REVISITING THE GROWTH-POVERTY NEXUS IN EGYPT

WITH REFERENCE TO

THE WORLD BANK COUNTRY PARTNERSHIP STRATEGIES

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Contents

Abstract

Economic theory has long dealt with inequality as a danger to growth, but only recently have empirical studies shown that it hinders sustainable growth. This paper analyzes the effect of government and World Bank cooperation plans and economic strategies during the period of 2001/02–2012/13 on growth, poverty and inequality in Egypt and examines the relationship between them.

A review of the period of 2001/02–2012/13 found that higher growth rates were not only accompanied by inequality, but also, shockingly, increased poverty, defined as the percentage of the population below the national poverty line. The poverty rate increased from 16.7% in 1999/00 when real growth was only 2.8% to 21.6% in 2007/08 after years of prosperity when real GDP growth almost hit 8% in 2007/2008.

Three main factors kept the effects of growth from trickling down to reduce poverty in Egypt:

1. The concentration of growth both sectorally and geographically.
2. The violation of labor rights set forth in the International Covenant on Economic, Social and Cultural Rights through unjust labor laws that led to profit accumulation and an unfair distribution of the returns of the production process.
3. A fiscal policy focused on high growth rates while neglecting fair distribution, social justice, the right to health and education and effective social security.

On the issue of targeting growth, the World Bank Country Assistance Strategies (CAS) have concurred with the government's views. World Bank objectives as spelled in the CAS documents were focused on creating growth rather than creating fair growth. They dealt with poverty as an inevitable byproduct of incentives to boost economic growth and offered very limited solutions to counter poverty, focusing mainly on narrowly targeted social programs.

Based on a critical review of the results of the economic philosophy of both the Egyptian government and the World Bank during the period of 2000/01–2012/13, this study offers a preliminary outline for fair growth that does not generate poverty. This strategy comprises multiple strands, including inclusive growth, equality, absolute poverty mitigation and institutional reform.

Introduction

Conventional ideas[2] about the negative relationship between fair income distribution and economic development have been dramatically transformed.

The revival of neoclassical economics during the 1980s, in a context of a debt criticism in Latin American countries, put economic growth at the forefront of the debate. Growth became the ultimate objective of economic activity, although the inequality was increasing and poverty was worsening.

Under neoliberal growth policies, redistributive fiscal policies were undesirable because they could negatively affect private decisions in various ways, including decisions to create employment, to increase labor effort, and to save and invest; ultimately, it was assumed they could undermine growth. Proponents of neoliberalism tried to encourage growth with very basic interventions aimed at ending poverty, not inequality.

However, multiple theoretical shifts began to highlight the potential adverse effects of inequality on growth. Both theory and recent empirical evidence have demonstrated that income distribution has a significant impact on growth and that inequality is not irrelevant to sustainable growth.

In their study in 2011 about the effect of inequality on growth, Berg and Ostry found that inequality shortens growth spells. The study built on the tentative consensus in the literature that inequality can undermine progress in health and education, cause investment-reducing political and economic instability and undercut the social consensus required to adjust in the face of shocks, thus tending to reduce the pace and durability of growth (Berg and Ostry, 2011).

In 2012, another study showed that redistribution appears generally benign in terms of its impact on growth; only in extreme cases is there some evidence that it may have direct negative effects on growth. Thus the combined direct and indirect effects of fair redistribution —including the growth effects of the resulting lower inequality—are on average pro-growth (Berg et al., 2012).

In a more illustrative analysis, Lipton in 2014 relied on a concrete empirical analysis to show that economic equality is the main engine for growth.

The World Bank has attracted a significant share of controversy for its empirical view of poverty and equality and their effect on growth. A discussion of this view is important. Despite its decreasing relative share in the financing of projects in developing countries over the last decade, the Bank remains a significant player whose influence goes far beyond financing projects and into shaping policies, both directly and indirectly.

[2] Classical economists advanced the hypothesis that inequality is useful for economic development.

On 12 October 2013, the World Bank Group announced its new corporate strategy, which "focuses on the ambitious goals of ending extreme poverty and promoting shared prosperity in a sustainable manner."

