 (PER CENT)*

Region	Connected to water network	Indoor source of drinking water	Connected to public sewerage network
All Urban			
Poor	95.17	82.65	71.31
Non-poor	98.77	94.55	89.37
All	97.22	89.42	81.59
All Rural			
Poor	58.40	40.10	14.76
Non-poor	72.62	56.25	23.70
All	66.69	49.51	19.97
All Egypt			
Poor	73.06	57.07	37.31
Non-poor	82.70	71.01	49.01
All	78.62	65.12	44.06

Source: Calculated from HIECS 1995/96. CAPMAS.

* Per cent of individuals living in dwellings with access to potable water and sanitation services.

2.3 Trends of poverty: poverty changes over time

Table 2.3 illustrates poverty measurements at the national, geographic (urban/rural) and regional levels, for the years 1981/82, 1990/91 and 1995/96. On a national level, all three measurements showed an increase since 1981/82. The incidence of poverty has increased from 23.6 per cent in 1981/82, to 39.1 per cent in 1990/91 and 42.5 per cent in 1995/96. The poverty gap and severity indices declined over the period 1990/91 to 1995/96, indicating improvements in the expenditure inequality of the poor, even though their percentage has increased. All three poverty measurements indicate slightly lower poverty levels in rural areas than in urban areas. However, in 1995/96 and in 1981/82, the poverty headcount (P0) of the urban and rural sectors are not significantly different.

Two consistent patterns of poverty evolution over 1981-1996 emerge when either the lower or the upper poverty line is considered. First, the incidence of poverty has increased in urban areas over the period in concern, from 25.9 per cent in 1980/81, to 36.8 per cent in 1990/91 and 42.8 per cent in 1995/96. The poverty gap and severity indices followed similar patterns and showed a slight improvement for the lower poverty line. Second, in rural areas, all poverty measures showed increasing

poverty prevalence during the 1980s, and a declining trend over the mid 1990s, reflecting relative improvement in distribution during this period.

TABLE 2.3. SECTORAL AND REGIONAL POVERTY MEASURES,
1981/82-1995/96 (PER CENT)

Region	Year	Lower poverty line			Upper poverty line			Gini Index
		P0	P1	P2	P0	P1	P2	
All Egypt	1981/82	16.42	3.77	1.23	23.65	6.04	2.23	=
	1990/91	30.37	8.62	3.36	39.09	11.99	5.03	
	1995/96	29.25	5.79	1.58	42.46	10.13	3.32	
All Urban	1981/82	16.75	4.25	1.52	25.99	7.26	2.88	34.8
	1990/91	26.06	6.59	2.28	36.82	10.58	4.15	34.8
	1995/96	29.03	6.48	1.95	42.87	11.67	4.24	33.7
All Rural	1981/82	16.60	3.20	0.87	22.95	4.89	1.49	25.8
	1990/91	34.12	10.97	4.90	41.25	13.88	6.45	36.6
	1995/96	29.00	5.59	1.52	41.87	9.28	2.89	24.9

Source: Calculated from various Household Budget Surveys conducted by CAPMAS.

Growth and redistribution decomposition

In this section, the *causative* factors underlying the measured changes in poverty are considered. It is important to understand how much of any observed change in poverty could be attributed to changes in the *redistribution* of living standards as distinct from *growth* in average living standards. In other words, the growth component is the difference between the two poverty indices of the two dates if there are no observed distributional changes and therefore, the change is due to shifts in the mean per capita expenditure. Conversely, the redistribution component is the difference between poverty indices of the two dates if the mean had not changed and hence, changes are due to changes in expenditure distribution.

Table 2.3 presents the results of the decomposition of poverty changes into growth and redistribution components, at the national and regional levels. As shown, over the period from 1981/82 to 1990/91, the increases witnessed for the Gini indices are coupled with declines in mean expenditures in real terms have declined. This resulted in the rise of all poverty measurements observed at all levels (national, and regional) in 1990/91.

As illustrated by table 2.4, decomposing poverty changes between 1990/91 and 1995/96 into growth and redistribution components show that the two components work in opposite directions. While there have been declines in real per capita mean expenditure at all levels, improvements in inequality in all regions are noted. Consequently, different directions of poverty changes are experienced in the different

regions and sectors, depending on the relative magnitude of growth versus redistribution components.

TABLE 2.4. SECTORAL AND REGIONAL DECOMPOSITION OF CHANGES
IN POVERTY, 1980/81-1995/96

P0 Region	Year	Growth Component	Redistribution Component	Actual Change
All Egypt	1990/91-1995/96	8.40	-7.46	3.37
	1981/82-1990/91	6.22	9.06	15.44
	1981/82-1995/96	14.62	1.60	18.81
All Urban	1990/91-1995/96	6.19	-0.64	6.05
	1981/82-1990/91	6.24	4.80	10.83
	1981/82-1995/96	12.43	4.16	16.88
All Rural	1990/91-1995/96	10.06	-13.66	.62
	1981/82-1990/91	5.05	12.55	18.30
	1981/82-1995/96	15.11	-1.10	18.91
P1 Region	Year	Growth Component	Redistribution Component	Actual Change
All Egypt	1990/91-1995/96	3.61	-5.37	-1.86
	1981/82-1990/91	2.47	4.02	5.95
	1981/82-1995/96	6.08	-1.35	4.09
All Urban	1990/91-1995/96	2.51	-1.55	1.09
	1981/82-1990/91	2.37	1.25	3.32
	1981/82-1995/96	4.87	-0.30	4.41
All Rural	1990/91-1995/96	4.47	-8.65	-4.60
	1981/82-1990/91	7.68	7.37	8.99
	1981/82-1995/96	6.55	-1.28	4.39
P2 Region	Year	Growth Component	Redistribution Component	Actual Change
All Egypt	1990/91-1995/96	1.91	-3.11	-1.71
	1981/82-1990/91	1.24	1.95	2.80
	1981/82-1995/96	3.15	-1.16	1.09
All Urban	1990/91-1995/96	1.25	-1.11	0.09
	1981/82/91	1.13	0.29	1.27
	1981/82-1995/96	2.38	-0.83	1.36
All Rural	1990/91-1995/96	2.49	-5.05	-3.56
	1981/82-1990/91	1.11	4.34	4.96
	1981/82-1995/96	3.61	-.72	1.41

Calculated from various Household Budget Surveys conducted by CAPMAS.

The observed increases in national, as well as in urban, poverty are mainly due to the decrease in average per capita expenditure (growth component). Declines in per capita mean expenditures neutralized improvements in distribution. However, the observed change in rural poverty is fully accounted for by the improvements in expenditure distribution, at least for the poorest of the poor. Generally, there are favorable redistribution effects that exceed the adverse impact of the decline in the mean per capita expenditure. This is reflected in reductions in the observed incidence of poverty, poverty gap and severity of poverty measures. To sum up, the single most important factor contributing to the decline in rural poverty has been favorable redistribution; the growth component is qualitatively unimportant. This is consistent with the declining Gini coefficients and stagnant incomes in rural areas.

Several factors are believed to underlie improved redistribution effects in rural regions. These are:

- The adjustment and reform program of the Egyptian agriculture, which has improved the performance of agricultural sector, strengthened the market economic system, increased competition of private sector and corrected extreme distortions in price structure.
- There is higher resource sharing in agricultural activities and less differentiation in labour skills in rural areas, which contribute to equity.
- Subsidies may be partly responsible for rural income distribution remaining more egalitarian than in urban areas.
- Migration from urban to rural areas as many rural households who have migrated to urban areas returned to live in the country side, while their working members still employed in urban areas.

III. PROXIMATE SOURCES OF POVERTY

While it is important to know where poverty is greatest, it is critical to know why it exists. As such, while its effects can be measured on the level of the individual, its causes must be sought in a number of closely inter-linked socio-economic processes. In this chapter macroeconomic sources of poverty are identified as economic growth patterns, agricultural policies, employment, wage and pricing policies and the nature of social spending.

3.1 Macro-economic factors: economic development, reform and pattern of growth

Failure to expand non-oil exports as part of its economic development strategy is largely credited for the decline in Egypt's growth rate since 1981 and has had consequences for poverty reduction goals. The effects of this failure were twofold; first with the decline of oil revenues in the early 1980's and the leveling off of foreign aid and worker remittances, Egypt experiences a shortage of foreign exchange that led to increased borrowing and external debts. The rising cost of debt made it difficult to sustain a full employment policy. Second, protectionist policies reduced incentives for competitive behavior in markets for goods and services and markets for capital labor.

Macro-economic dynamics of reform also impacted poverty reduction goals. The economic reform and structural adjustment program (ERSAP) launched in 1991, represents one of the most impressive of such programs world-wide. It succeeded, in a very short space of time, in correcting major macroeconomic imbalances and in bringing down the inflation rate from nearly 20 per cent to 3.8 per cent in 1997/98. It also corrected important distortions in the economy (such as negative real interest rates) and built up a sizable cushion of foreign exchange reserves. Importantly, social indicators were protected. Items that account for a large part of the consumption budgets of the poor, such as bread, continued to be subsidized. The number of subsidized commodities was reduced, but the subsidy system was made more focused by improved targeting. Access to education and health was enlarged, as can be seen in improvements in infant mortality, life expectancy, and steadily increasing literacy rates. The Social Fund for Development was set up to cushion the short-term adverse effects of the stabilization and reform program. During this program social expenditures in the budget were largely protected, with The main expenditure cuts falling on public investment.

However, expenditure cuts on public investment have resulted in significant decline in Egypt's gross domestic investment and savings rates. Investment declined from high average rate of 26 per cent of GDP during 1974-1984 to nearly 16 per cent, since 1990/91. The decline of 10 per cent points was concentrated in the public sector, while private investment remained almost unchanged at about 9 per cent. From the standpoint of the overall savings-investment balance, the binding constraint to

investment is no longer the shortage of national savings. Despite the fact that domestic savings have fallen from 18 per cent of GDP during the pre-adjustment period to an average of 13 per cent since 1990/91, national savings increased to about 21 per cent during the last five years. In fact, the saving-investment gap was not only bridged but turned into excess supply. The development of this saving-investment balance reflects the changing trend of savings behavior in both public and private sector. The changing pattern of public-private investment relationships have its consequences on job creation and poverty.

Despite stabilization of the economy and improved GDP growth (for 1996/97 is estimated at around 5 per cent) poverty and high unemployment remain. Economic growth has not been sufficient for real employment generation in the economy. The non-labor intensive nature of economic growth has thus contributed to the serious unemployment problem facing Egypt today.

How effectively economic growth is channeled to improve the income of the poorest can be seen by comparing the growth of average per capita income with the growth of incomes of the poorest 20 per cent. Per capita expenditure of the bottom 20 per cent of the expenditure distribution grew at an annual rate of 6.8 per cent in rural areas and declined by a rate of 1.3 per cent in urban areas. The average per capita expenditure for the same period fell by 2.4 per cent. This resulted in a sharp reduction in expenditure inequality, especially in rural areas. Moreover, substantial decline has been observed in Gini coefficient, as a measure of inequality, during 1990/91-1995/96, (from 36.6 per cent, to 24.9 per cent), in rural areas. As it was mentioned above, although changes in per capita income have contributed positively to poverty changes, improvements in income distributions have resulted in poverty reduction, specially in rural areas.

Value added generated in the service sectors was growing faster than that generated in the commodity sectors (see Table 3.1). In the commodity sectors, growth rates in industrial and construction activities were high compared to agriculture and petroleum. The higher growth in industrial activity can be explained by the government efforts to expand and modernize the manufacturing base for employment creation and export development. Since large segment of the poor are engaged in services activities, patterns of economic growth have benefited the poor, resulting in improvements of P1 and P2 indices.

TABLE 3.1. GDP GROWTH BY COMMODITY SECTORS, CONSTANT PRICES

	1982/87	1987/92	1992/97
Agriculture	3	3.7	3.1
Manufacturing	9.2	5.7	6.1
Petroleum	7.3	0.6	1
Electricity	14.6	5.9	5

TABLE 3.1 (continued)

	1982/87	1987/92	1992/97
Constructor	4.3	4.5	4.9
Transportation	8.1	3.4	5.5
Suez canal	0.8	2.8	-3.5
Trade	6.9	3.7	4.9
Finance	4.2	3	7.3
Hotels	5.7	14.9	4.1
Social Services	6.4	4.4	4.8
Total	6.2	4	4.3

Source: Ministry of Planning, Annual Report 1998.

3.2 Agricultural policies

In rural areas, agriculture is the main source of livelihood for the poor. Poor are concentrated in agricultural activities; about 39.4 per cent of poor individuals are engaged in agricultural activities. In agricultural activity 53 per cent of total rural population are employed, of which 59.7 per cent are rural poor compared to 48 per cent among the non- poor. Changes in agricultural policies would thus have a large impact on the poor, particularly the rural- poor.

Starting in 1986, government policies focused on increasing agricultural prices to narrow the gap between domestic and world price levels, encouraging private and foreign investments, and increasing the share of agriculture in total public investment. The government has also improved marketing of agricultural inputs, storage capacities, and other marketing support services. During the 1990's the compulsory delivery system of agricultural crops has been eliminated, subsidies for the agricultural inputs have been phased out, the price system has been liberalized, the private sector was allowed to freely import and distribute agricultural input and the law of agricultural land rents has been changed. The government began in the 1990's privatizing the agricultural public sector; and 76 public sector companies have been fully or partly privatized by the end of 1997. The cotton growers are free to produce and market cotton.

Most government agricultural policy changes associated with the structural adjustment program led to an improvement in the rural to urban terms of trade by increasing real farm gate prices of many cash crops. Offsetting these gains are plans to drop the provision of free inputs to certain crops, particularly fertilizers and seeds, and to remove fertilizer subsidies. The agricultural policies to promote production have benefited a majority of poor households. A possible negative impact of the agricultural policy package could come through removing subsidies of inputs and fertilizers, while

positive impact will result from the reduction of export taxes and freeing cotton, rice and wheat prices. It is thus reasonable to conclude that the effect of economic reform in agriculture has benefited many rural poor and negative effects are limited to relatively few poor households.

3.3 Employment, wage and pricing policies

The employment problem has been at the center of concern in Egypt over the past 40 years. Government policy has always aimed at increasing employment rates. The structure of labor utilization in the Egyptian economy has been changed from one stage to another depending on the development of different labor absorption mechanisms. As in many developed and developing countries, growth in employment in Egypt has constantly lagged behind economic growth. As a result of these developments the problem of open unemployment was aggravated. By the mid 1980's, 1.4 million Egyptians were unemployed, 10.7 per cent of the labor force. The results of the 1996 Population Census suggest a persistence of the unemployment problem at the rate of 9 per cent.

Increasing open unemployment⁶ is one of the most immediate consequences of economic restructuring for three basic reasons: (a) necessary measures normally instituted in the stabilization phase of ERSAP include raising interest rates, placing strict credit ceilings, raising prices of inputs and devaluation of local currency; (b) reduction of employment creation in government and public business sector aiming at controlling public expenditure and curtailing government intervention in labor market; and (c) privatization of public enterprises.

More significant than the rate of unemployment is its structure. Available data show that a very significant portion of the unemployed are educated youth entering the labour market for the first time. This resulted from the decision to discontinue guaranteed employment of such graduates in the Government and public sector, with the private sector not yet able to generate enough new employment opportunities. Unemployment is the highest for graduates of intermediate education and next among graduates of higher education.

Real wages

As far as real wages are concerned, the growth of the economy in the 1970's led to a construction boom and rising real wages. Real wages in agriculture also rose sharply in the seventies and continued to do so until 1985. Government and public

⁶ Job creation in the modern economy has been much lower than expected. For the last decade, the rate of growth of employment has been positive but has not been large enough to absorb the growing labor force. The average annual growth rate of labor force is 2.8 per cent, while the average annual employment growth rate attained 2.6 over the period of 1990-1995 (World Bank, 1998). The result is an increasing unemployment rate.

enterprises faced a rise in wage bills as the economy began to deteriorate in the early 1980's. The response was to slow down the growth of employment at minimal wage growth in the public sector. The real wages of workers in public sector failed to keep pace with those in the private sector. Government workers suffered the largest reduction in real wages. It fell from 100 in 1973 to 71 in 1984 and to 58 in 1992. The decline in real wages in government sector improved income equality, but it generally left workers in government more vulnerable to economic hardship, as they are considered among the poor groups, in the 1990's.

Price policies

Economic restructuring is ordinarily accompanied with rises in consumer prices due to tax reform, devaluation, increasing prices of several goods through reduction in subsidies and removal of price controls.

Using the share of each food and non-food groups experienced by the poor and non poor in 1995/96, we construct food and general CPI for the poor and non poor to examine the impact of price changes on different groups. As indicated by table (3.3), starting from 1989/90, poor individuals experienced larger changes on food prices, compared the non-poor, as reflected by food CPI, in both sectors, and in urban areas than in rural areas. General CPI's the poor were also higher than those of the non-poor, in the period 1989/90 – 1992/93 for urban areas and in the period 1990/91 – 1992/93 for rural areas. Furthermore, annual change in general CPI attained 11.1 per cent and 8.5 per cent for the poor in both sectors, while the corresponding figures for the non poor were 11.4 per cent and 10.4 per cent.

As poor individuals spend larger percentage of their total expenditure on food, relative change in food and non food consumer price can explain some changes in poverty during the period 1981/82 – 1995/96.

TABLE 3.3. CONSUMER PRICE INDEX BY POVERTY GROUP

Year	Rural poor	Non poor	Urban poor	Non poor
85/86	82.36	82.40	81.15	81.83
87/88	115.25	115.70	117.34	117.49
88/89	138.55	138.20	139.03	138.63
89/90	170.48	169.66	168.27	167.62
90/91	191.63	190.56	192.77	192.51
91/92	231.32	230.77	227.96	227.92
92/93	243.83	246.67	254.67	262.76
93/94	268.73	272.06	276.49	285.87
94/95	293.48	296.25	303.35	311.49
95/96	310.29	313.09	325.88	326.21

Urban poor, however, are more vulnerable because they do not produce much of food they consume. The rural poor are well insulated from changes in government pricing policies on food items. They are therefore likely to suffer declines in their standard of living, with food price increases making them primary candidates for intervention.

3.4 Social spending

Assistance to the poor in Egypt has been provided primarily through an extensive system of integrated subsidies. These subsidies covered basic food, electricity, housing, transportation and energy products. The food subsidy program was the most extensive and open-ended one (especially the bread subsidy). The food subsidy system, available for every one, first involved three commodities, cooking oil, sugar and tea. As the program continued, it extended its coverage to other commodities, such as flour and beans. The ration card system covered 90 per cent of the population in 1990/91, while its coverage reached 95 per cent. At the peak in the 1982/83, the budget allocations for all kinds of subsidies and transfers amounted to more than 13 per cent of GDP. Faced with growing deficit, the government began to cut many social expenditures, including the food subsidy program.