The strategy outlined how the World Bank Group will attain these goals. It stated that the "World Bank will work in partnership to help countries end extreme poverty and promote shared prosperity in a sustainable manner. The World Bank Group (WBG) has set two ambitious goals":

> **End extreme poverty:** reduce the percentage of people living on less than $1.25 a day to 3% by 2030.
> **Promote shared prosperity:** foster income growth of the bottom 40% of the population in every country.

As per the World Bank announcement, the two goals emphasize the importance of economic growth, inclusion and sustainability, including strong concerns for equity.

Economic growth that creates good jobs requires action to strengthen both the private and public sectors.

Inclusion entails empowering all citizens to participate in, and benefit from, the development process, removing barriers against those who are often excluded.

Sustainability ensures that today's development has long-term effects, to prevent the reversal of progress tomorrow.

Within the above context, the World Bank announced in March 2014 that it would start a consultation process regarding its new Country Partnership Strategy in Egypt. This new strategy aims to support Egypt's development priorities, end extreme poverty and boost shared prosperity. It is meant to guide the World Bank Group's engagement in the country for the next few years.

The first CAS was launched in 1997. More than 17 years of cooperation between the Egyptian government and the World Bank Group based on CAS and partnerships may have led to sporadic, short-term economic growth, but this cooperation has been severely criticized on grounds of economic rights and equality, raising questions about the sustainability of growth and how it was channeled to poverty eradication.

This paper revisits the growth-poverty nexus in Egypt, shedding light on the Country Assistance/Partnership Strategies and their policy and project implications. It builds on this analysis to set forth bases for more sustainable fair growth that integrates a human rights perspective for social protection.

1. Growth and poverty: examining the relationship

The aim of this section is two-fold. In the first part, we will examine the relationship between growth and poverty through an analysis of economic indicators for the period 2000–2013.

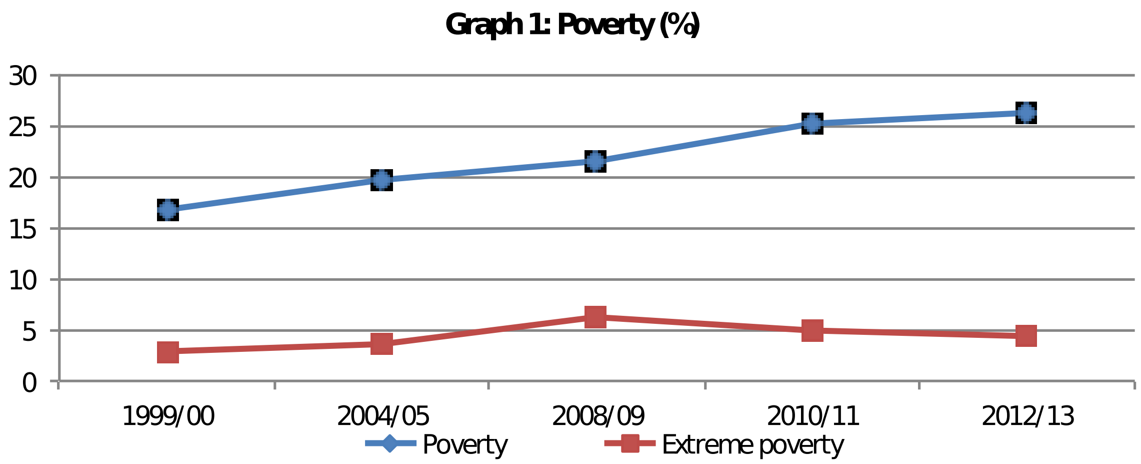
The second part will examine the proposed government policies as stated in the Ministry of Finance (MoF) stimulus plan of 2013/14. The aim is to examine the continuity of the economic model prevalent in previous period and tangible future outcomes.