Structural adjustment aims at reducing the budget deficit by increasing government revenues and decreasing government expenditure. The largest single element of policy effort on the revenue side was the exchange rate reform in early 1991. This raised revenue from oil receipts, Suez canal and from taxes on international trade. In addition, the introduction in 1991 of the sales taxes and its consequent expansion contributed about 1.4 per cent point to the revenue effort. On the expenditure side, the total cut was distributed between current and investment expenditure in the ratio of 16 and 64 per cent. With investment expenditure, the share of spending accruing to the social services sector remained unchanged, allaying concerns that the burden of fiscal adjustment would fall on poorer sections of society. The bulk of investment cuts was the economic share as the government cut back on projects in the electricity and tourism sectors. Total public expenditure was reduced from an average of 50 per cent of GDP during the 1980's to less than 40 per cent under ERSAP. Public expenditure reached its peak in 1987/88 and then declined steadily to reach LE18.8 billion in 1993/94 at 1986/87 prices, with an annual rate of -6.9 per cent on the average. Per capita public expenditure declined faster, at a rate of -9.1 per cent. The fiscal adjustment affected the living standards both directly and indirectly. On the one hand, most of the expenditure decline is attributed to reduction in public investment, which have negative effects on growth and employment. Also, current expenditure excluding interest payments to public debts, declined from 27 per cent of GDP in the mid 1980's to an average of 17 per cent during ERSAP. Half of the decline was due to reduction of consumer subsidies from 8 per cent of GDP before adjustment to less than 2 per cent in 1995/96. Various subsidies have commended the

progressive nature of the subsidy system in Egypt, despite the possible leakage to some non needy households. However, limiting subsidy allocations mainly to low-quality bread and low food items might have the effect of self-targeting, this minimizing the leakage of subsidy benefits.

However, the trends of public spending indicates that while public expenditure has declined as a percentage of GDP, the ratio of social spending to GDP has in fact increased.

TABLE 3.4. PUBLIC EXPENDITURE, REVENUE, SALES TAXES AND SUBSIDIES

Year	Public Expenditure (1)	Subsidies (2)		(2)/(1) per cent	Public Revenue (3)	Sales Taxes (4)	(4)/(3) per cent
		Total	Food				
1990/91	25357	3288	2400	12.96	24551	3373	13.7
1991/92	36198	7237	2482	19.09	67834	6324	16.7
1992/93	41292	4047	2450	9.8	43686	7191	16.5
1993/94	46097	3265	2486	7.1	49418	8081	16.5
1994/95	47416	3967	2492	8.4	52672	9131	17.3
1995/96	56480	4067	-	7.2	60316	10430	17.3

Source: Ministry of Finance.

TABLE 3.5. PER CAPITA PUBLIC EXPENDITURE, IN LE.

Year	Per capita public expenditure at current prices	Per capita public expenditure at constant 87 prices
1983/84	345.4246	523.9625
1984/85	378.0264	531.7794
1985/86	486.5563	559.9255
1986/87	477.2559	477.2559
1987/88	632.8013	546.9211
1988/89	615.5661	455.8322
1989/90	615.2602	387.7415
1990/91	740.8032	420.435
1991/92	938.6737	351.7518
1992/93	1049.863	342.4609
1993/94	1072.305	308.6572

Source: Ministry of Finance.

Current expenditure on education and health

Public education and health services are subsidized in Egypt. The provision of those social services at low subsidized prices are of great importance to the poor, as providing these basic social services at low prices implies raising real income of the poor. Since 1986, the government has gradually introduced "cost recovery" systems in the field of primary education and health services as an element of economic restructuring aimed at balancing government budget.

The share of public expenditure for the social services as a proportion of GDP and of the budget as well as per capita public expenditure constitute good indicators to assess how government activities in these sectors have been affected by ERSAP. Table (3.5) presents the evolution of these shares through the 80's. Moreover, the rapid demographic expansion against a background of tighter budgets has made it increasingly difficult for the government to sustain the present level of expenditure. As a result, the quality of the services provided as well as physical infrastructure have been deteriorating, while the share of salaries in total expenditure has been rising.

For the most part, however, the losers from reforms have been the urban non-poor who captured large portions of rents associated with the rationing of foreign exchange, food production and other goods and services.

In the following, we review the current education and health policies and then examine the impact of economic reform on the provision of social services to the poor.

Education policies

Egypt has recognized the importance of education as a powerful instrument in achieving and sustaining economic growth, reducing poverty and enhancing equity. In 1952, the Egyptian government asserted its commitment to extend education to all population groups, by making education at all levels virtually free of charge and supporting significant and increasing budgetary allocations to education. In an international comparison of per student education expenditure using 1990 data, Egypt ranked first among 17 developing countries in terms of current primary expenditure per student as a per cent of GDP per capita (World bank, 1997). Despite Egypt's remarkable achievements in reducing illiteracy levels and extending coverage of education, especially basic education, to a significant portion of the population,⁷ the current situation of poverty and labor market dynamics point to the existence of serious distortions in the education system.

⁷ Figures for enrolment in basic education are varied. While official sources such as UNESCO (1997) place the gross enrolment rate at 98 percent and net enrolment at 89 percent in 1994, unpublished sources report a net enrolment rate of only 71 percent in 1993/94.

Coverage of basic education is still not universal, and gender and geographic disparities in access to education still exist. Despite sustained increases in government expenditure on education, these have not kept pace with the rising costs of education that were ultimately passed on to the households. In 1995/96, private expenditure on education was 20.7 per cent of total (public and private) expenditure on education, up from 19.4 per cent in 1990/91. The brunt of this increase had fallen disproportionately on the poor. During 1990/91-1995/96, the average per capita expenditure on education in real terms rose by 102 per cent for the poor versus only 39 per cent for the non-poor in urban areas, and by 210 per cent and 43 per cent respectively in rural areas.

There is also evidence that the education system is being insidiously privatized. Expenditures on extra-curricular items, such as private tutoring and extra-curricular books (i.e. books not prescribed by the Ministry of Education) occupy a substantial share, if not the largest, of total household budget on education. Coupled with relatively elevated incidence of repeaters in the different education cycles, these factors have worked to increase the cost of education and to render access to quality education prohibitive to the poor. This was reflected in a higher incidence of non-enrollment and drop out among the poor, and the aggravation of the concomitant phenomenon of child labor.

The problem with education in Egypt is essentially one of efficiency of public spending. As the forthcoming analysis will demonstrate, government allocations to education, as a percentage of both total government expenditures and of GDP, are comparable to other countries with similar and even higher incomes. However, since the size of the allocations is smaller in absolute terms, it becomes imperative for the government to pursue measures to improve the efficient use of available resources. The current internal distribution of government expenditures on education has impacted negatively on the quality of education, ultimately undermining the ability of the education system to retain students and prevent them from dropping out.

On average, enrollment in basic education (primary and preparatory) accounted for 79 per cent of total pre-university and university enrollment during 1990/91-1995/96; yet it received only 51 per cent of total government expenditure on education. On the other hand, whereas university education accounted for only about 5 per cent of total enrollment, it received almost 28 per cent of total government education expenditures. A similar pattern of mal distribution between current and investment expenditures exists, and is more pronounced for investment expenditures.

Moreover, within the current expenditure category, wages, salaries and benefits constitute a predominant and increasing share of current education expenditures. On average, wages and salaries at the primary and secondary level (aggregate) constitute 80 per cent and 65 per cent of current and total expenditures, respectively (World Bank, 1997). Unfortunately, the education system is characterized by a large administrative body and non-teaching staff. That is, of total employment in

the education system, only 33 per cent are directly involved in the teaching process, 3 per cent are non-teaching and over 64 per cent are administrative. This employment dead-weight has reflected negatively on some efficiency indicators, such as pupil-teacher ratio.

TABLE 3.6. REAL GOVERNMENT EXPENDITURE ON EDUCATION,
1990/91-1995/96 (MILLION 1996 L E.)

	1990/91 (actual)	1991/92 (actual)	1992/93 (actual)	1993/94 (budget)	1994/95 (budget)	1995/96 (actual)
Current Education Expenditures						
Primary	1,962	1,991	2,266	2,465	2,448	2,727
Preparatory	1,389	1,392	1,464	1,601	1,645	1,898
Secondary	1,079	1,085	1,377	1,618	1,659	1,915
Higher Education	1,814	1,890	2,039	2,200	2,217	2,460
Total Current	6,244	6,358	7,146	7,884	7,969	9,000
Investment Education Expenditures						
Primary /1	356	180	384	901	842	766
Preparatory /1	243	123	262	417	377	439
Secondary /1	187	94	202	413	398	423
Higher Education	838	882	907	838	557	574
Total Investment	1,624	1,279	1,755	2,569	2,174	2,202
Total Education Expenditures /2						
Primary	2,318	2,171	2,650	3,366	3,290	3,493
Preparatory	1,632	1,515	1,726	2,018	2,022	2,337
Secondary	1,266	1,179	1,579	2,031	2,057	2,338
Higher Education	2,652	2,772	2,946	3,038	2,774	3,034
Total Education	7,868	7,637	8,901	10,453	10,143	11,202

Source: Ministries of Finance and Education as reported in the World Bank SAR/EEP, 1997.

1/ Figures for 1994/95 and 1995/96 adjusted for actual over-budget expenditure for GAEB. Estimates for fiscal years 1991 and 1992 for investment level are derived using the breakdown for fiscal year 1993; hence the same rate of growth for all three levels.

2/ Excluding capital transfers.

The outcome of such expenditure policies has been detrimental, particularly on basic education. Low investment expenditures on education has constrained the government's ability to expand school coverage in order to reduce multiple school shifts and overcrowding in classes, and to refurbish debilitated school buildings and

facilities, which are all important factors compromising the quality of the educational process and the ability of the school system to retain students. In 1996/97, there were 20,953 public primary and preparatory schools (Ministry of Education), of which the buildings of over a third were deemed unfit. Class densities were also high; in 1995/96, there were 44 and 42 students per class in the primary and preparatory level, respectively (CAPMAS, 1997).

Moreover, even though wages and salaries constitute the bulk of current education expenditures, they have not been sufficient to retain teachers and secure a good quality education in the classrooms. Private tutoring is pervasive in both public and private schools. It appears that private tutoring for school teachers has now become the "moonlighting" equivalent for civil servants. The adverse effect of low teacher salaries and wages is ultimately borne by the poor, through a perverse behavioral pattern of teachers that is manifested in two aspects: (i) their efforts at limiting the number of hours of effective formal teaching to allow more time for private tutoring; and (ii) their compromising on the quality of teaching during regular classes to create demand for private tutoring (World Bank, 1996).

Health sector

Egypt has a relatively well-established network of health facilities in rural and urban areas. Egypt was one of the first countries in the region to set up a comprehensive, nation-wide health system. However, despite some recent improvements in the incidence rates of some diseases and a high health manpower/population ratio, most health indicators in Egypt lag behind the standard prevailing in many developing countries. The major health problems in the country are mainly a function of poverty, unsanitary environment and limited financial resources.

Since the mid-80's health policies witnessed major changes shifting from free services for all to support the approach of introducing charges in the governmental curative health care facilities. However, in spite of the increase in the accessibility of health services in the 80's if compared with the 70's, the changes in the health policies over the 80's resulted in: (1) imbalances between declining fiscal measures and growing health care needs and costs; (2) mal distribution of health services among rural and urban governorates. Rural health centers and basic health units -the only public facilities the poor use as a first source of health care- account for less than 14 per cent of government hospital beds; (3) low basic health services levels and low incentive system; and (4) Examining public expenditure on health, as indicated by table(3.7) showed that wages and salaries constitutes more than 60 per cent of total health expenditure. In real terms, there has been declining trend in wage bill and slight increases in current and investment expenditure. As a result, most of health centers and hospitals suffer from years of neglect in the repair and renovation of their physical facilities and upkeep equipment. They generally experience shortage of drugs and supplies which adversely affects the quality of care they provide.

Therefore, decreasing per capita government expenditure on health, with the already existing low quality of services provided by government hospitals and health units, may be one of the reasons for increasing poverty, especially urban poverty. Moreover, the cost recovery program introduced in the domain of health are likely to increase the burden on the poor.

TABLE 3.7 PUBLIC EXPENDITURE ON HEALTH AT CONSTANT PRICES (1987=100)

	Wages and salaries	Current expenditure	Investment expenditure	Total	Per cent of health to public expend
1986/87	287	76	52.5	415.5	1.8
1987/88	256.3	81.7	57.6	395.6	2.6
1988/89	225	75.1	52.9	353	2.2
1989/90	251	70.3	63.4	384.7	2.4
1990/91	252.5	78.4	54.3	385.2	1.9
1991/92	233.4	88.8	60.6	382.8	1.7
1992/93					1.8
1993/94					1.9

Source: El-Baradei (1995).

Health policies neglected the provision of low-cost access to small neighborhood health services for many people particularly in rural areas. In addition, the Egyptian health system is largely curative and physician-oriented, despite the fact that the major health problems are mainly endemic and need preventive rather than curative actions.

IV. STRATEGIES FOR POVERTY REDUCTION

The previous section identified macro-economic factors contributing to poverty. A strategic anti-poverty framework should cover three levels of operations: micro, meso and macro levels. The macro level is concerned with macro economics, namely at the highest level of the national economy where governments normally concentrate upon programs, interventions and policies which are designed to reach down to the poorest groups in society. The meso level is concerned with the transmission of macro policy into operational activities. It links the macro to micro and concerns most capacity development tasks and is also where more efficient “governance” is required. The micro level includes all activities that directly touch households. This is where practical approaches are situated to work with the different agents.

Access to physical and human assets remains the key to reducing poverty. Strategies to improve access can be approached from a welfare, economic or human capital viewpoint. A welfare approach would consist of making direct income transfers to the most needy, either through cash transfers or through subsidized goods and services. An economic approach would focus on interventions designed to improve income earnings for the poor. Finally, a human capital approach would aim at increasing potential earning of the poor by raising their productivity through nutrition, health, education and training programs. The last two sets of strategies entail changing the characteristics of the poor and have several advantages. First, policies that succeed in changing the characteristics of the poor are in large part removing the causes of poverty, not just reducing its effects. In the long run, the greatest effect is likely to come from investment in human capital. Second, many of these policies may be less costly in the long run since they aim to raise the productivity of poor households.

Targeting

Successful and financially feasible interventions to reduce poverty must be based on some mechanism for targeting assistance to the poor. Although the explicit goal of all the three types of strategies is to reduce poverty, they are likely to benefit some non-poor as well. Given that funding for such programs is limited, steps must be taken to target benefits toward the poor. It is useful to distinguish between two types of targeting: direct targeting and characteristics targeting. Direct targeting explicitly identifies individual households as poor or non-poor and directly provides benefits to the former group and/or withholds them from the latter. The form targeting takes depends on the ability of governments to identify the vulnerable poor. If the poor can be identified on a household or individual level, transfer payments or some other form of direct assistance can reduce their vulnerability. This approach is labeled as direct targeting. An important example is the provision of food or medical care to elderly and disabled individuals, to households who display clear signs of malnutrition, or to individuals who have special needs, such as pregnant and lactating women. A serious

problem with direct targeting is that the 'screen' needed to identify the poor is expensive to construct.

If providing assistance directly to the vulnerable poor is not feasible, intervening on the basis of the characteristics of the poor may be required. This we refer to as characteristic targeting. For instance, if the poor are concentrated in certain regions or districts, the provision of public services to those areas could be increased. However, characteristic targeting has two potential drawbacks. First, some non-poor households may possess the same characteristics or characteristics as the poor; and hence receive benefits (leakage drawback). Second, not all poor households may possess the characteristics necessary to benefit from the intervention and hence they are not reached (under-coverage drawback). The success of characteristic targeting depends on the ability of program designers to minimize these leakages. Of course, some inefficiencies may have to be accepted to achieve distributional objectives during the period of adjustment but these should be temporary and must be kept to a minimum. Accurate identification of the key characteristics of the poor, and feasible policies that could change them, require competent and timely research.

Poverty is a politically sensitive issue in Egypt. Most officials deny the existence of poverty. However, they realized that ERSAP may have adverse impact on the standards of living of "low income groups", and hence several policies have been designed and implemented to help those groups. Although there is no government entity responsible for planning, monitoring and coordinating the different programmes and activities addressing the poor, Egypt has pursued multi-dimensional strategies for raising Egyptian standards of living, including income generation, human capital and safety net strategies. The Ministry of Planning develops the overall economic and social development plans for short, medium and long terms. These plans are translated to plans of actions through different ministries and agencies. The Egyptian government pursues poverty alleviation objectives through various channels, including direct assistance to the poor through the Ministry of Social Affairs (MOSA), free education and literacy programs through the Ministry of Education, free health care through local health units and large public hospitals, subsidies for bread, flour, sugar and oil through Ministry of Trade and Supply and rural development projects through Ministry of Agriculture.

In the following sections, we review some strategies that Egypt pursues for raising the standard of living of low income groups.

4.1 Macro-strategies for poverty reduction

The 1997-2017 Plan

Economic growth is the driving force which makes job creation possible and produces additional resources for governments to use for social programs aimed at overcoming poverty. The Government recognizes that a substantial agenda still lies

ahead. Savings are insufficient to finance the investment required to generate the 550,000 or so jobs that are required annually to absorb the additions to the labor force and to reduce previous unemployment. Exports are still growing slower than expected and the export structure is still too concentrated on oil and vulnerable to exogenous movements in price or production. Human capital still requires considerable resources for its development.

The Government addressed many of these issues in the 1997-2017 Plan that is divided into five year sub-plans. The new long-term plan (1997-2017) has set as its main goals a major strengthening of the economy to face the challenge of and to improve social well-being. This will require the economy to grow significantly faster, and for a more sustained period, than it has in recent years. The strategy to attain the required growth rate is based on major enhancements in productivity and will rely on rapidly absorbing improvements in technology and the private sector for the production of goods and services.⁸ The economy will be opened further to international trade, with much emphasis on export growth capitalizing on Egypt's strategic location. An important aim of the Plan is to expand the area of habitation from the present 5 per cent of the total area of the country to about 25 per cent. Associated with this strategy will be a policy of more widespread human resource development. Poverty and other social problems are increasingly being recognized as the result not merely of an insufficiency of income, but of a need to access education, health, and other factors that make a human being more productive and provide for at least a minimum quality of life. The successful implementation of this Plan should lead to major structural changes in Egyptian economy and society.

The strategy of the long-term Plan is based on seven major axes. First, the Plan envisages increasing employment outside the Nile Valley by establishing urban communities. The aim is to expand the inhabited area of Egypt from the current 5 per cent of the total area of the country to around 25 per cent. This will be accomplished through a series of measures:

⁸ The Plan aims to increase the rate of growth of GDP from around 5.7 percent in 1996/97 to 6.9 percent a year for the five-year period until 2001/02, rising further to 7.6 percent a year on average until 2017. Fueling this rate of growth will be a rapid increase in investment; the next Five Year Plan projects annual investment at LE 400 billion over the period, i.e. LE 80 billion a year on average compared with about LE 45 billion in 1996/97. Consistent with the strategy of relying increasingly on the private sector to lead the economy, the projections put the share of private investment at 75 percent of the total over the five-year period (compared with 65 percent currently) and 80 percent in the year 2002. The objective is to achieve this growth while maintaining broad macroeconomic balance. For example, the authorities have managed to bring down the inflation rate to around 4 percent in 1997/98. They intend to restrict inflation to an annual rate of less than 5 percent during the next five years.