1.1. The government's view of growth and poverty 2000–2013

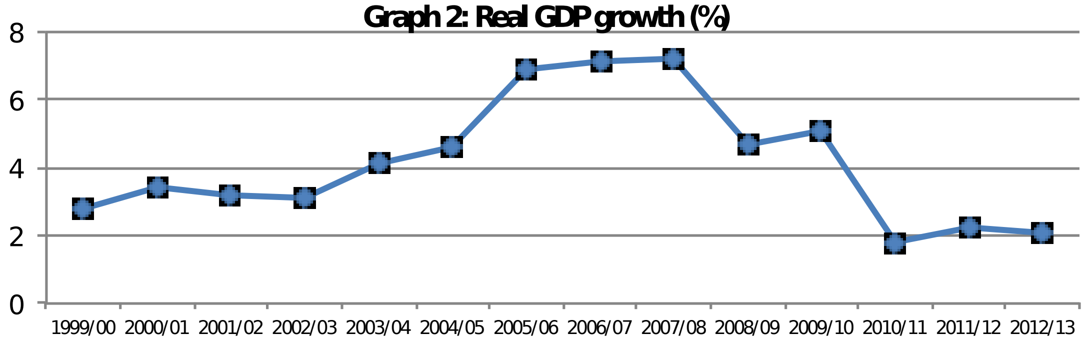
During the period under analysis, the main objective of economic policy was creating high growth rates whose effects would hopefully trickle down to the poor, but this was not easy to achieve.

Real per capita GDP growth increased from 1% in 2001/02 to 2.8% in 2009/10. Ironically, the boom period (2001/02–2007/08) was also a period of sustained poverty accumulation. When growth rates started to slow in 2008/09, affected by the global recession, the percentage of the population living below national poverty lines increased sharply. This can be attributed to the vulnerable situation of Egyptian families on the edge of poverty line, which were the first to fall into poverty on the heels of the crisis. To sum up, the poor neither benefited from growth nor had the tools to mitigate the negative side effects of economic crises.

On the inequality side, the Household Survey of Income, Expenditure and Consumption shows that the bottom 40% of the population accounted for only 6.6% of total expenditure in urban areas and 7.8% in rural areas.



Source: Central Authority for Public Mobilization and Statistics (CAPMAS), Household Income, Consumption and Expenditure Survey



Source: Central Bank of Egypt, www.cbe.org.eg[3]

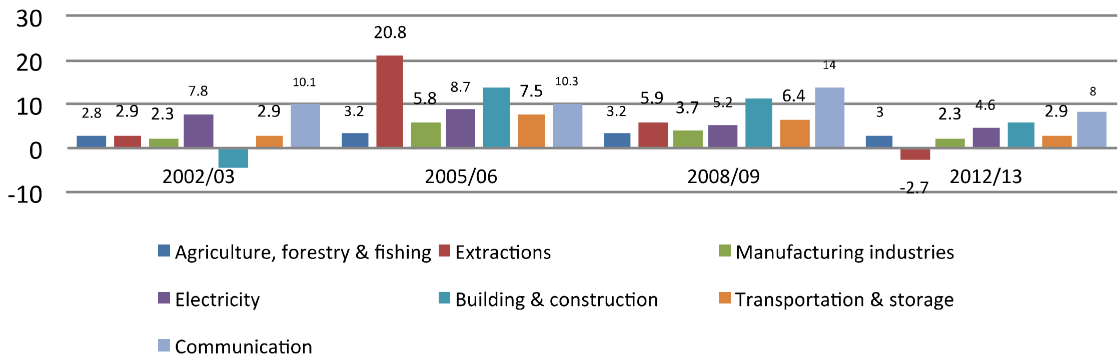
A focus on rapid GDP growth coupled with a disregard of fair distribution and poverty eradication has led to elevated poverty through multiple channels.

Studies analyzing the employment elasticity of growth showed that the period of low growth (2000/01–2002/03) witnessed high job creation. This may be because the basic source of economic growth was the substantial increase in employment at the expense of productivity, which is also consistent with informal employment (El Ahwany and El Magharbel, 2008).

Higher GDP growth rates during the period of 2003/04–2007/08 were concentrated in a few, mostly capital-intensive sectors, with the exception of the construction sector, which was labor intensive. Employment elasticity to value added in the sector (1980–2005) was estimated of about 0.53 according to Elehwany and El Megharel, but informal employment was the main pattern of employment in this sector. Informal employment has never been able to offer rigorous solutions to poverty in Egypt. On the contrary, Household Income, Expenditure and Consumption (HIECS) Survey in 2008/09 showed that the poor were highly concentrated in the informal sector: 30% of workers in the informal sector were poor in 2008/09, and in 2012/13 about 60% of the working poor were informally employed.

[3] The author utilized published real growth rates to avoid the problem of recalculating growth rates while changing the base year used for estimating GDP at factor cost at constant prices, given that intervening years are missing, which makes it difficult to recalculate real growth rates. The author reviewed these numbers for accuracy and smoothed them for the effect of changing the base year by calculating growth rates for the constant GDP figures published by the Central Bank of Egypt.

Graph 3: GDP growth accross sectors (%)



Source: Ministry of Planning, www.mop.gov.eg

The second factor for poverty creation was the clear discrimination against labor for the sake of profit maximization as a tool to boost growth. Under the labor law (Law 12/2003), workers were denied several rights. The labor law allowed employers to terminate contracts and set several limitations on fair minimum wages. At the same time, through the flawed labor syndicates' law (Law 35/1976) and its amendments, the state totally controlled syndicates and labor unions, blocking all legitimate channels for workers to claim their basic rights as guaranteed by international conventions.

The third factor was public budget management. State efforts to reduce, let alone eradicate, poverty through public expenditure were minimal, as shown by an analysis of the public budget. Since 2001/02, the government has focused on financing subsidies, debt payment and government wages, totally neglecting investments and operational costs needed for effective public services. Increases in public wages and subsidies cannot contribute to poverty eradication.

Table 1: Budget allocations (%)

Item	2001/02	2005/06	2007/08	2008/09	2011/12	2012/13
Wages	26	22.2	22.2	21.6	25.9	24.3
Goods and services	7.5	7	6.5	7.1	5.5	4.4
Debt service (interest and payments)	19	17.8	17.8	14.8	22.1	24.8
Subsidies and social benefits	15.9*	33.1	32.6	36	31.9	33.2
Other	13.5	8.3	8	7.6	6.5	6.0
Investments	17.5	10.2	12	12.3	7.6	6.7

Source: Egyptian Ministry of Finance, final account of the public budget

*A change in calculating oil subsidies was instituted in 2005/06.

Public wage increases could not contribute to poverty eradication due to two main factors. Firstly, the wage structure has always been complicated and personalized. Variable bonuses accounted for more than 43% of public salaries and benefits in the final account of the 2006/07 budget and 53% in 2012/13. In addition, other compensation exceeding LE17 billion in 2012/13 constituted another 15% of public salaries and cash benefits. Secondly, the poor in Egypt do not work in public institutions and government. In fact, no more than 13% of the poor worked in the public sector in 2012/13.

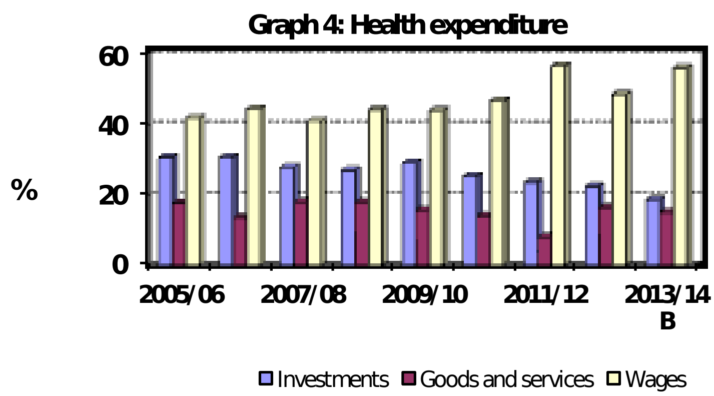
A functional analysis shows a continuous decline in spending on health, education, housing, environment, and youth and culture. The share of the public-service sector, which includes allocations for the parliament, presidency, national councils and central ministries and debt services, has been escalating tremendously.