- Reclaiming and cultivating new areas east of the Suez Canal and south-west of the lake of the High Dam, utilizing water saved from more efficient management of water resources and the development of ground water;
- Building new cities and new rural communities in the newly reclaimed areas;
- Establishing new industrial areas and free zones, especially in southern Egypt and the Sinai, and north of the Gulf of Suez;
- Extending utilities, such as transportation and electricity, to new regions.

The second axis of the strategy involves upgrading of human resources. Specifically, the aim is to eradicate illiteracy throughout the country by the end of the century. In order to meet this objective, great emphasis will be laid on improving female literacy and on expanding the role of women in development. Education and training will also be restructured according to the needs of the market in the 21st century. Policies to improve the quality of education include the upgrading of schools and improvements in the training of teachers and in their remuneration.

Upgrading Egypt's human resources also requires the provision of quality health care to the population. The strategy calls for a comprehensive development of the health care system and the expansion of health insurance. The Plan also pays attention to how these programs will be financed. The next Five Year Plan specifies alternative cost sharing schemes of health services, integrating family planning programs with maternal and child health programs as well as encouraging cooperation between government institutions and corporations.

The third feature of the strategy involves an intensification of scientific and technological research so as to develop and adapt advanced technology and scientific innovations in a manner most suitable to Egypt. The Plan intends to achieve this aim through the development and construction of Research and Development centers and better training of scientists and engineers both in Egypt and abroad. There are also provisions to encourage the participation of expatriate Egyptians and foreign scientists.

The fourth dimension of the strategy entails protection of the environment. This will address the issues of natural resource depletion as well as desertification, and increasing pollution. The next Five Year Plan emphasizes the upgrading of the supply of potable water to all villages and protecting water sources from pollution. Another environmental target is to extend the provision of sewerage services to cover all rural areas and to employ processed sewage water for agricultural purposes.

The fifth feature of the strategy centers around the development of small- and micro-enterprises to generate productive employment. In addition to encouraging the growth of such enterprises, the Plan's objectives include the enhancement of the

performance of these enterprises through the provision of technical assistance and easier access to credit. A key approach will be for small and medium enterprises to manufacture intermediates that can feed into the production of many industries.

The sixth element of the strategy is the acceleration and diversification of exports. The Five Year Plan stresses private-sector-led export growth. The Plan emphasizes rapid growth of the main producing sectors and diversion of a significant portion of the increased production to exports. For example, the industrial sector is projected to grow at 9.5 per cent a year over the next five years, while the growth of industrial exports is projected at 20 per cent a year. It will be boosted to this figure by putting much more emphasis on marketing (including obtaining more knowledge of demand through the use of commercial representative offices abroad) and on the improvement of quality. All sectors will be expected to contribute to the export effort; for example, the agricultural sector is projected to grow at 3.8 per cent a year, but the growth of agricultural exports is put at nearly 15 per cent annually.

The final feature of the strategy emphasizes the role of the private sector. In the fiscal year 2001/02, private investment is expected to contribute 80 per cent of total investment. The government will maintain a close partnership with the private sector in order to support it and to solve its problems. To that end, there will be still greater moves to advance the pace of the privatization program; in fact, the government has declared its intention of withdrawing completely from the productive process.

Education policies

It has been observed that the roots of poverty lie in the lack of income generating jobs or other physical assets such as land. The only way out for the majority of the landless in rural areas and the poor in urban areas is to increase their human capabilities. It is now widely believed that a balanced development strategy needs to treat equally human, natural or manmade assets as potential contributions to the future income stream. In this sense, investment and expenditure in human capital will surely increase the future earning potentials of individuals. This policy reinforces basic human development priorities such as primary education and health care. There should be no doubt about the effect of human development on income redistribution and alleviating poverty.

Since the early 1990s, poverty reduction strategies have increasingly focused on education, especially basic education, as a means to enhance the productive use of labor - the most abundant asset for the poor (World Bank, 1990 and 1995). Education helps reduce poverty through promoting those factors that increase the command of the poor over resources, such as reduced fertility, improved health status and greater ability to acquire knowledge and skills. These factors increase the chances of the poor for more remunerative work opportunities and enable them to participate fully in the

process of development. As such, education can be a determining factor in promoting social equity.

Egypt has recognized the importance of education as a powerful instrument in achieving and sustaining economic growth, reducing poverty and enhancing equity. It is now uncontested that a nation's productive capacity is dependent on its stock of human capital. Basic education in Egypt covers five years of primary cycle and three years of preparatory cycle. The number of students enrolled in basic education in public (government and Al Azhar) and private schools increased from 10.7 million in 1990/91 to 11.95 million in 1995/96. Significant improvements were achieved in female enrollment in basic education (Table 4.1). Although the proportion of female enrollment is still lower than that of boys (in 1990/91, the proportion of girls enrolled in public basic education was 44 per cent of total enrollment and increased to 46 per cent in 1995/96), the enrollment growth rate throughout the 1990/91-1995/96 period has been higher for girls than for boys.

Access to education is an interaction of the forces of supply (availability of school facilities) and demand (the opportunity cost of schooling). In 1996/97, the total number of primary schools was 16,152 (93 per cent were public and 7 per cent private) and 6,905 preparatory schools (90 per cent public and 10 per cent private). A total of 11.2 million students were enrolled in these schools (primary and preparatory), of which 94 per cent were in public schools and 6 per cent in private schools. Public schooling is therefore extensive and is used mostly by the poor; 99 per cent of the poor in 1995/96 attended public schools.

Literacy

The Government of Egypt has recognized that illiteracy is probably the strongest source of poverty, and it is an area most amenable to non-government and community efforts and interventions. In addition to improving internal efficiency of resource utilization and quality of services in literacy programs, efforts have been directed at greater mobilization of NGO capacities in providing literacy services.

Since the early 1990s, the government has increased resources for promoting wide scale elimination of illiteracy. To this end, funding was increased for the General Authority for Literacy and Adult Education (GALAE) from the Government and Social Fund for Development to extend coverage of its services and literacy programs nation-wide. Government funding for this literacy campaign increased from L.E. 6.0 million in 1992/93 to L.E. 79.0 million in 1995/96. Coupled with an additional L.E. 105.0 million from the Social Fund for Development, government literacy services were provided in all 26 governorates (EFA Joint Report, 1997). In addition, the non-governmental sector is active in providing literacy programs. For most non-governmental organizations (NGOs) in Egypt, literacy programs are an integral part of the package of services (including health and micro-credit) delivered to the public (Assaad, 1998).

TABLE 4.1. NUMBER OF STUDENTS ENROLLED BY LEVEL AND GENDER, 1990/91-1995/96*

	1993/94			1994/95			1995/96		
	Girls	Boys	Total	Girls	Boys	Total	Girls	Boys	Total
Primary	3,206,427	3,843,122	7,049,549	3,354,785	3,968,253	7,323,038	3,436,872	4,033,465	7,470,337
Preparatory	1,502,728	1,850,630	3,353,358	1,544,759	1,864,368	3,409,127	1,618,196	1,921,644	3,539,840
Total Basic	4,709,155	5,693,752	10,402,904	4,899,544	5,832,621	10,732,165	5,055,068	5,955,109	11,010,177
General Second.	350,327	416,617	766,944	390,154	454,204	844,358	377,801	439,586	817,387
Technical Sec.	773,001	927,721	1,700,722	858,071	1,030,707	1,888,778	796,225	988,222	1,784,447
Total Secondary	1,123,328	1,344,338	2,467,666	1,248,225	1,484,911	2,733,136	1,174,026	1,427,808	2,601,834
Total Pre-Univ.	5,832,483	7,038,090	12,870,573	6,147,769	7,317,532	13,465,301	6,229,094	7,382,917	13,612,011
University	231,065	381,779	612,844	270,333	442,194	712,527	350,936	524,675	875,611
Total Enrollment	6,063,548	7,419,869	13,483,417	6,418,102	7,759,726	14,177,828	6,580,030	7,907,592	14,487,622

Given the absence of detailed information on the geographic and regional distribution of literacy programs, the results of the 1993 Community Survey were used to indicate the extent of outreach of literacy services. In 1993, there was a higher prevalence of government literacy programs in rural areas and more NGO literacy programs in urban areas. Government literacy programs were available in 67 per cent of the sampled rural communities compared to 50 per cent of the urban communities while NGO literacy programs were available in 20 per cent of urban and in only 10 per cent of rural communities. These findings seem to suggest that coverage of government literacy services is relatively extensive, particularly in rural areas, while NGO coverage, despite their huge number, is quite lacking. Attempts at assessing the *quality* of literacy services in either government- or NGO-based programs have been sporadic and unsystematic.

4.2 Meso-micro programmes for poverty reduction

In chapter three we addressed macro policies. This chapter deals with the institutional mechanisms that ensure the efficient translation of government policy to the population. We focus on a number of meso-micro measures that have been devised in Egypt to address the needs of the people directly.

Small and Micro Enterprises; SME

Egypt's most serious poverty reduction challenge has been employment creation for a rapidly expanding labor force. Despite pursuing labor policies and regulations that create labor market rigidities the Government of Egypt recently recognized that support of small and micro enterprises is an important means for employment creation, especially for the youth.

Furthermore, the SME sector constitutes more than 99 per cent of all non-agricultural private enterprises in Egypt and accounts for nearly three quarters of employment generated by these enterprises, so there is an urgent need to create a strong competitive SME sector that is able to play a leading role in the development process. There is a similar need for generation of young entrepreneurship that can enhance Egypt's efforts for sustainable socio-economic development. There are several programs aimed at extending the reach of capital markets to smaller firms and targeting unemployed graduates. It is in this context that SME development became a focus of the Government's attention. The following reviews constraints faced by the SME sector in Egypt and reviews the following programs adopted by the main institutional actors that have played a direct role in the provision of financial services to SMEs: Productive Family Programs (PFP), The National Bank for Development, The Credit Guarantee Company, and the Social Fund for Development.

Constraints facing SMEs can be largely grouped under the headings of financial and non-financial constraints. The latter grouping (which includes input, marketing, legal and regulatory, management and institutional constraints)

demonstrates a relatively high sector and size sensitivity. Contrary to financial constraints, which are less sensitive to the above two variables, the effect of non-financial constraints on SMEs vary significantly in accordance with the sectors and size of the enterprises at hand.

A major constraint faced by virtually all SMEs is their limited access to capital and financial services that can meet their working and fixed capital needs on a sustainable basis. A careful examination of the various programs operating in the field reveals that most programs suffer from setbacks related to two elements, sustainability and accessibility. In terms of sustainability, few programs were able to achieve financial self-sufficiency. Most programs show signs of dependency on external funding and have not succeeded in leveraging their efforts using their own resources. Serious questions remain about the accessibility of these programs to disadvantaged groups. Although banks participating in micro-enterprise finance projects have been persuaded to provide loans without collateral guarantees, they attempt to secure their loans through a number of requirements that effectively exclude a large number of potential borrowers whose access to formality is limited. For instance, a common requirement is that a public sector employee or landowner act as a guarantor of the loan. Most enterprise projects require the presence of a fixed establishment, which typically means a commercial registration and tax card. Thus access to formality becomes a requirement of the loan. Finally, as formal institutions banks are inaccessible to many among the poor, who are intimidated and alienated by large bureaucracies.

Faced with the above situation, SMEs rely almost entirely on private informal credit sources, advances from customers and suppliers' credit. While the interest rate in the informal credit market is reported to reach 100 per cent, if not more, for SMEs this market is in many respects more reliable. The informal credit market among other things is more accessible, offers more flexible loan terms, requires little documentation if any, and has low transaction costs for the entrepreneur. It is nevertheless very expensive, limited in resources and beyond the reach of most SMEs.

SMEs also face obstacles that inhibit their potential to expand, grow and increase their investment. These include the difficulties they face in accessing financial services due to the weakness of the institutional infrastructure providing these services, the excessive reliance of most specialized programs on donor and external support and funding, and the banks' disregard of the SME sector. The SME sector's huge size necessitates the adoption of development strategies and policies that rationally invest the available resources in a manner conducive to sustainability of the programs and services offered on sound economic and development bases. Considering that all the current SME development efforts cover no more than 5 per cent of the total number of SMEs, it is clear that *direct subsidy* will never be able to satisfy all needs of this sector.

In this regard, international experience demonstrates that non-financial services provided by SMEs such as training, technical support, marketing services require direct external support from governments and donors. Given the difficulties associated with the cost recovery of these services, it is difficult for the private sector to provide such services on sound economic basis. Accordingly, several countries are subsidizing non-financial services in varying degrees and forms. Nevertheless, a careful examination reveals that programs offering non-financial services that adopt cost-sharing mechanisms have demonstrated better performance than fully subsidized ones. Contrary to the case with non-financial services however, both international and local experiences have demonstrated that financial services can be effectively and efficiently provided to existing SMEs by market forces and institutions, on sound economic and development basis that guarantee the sustainability and expanded outreach of these services.

In the case of start-up SMEs however, these market mechanisms and institutions might require governmental support, especially in the specific case of those SMEs established by young entrepreneurs. Worldwide, start-ups suffer from high failure rates during the first four years of enterprise life. It is for this reason that the government must pay special attention to supporting financial services provided to youth in a rational and effective manner. Contrary to the case with existing enterprises, in targeting youth and start-ups, sustainability is viewed as a long-term objective rather than an immediate one.

In addition to the well known financial constraints, SMEs face several obstacles with regard to obtaining the required inputs, producing a competitive product, marketing, and an adequate institutional legal and regulatory environment. Adequate inputs include skilled labor, adequate technologies, product and market information, production inputs and adequate physical space and location. In addition, SMEs encounter significant marketing constraints including the inadequacy of the current marketing channels and networks, lack of information, the ability to employ marketing professionals, the underdevelopment of linkages between small enterprises and large and foreign enterprises, and limited access to public contracts due to complexity of the government's procurement procedure and the lack of any broad based preferential treatment for SMEs in the Egyptian procurement law and regulations.

Moreover, SMEs have to interact with a legal and regulatory environment that is not helpful to their growth and development, nor to their market entry. SMEs also lack institutional representation that larger enterprises enjoy. Accordingly, SMEs lack the capacity to influence the decision making and policy formulation processes. While it is true that in developing countries in general most of the above constraints are faced by virtually all private businesses, they weigh more heavily against the SME sector.

The National Bank for Development (NBD)

The National Bank for Development started lending to SMEs with the Rural Small Scale Enterprise Project in four branches in Damietta and Sharkiya. In 1992, the bank launched its Small Enterprise Credit Program, financed by USAID. Following this, the bank entered into agreements with UNICEF, CIDA and the Ford Foundation. The NBD adopted innovative institutional measures and developed the institutional capability to lend to Egyptian SMEs. According to its 1997 figures, the Bank was able to extend a total of 171,629 loans totaling LE380,277,933 to 64,251 clients with a repayment rate of 94.4 per cent.

The NBD case provides an example of how SME lending can be properly and profitably managed by formal financial institutions without compromising its operations. Currently, the bank operates its SME lending program through 30 branches. The NBD maintains constant interaction with its SME clients through the credit extension officers. Its SME lending operations have been conducted separately from the banks' traditional operations. While the managerial positions of the program were occupied by the bank's own staff, most of the rest of the staff were recruited and trained on SME lending operations. Based on the success of its SME lending programs, the NBD is currently considering expanding its operations to cover all its sixty-six branches. The bank is also planning to build a training center for SME lending.

The case of the NBD clearly demonstrates that the main reason for banks' reluctance to lend to SMEs is their own lack of institutional capacity to target this market segment. The high interest rates charged by informal sources of lending (that nearly monopolize the SME lending market) proves that banks would have a significant latitude in pricing their services yet offer a highly competitive product that enjoys a sizable demand.

The Credit Guarantee Company (CGC)

The Credit Guarantee Company was established in 1989 as a private sector joint stock company by nine Egyptian commercial banks and one insurance company with support from the private sector. CGC has two main programs: the Small Scale Enterprise (SSE) Program, targeting SMEs, and the Health Care Cost Recovery (HCCR) project, targeting health care providers. CGC issues guarantees to banks of up to 50 per cent of their SME loans and 80 per cent of their health care provider loans in return for a fee of 1 per cent per annum on the outstanding balance of the guarantee. By October 1997, CGC had issued a total of L.E. 462 million in loan guarantees, covering 8,745 loans that totaled L.E. 973 million, with a loan average of L.E. 52,820. Payment of SSE claims totaled LE1.5 million (0.46 per cent of issued guarantees) and HCCR claims totaled LE 189,000 (0.17 per cent of issued guarantees).

The successful performance of CGC induced USAID and the Egyptian Government to sign a new \$85 million project agreement. Under this project CGC will serve as a wholesaler of SME loan funds to existing and new organizations, including NGOs and banks. CGC will establish 60 new SME lending units throughout Egypt and will replace USAID in the supervision of these activities.

The CGC model is another successful example of a properly managed operation. Credit guarantees serve to offset fears associated with SME lending. In addition, they can be used to leverage the resources available for on-lending. Despite its success as a model, recent assessments show that there is room for further improvement of its performance.

The Productive Family Project; PFP

The government of Egypt has recognized the need for access by the poor to micro credit. In 1964 it established through the Ministry of Social Affairs a scheme for social assistance called the Productive Families Program (PFP). The project is managed at the national level by the Productive Families Society with branches all over the country, one for each of the 27 governorates. Beneficiaries of the PFP from 1992 to 1996 totaled around one million families. The project combines training, loans and contracts in a production and marketing system. Its main objectives are the following: 1) Developing human resources through developing the capacity of the individual and the household, 2) Creating job opportunities for members of society who are capable and willing to work by providing support to their projects, 3) Promoting production and investment values at the individual and the household levels, and 4) Exploiting available local raw materials,

The services provided under this program are numerous and varied. They include vocational training, provision of raw materials, machinery, tools and equipment, and micro loans. Preference in contracting micro loans under PFP is given to beneficiaries earning less than LE 100 per month. Beneficiaries undergo training at the PFP training centers before starting a project. To help beneficiaries market their products, the project offers marketing services through the temporary, seasonal or permanent exhibitions held at the national level. The total value for exhibited products amounts to LE 6.6 million.

The scope of activities under this program was extended and includes sewing, embroidery, silk and woolen carpet manufacturing, agro-industries (drying fruits, drying and pickling vegetables, palm trees products), wool, bamboo, plastic and copper manufacturing, food security projects (cattle and sheep raising, poultry, bees), and various services projects (plumbing, electricity). Furthermore, the PFP offers technical assistance by providing families with updated designs from the Designs and Forms Center and the Graphics Design Center, to upgrade skills and enhance efficiency.