Table 2: Functional distribution of public spending (%)

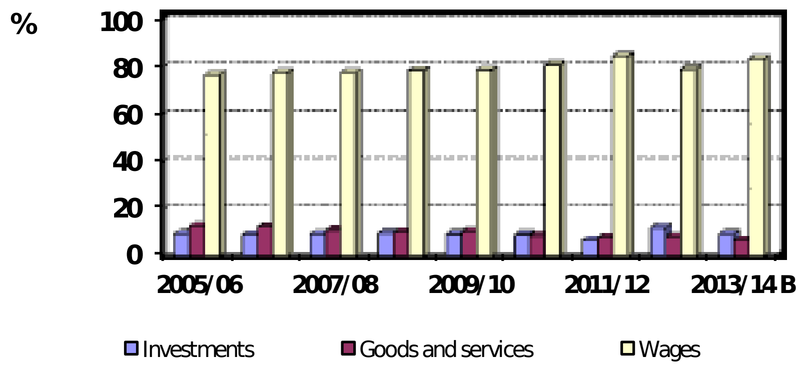
Sector	2004/05	2005/06	2007/08	2008/09	2011/12	2012/13
Public services (includes debt service)	31.6	29	25.4	23.5	32.8	33.9
Defense and national security	9.2	7	7.1	6.4	5.3	4.7
Public safety	5.5	5.1	4.7	4.6	4.6	4.5
Economic affairs	7.2	6.3	6.6	6.5	5.0	5.5
Environmental protection	0.3	0.1	0.3	0.4	0.3	0.2
Housing and utilities	3.7	2.8	4.9	5.2	3.5	3.1
Health	4.5	4.6	4.7	4.5	4.9	4.7
Youth and culture	4.5	2.5	3.9	3.9	3.2	3.5
Education	16.0	12	11.9	11.3	10.5	11.0
Social protection	17.5	32	30.5	33.6	29.9	29.0

Source: Ministry of Finance, public budget

In addition to the lower than international standards of spending on health and education and the reduced allocations in the period under review, an examination of the subcategories of expenditure in those sectors indicates that wages eat up much of budget allocated for health and education, leaving precious little to be spent on decent service delivery. The two main budget lines influencing the effectiveness of services—goods and services and investments—declined or showed minimal growth.