Realizing the importance of this NGO and its branches and the extent of the financial problems they face, the Social Fund for Development (SFD) approved several loans to regional branches for financing micro projects. Since 1992, the SFD, through its Community Development Program, has been an important source of funds to this program.

Impact assessment of the PFP

As an illustration of performance of the Productive Families Association, the example of the Sharkya branch located in Zagazig (the capital of Sharkya) will be discussed. The Sharkya regional branch received between 1992 and 1995 four consecutive loans totaling L.E. 3.91 million at interest rates varying between 7 per cent to 14 per cent, with 2- year grace periods and repayment periods from two and half to three and half years. These sums were disbursed to 5494 families in micro loans varying between L.E. 500 to L.E. 5000. These loans financed 4313 agricultural projects, 994 manufacturing projects and 187 services activities. Hundreds of other loan requests have been postponed for lack of funds. These loans, in Sharkya, have been predominantly invested in standard and repetitive agro-activities. They were mostly used to purchase cattle and sheep to add to the animals that the family may own.

The following observations may be demonstrated:

- These agro-projects have been noted to have very little social impact and their economic impact hardly extends beyond the loan duration. This raises the issue of sustainability of these projects. However, manufacturing projects such as knitting, footwear, clothing, and carpentry, which are usually implemented in urban areas, seem to be more sustainable than agricultural projects. Furthermore, some of them have been observed to grow, but the owners continue needing financial support. This indicates a need to consider renewing loans to the successful beneficiaries till their projects become self- sustainable.
- Information on incomes generated by these loans is not available however the following observations have been noted. The average size of loans per family is very small and does not allow developing employment opportunities outside the family. Rather, the loans help to sustain income - generating activities. It has been noted that the loans have been fairly successful in maintaining and stimulating financial self reliance of their recipients without improving their social status. Furthermore the impact of training received by family members before the loan contract does not seem to be monitored. What is being monitored by the association is the number of trainees and of training courses provided.
- In addition, the PEP objectives appear to be very ambitious given the institutional capabilities, technical skills and financial means available to the

implementing association and its branches. The association's regional and local branches work under very difficult conditions and suffer from bureaucratic constraints. However, if upgraded they may play a very important role in social and economic development as they are widely dispersed in rural and urban areas and are able to reach remote villages and districts.

The Social Fund for Development (SFD)

The Social Fund for Development (SFD) is one of the impressive models in the field of SME development. Its achievements rank is the first among similar funds in the rest of the world. The SFD is currently offering technical assistance and support to other countries in the Arab region. In Egypt, the SFD is the largest institutional actor in terms of the amount of funds it channels to SMEs through its Enterprise Development Program (EDP). The role of SFD in reducing unemployment and poverty, as well as its performance, through its five programs, will be presented below.

The SFD provides subsidized lending. Several SME lending programs sponsored by other national and international entities also offer loans below market rates. By offering loans below sustainable rates, they actually hamper sustainable SME development efforts, since subsidized funding is limited. This serves to ultimately reduce the overall amount of financing that would potentially be available for SME lending. While subsidized SME lending should be maintained, it should be realized that the limited amounts of subsidized funding means that other means of market-based funding and lending must be explored and developed.

One of the new options currently being considered by the SFD is to extend part of the loan package as a non-refundable grant, with the remaining portion realistically and soundly priced. The adoption of this option serves to provide youth and start-ups with adequate support while preparing them to deal with the market forces, thus offsetting some of the negative effects of subsidies. Self-reliance should be a primary factor in determining the aforementioned grant portion of the loan package.

The tax exemptions granted to the SME clients of certain programs and entities offer client SMEs a competitive advantage over other SMEs that borrowed from other sources, or that chose not to borrow at all. Thus tax exemptions need to be generalized to all SMEs irrespective of the sources of funds. The adverse effect of these market imbalances goes as far as negatively affecting demand on other SME credit projects, thus limiting their opportunity to attain their goals and depriving the SME sector from their services.

Impact assessment of SME programmes

- Approximately \$560 million, corresponding to 0.76 per cent of Egypt's GDP in 1997, were provided (most of which was devoted to financial services) through more than forty programs sponsored by various institutional actors including donors, NGOs, and the SFD. However, these programs did not reach more than 5 per cent of the potential beneficiaries.
- Microenterprise finance seems to be taking off in Egypt. However, serious questions remain about the accessibility of these programs to disadvantaged groups. Although banks participating in microenterprise finance projects have been persuaded to provide loans without collateral guarantees, they attempt to secure their loans through a number of requirements that effectively exclude a large number of potential borrowers whose access to formality is limited. Moreover, as formal institutions, banks are inaccessible to many among the poor.
- Microenterprise programmes have not yet demonstrated their effectiveness in employment creation, which is the primary mechanism through which they contribute to poverty alleviation. No systematic studies of the employment impact of the microenterprise exist, despite the large amount of money spent on these programmes.
- Microcredit programmes for poor women are numerous in Egypt, but none have been able to achieve sufficient scale to have a widespread impact.

While there are numerous programs that seek to address these constraints, there is a need for coordination among programs and a need to improve planning, design, and implementation practices. While SME development occupies a high ranking on the government's priority list, the formulation of a clear policy for SME development will serve to further define a general framework along which the various development efforts that can be coordinated and their benefits maximized.

Safety nets

The Economic Reform and Structural Adjustment Program (ERSAP), entails redistribution of economic benefits and social burdens among various population groups and between regions. While focusing on measures to achieve macroeconomic stabilization and to stimulate medium- and long-term growth through restructuring the economy, the Government has also implemented measures to alleviate negative effects of ERSAP on vulnerable groups.

The social safety net consists of compensatory measures aimed at alleviating the impact of poverty and at assisting the poor by insuring the provision of basic goods and services. Prior to ERSAP, the social safety net in Egypt comprised

primarily an extensive system of untargeted, budget financed subsidies covering basic foods, housing, transport, electricity and energy products, education and health services. In addition to limited family allowances and cash transfers from the Ministry of Social Affairs to households that were identified as poor, Bank Nasser provided interest-free consumption loans and loans at subsidized interest rates to unemployed youth to finance small income-generating activities. Finally, such government-financed social safety nets were and still are supplemented by a pervasive system of private transfers through NGOs, *Zakat* funds or directly between individuals and households.

In the following sections we look at some on-going attempts in Egypt to introduce safety net mechanisms to assist the poor. These are: the Shorouk Program for Rural Development, Egypt's Social Fund for Development (SFD), and the Mubarak Takafol (Solidarity) Program. Some programs offered by the Ministry of Social Affairs to provide direct assistance to the poor are also outlined.

The national program for integrated rural development (Shorouk)

Rural development is of prime importance of poverty alleviation in the country as a whole. In addition to its importance in directly alleviating rural poverty, rural development helps alleviate urban poverty by creating employment opportunities and favorable living conditions in the rural areas, thereby discouraging, if not stopping, rural out-migration to the urban areas. Moreover, rural development modernizes agriculture and increases its productivity and this, in turn, benefits the poor in both rural and urban areas by increasing the food supply at constant if not at lower prices. The Organization for the Reconstruction and Development of the Egyptian Village (ORDEV) initiated, in 1994, a balanced and comprehensive rural development program and named it Shorouk, meaning sunrise. The Shorouk program is divided into four phases between 1994 and 2017: launching phase, take off phase, flashing phase and sustainability phase. The National Program for Integrated Rural Development is an integral part of developing local administration and expanding grassroots participation. The ultimate goal of this program is to close the gaps between urban and rural areas. To achieve this strategic goal, the program involves four major objectives: development of the local environment through efficient utilization of local resources; increasing productive and stable local employment opportunities through diversification of economic activities; enhancing the efficiency of local socio-cultural, educational, training, health and public utilities services and enhancing the performance of governmental and non-governmental local institutions.

Within this program's framework, the concept of integrated rural development refers to a process of deep change to achieve comprehensive and interlinked progress in the different aspects of life at the Egyptian rural community level. This process is undertaken by the local community through democratic participation with government assistance. Conceptualizing rural development in this way underlines its dynamic aspect as a continuous process targeting multidimensional development changes in

rural Egypt. The rural population is thus provided with the means of achieving sustainable socioeconomic progress by depending mainly on its own initiatives and resources that can be mobilized locally, while the government plays a complementary role in coordination, financial and technical assistance. Since it is based on popular participation, Shorouk can also be seen as a grassroots political process providing democratic channels for the participation of the rural population in the decision making process.

The sum total of investment required for the program until 2017 is estimated at LE 267 billion. It is assumed that one third of the required investment will be financed through the national budget. This contribution represents nearly 60 per cent of the investment in infrastructure, and 55 per cent of the investment in human resources and institutional development. Funds allocated by the government for the provision of specific services to the countryside under the annual budgets of ministries and governorates may be considered a reflection of the amount that the Government could contribute to the program. Such Government allocations will be mobilized to benefit the program's implementation throughout its successive phases, via its coordination and integration mechanisms. This heavy dependence on government finance raises two issues. The first relates to the relationship between the national development plan and Shorouk projects. Selection of the projects that will be included in the development plan depends on both availability of finance and the set of targets to be achieved. The second problem lies in the gray area between complementary and competitiveness. Local communities' contributions might pull projects towards those villages where resources are available and not to where they are urgently needed.

According to Shorouk projected investments about one third of total investments will be directed to infrastructure projects, one fourth to human resources and institutional development projects, while the rest will be devoted to economic activities projects. With the exception of the latter, which can be partially financed through loans to individuals and/or groups, Shorouk projects are mainly community-based.

During the period 1995/98, total investments amounted to LE 526 thousands, out of which 66 per cent funded from the Government budget. The total number of permanent jobs reached 30,881 jobs as opposed to 24,343 temporary jobs. As shown in table(4.2), 59 per cent government funds were invested in infrastructure projects. Economic development projects were mainly funded from the Local Community Fund. These projects created more than 46 per cent of job opportunities, and the average cost per job attained was LE. 17,035.

TABLE 4.2. SHOROUK'S INVESTMENT, NUMBER OF JOB OPPORTUNITIES
AND NUMBER OF PROJECTS BY TYPE OF ACTIVITY

		Investment in Thousands LE			Employment Opportunities			Number of projects
		Government	Others	Total	Permenant	Temporary	Total	
Sector								
1995/96	Infrastructure	31811	8839	40650	610	2704	3314	158
	Human Develop.	22217	13341	35558	444	1574	2018	203
	Economic Develop.	11451	9507	20958	497	143	5121	1178
	Total	65479	31687	97166	603	4421	10453	1539
	Infrastructure	53998	21871	75869	1131	4590	5728	397
1996/97	Human Develop.	21044	14581	35625	445	1490	1935	193
	Economic Develop.	10472	6457	16929	402	131	4152	1643
	Total	85514	42909	128423	560	6211	11815	2233
	Infrastructure	121327	54025	175352	2630	10313	12943	2301
1997/98	Human Develop.	41369	16857	58226	728	2930	3658	809
	Economic Develop.	37443	29449	66892	1588	468	16355	6367
	Total	200139	100331	300470	1924	13711	32956	9477

The program succeeded in attracting the support of foreign donors. This was manifested in their financial support to some important projects within the Shorouk program. These projects include:

- Potable water in Upper Egypt (a Danish grant, in collaboration with UNICEF of LE 23 million);
- Sanitation services for safe guarding the environment in the different governorates of the country (a joint UNDP-WHO grant of LE 3.5 million);
- A training program for the governorates' senior officials focusing on the concept of sustainable human development (a UNDP grant of one million LE);
- Increasing the LDF credit capacity (US financial support of LE 5 million);
- Projects building up women's capabilities in the governorates of Aswan, Minia, and Gharhiya (US financial support of L.E. 2.25 million);

- A proposed World Bank project to expand Shorouk throughout the governorate of Suhag (costing US \$ 50 million over 4 years).

Finally, an interviewed official noted the absence of coordination between the Organization for the Reconstruction and Development of the Egyptian Village and the SFD programs although they have the same objectives, use the same approaches where direct beneficiaries are involved in designing and implementing their own projects, and operate in a nearby villages.

The Ministry of Social Affairs and Insurance

Through the Ministry of Social Affairs and Insurance the Government has a long tradition of managing and developing a variety of anti-poverty programs either directly, through its social assistance and pensions programs, or indirectly through the large number of NGOs it supervises and supports. In addition to providing strong support to SFD (to be described more fully later) and the Shorouk program, the Ministry coordinates with affiliated authorities, community development associations and local community societies. The following section highlights the work of Bank Nasser and the Mubarak Social Solidarity Program. The Ministry's pension schemes are also described.

Bank Nasser

Bank Nasser was established in 1971 with the objective of expanding social equity among citizens. In fulfillment of this objective the bank gives loans to individuals, specifically those with limited income, and grants aid to those deserving them. Presently, financial resources of the Bank come from profits arising from banking activities, investments, *Zakat* monies, donations and wills. The Bank is distinguished from other banking or financial organizations in that it is the only institution authorized by law to receive *Zakat* and donations and to disburse these monies to the various welfare and charity sections in favor of the poor and individuals of limited income. Its services are diversified in accordance to the forms of poverty alleviation it is addressing and include providing loans ranging between LE 1000 to LE 10,000 per project to be repaid in monthly installments from 3-5 years with 6 per cent yearly interest rate. The bank allocates LE 350 million a year.

The disabled poor receive grants in cash and in-kind through *Zakat* committees and LE 42 million are spent for this activity. The Bank also gives loans to the poor handicapped to run income generating projects and LE 150 million are earmarked for this purpose. It also offers social loans, without interest, to enable individuals meet their social obligations such as marriage, as well as loans for sickness, emergencies, and earthquakes. These are to be repaid over three years. Beneficiaries have reached 300 thousand individuals with an average of LE 500 each. The Bank also supports building houses, gives loans for village development to help

transfer villages into productive units, and offers social services such as funding for pilgrimage.

The Bank also undertakes banking and investment activities (investments have reached LE one billion) and supports the establishment of new small projects by giving loans with 3-4 per cent interest with the condition that the project yields social returns (investments reach LE 700 million yearly in this respect).

Pension schemes

The Sadat Pension Scheme, introduced in 1980, is granted to those 65 years and older and who are totally disabled or the eligible heirs of those who died before 1-7-1980 and were not eligible for a pension since they did not belong to any insured categories as stipulated by the social security/insurance and pension laws. Recipients of this pension, which is LE 37 monthly, numbered 920 thousand persons in 1994/95.

Another pension scheme covers members of the labor force not covered by pension laws and social security. Beneficiaries should be between 18-65 years old. The Law depends on indirect financing, initially, in addition to symbolic subscriptions from those insured. Disbursements to beneficiaries, who receive LE 45 monthly, totaled LE 7489 thousand in 1994/95.

The Social Security Scheme targets widows, divorced females, orphans, prisoners' families, the totally disabled, and the elderly. Its monthly value is estimated to be LE 10 per orphan, and up to LE 33 for the elderly or a prisoner's family.

Mubarak Social Solidarity Program

In order to cope with the Economic Reform Program and its implications policies were enacted to alleviate the burden falling on the limited income earning categories. Accordingly, the Ministry of Social Affairs and Insurance adopted the Mubarak Social Solidarity Program in 1996. The Program targets families whose income is less than LE 100 monthly, the handicapped, the disabled, people with permanent, serious sickness, and unemployed youth. The Program supports productive projects and training activities and offers financial and in-kind support, health care, compensation equipment.

During the first 9 months of 1996 nearly two million applicants registered in order to benefit from the Program's facilities. Only half of these cases were processed. However, the gross number of beneficiaries reached 2.6 million persons, during this period. The value of financial support provided by the Program amounted to LE 65.3 million. More than one half of this fund was used to start income generating projects (EHDR, 1996).

The Social Fund for Development

The Social Fund For Development (SFD) was also established to alleviate adverse effects of the stabilization and reform programs and was established in January 1991 by Presidential Decree No. 40 but effectively began its activities in 1993. SFD is a semi-autonomous governmental agency under the direct supervision of the Prime Minister and is financed by the Government of Egypt in cooperation with the World Bank/IDA, the European Union, Arab Funds and other donors. Its mission is to facilitate the implementation of Egypt's economic reform program by mitigating the adverse effects of structural adjustment on low income groups, and by strengthening Egypt's institutional capacity (governmental and non-governmental) to develop new social programs and upgrade existing ones.

The objectives of the SFD are primarily achieved through promoting income and employment generating activities, providing basic social services, and enhancing local participation and awareness through five core programs; Public Works Program (PWP), Community Development Program (CDP), Enterprises Development Program (EDP), Human Resources Development Program (HRDP), and Institutional Development Program (IDP).

The Implementation Completion Report summarizes the role of the SFD's five core programs as follows: (1) The Public Work program (PWP) supports labor-based public works projects carried out by local contractors, using local material and local labor. The primary focus of the PWP is to provide basic services and employment to the youth; (2) the Community Development Program (CDP) is designed to improve the quality of services at the community level in low income areas in partnership with NGOs and the beneficiary community. CDP projects include social development activities (health and education) and productive activities (income generation and capacity building); (3) the Enterprise Development Program (EDP) was conceived to create sustainable job opportunities in the small and micro sector by providing packages of technical assistance, business counseling, training and credit to both new and expanding businesses; (4) the Employment and Retraining Program (ERP) responds to the needs of public enterprise employees during and immediately following the restructuring and privatization of the firms that employ them. The ERP funds labor adjustment schemes that mitigate labor displacement that may occur in the process. It also trains unemployed new graduates in skills that are relevant to market demands; and (5) the Institutional Development Program (IDP) was designed to strengthen the management and technical capabilities of the SFD and the intermediary agencies in order to optimize the implementation of their activities. A full description of these programs and their intended beneficiaries can be found in Khier-El-Din (1997).

Contributions to SFD resources are in the form of loans and grants. Loans are directed towards revenue-generating activities and grants finance infrastructure and social development projects in rural communities and urban poverty zones. The initial

budget of the SFD was US\$ 613.10 million from 17 donors. In 1996, by the end of phase I, a total of US\$ 746.40 million had been committed by 18 donors. The largest contributions came from the European Union, the World Bank /IDA and the Arab Funds accounting for 30.8 per cent, 20.1 per cent and 19.1 per cent of total commitments, respectively. Table (4.3) shows fund allocations by program over Phases I and II.

TABLE 4.3. DONOR FUND ALLOCATIONS TO VARIOUS PROGRAMS
IN PHASES I AND II, 1997

Program	Phase I		Phase II	
	Million L.E	Per cent	Million L.E.	Per cent
Public Works	622.84	22.4	322.43	8]
Community Development	347.44	12.5	621.44	15.5
Enterprise Development	1,457.99	52.5	2,722.71	68.0
Human Resource Development	182.56	6.6	199.17	5.0
Institutional Development	165.54	6.0	137.85	3.4
<u>Total</u>	<u>2,776.37</u>	<u>100.0</u>	<u>4,003.60</u>	<u>100.0</u>

Source: GOE/SFD Annual Report, 1997.