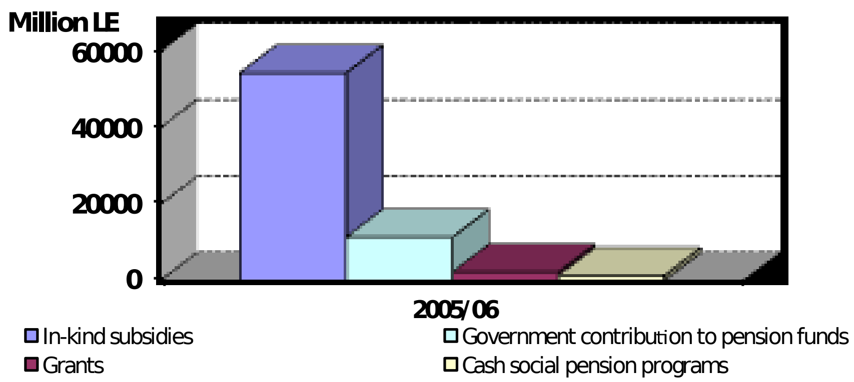
Graph 5: Education expenditure



Source: Ministry of Finance, final account of the public budget

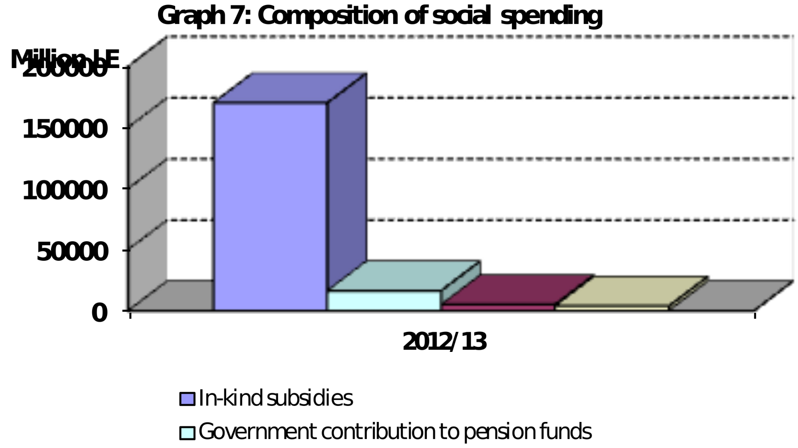
Regarding subsidies, public expenditure for poverty eradication was concentrated in social protection, which largely meant in-kind subsidies.

Graph 6: Composition of social spending



Source: Ministry of Finance, final account of the public budget 2005/06

Graph 7: Composition of social spending

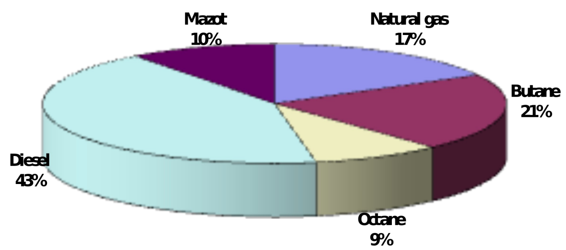


Source: Ministry of Finance, final account of the public budget 2012/13

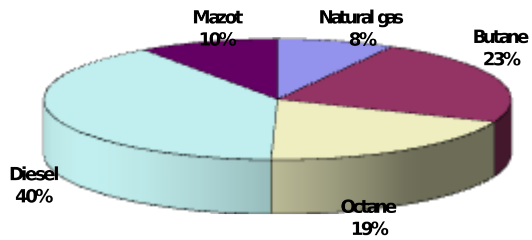
However, the first item in the basket of in-kind subsidies is oil subsidies, which consumed more than 70% of total in-kind subsidies. The value of oil subsidies increased from LE42 billion in 2005/06 to LE40 billion in 2006/07 and LE120 billion in 2012/13; the most recent figures from the 2013/14 budget show that oil subsidies consume more than LE134 billion.

Diesel and butane (in cylinders) have always been eaten up more than 60% of oil subsidies. A big section of the diesel subsidy goes to transportation, tourism and agriculture, while most natural gas goes to electricity and energy-intensive industries.

Graph 8: Components of oil subsidies in 2006/2007 final account of the public budget



Graph 9: Initial estimates of components of oil subsidies in 2013/14 public budget



Source:

- Figures for oil subsidies in 2006/07 come from the final account report of the Committee of Planning and Budgeting, Egyptian parliament, based on data submitted by the Ministry of Finance.
- Ministry of Finance, public budgets

The second item in social protection expenditure is food subsidies. The share of food subsidies to total subsidies varies according to changes in international prices, ranging from 16 to 18% during the period of 2005/06–2012/13. Food subsidies consumed about LE32 billion in the final account of 2012/13 and are estimated to consume about LE34 billion in 2013/14 budget, with more than 65% of this going to subsidize bread.

This item did not help reduce poverty, but all empirical studies confirm that bread subsidies did prevent vulnerable households from falling into poverty (World Bank, 2006; 2010).

Unfortunately, the in-kind subsidy system in Egypt subsidizes intermediate rather than final goods, leaving much room for the black market and intermediate consumers to benefit illegally from price variations.

Another group of subsidy items goes directly to the production process. These amounted to more than LE7 billion in 2013/14. These subsidies support production rather than mitigating inflationary pressures on consumers or helping them access needed public services like health and education.

One of the biggest components of production subsidies is the subsidy going to the Export Development Fund created by Law 155/2002. Allocations for this fund more than doubled in less than three years, increasing from LE1.9 billion in 2005/06 to about LE4.4 billion in 2008/09, before dropping to LE3.1 billion in 2012/13. The deteriorating value of exports since 2007 raises multiple questions about the effectiveness of this subsidy. Other items in production subsidies include funds for the development of Upper Egypt, with about LE600 million channeled through the Upper Egypt Investment Company to be invested in projects and industrial parks in Upper Egypt and about LE400 million subsidizing other flagging activities such as tourism. These subsidies are mostly channeled through entities and funds that are very difficult to monitor.