The SFD relies heavily on external funding. As of the end of November 1996, the SFD resources amounted to US\$ 746.4 million (approximately L.E. 2526 million) pledged by 18 international and regional donors. The largest contributors are the European Union (30.7 per cent), the World Bank/IDA (20.7 per cent), three Arab Funds (19.1 per cent), the Government of Egypt (8.0 per cent), Germany/KFW (9.4 per cent).

The SFD does not implement the contracted projects directly, but rather through intermediaries or sponsoring agencies (469 agencies). These agencies are governorate and local community agencies, banks and financial institutions, NGOs, and ministries. More than half the SFD resources are channeled to beneficiaries through banks. Governorates and localities receive around 24 per cent and central government agencies receive around 15 per cent, so around 40 per cent of the SFD financing is used to complement the government budget in public works and human development related activities, such as the eradication of illiteracy and basic health services to women. Finally, NGOs serve as the channel for less than 9 per cent of SFD funds.

To address specifically those in need, the SFD has adopted several targeting approaches. With geographic targeting, benefits are channeled to persons falling within a certain category, such as size of assets, employment status or type, and

geographic location. Since the poor tend to be located in areas that suffer from a greater deficiency of basic services, targeting by geographic location is a practical and cost effective mechanism for reaching the poor. A poverty map is constructed for the different regions based on a set of indicators such as income, household characteristics, employment and unemployment, access to social services, and housing conditions. Through self targeting methods are used to preclude the higher income population from the project. These could include requirements like beneficiary participation in self help communal construction projects and labor based infrastructure programs like unskilled labor. Targeting is also accomplished by involving the beneficiaries in the projects and by utilizing organizations that have extensive knowledge of local conditions. (SFD 1996).

The SFD achieved considerable success during its first phase. In the social domain, the SFD equipped 63 health clinic, trained 820 health personnel, implemented 580 awareness campaigns, established 34,960 illiteracy classes with 699,200 pupils enrolled and created 34,960 temporary jobs for youth teaching in these classes. Micro-credit was extended to about 37,000 borrowers with average loan size of about LE 1,230. In addition, around 10,600 received vocational training and 33 training workshops were equipped. Human resources were also developed by training 4,775 unemployed graduates to meet demands of the market.

In the economic domain, credit was extended to 59,150 entrepreneurs, 26 per cent of whom were female. In turn, the entrepreneurs established about 53,250 small enterprises. The achievements in the infrastructure and public works domain were also significant. Potable water networks were installed reaching 2,770 kilometers, one thousand kilometers of rural roads were constructed and maintenance was carried out on 3,400 kilometers of canals.

Employment generation is a central purpose of three of the five core programs of SFD, namely PWP, CDP, EDP. The data indicate that employment programs have measurable impacts benefiting an estimated 360,681 people and creating 251,065 permanent jobs and 109,616 temporary jobs. The most successful of the SFD programs in generating employment is the EDP which has been responsible for generating more than 60 per cent of permanent job opportunities and close to 55 per cent of temporary jobs, followed by CDP and PWP which mainly created temporary jobs (21.9 per cent). Using the latest available figures from the SFD, it appears that disbursement per actual job created is L.E. 5,856 for all SFD programs. However there are wide unexplained variations among programs. While the cost per job is LE. 2,111 in CDP and L.E. 5,292 in EDI, the cost increases to L.E. 18,217 in PWP, a program which is supposed to provide cheap labor opportunities to unskilled workers.

Although funds for Phase II have not yet been completely transferred, the SFD has achieved impressive results through the available resources. By end-June 1998, 1,790 health personnel were trained and 119 health clinics equipped. About 3,350 borrowers received micro-credit with average loans amounting to LE 1,620,

about 6,100 received vocational training, and 4 workshops were equipped. Lines of credit were extended to about 10,284 entrepreneurs (about 30 per cent of them women) and about 9,500 small enterprises were established. Potable water networks during the Second Phase were installed for 260 Km's and 170 kilometers of rural roads were constructed (World Bank, 1999).

In the following, we review EDP and CDP that together have contributed to more than 80 per cent of job opportunities created by the S.I.D.

The Enterprise Development Program (EDP)

The Enterprise Development Program (EDP) aims at creating viable and sustainable employment and income generating opportunities in the small and medium enterprise sector. It fulfills this objective through providing credit for the targeted groups of unemployed graduate youth, women, and existing enterprises with potential to expand (SFD/GOE, 1995 Annual Report). It thus provides sustainable means of income generation and contributes to the reduction of the adverse effects of unemployment. While it addresses mainly small and medium enterprises it also has an impact on poverty alleviation programs by creating employment opportunities at all levels of skills. Its credit philosophy is based on proper assessment of feasibility studies in lieu of collateral and guarantees, thus providing affordable support to its target groups for establishing new small business or increasing the sustainability and expansion of existing ones (GOE/SFD, Annual Report, 1997). It also plays a major role in spreading awareness about such small enterprises among the youth, encouraging them to establish, own and manage their private enterprises.

The EDP offers loans within the range of L.E. 10,000 to L.E. 50,000 per beneficiary, with a maximum of 4 beneficiaries per project. However, the value of the loan can be exceptionally increased in projects with a special nature. First-time loans are given at an interest rate of 7 per cent and subsequent loans at 9 per cent. To encourage the targeted youth, the EDP loans are exempted from taxes for a period of ten years and each has a grace period that is determined according to the nature of the project. Credit services under EDP are mainly delivered through the four public sector commercial banks (National Bank of Egypt, Bank Misr, Bank of Cairo, Bank of Alexandria) and the Principal Bank for Development and Agricultural Credit (PBDAC) and its branches throughout Egypt.

Apart from providing project funding, the EDP provides an array of institutional capacity building and technical assistance. About 3 to 7 per cent of the loan's value is given as a grant for institutional capacity building of sponsoring agencies (banks or NGOs which disburse the loans to the end beneficiary). This includes developing the financial and legal skills and capabilities of the project supervisors in those agencies. Moreover, technical assistance is offered to the entrepreneurs to upgrade their capabilities. This assistance is provided in the preparation of the feasibility studies as well as in the form of technical advice from

reputed experts in the field. In addition, the EDP has also provided training to its beneficiaries through training agencies active in the respective fields (SFD, Annual Report, 1997).

Recently, SFD arranged its 17th Youth & Sport Fairs, where 4000 beneficiaries exhibited their products. Visitors averaged 20 thousand daily and sales amounted to LE 8.6 million and contracts amounted to LE. 4.3 million. Worthy to note is that participant projects numbered 4000, of which 1000 were small projects financed by the Social Development Fund. These latter projects' participation came within the framework of the marketing aid, which SDF offers to its loan beneficiaries. Within the frame of this aid, the Fund has already participated with young people's exhibits, in 100 domestic and international fairs. It is now getting ready for participating in external fairs in order to open more markets for the small projects' owners, particularly in South Africa, Guinea, Zambia, and the Gulf States. Coupled with this trend are the permanent exhibitions set up in the various Egyptian provinces, as well as the increasing number of moving exhibitions. The aim of such fairs and exhibitions is to increase the marketing aid for the products of such small projects.

The Community Development Program

The main objective of the Community Development Program (CDP) is to design and implement projects that would alleviate poverty and upgrade the living standards for the poorest segments of the population. This is carried out in partnership with NGOs, PVOs, local authorities and the beneficiary communities. This program aims at: (a) enhancing the accessibility of funds to the targeted communities; (b) providing basic human needs and primary health care services to deprived areas and; (c) upgrading the capacity of NGOs and PVOs and increasing their involvement in the development process; (d) mobilizing local initiatives in social development and basic services deliveries and in productive income-generating activities. It focuses on low income households, women and children in rural and urban poverty areas as well as on unemployed youth.

The objectives of the CDP are achieved through social development and productive activities. The CDPs social development activities were designed to improve the quality of life through the provision, increased accessibility or improvement of basic services, primarily in health, education, population and family planning, and the environment. During Phase I of its operations, the CDP funded productive activities with grants and loans to low income population groups in rural and urban areas. The CDP financed working capital, training and the equipment required for the beneficiary to start an economically productive activity or to expand an existing one. The grants were used to cover operational costs and technical assistance including vocational and managerial training needed by either the intermediary agency or the beneficiaries.

Economic and Social Impact Assessment of EDP and CDP

In a recent study conducted by SFD to assess the economic and social impact of EDP and CDP, both quantitative and qualitative approaches were applied (Kheir El-Din et al., 1999). The quantitative approach was based on a sample survey of a number of EDP and CDP beneficiaries in three different governorates, while the qualitative approach included in-depth focus group discussion with credit officers, banks' officials and NGO staff. The following observations were reported.

EDP has been successful in generating employment opportunities, particularly in cases where new projects - rather than existing ones - have been funded. This program also appeared to be cost-effective in providing these job opportunities, although wide variations have been observed in average cost per unit worker among activities as well as between governorates. Industrial projects created more jobs while agricultural projects had the least impact on employment. On the other hand CDP projects are so small that their impact on employment outside the family appeared limited. Micro-projects in manufacturing activities also engage more workers than in trade and agriculture. A policy to develop local agricultural industries should be considered to make SFD even more effective in creating employment opportunities and in helping to promote economic development in poor areas that lack any industrial possibilities.

Income of beneficiaries under both EDP and CDP increased and had a positive contribution to household spending on basic needs. However, it neither contributed to improving housing conditions nor was it spent on children's education. The social impact of EDP and CDP on borrowers in terms of changing their attitudes and behavior within the household appeared to be minimal. Low interest in public life, little political or civic awareness and low sense of social participation have been observed among beneficiaries of both programs. However, it has been noted that the majority of borrowers are keen on having their children complete their education. EDP beneficiaries have further shown appreciation of private endeavors as reflected by their preference to have their children develop their own projects.

Most EDP projects visited appeared to be sustainable, unlike CDP micro-projects that showed little sustainability beyond the loan duration. This indicates that the size of micro-loans under CDP should be increased in addition to considering renewing these credits to projects in well selected activities to allow the owner to achieve self-reliance and to overcome poverty.

Furthermore, channeling of EDP credit through commercial banks and PBDAC should be reviewed. Credit officers usually lack the developmental sense and are only concerned about the current credit worthiness of the borrower. A close look into the collateral or guarantor required for credit is necessary since it can exclude the poor and the unemployed. Development goals may also be hindered by banks approving too many loans to finance similar projects in the sector and by lack of such

planning results in marketing difficulties and decreased profit prospects of these investments. If commercial banks are to continue sponsoring these loans, a special departments should be established with trained staff and specialized advisors to support the needs of small borrowers and to deal with small developmental loans.

On the other hand, NGOs are in an advantaged position to reach the grassroots and to mobilize local capabilities. They may be appropriate sponsors of CDP micro-credit, however they suffer from serious bureaucratic ties, lack of technical capabilities, and financial constraints. To enhance their capacity and involvement in project formulation and in achieving local empowerment SFD should provide intensive retraining, technical assistance and financial support.

The impact study also points to the need for SFD to develop a data base about poor households. Information would include economic and social data on each region and the local communities, available production opportunities, existing projects, local manpower, technical expertise, local activities specific to each region and locality and possibilities of enhancing them. NGOs could be particularly helpful for this endeavor.

Finally, the emphasis on demand-based projects presents a number of obstacles to participation of the ultra-poor. These obstacles include difficulties of submitting applications and proposals and gestation periods before income is generated or benefits accrue that the ultra poor cannot often afford. These difficulties can exclude those unable to work such as elderly people, poor children, poor unskilled women, and the disabled. In addition to being unable to work, this group of people may also be deprived from enjoying the benefits of social services and basic infrastructure provided by SFD activities as they lack the necessary means to participate. For example, sending a child to school requires households to provide unaffordable food, clothing, and writing material. Enjoying improved infrastructure, potable water or sewerage, requires extending these facilities to various housing units, which the ultra poor also cannot afford. Alleviation of poverty for this group requires direct transfers, in cash or in kind, which is beyond the scope of SFD and is increasingly provided for by direct private transfers.

Non-Governmental Organizations (NGOs)

At present, there are 14,000 NGOs are registered with MOSA under Law 32 of 1964. This law stipulates that registered organizations can be welfare organizations operating in narrowly defined fields of activities or Community Development Associations that can engage in a wider array of activities. According to MOSA, 74 per cent of all registered NGOs are welfare organizations. Both types of organizations derive their resources from service fees, product sales, local charitable contributions, subsidies from MOSA and other government agencies, and foreign funding. As the role of government in meeting the needs of the poor is diminishing, an energized non-governmental sector is contributing more to poverty alleviation. This is happening in the context of greater donor support to non-governmental actors, either directly or

channeled through SFD. However, the NGO sector has yet to assume a major role in poverty alleviation due to several issues (Assaad, 1998).

Despite the abundance of NGOs and growing level of tolerance by government authorities, they, with very few exceptions, suffer from severe institutional and policy constraints. These weaknesses include lack of adequate leadership, managerial capabilities and skilled staff. NGOs also lack appropriate accounting and financial systems and have limited ability to mobilize financial resources. A general culture that favors social work and philanthropic activities limits this sector's influence over public policy. These constraints inhibit them from playing an active role in the development process in general and in contributing substantially to the SME sector.

In the following four NGO poverty alleviation programs are reviewed. The first is the UNICEF supported Family Development Fund which funded small and micro enterprise development projects. It is considered one of the best practices worldwide. Another important contribution is the development of a cadre of practitioners and professionals who enjoy a highly needed expertise, talents and familiarity with the sector. Another illustration of how micro-credit can be channeled through broader NGO programs of illiteracy eradication and health education is presented from the previously mentioned Khier El-Din et al. Impact Assessment Study. The NGOs Caritas, El-Saeed Association and the Childhood and Development Association were visited for the study in the governorate of Assiut.

The Family Development Fund (FDF)

UNICEF has made a positive attempt to provide socioeconomic support to the poorest of the poor living in remote rural areas in Upper Egypt. With the support of the Government of Egypt and local NGOs, The UNICEF Country Office initiated a community based credit scheme project in 1993 called the Family Development Fund Project (FDF). The project aims to provide maximum accessibility to credit, maximum socioeconomic support and maximum efficiency in monitoring and sustaining socioeconomic development. In addition to promoting self employment, FDF has redefined the role and status of women within their communities. They are trained to act as community leaders and to identify basic community needs and organize community resources, particularly regarding children's well-being. The project was implemented in Sohag, Assiut, and Qena governorates and as well in Alexandria's urban slums.

UNICEF funded the FDF with a two-year capital grant of \$350,000 (over LE one million, with total value of loans to-date reaching LE 1786.177). Two per cent of this amount was used for administrative costs during the first year of the project, 3 per cent for an insurance fund to cover the risk of any default in repayment of the loan, and 1 per cent for a savings fund for members. Members can borrow from the fund at no interest and the savings are returned to the beneficiaries when they leave the project

after having paid off the entire loan. The UNICEF capital grant is distributed as follows: \$350,000 for Assuit (1993), \$150,000 for Qena (1995), \$100,000 for Sohag (1994) and \$ 50,000 for Alexandria (1993).

Eligibility requirements for the savings fund are the following: the beneficiary must not own more than half a feddan of cultivable land nor should his/her total family income exceed LE 40 per month. He/she must be a part of a group of like-minded persons of similar socioeconomic status and from the same neighborhood. Five members form a group and three to five groups form a center. A center of eight groups is considered to be an optimum size. Group members nominate a group leader among themselves. A committee of group leaders, covering five to ten centers is then formed on a regional basis. Members undergo an intensive one week training on the rules of the project and the rights and obligations of its participants prior to officially being recognized. The five members of the group do not get loans at the same time. The principal of 2+2+1 is followed in loan disbursement, with a group guarantee and peer pressure.

Between November 1993 and April 1996 FDF has provided loans ranging between LE 200 and LE 1500 each to 3640 beneficiaries, 2765 of them in Upper Egypt. At present most loans amount to LE 1000. About 2000 beneficiaries have received two or more consecutive loans, which is encouraged to help them cross the poverty line. All beneficiaries belong to the poorest of the poor. Priority is given to female heads of households having 2-10 dependents. The implementing authorities are local NGOs in which a credit unit is established to undertake implementation of the technical component. Beneficiaries set up income generating projects which include cattle raising, animal husbandry, handicrafts using local low-cost and simple materials like date sticks and palm leaf fibers, small simple retail and trade activities, vegetable and fruit selling, piecework for the ready made clothes industry, and food processing. Repayment rates vary between 98 per cent and 100 per cent and income is greater than expenditure. Remaining repayment sums are re-scheduled and, to date, there has not been a single case of unpaid debt.

The project has sought to emphasize community empowerment in development efforts as the most effective and efficient means of improving living conditions in rural villages. FDF projects have now laid their foundations and are on track, but it is essential that they consolidate their position to grow as self-sustaining operations. They need to maintain a high level of training and supervision, and should upgrade management and monitoring systems. Better monitoring is needed at the branch level, and indeed a central monitoring and information system should be established (EHDR, 1996).

CARITAS, El-Saeed Association and the Childhood and Development Association

The first two associations share the same objectives, in addition to following similar procedures. They aim at eradicating women illiteracy, increasing health

awareness and alleviating poverty through provision of micro-loans to households. CARITAS, which started operation in Assiut in 1992, received a LE. 262,500 loan from SFD through CDP to be disbursed over three years. This loan has been used to finance 283 household micro-projects. El-Saeed Association plays the same role as CARITAS in social development. Its activities extend to 30 villages. This NGO received from CDP/SFD two installments of L.E. 95,000 each for micro income generating loans to 135 and 175 beneficiaries per installment.

The method used to target beneficiaries is through literacy classes held in churches in various villages. After completion of the classes the primarily female participants are invited to apply for SFD loans to start a micro-project. Despite the success of targeting the small size of these loans restricts impact and does not permanently affect the household pattern of life and behavior. It has been observed that loans are sometimes partially used to meet unmet basic household needs. The remainder is invested in sheep, goats or cattle.

The Childhood and Development Association has more extensive activities than the previous two NGOs. It is involved in implementing a Multi-Purpose Development Program with a CDP/SFD loan of LE. 4.5 million over three years from August 1995 till July 1998. The micro-credit component of this program targets poor rural women and aims at upgrading their status and enhancing their participation in economic activities. Micro-credit has been disbursed in three stages to 75, 150 and 225 sub-projects in 25, 50 and 75 villages or remote areas at the rate of three sub-projects per locality. Micro-projects in the first two stages were restricted to raising cattle, sheep and goats. However in the third stage, more variation has been observed. In addition to raising cattle, sheep, goats, poultry and bees, projects included trading in fodder, fertilizers, cement, flour, fruits and vegetables, and groceries. Other projects were a hatchery, tire repair, welding, a restaurant, a coffee shop, bicycle repair, hairdressing, and ready-made clothing.

Impact assessment

The NGO staff interviewed all agree that female borrowers lack awareness and knowledge. Entrusting them with management of micro-projects requires upgrading of their cultural, social and behavioral level and requires constant follow-up and monitoring. These tasks are obviously beyond the modest means of these NGOs in terms of technical, financial and administrative capabilities. It is worth noting that poverty and illiteracy strike females and males alike though females are more vulnerable. NGOs do not seem to be addressing the issue of vulnerability of women in poverty and restrict their role to disbursing the loans.

4.3 Local Government

Youth Recruitment Authority

In Cairo Governorate, the local authority has established the Youth Recruitment Authority (YRA) in 1998. The YRA creates private business opportunities for young university graduates by granting them loans, shops, and repayment facilities. After submitting feasibility studies 258 graduates will receive a shop and a loan of LE.5000 for a charge of LE 50. The loans shall be amortized by five, years following a seven-month grace period. Ownership of the shop shall be transferred to from the Governorate to the beneficiary immediately after the loan is repaid at the cost price.

In the YRA's main office, a group of graduates was interviewed when they were submitting their applications for obtaining loans. Each was expecting to realize his/her dream in establishing his/her own private business in order to lead a stable life. Hala Abdel Ghani, holding a polytechnic diploma in instruments, said, "I am submitting an application for a searchlight project. I expect to receive a loan and a shop in order to start my project, in which I shall work with my life partner. This project shall guarantee us a stable happy life."

Rania Mahmoud, holding a commercial school certificate said she had lost hope in getting a regular job. "At home I have learnt needlework and embroidery. But my problem is that I cannot afford buying necessary machines for my work. When I knew about the Governorate projects, I have come to apply for a project of bed-sheet processing, drawing and embroidering. Besides, I shall also supply stuff necessary for tailors. I hope that this project is accepted in order to have necessary place and money."

The Director of YRA said, "The idea and decision of creating free business opportunities for young people belong to the Cairo Governor, Dr. Abdel Rehim Shehata. Dr. Shehata first implemented this idea in Al-Fayyom and Giza when he was the Governor of these two provinces. Upon his appointment as Cairo Governor, he immediately set up a department for providing micro- business for young graduates." He added that 250 projects have been implemented on sites assigned to graduates since YRA started working early last year.

In Dwiqa City, some young graduates who had started their projects were interviewed. The purpose of such a visit was to know to what extent they have succeeded and whether they were facing any problems. Ihab Anwar Abdel Hay, holder of a polytechnic diploma, said to the reporter, "Since my graduation ten years ago, I have not a fixed job. When I knew that Cairo Governorate is helping graduates to establish their own projects, I submitted my application together with a feasibility study for a project of manufacturing molds and metal presses. The Governorate provided me with a loan of LE5000 in the form of machines and equipment. More

important is that I have got a shop for my project in the Governorate's residential buildings in Dwiqa." Self-confidently he added, "Now I can feel secured regarding my future life. I am manufacturing molds for car accessories, and woman ornamental accessories, in addition to some house utensils. Because of my long experience, I, myself, take on marketing my products."

Ahmed Mohammed Ahmed, who graduated from The Higher Technical Industrial Institute in 1992, said, "I have moved from a turnery to another, and got no fixed salary. This drove me to submit my application for setting up my own turnery. Five months ago I got the shop together with a loan of LE. 4 000 representing the value of my shop's machines and tool. Now I am manufacturing electric wire shielding machines. Marketing of my products was a problem at the beginning. But now I have got well acquainted with customers who admire my innovations very much. So I have started to reap my project's gains."

Problems faced by these young people include transportation to markets. Beneficiaries also note that SDF borrowers have a tax exemption of ten years as opposed to the Governorate exemption of five years.

Other projects

Responding to the potential failures of start-ups the Center for Developing Small Industries (CDSI) is now being established, where the beneficiary is offered training and technical assistance.

The Cairo local authority is implementing other projects for providing job opportunities for the youth. One of these projects is to develop urban girls' skills in slum areas in Cairo Province. This will provide at least 1500 job opportunities for girls. The girl shall be trained to work as an urban social worker for a charge of LE 120. Her duties are to teach families how to read and write, enhance their health awareness and to help them in family planning. In addition, there is another project for illiteracy eradication. In this project, 500 young persons shall be employed with monthly salary of LE. 120. Total investment in such youth job-providing projects amounts to LE. 4.5m.

V. GOVERNANCE AND EGYPT'S POVERTY EFFORTS

Our review of poverty reduction efforts in Egypt has shown that although the traditional role of government in meeting the needs of the poor has declined, non traditional governmental actions and an energized non-governmental sector are expanding their poverty alleviation role in Egypt. However, certain governance issues continue to impede such efforts and underpin the perpetuation of poverty across generations. Available information collected in Egypt indicate that rigid centralisation, lack of coordination, spread of corruption and weak institutional capacity in both governmental and non- governmental sectors are major drawbacks in implementing poverty reduction policies. The absence of good governance has been a major obstacle to the proper execution of policies and programmes. This chapter will look at some of the common governance problems found in Egypt.

5.1 Centralization and participation

There are three formal modes of political participation in Egypt. Political participation occurs at the national level through election of members of the parliament, involvement in activities of the political parties and through exercise of freedom of expression. The Egyptian Constitution guarantees freedom of association and different pieces of legislation lay the conditions for exercise of this freedom. Participation in the development process occurs through community organizations by either by expressing views on government policies or by taking part in development activities. A large number of associations ranging from business groups, to trade unions, professional associations and citizens' societies cater to the diverse interests of citizens. Lastly, participation occurs at the local level and can be assessed by the extent to which government administration is decentralized; popular control over government activities and the scope of local initiatives.

Despite a long tradition of town and village councils in Egypt and a nearly thirty year old law on local administration, decentralization still needs enhancement. Local officials are considered representatives of the central government and are empowered to ensure that its policies are carried out at the regional and local levels. The capacity of local authorities to raise revenue without the approval of the central government is limited to insignificant sums of money. Local authorities have no influence over local activities of some ministries. Popular control over local administration is constrained by provisions of the law on local administration, which deprives locally elected councils of the right to question actions and policies of local officials.

Moreover, the ability of the Egyptian NGOs to influence policy in favor of the poor and act as effective advocates for them at the national and local levels is still extremely limited for variety of reasons. The poor are effectively excluded from the institutions of the state at all levels, a situation that can only be remedied through effective organizing and advocacy. While acknowledging the legal and political

constraints that limited the amount of advocacy that NGOs could do in the past there is growing political space for NGOs to engage advocacy for the poor.

Development programs are far more likely to succeed when government, communities and individuals are active partners in the conception, design, and implementation of the programs. Participation makes development more client-oriented, building local ownership of programs. This promise has too often been neglected.

Decentralization of decision-making and resources is another key ingredient in creating local ownership of poverty reduction programs. The intended beneficiaries must play a part in decision-making process through local assemblies and NGOs. Only in this way can local communities take control of their lives and program outcomes. Decentralization and local control thus has two faces. One is the encouragement of civil associations and the dense social networks of the poor. In order to be effective however, they must have political space in which activities are not deemed to be illegal or threatening and in which they can gain access to state and other resources as legitimate representatives of the poor. The other face of decentralization is the devolution of government, and the need for some form of decentralization of state powers to provide better governance and a more effective way of providing services and public goods. Many of the governmental and to a lesser degree the non-governmental organizations working in the field of poverty reduction are structured in a highly centralized manner. They often lack the flexibility or the capacity to respond rapidly and effectively to the needs of the poor. Decision-making is usually concentrated in the hands of few to the exclusion of those working in the field and closest to the target beneficiaries.

5.2 Corruption

In the 1980's, public sector corruption grew due to the steep decline in public sector wages and increase in rent seeking behaviour. Bribes may be seen as a kind of tax, which provides those willing and able to pay with a service. The poor have no resources to pay such a cost and are often the ones with most to lose from a corrupt system. Corruption is not limited to government agencies and occurs in the private sector as well, increasing costs to producers and also increasing risks and uncertainties for businesses and investors. Thus it holds back economic growth further harming the poor.

Moreover, initiatives lack transparent objectives and accountability for progress or failure. A clear system of justice and effective administration not only provides a stable environment for markets, but also lends credibility and transparency to the government. While the problem of corruption was not reported to be widespread, some programmes and initiatives were open to abuse because of their institutional framework. Tighter control of these programmes combined with transparent regulations and management may help reduce the problem of corruption.

5.3 Coordination

Coordination is one of the main issues raised by nearly all officials. Coordination between different government and non- governmental agencies working in the field of poverty reduction is absent. This applied to intra-ministerial coordination, inter-ministerial coordination, coordination between government agencies and NGOs and between NGOs. Lack of coordination among the providers of assistance to the poor decreases effectiveness of these efforts, duplication of efforts or conflicting initiatives. Furthermore, donors, as well as other institutional actors, follow their own agendas and strategies towards poverty reduction strategies with limited coordination of objectives and programs. This has resulted in a situation where different programs actually compete with each other.

A major reason for this lack of coordination is the absence of a clear national policy framework to guide poverty reduction efforts. The implementation of this policy framework by one government entity will facilitate the coordination of the interventions of the various actors. Bearing in mind that donors might have different approaches and agendas, the government should be prepared to dispense with some donor assistance for the sake of a unified strategy. Moreover, Government ministries, civil society and the private sector should be brought together to coordinate their work and arrive at a division of labour which is in the best interest of the poor.

VI. RECOMMENDATIONS

In spite of the tremendous efforts that have been made to reduce poverty, poverty still persists and the number of the poor has increased. In the following section we present strategies that should be pursued.

6.1 Income generating strategies

Economic growth

It has been recognized that growth is a necessary but not sufficient condition to ensure poverty alleviation. To have the greatest impact on poverty, the benefits of economic growth should be widely shared. In this context, much public investment might be still needed to crowd in rather than crowd out private investment. While non-productive expenditure must be avoided, investment spending in infrastructure should be sustained even in cases where the private sector shows interest in investing in such areas. Egypt should also increase income earnings opportunities to the poor, through switching to an efficient labor-intensive pattern of development.

Small and micro enterprise development

The complexity and severity of the constraints facing SMEs entail that SME development should be treated as a national priority designed for the youth. SME development requires the coordination of efforts among all government and non-government actors and entities. SME development requires reforming and stimulating the financial sector to address the financial needs of SMEs on sound economic basis. It also requires reforming the educational system in order to provide an adequate supply of skilled labor that is able to assimilate modern production techniques. Moreover, marketing and trade systems have to be further developed in order to enhance the competitiveness of SME products in local and international markets. Finally, significant legal and regulatory reform is needed in order for this vital sector to develop and expand.

The following may be recommended to enhance the role of small and micro enterprises in employment and income generation:

- Provide credit to groups and rely on group guarantees and peer pressure instead of asset-based collateral;
- Encourage use of savings as collateral for loans;
- Provide training and administrative support to help the poor handle money and bureaucratic requirements;

- Increase scope, capacity and incentives of existing financial institutions and community development societies to provide SME credit within a cooperative, unified, sustainable developmental, poverty alleviation framework. The Ministry of Social Affairs needs to develop the institutional capacity and manpower to supervise and regulate SME policy in such a framework;
- Agro industrial small-scale projects offer a powerful means of escaping poverty in the rural areas. therefore, special attention should be paid to developing these projects and providing them with technical assistance, training for management, easy financing and marketing services. Moreover accessibility to credit facilities needs to be eased for rural population in line with the nature and needs of activity;
- Reform the legal and regulatory environment to encourage private and public entities and financial institutions to provide credit for small and micro enterprises. Removing all barriers posed by Law on small and micro enterprises lending activities undertaken by NGOs;
- Establish technical and business advisory services centers for small and micro enterprises in collaboration with universities, technical institutes and other relevant institutions.

6.2 Human capital strategies

The principle assets of the poor is labor time. Education increases the productivity of these assets. A healthy, educated and well-fed labor force is more physically and mentally energetic than one that is sick and hungry. Hence the following measures are recommended for human capital accumulation:

Education

- Improve effectiveness of public expenditures in the area of literacy, lowering drop out rates, and increasing female enrollment. Fees for basic education should be eliminated and cost recovery measures implemented for higher education. Improvements in the quality of education offered at the primary and preparatory levels could be financed by reallocating resources from higher to basic education. Higher education expenditure should be reallocated to limit entry and encourage private sector investment;
- Teacher performance should be improved through greater accountability and higher remuneration.

Health

- Reallocate public health expenditure towards preventive health;

- Extend medical insurance coverage in parallel with this reform. Admission policies for widows and dependents should be revised. Extended coverage would require the health insurance organization to establish new contracts with hospitals and physicians in order to provide the additional medical care needed;
- Design and implement a program to improve the nutrition of vulnerable groups. Emphasis should be put on the protection of children in particular. Some of the recommended strategies are: (a) providing daily meals for children at primary public schools. School feeding, as a way of targeting the poor, has the advantage of improving nutrition for children and indirectly encouraging children to enroll at schools. (b) Distribution of small quotas of necessary food items to participants in literacy classes would help the poor to cope with food expenses. It would also provide an incentive for them to attend regularly. Sources of funding for such programs should come from the government in collaboration with NGOs;
- Extend infrastructure, such as safe water and sanitation, to regions in which poverty is prevalent.

Civil society

- Guarantee greater political and civil participation by reinforcing citizenship rights;
- Increase decentralization and local control;
- Strengthen civil society institutions.

6.3 Social welfare strategies

Two broad groups are in need of special attention, those who are unable to work and those who may be temporarily in danger. The first group needs a system of transfers that ensure them an adequate standard of living. The second group is best served by a variety of safety nets. The state is preferable to NGOs for providing regular payments on statutory basis.

- Formal social security systems should be developed or their coverage should be widened. Such systems, which provide old age pensions and unemployed, disability, health and surviving spouse benefits should be extended to all those who are unable to work in both urban and rural areas. The Ministry of Social Affairs should redefine the target population to include all vulnerable groups defined as ultra poor;
- There is growing need to allow existing NGOs to give support to their particular client groups and to extend coverage among the poorest and most vulnerable groups, such as the elderly, handicapped, widows, and divorced

women. NGO'S seem to play a considerably larger role than the state in providing transfer payments to the poor, though neither the total disbursements nor the composition of their activities is known precisely at the national level. The most urgent need is to expand their scope by relaxing some of the restrictions and regulations which surrounds their fund raising operations. NGOs should also be encouraged to play a greater advocacy role and to form truly grass roots organizations representative of local populations.

Appendix 1

IDENTIFYING THE POOR

Determining who the poor are requires specifying what is meant by poor and poverty. For this purpose two questions have to be answered: what is the "standard of living" indicator to be used in measuring welfare and how are the poor to be distinguished from the non-poor. In other words, defining poverty requires selecting a welfare criterion to draw a line that divides the population into poor and non-poor.

To answer the first question, choice of *income versus consumption* as a measure of welfare, should be settled. Using expenditure rather than income data is supported by the argument that: (1) the former is a better indicator of life cycle welfare than the latter because income may fluctuate over time while consumption is allocated more evenly (smoothed) over time; (2) Savings may be regarded as delayed consumption, so that it does not change welfare levels; (3) consumption data are likely to be more reliable than income data because the former are less sensitive information from the perspective of the survey respondent; and (4) consumption data are preferable because it is difficult to measure the incomes of people who operate their own business. Records of family businesses are often not kept. Note, however, that there are several other factors determining the standard of living and affecting welfare which may not be reduced to a single monetary measure. Examples of such non-measurable factors are: access to education, quality of education, health care and its quality, availability of drinking water and of basic housing amenities, besides other social elements. It should be noted that most people tended to perceive of poverty as situation characterized by a low standard of living, insufficient income, and a high propensity to borrow or beg.

Household surveys record outlays by the household on various commodities, and no attempt is made to inquire as to who actually consumes what. Our main interest lies in individual welfare. But since surveys are designed to collect expenditure at the household level only, some adjustment is required to the household-level indicators to reflect more accurately the well-being of the individuals within it. Using household as the unit of consumption can be misleading, since households vary in number of members. Larger households with certain per capita consumption could be placed above the poverty line while smaller households with a higher per capita consumption would be placed below the line. This is an error because individual members of the smaller household are probably better off than their counterparts in the larger household. The opposite approach uses individual poverty lines based on per capita consumption to place households above or below the poverty lines. This implies that there are no economies to scale within the household and would tend to overstate the poverty line. To correct for this, adult equivalence scale should be used to take into account differences in the age and gender structure of households. It has often been asserted that additional household members, particularly children, are less "costly", in the sense of requiring additional expenditures to maintain the welfare levels of original

household members, relative to the initial cost of attaining that level of welfare by a household composed of a single person or a childless couple. This assertion is supported by both common experience and economic reasoning. Durable goods such as radios and refrigerators can be enjoyed by additional household members at no extra cost, and even in the case of food, children consume less food than adults. Applying an adult equivalent scale means that some members will be assigned a weight between zero and unity, depending on their age. Thus instead of dividing total expenditure simply by the number in the household, each household member is assigned a weight depending on age and the sum of the weights is used to divide total expenditure, though this will inevitably make the analysis more complex. Glewwe (1988) showed that two definitions of poverty that correspond most closely to the adjusted per capita consumption definition are unadjusted per capita consumption and per capita food consumption. This indicates that it may not be necessary to estimate adult equivalent scales when dividing the value of household consumption by household size. But, it seems clear that the household consumption should not be used, since it is trivial to divide it by household size. Therefore, in this paper, we use per capita consumption as the basic welfare indicator.

Poverty line

Poverty lines define the consumption standards that must be reached if a person is not to be deemed poor. An ***absolute poverty line*** classifies two persons at the same real consumption level as poor or non-poor, irrespective of the time or place. The common approach is to define an absolute poverty line (based on the cost-of-basic-needs concept) in terms of the estimated cost of a food bundle that achieves a stipulated energy intake, and which is consistent with the consumption behavior of the poor. This is known as the food poverty line, which is then augmented by an allowance for expenditure on essential non-food goods.

Following Engel's law, the non-food allowance can be estimated in two ways; (i) by regressing the food share against total expenditures and identifying the non-food share in the expenditure distribution of households whose expenditure on *food* is equivalent to the food poverty line; or (ii) by identifying the share of non-food expenditure for households whose *total* expenditure is equivalent to the food poverty line. The former approach yields an "upper" bound of the poverty line, while the latter yields a "lower" bound or the "ultra" poverty line, since it defines the total poverty line in terms of those households who had to displace food consumption to allow for non-food expenditures, deemed to be a minimum indispensable level of non-food requirements. Absolute poverty lines have been widely used in developing countries since poverty research is dominated by the concern for the attainment of basic needs and the achievement of well-being in absolute terms.

The poverty line is thus the sum of the food and non-food poverty lines. In estimating the food poverty line, the composition of the required diet necessary to attain a stipulated food energy intake is set to accord with observed consumption

patterns of the poor. The food poverty line is set at the cost of achieving a minimum food energy intake of 2200 calories per capita per day (equivalent to 3000 calories in adult equivalence units). The nutrition bundle making up the food poverty line is typical of the consumption patterns and composition of households in the lowest 40 per cent of the expenditure distribution. The cost of obtaining the selected diet is evaluated using actual prices for 1995/96 for each region. Thus relative quantities observed in the diet of the poor, and the prices they face, are maintained in constructing the poverty line.

The share of non-food expenditure was obtained by fitting Engel's curves of the food share on total expenditure, and the food poverty line was augmented to yield an upper and a lower poverty line. The upper poverty line is estimated at the non-food share of those individuals whose expenditure on food is equivalent to the food poverty line. The lower poverty line is estimated at the non-food share of those individuals whose total expenditure is equivalent to the food poverty line.

Poverty measurements

It has become standard practice in poverty comparisons to use the Foster-Greer-Thorbecke class of decomposable poverty measurements comprising three indices: the head count, the poverty gap and the poverty severity indices. The **head count index** (P0) is a measure of the prevalence of poverty. It denotes the percentage of households who are poor – as defined by the poverty line – as a proportion of total population. This measure however, is insensitive to the distribution of the poor below the poverty line. This is captured by the following two indices, P1 and P2. The **poverty gap index** (P1), is a measure of the depth of poverty and it denotes the gap between the observed expenditure levels of poor households and the poverty line. Assuming perfect targeting, the poverty gap index indicates the amount of resources (transfers) needed to bring all households in poverty up to the poverty line. The **poverty severity index** (P2) measures the degree of inequality in distribution below the poverty line and it gives greater weight to households at the bottom of the income (or expenditure) distribution.

In general, FGT class of poverty index is given by:

$$P_{\alpha} = 1/n \sum_{i=1}^q [(Z - y_i)/Z]^{\alpha} \quad (1)$$

where y_i denotes income or expenditure of the i -th poor individual, Z is the poverty line, q is the number of individuals whose consumption or income is less than the poverty line, and n is the population size, $\alpha = 0, 1$ or 2 depends on which poverty measure is used.

The lower poverty lines ranged from 53 per cent to 76 per cent of average per capita expenditure for each region. Table A.1 shows the food and total poverty lines by region for 1995/96.

TABLE A.1. REGIONAL POVERTY LINES IN 1995/96 (L.E.)

Region	Food poverty line	Regional poverty lines	
		Upper	Lower
Metropolitan	672	1389	1123
Lower Urban	643	1279	1046
Lower Rural	506	915	794
Upper Urban	592	1167	993
Upper Rural	457	783	696
Border Urban	662	1283	1114
Border Rural	460	846	731
All Urban	642	1297	1065
All Rural	484	857	751

Source: Calculated from HIECS 1995/96. CAPMAS.

Appendix 2

THE POVERTY PROFILE

2.1 Geographical distribution of the poor

Regional poverty measures mask significant differences across governorates. The incidence, depth and severity of poverty vary considerably within each region. Table A.3 and A.4 present poverty measures for various governorates in urban and rural areas respectively. . In urban areas, poverty measurements are highest in Sohag and lowest in Port Said (the incidence of poverty in Sohag is 12 times that of Port Said). In rural areas, poverty is highest in Assiut and lowest in Giza.

Urban poverty

As seen from the Table A.2, irrespective of the poverty index or the poverty line used, the poverty indices of all governorates in *Upper Egypt* exceed the corresponding indices at the national level, except for Giza governorate. Poverty incidence is highest in the governorate of Sohag, being almost 12 times the level in Port Said (the governorate with the lowest incidence). This is followed by Qaliubiya and Assiut governorates. The same pattern holds for the poverty gap and severity indices. Assiut, Sohag and Qena have the largest poverty indices, which are almost double the national levels. Poverty is very acute in Upper Egypt, especially in Assiut, Sohag and Qena, not only in terms of the proportion of the poor, but also in the depth and severity of their poverty. Moreover, all governorates in Upper Egypt, except for Giza, contribute to national poverty by a proportion greater than their share in population.

In *Lower Egypt*, Qaliubiya, Beheira, Menufiya and Sharkiya governorates are the only governorates where poverty measures exceed the national level. In addition, their contribution to national poverty increases if P1 or P2 are considered, indicating the depth and severity of poverty in those governorates.

For the *Metropolitan governorates*, Alexandria has the largest poverty measures. The incidence of poverty in Cairo amounts to 31 per cent, ranking 15 among the urban governorates. All its poverty indices are below the national level. Even though its contribution to national poverty indices is less than its share in population, it constitutes 19 per cent of all urban poor. The poor in Alexandria amongst the poorest populations, ranking 8 for P0 and 7 for P1 and P2. Alexandria contributes to national poverty with larger shares than its contribution to urban population and these shares increase with P1 and P2.

TABLE A.2. POVERTY MEASUREMENTS BY GOVERNORATE 1995/96
(PER CENT), IN URBAN AREAS

Governorate	Upper poverty line			lower poverty line		
	P0	P1	P2	P0	P1	P2
Cairo	31.0	8.1	3.0	19.0	4.1	1.4
Alexandria	56.0	17.2	6.9	40.0	9.8	3.3
Port Said	6.0	1.0	0.2	3.0	0.0	0.0
Suez	18.0	4.7	1.6	10.0	2.2	0.7
Damietta	31.0	5.7	1.7	12.0	2.2	0.6
Dakahlia	32.0	5.5	1.5	15.0	1.8	0.4
Sharkia	53.0	12.8	4.1	33.0	6.0	1.5
Qaliubia	69.0	18.0	6.4	47.0	9.2	2.7
Kafr El-Sheikh	39.0	8.2	2.7	20.0	3.9	1.1
Gharbia	42.0	9.1	2.7	25.0	3.7	0.8
Menufia	53.0	17.3	7.4	39.0	10.9	4.0
Beheira	56.0	15.7	6.0	37.0	8.8	2.9
Ismailia	13.0	2.5	1.0	6.0	1.3	0.6
Giza	26.0	5.6	1.9	15.0	3.0	1.0
Beni-Suef	57.0	16.8	6.6	45.0	10.8	3.8
Fayoum	58.0	13.6	4.5	38.0	7.3	2.2
Menia	66.0	18.1	7.0	46.0	11.7	4.0
Assiut	68.0	22.2	9.5	52.0	15.4	5.9
Sohag	75.0	22.0	8.5	60.0	14.1	4.8
Qena	61.0	19.1	7.5	51.0	12.8	4.3
Aswan	50.0	11.6	4.0	29.0	6.6	2.1
Border gov.tes	52.3	13.8	5.1	41.3	8.7	3.0

Source: Calculated from HIECS 1995/96. CAPMAS.

The only governorates for which poverty measures have improved over the period 1990/91- 1995/96 are Cairo, Port Said, Suez and Damietta. Conversely, governorates in Upper Egypt have witnessed a steady increase in their poverty measures during the same period.

Rural poverty

As shown in Table A.3 poverty levels vary among governorates in rural areas. Similar to their urban counterparts, poverty measures in rural Upper Egypt governorates are above the national average, except for Giza. Assiut has the largest poverty indices, followed by Beheira and Qena governorates. With the exception of Giza, the contributions to the national poverty indices in governorates of Upper Egypt exceed their shares in total population. Compared to 1990/91, the incidence of

poverty has decreased in all governorates, except for Qal ubiya, Menufiya, Ismailia, Qena and Aswan.

TABLE A.3. POVERTY MEASUREMENTS BY GOVERNORATE 1995/96
(PER CENT), IN RURAL AREAS

Governorate	Upper poverty line			Lower poverty line		
	P0	P1	P2	P0	P1	P2
Damietta	18.0	3.4	0.8	13.0	1.6	0.3
Dakahlia	27.0	4.2	1.0	15.0	1.8	0.4
Sharkia	40.0	6.1	1.4	21.0	2.4	0.4
Qaliubia	53.0	13.3	4.6	38.0	8.4	2.6
Kafr El-Sheikh	34.0	7.1	2.2	22.0	3.9	1.2
Gharbia	27.0	4.3	1.1	14.0	1.9	0.5
Menufia	45.0	10.1	3.2	31.0	5.8	1.7
Beheira	57.0	13.4	4.0	43.0	7.6	1.9
Ismailia	17.0	2.7	0.7	9.0	1.3	0.2
Giza	15.0	2.2	0.5	9.0	1.0	0.2
Beni-Suef	51.0	10.6	3.3	33.0	6.7	1.9
Fayoum	44.0	9.5	2.7	33.0	5.7	1.4
Menia	45.0	8.9	2.7	27.0	5.4	1.5
Assiut	70.0	19.5	7.2	58.0	13.9	4.7
Sohag	47.0	9.9	3.0	33.0	6.1	1.7
Qena	53.0	11.8	3.5	41.0	7.5	1.9
Aswan	17.0	2.7	0.5	12.0	1.1	0.2
Border gov.tes	24.6	3.4	0.7	8.8	1.2	0.2

Source: Calculated from HIECS 1995/96. CAPMAS.

2.2 Characteristics

Employment

The majority of employed individuals in 1995/96 were wage earners (54 per cent). The incidence of wage employment is higher in urban than in rural areas (68 per cent compared to 45 per cent) and in the Metropolitan region than in any other region. Conversely, the categories *self-employed without hiring other persons* and *workers without wages* are more common in rural areas. This may be due to the fact that rural residents are engaged primarily in agriculture.

Substantial variations in poverty measures according to employment status of individuals are observed at all levels of analysis: national, urban/rural and regional (TableA.4). The majority of the poor share similar employment characteristics; in

both urban and rural areas, they are generally wage earners, self-employed (street vendors) in marginal and unskilled activities or unemployed. Poor households depend heavily on income transfers and remittances.

Poor households have a larger proportion of working heads. However, the proportion working heads is smaller in urban areas than in rural Egypt and in Egypt as a whole. The proportion of working heads was least in the Metropolitan region and highest in the Upper Rural region. This is probably due to the relatively small degree of self-employment in urban areas.

Moreover, almost 61.5 per cent of working individuals work six days a week and 28.2 per cent to work seven days. These percentages vary substantially between poor and non-poor groups, with lower poverty incidence observed for individuals working six days a week and higher incidence for those working seven days. This confirms the fact that poor individuals obtain low income per unit time of their labor. Poor individuals do not suffer from unemployment, rather their main problem is underemployment and low wage rates.

TABLE A.4. POVERTY MEASUREMENTS BY EMPLOYMENT STATUS,
1995/96 (PER CENT)

Region	Wage Earner	Self-employed Hiring Others	Self-empl. not Hiring Others	Worker without Wage	Unempl. With No Previous Job Exp.	Unempl. With Prev. Job Exp.	Total Indiv.
All Urban	35.43	28.92	41.46	55.75	44.30	60.76	42.87
P0							
P1	9.27	6.96	10.47	15.23	11.57	11.35	11.67
P2	3.40	2.40	3.75	5.60	4.32	4.26	4.24
No. individuals	6394	875	989	335	751	79	9423
All Rural	38.78	33.30	34.25	43.91	31.13	17.96	41.87
P0							
P1	8.42	6.27	7.09	8.54	8.79	9.08	9.28
P2	2.57	1.70	2.11	2.37	2.66	2.79	2.89
No. individuals	6146	2454	1714	2408	948	28	13698
All Egypt	37.08	32.15	36.88	45.35	36.95	49.56	42.46
P0							
P1	8.85	6.45	8.33	9.36	9.88	9.95	10.13
P2	3.00	1.88	2.71	2.77	3.31	3.35	3.32
No. individuals	12540	3329	2703	2743	1699	107	23121

Source: Calculated from HIECS 1995/96. CAPMAS.

Sector of employment

In 1995/96, employment was dominated by the private sector. At the national level, 65.8 per cent of employed individuals worked in the private sector, 25.8 per cent worked for the government and 7.6 per cent for the public sector. A larger percentage of private sector employment is observed in rural areas and smaller percentages for government and public sectors, compared to urban areas. Government and public sector jobs are more common in urban regions, while private sector employment predominates in rural areas.

TABLE A.5. POVERTY MEASUREMENTS BY OCCUPATION OF INDIVIDUALS, 1995/96 (PER CENT)

Region	Managers	Professionals	Clerks	Technician	Sales men	Agric. Workers	Serv. Workers	Indust. Workers	Unclassified	Total indiv.
All Urban	26.17	17.32	27.49	30.02	46.99	64.19	50.13	47.93	66.64	42.87
P1	6.27	3.21	5.97	6.57	13.35	19.84	14.12	12.48	19.74	11.67
P2	2.16	0.92	1.86	2.13	5.15	8.05	5.33	4.69	8.02	4.24
No. individuals	1255	1792	754	796	983	348	1752	647	259	8586
All Rural	28.02	17.03	24.64	23.61	41.89	43.90	40.13	33.17	49.00	41.87
P1	4.76	2.88	4.01	3.92	8.56	9.36	8.21	6.58	11.20	9.28
P2	1.22	0.73	1.01	1.01	2.52	2.80	2.41	1.88	3.64	2.89
No. individuals	767	864	573	552	1081	6523	1441	597	255	12655
All Egypt	26.87	17.22	26.26	27.39	44.32	44.92	46.32	40.85	57.89	42.46
P1	5.70	3.10	5.12	5.49	10.84	9.89	11.51	9.64	15.50	10.13
P2	1.80	0.86	1.50	1.67	3.77	3.06	4.06	3.34	5.85	3.32
No. individuals	2022	2656	1327	1348	2064	6871	3191	1244	514	21241

Source: Calculated from HIECS 1995/96. CAPMAS.

Employment in the government or in a government-owned corporation (public sector) also exhibits a correlation with welfare levels. Almost 38 per cent of individuals employed in the government are found in poor households, and they contribute to national poverty by 19.3 per cent. Their contribution to national poverty is far less than their representation in the sample. Conversely, 51.4 per cent of individuals working in private entities, are poor; they are over-represented in the poor group by more than seven percentage points.

Economic activity

Large differences are observed in the pattern of economic activity of the labor force between urban and rural areas. Agricultural activities are dominant in rural areas (52.7 per cent), while services, manufacturing and sales activities represent 72 per cent of the labor force in urban areas. However, there is a small fraction of the population in urban areas (5.1 per cent) engaged in agricultural activities.

At the *national level*, the poor are concentrated in agricultural activities; about 39.4 per cent of the poor working individuals are engaged in agriculture activities. Agricultural, construction and industrial activities are over-represented within poor groups, while individuals with services activities and bankers have larger shares in the non-poor group than their shares in population. Moreover, poverty measures are highest for individuals in agricultural and construction activities.

Education characteristics

Educational attainment

In 1995/96, Table A.6 gives poverty measures by education attainment, in Egypt. These figures indicate the significance of education as a determinant of poverty in Egypt. Poverty is inversely correlated with educational attainment. The great majority of the poor have attained only primary level education or no education at all.

TABLE A.6. POVERTY MEASUREMENTS BY EDUCATIONAL ATTAINMENT OF INDIVIDUALS, 1995/96 (PER CENT)

	Illiterate	Read & write	Primary	Secondary	Diploma	Univer.	Post Univ.	Total
Urban								
P0	54.68	45.50	44.12	31.76	26.27	12.05	2.27	42.87
P1	15.79	12.17	11.71	7.45	5.47	2.26	0.11	11.67
P2	6.15	4.49	4.32	2.56	1.73	0.62	0.01	4.24
no individuals	5329	4483	5672	4907	809	2376	86	23662
Rural								
P0	45.15	38.14	35.95	25.90	22.27	14.16	0.00	41.87
P1	10.01	7.64	6.92	4.65	4.02	2.32	0.00	9.28
P2	3.11	2.22	1.96	1.22	1.07	0.55	0.00	2.89
no individuals	15010	6183	6677	4312	502	663	7	33354

TABLE A.6. (continued)

	Illiterate	Read & write	Primary	Secondary	Diploma	Univer.	Post Univ.	Total
National								
P0	47.65	41.23	39.70	29.02	24.74	12.51	2.10	42.46
P1	11.52	9.54	9.12	6.14	4.92	2.28	0.10	10.13
P2	3.91	3.17	3.05	1.93	1.48	0.61	0.01	3.32
no individuals	20339	10666	12349	9219	1311	3039	93	57016

Source: Calculated from HIECS 1995/96. CAPMAS.

As Table A.6 shows, poverty is highest, deepest and most severe for illiterate individuals (47.7 per cent for P0, 11.5 per cent for P1 and 3.9 per cent for P2) at the national level and also in urban and rural areas. In all regions, the illiterate categories have the largest percentages of the poor among their individuals. However, poverty measures for the illiterate poor in urban areas are higher than those in rural areas, (54.68 per cent versus 45.15 per cent for P0, 15.79 per cent versus 10.01 per cent for P1 and 6.15 per cent versus 3.11 per cent for P2), indicating that education in urban areas plays a more important role in obtaining adequate income and hence averting poverty.

The relationship between education levels of the household head and the members was therefore investigated. Such a relationship can explain how poverty is transferred from one generation to another. A typical scenario can be described as follows. Start with a household whose head is illiterate and with no productive assets and trace the path through his children. The children are very likely to be malnourished, a consequence more of the ignorance of the parents than the unavailability of proper food, and of the poor sanitary conditions in which they live. These children therefore become more prone to diseases, which further diminishes their physical capabilities. They also have no place in formal schools. Even if they join, due to the constrained economic conditions of their households, they will soon drop out to join the labor market. Under these circumstances, many of them would be virtually illiterate, and in the absence of adequate vocational training facilities, these children face the hurdles of life braced with very poor skills. The cycle is complete when the spouse is of the same characteristics, and poverty is thus perpetuated across the different generations. Given such scenario, it seems clear that education is very powerful, though not the only, instrument to enable individuals to break with the cycle of poverty.

Evidence suggests that there exists a strong relationship between the education status of the head of household and that of the household members. At the national level, 74 per cent of illiterate individuals belong to household whose head is illiterate. On the other hand, 47 per cent of individuals living in households with illiterate heads

are illiterate. These two figures are larger in urban areas than in rural areas, reflecting a greater effect of education status of the head of household on the education levels of its members.

School enrollment

School enrollment can be thought of as an interaction of two factors: supply and demand. In other words, low school attendance is in part due to family decisions based on the opportunity cost of schooling (demand for schooling) and in part on the availability and quality of school facilities (supply of schooling). Neither side should be neglected when analyzing school attendance patterns.

The information collected in the 1995/96 HIECS provides some insight into the considerations that underlie decisions made at the household level, particularly at different levels of welfare. One of the most important questions concerning the nature of poverty in any county is whether the poor constitute the same group of the people over long periods of time, or whether there is a large amount of entry in and exit from the ranks of the poor over years. An equally important aspect of this issue is whether children who come from poor families are likely to be poor when they become adults and have their own families. Given the strong positive correlation between education and levels of welfare proven in the previous sub-section, the relationship between welfare levels and school attendance of children is given special attention.

The importance of schooling poses the question of whether children in poor families are less likely to attend school. School attendance of poor children is significantly lower than the overall average, in both urban and rural areas. The incidence of not attending schools for poor children was 12.43 per cent and 27.57 per cent in urban areas and rural areas, respectively, compared to 4.09 per cent and 14.93 per cent for non-poor children. Differences in school attendance are more pronounced between regions; school attendance in rural areas is generally lower than in urban areas. Besides, differences between the poor and non-poor, within each region, are very large-- about 10 percentage points. More specifically, 13.29 per cent of poor children do not attend schools in Metropolitan region, compared to 2.97 per cent for the non-poor. School attendance is also the lowest in the Upper Rural region. However, the Upper Rural region also exhibits the second highest incidence, depth and severity of poverty. Coupled with the premise that education is positively correlated with household welfare, it appears that the Upper Rural region in general is in need of targeted efforts aimed at enhancing education opportunities.

TABLE A.7. ENROLLMENT RATE AND PERCENTAGE OF WORKING CHILDREN OF CHILDREN AGED 6-15 YEARS BY REGION AND BY POVERTY STATUS, 1995/96 (PER CENT)

Region	Enrolled	Not enrolled	% of working children	Total number of children
Total Urban				
Poor	87.57	12.43	5.25	3478
non-poor	95.91	4.09	1.17	3002
All	91.44	8.56	2.28	6480
Total Rural				
Poor	72.43	27.57	6.09	5824
non-poor	85.07	14.93	4.06	6420
All	79.06	20.94	5.02	12244
Total Egypt				
Poor	78.10	21.90	5.03	9302
non-poor	88.52	11.48	3.14	9422
All	83.34	16.66	4.07	18724

Source: Calculated from HIECS 1995/96, CAPMAS.

Child labor

The main causes contributing to child labor are either educational or economic in nature. Household decision about whether a child goes to school or works is influenced by an interaction of two factors; return of education and opportunity costs. Child labor could be a consequence of low quality and high cost of education. It is also due to need of income gained by a working child. An in depth study in Greater Cairo revealed that the children's financial contribution represented on average between 30.7 per cent of their household' income (the children's estimates) and 22.8 per cent (the mothers' estimates).

Data of the HIECS of 1995/96 reveal that there exists a strong relationship between the welfare level of a household, as measured by per capita expenditure, and the percentage of working children. As shown by table A.7, in Egypt, 4.07 per cent of children of age 6-15 years are working. Substantial differences exist, between regions, in this respect. Wealthier regions have lower percentage of working children than poorer regions. It ranged from 2.06 per cent for metropolitan region to 5.31 per cent for Upper Rural region. Children in poor households are more likely to work where 5.03 per cent of children in poor households had to work, compared to 3.14 per cent in non-poor households. Difference of this percentage between the poor and non-poor

households are more than two percentage points in most regions. Obviously, poor households depend partly on their children's earnings on one hand, and they cannot afford the educational costs, on the other hand.

Housing conditions

Access to piped drinking water in Egypt has improved significantly over the past decade, reaching about 79 per cent of the population in 1996 (UNDP, 1997). Access is achieved either through indoor sources or through pumps located outside the dwelling. This is in addition to well water. Indoor sources of drinking water are more common among the better off individuals, while the other sources are more predominant among the poor.

At the *national level*, 79 per cent of the surveyed households were connected to public water networks and 65 per cent had indoor access to drinking water. Indoor access to drinking water was almost twice as much in urban areas as in rural areas (89 per cent and 49 per cent respectively). Dwellings with publicly supplied water were less common among the poor, but much of that may be attributed to differences in coverage between urban and rural areas. In fact, poorer regions have lower proportions of individuals connected to public water networks than the overall average. In *all urban regions*, the differences in access between the poor and the overall population were marginal; the main source of drinking water for the poor is the public water network. The differences however in indoor access to water between poverty groups were larger (82.7 per cent for the poor and 94.6 per cent for the non-poor). Differences across poverty groups are even wider in *all rural regions*. Only 48.6 per cent of the poor had indoor access to drinking water compared to 63.2 per cent of the non-poor in Lower Rural region, and 30.5 per cent and 46.1 per cent respectively in Upper Rural region.

Access to sanitation is a more sensitive indicator of poverty, as sanitation coverage has not kept pace with that of water. Overall, 44 per cent of the surveyed population was connected to sewerage network. Substantial differences exist in access to sanitation between urban and rural areas (see table A.8), with the proportion of individual living in houses connected to a sanitation network being more than four times the proportion in rural areas (81.6 per cent and 19.9 per cent respectively). Equally significant differences exist across regions and poverty status. Access to sanitation is very low for poor individuals. The proportion of poor individuals with access to sanitation through a public network for the poor is only half that of the non-poor in the Upper Egypt region, whether in urban or in rural areas. In the Upper Rural region, only 3.2 per cent of the poor lived in dwellings connected to sewerage networks. Limited access to potable water and sanitation services has negative implications on the health status of the poor. In addition, their relatively poor quality is likely to promote spreading of infectious diseases.

TABLE A.8. REGIONAL DISTRIBUTION OF ACCESS TO DRINKING WATER AND SANITATION SERVICES BY POVERTY STATUS 1995/96 (PER CENT)*

Region	Connected to water network	Indoor source of drinking water	Connected to public sewerage network
All Urban			
Poor	95.17	82.65	71.31
Non-poor	98.77	94.55	89.37
All	97.22	89.42	81.59
All Rural			
Poor	58.40	40.10	14.76
Non-poor	72.62	56.25	23.70
All	66.69	49.51	19.97
All Egypt			
Poor	73.06	57.07	37.31
Non-poor	82.70	71.01	49.01
All	78.62	65.12	44.06

Source: Calculated from HIECS 1995/96. CAPMAS.

* Per cent of individuals living in dwellings with access to potable water and sanitation services.

2.3 Trends of poverty

Using the results of the family budget surveys of 1981/82 and the HIECS of 1990/91 and 1995/96, an assessment of the evolution of poverty in Egypt is attempted. The availability of region-specific consumer price indices, disaggregated into 11 food groups and 20 non-food items allows us to deflate each item of the food and the non-food components of the poverty lines with the corresponding regionally disaggregated CPI. This approach is used to estimate poverty lines for 1990/91 and 1981/82, thereby controlling for inter-regional differences in the cost of living and for intra-regional temporal changes in the cost of living. The real value of the poverty line is therefore maintained constant across regions and over time.

Average per capita expenditure showed sustained declines during the period 1981/82 to 1995/96. On a national level, the average per capita expenditure in 1995/96 evaluated at Metropolitan prices was L.E. 1772 per annum, compared to L.E. 2001 in 1990/91, pointing to an annual decline in *real* average per capita expenditure between 1990/91 and 1995/96 of 2.402 per cent. Urban and rural sectors, as well as regions within sectors, experienced the same trend, though the magnitude of change

was not homogeneous. The largest decline between 1981/82-1995/96 is observed in the Upper Rural region (2.38 per cent), while the annual rate of change in Metropolitan region was less than one per cent (0.92 per cent). During this period, per capita expenditure of the bottom 20 per cent of the expenditure distribution grew at an annual rate of 6.8 per cent in rural areas and declined by a rate of 1.3 per cent in urban areas. The average per capita expenditure for the same period fell by 2.4 per cent. This resulted in a sharp reduction in expenditure inequality, especially in rural areas.

Gini coefficients, as measurements of inequality, indicate increases in per capita expenditure inequality during 1981/82-1990/91 and declines over 1990/91-1995/96. Gini coefficients showed larger decline in rural areas than in urban areas. This pattern of change of distribution is by no means a localized phenomenon; it has happened in all of the geographical regions, except for the Upper Urban region, which experienced an increase in its inequality measures in both periods. Changes in the poverty measures can be tracked quite closely by the changes in mean expenditure and the poverty line together with changes in the Gini index. Typically, when the mean declined and Gini index rose, poverty increased, and vice versa.

TABLE A.9. TRENDS IN AVERAGE REAL EXPENDITURE AND POVERTY LINES, 1981/82-1995/96

Region	Year	Upper poverty line (L.E.)	Average expenditure per capita (L.E.)	Purchasing power ratio	Average p.c. expenditure at Metropolitan prices of 1990/91	Gini Index
Metropolitan	1981/82	177.6	304.9	1.717	1328.2	38.0
	1990/91	773.4	1233.0	1.594	1233.0	40.0
	1995/96	1389.0	2096.0	1.509	1167.1	34.7
Lower Urban	1981/82	162.7	259.9	1.597	1235.1	28.1
	1990/91	712.0	989.0	1.389	1074.3	32.4
	1995/96	1279.0	1582.0	1.237	956.7	28.2
Upper Urban	1981/82	152.2	247.9	1.629	1259.9	27.8
	1990/91	662.7	981.0	1.480	1144.9	30.5
	1995/96	1167.0	1529.0	1.310	1013.3	33.7

TABLE A.9. (continued)

Region	Year	Upper poverty line (L.E.)	Average expenditure per capita (L.E.)	Purchasing power ratio	Average p.c. expenditure at Metropolitan prices of 1990/91	Gini Index
<i>Lower Rural</i>	1981/82	131.8	191.6	1.453	1124.0	24.4
	1990/91	555.9	804.0	1.446	1118.5	34.9
	1995/96	915.0	1123.0	1.227	949.2	22.8
<i>Upper Rural</i>	1981/82	112.3	183.4	1.633	1262.9	25.2
	1990/91	464.9	614.0	1.321	1021.3	33.0
	1995/96	783.0	912.0	1.165	900.8	23.2

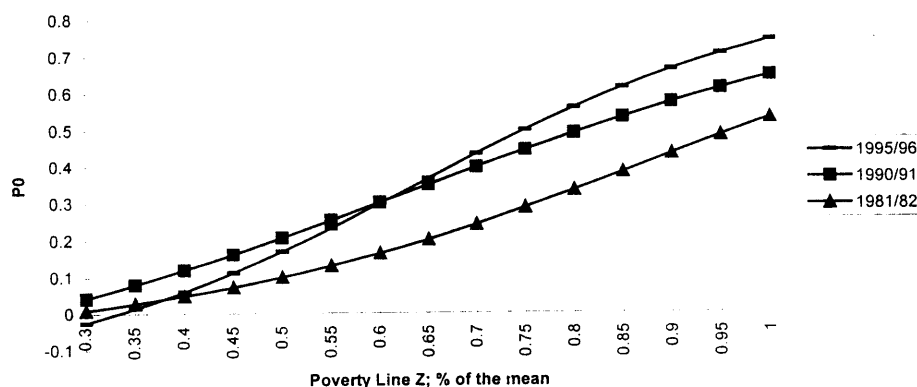
Source: calculated from Family Budget Survey 1980/81 and HIECS for 1990/91 and 1995/96, and Monthly Consumer Price Bulletin from CAPMAS (various years).

Dominance analysis for assessing poverty over time

As is clear from the foregoing analysis, the assessment of poverty changes and evolution is essentially arbitrary. On the one hand, the assessment of poverty changes over time depend on, and vary with, the poverty line chosen. We are not certain whether we would obtain the same conclusions if we used a different poverty line. The previous comparisons of poverty changes over time are therefore partial rather than complete. To assess robustness of the poverty measurements to the poverty lines used, dominance analysis is carried out to examine whether or not the same conclusions are obtained if the poverty line is changed. Curves for the three poverty measures were plotted using a wide range of values for the poverty line (30 per cent to 100 per cent of average per capita expenditure). These curves were used to rank poverty levels for the years 1981/82, 1990/91 and 1995/96, for a range of poverty lines. The findings are classified at the national, geographic or sectoral (urban/rural) and regional levels.

At the national level. As shown in Figure 1.4, the curves for the headcount index for 1995/96 and 1990/91 do not intersect with that of 1981/82. The P0 curve for 1981/82 is everywhere below those of 1990/91 and 1995/96. Thus, for all poverty measures and at any poverty line, poverty was the lowest in 1981/82, indicating that regardless of the poverty line chosen, poverty has increased since 1981/82.

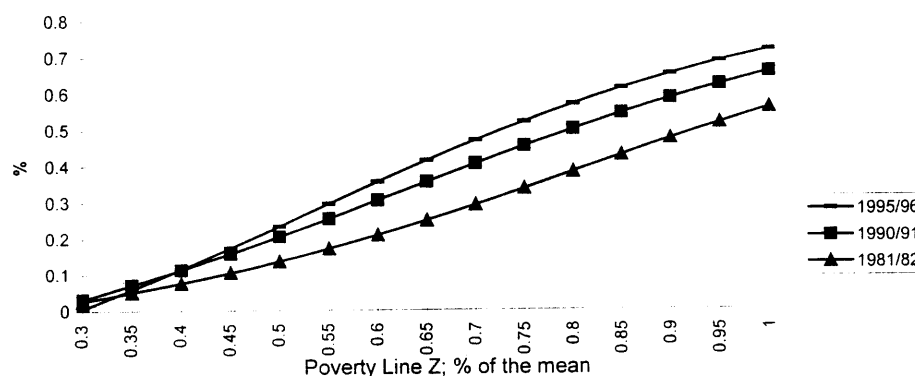
Figure 1.4: Poverty Incidence at the National Level 1981/82-1995/96

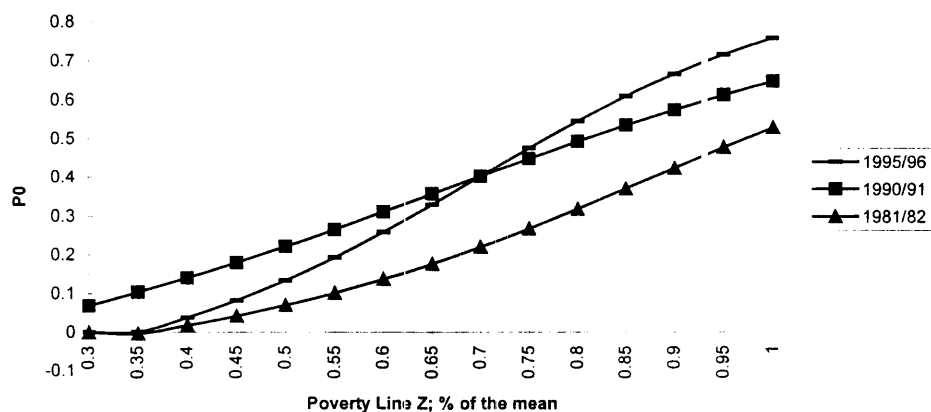


The picture is somewhat different when considering the curves for 1990/91 and 1995/96. The P_0 curves intersect at the level of 35 per cent of the mean, which means that the ranking of poverty levels for 1990/91 and 1995/96 is sensitive to the poverty line chosen. That is, for expenditure levels up to 68 per cent of the mean, the incidence of poverty was lower in 1995/96 than in 1990/91. However, for expenditure levels above 68 per cent of the mean, the ranking is reversed, with poverty incidence being higher in 1995/96 than in 1990/91.

In Urban Areas. Curves for the headcount index of 1995/96, 1990/91 and 1981/82 do not intersect except at very low expenditure levels (Figure 1.5). Curves of 1995/96 are everywhere above curves of other years, followed by those of 1990/91. The lowest curves are those of 1981/82, indicating that, for all poverty measures and at any level of poverty line, poverty was lower in 1981/82 than in 1990/91 and 1995/96. Thus, ranking across years according to their poverty levels is robust. There has been a steady increase in poverty during the following periods, 1981/82-1990/91 and 1990/91-1995/96.

Figure 1.5: Poverty incidence in Urban areas 1981/82-1995/96





In Rural Areas. Figure 1.6 presents curves for the headcount index for rural areas. The headcount curve for 1980/81 is everywhere below the curves for other years. However, the comparison of rural poverty in 1990/91 with 1995/96 is quite ambiguous. Different poverty measurements are obtained using different lines, indicating that for lower poverty lines, up to 75 per cent of the mean, the percentage of the poor in 1995/96 is lower than that of 1990/91. For any poverty line higher than 75 per cent of the mean, poverty incidence is larger in 1995/96 than in 1990/91.

As illustrated by figures 1.7.a and 1.7.b, decomposing poverty changes between 1990/91 and 1995/96 into growth and redistribution components show that the two components work in opposite directions. While there have been declines in real per capita mean expenditure at all levels, improvements in inequality in all regions are noted. Consequently, different directions of poverty changes are experienced in the different regions and sectors, depending on the relative magnitude of growth versus redistribution components.

Figure 1.7.a. Growth and Redistribution Components of Changes in Poverty Incidence Between 1990/91-1995/96, Urban Areas

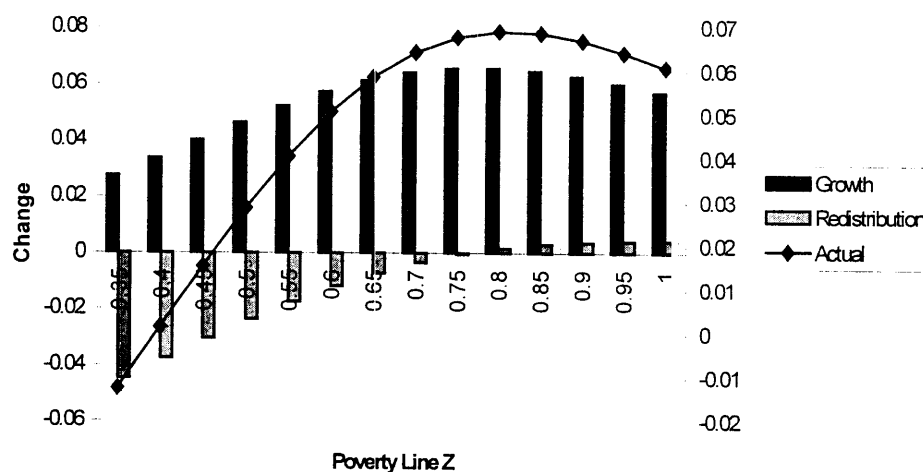
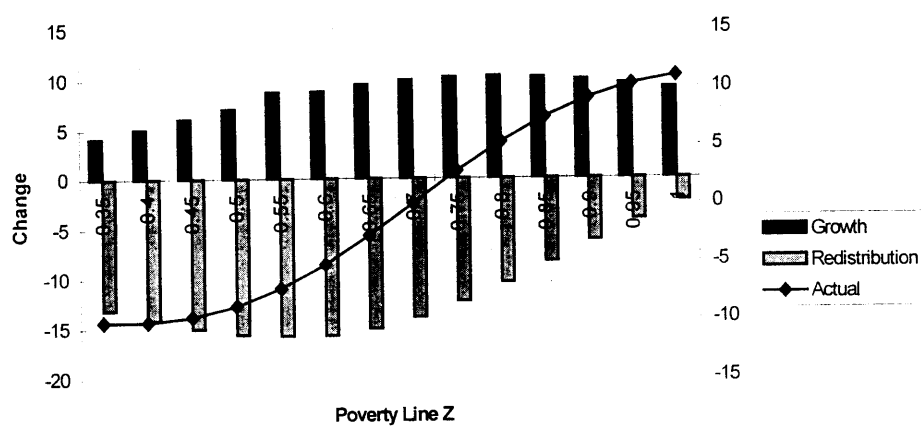


Figure 1.7.b. Growth and Redistribtuion Components of Changes in Poverty Incidence Between 1990/91-1995/96, Rural Areas



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