There is additional ambiguity in funds identified under the item "other subsidies," which increased from LE4.9 billion in 2011/12 to LE13.6 billion in the most recent budget estimates of 2013/14.

Public expenditure that satisfies the basic human rights of the poor—namely, the right to affordable housing and health, services that benefit the poorer sectors of society—receives the lowest share in subsidy programs.

In housing, about LE722 million was designated in 2012/13 to subsidize the value of interest on loans for public housing projects, down from LE845 million in 2007/08.

In addition, some LE1 billion was allocated for low-income housing projects in 2008/09, increasing to LE1.5 billion in 2011/12 before declining to LE350 million in 2012/13 and LE300 million in the 2013/14 budget estimates.

The new mortgage law brings limited subsidies for beneficiaries of affordable housing, with a plan to stream all public housing benefits through this unified channel of mortgage finance; about LE350 million in 2013/14 budget estimates is allocated to mortgage subsidies. However, conditions on interest and installment payments favor the middle-income bracket rather than the poorest quintiles.[4] Tracing housing spending and programs through the final accounts is very difficult and only marginally illustrative.

Regarding the health sector, medicine and medical care accounted for the smallest share of all social security spending, only LE458 million in 2012/13 and about LE820 million in the 2013/14 basic estimates (of this, LE420 million is for the Health Insurance Authority and an estimated LE300 million goes to subsidies of medications and children's milk). Including allocations in the fiscal stimulus, it rises to LE1.2 billion, but according to reported estimates for the 2014/15 unpublished budget, this item decreases to LE811 million.

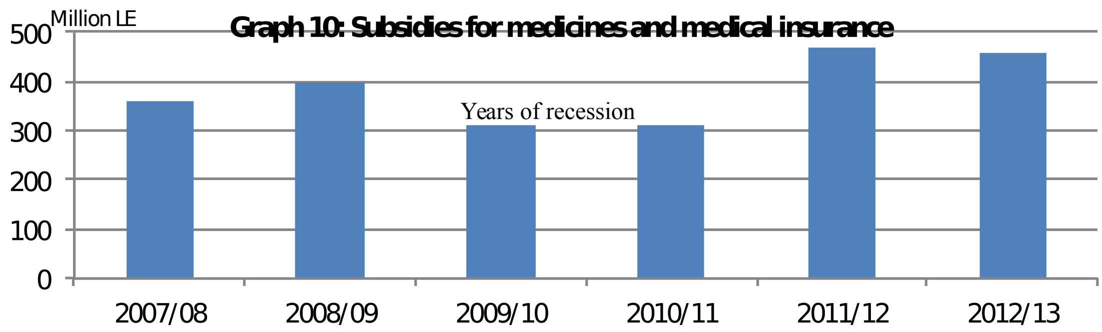
Universal medical insurance services were limited, targeting poor female-headed households, children under six years old and students in public schools, excluding a considerable number of the poor from free medical insurance. The government subsidizes public school students at a cost of LE12 per year per student.

Under Law 86/2012, all children under six years old should be covered by the public health insurance system, in which the family pays LE5 per year and the government bears an annual payment of LE12 per child. For poor female-headed households, according to Law 23/2012,

[4] For details see, Egyptian Initiative for Personal Rights and Bank Information Center, 2013, "Impact of World Bank Policy and Programs on the Built Environment in Egypt."

the family bears an annual amount of LE12 while the government pays LE60 per household annually.

To make matters worse, actual social spending on medicine and medical insurance, as designated in the annual final account, is less than amount allocated in the annual budget issued at the start of financial year. In other words, the small amount allocated to medicine and medical insurance is not even entirely spent. In 2009/10, LE412 million was designated for this item, dropping to only LE312 million in the implementation phase; 2012/13 allocations reached almost LE700 million, but only LE457 million was spent.



Source: Ministry of Finance, public budget final accounts

In addition, the government maintains a school nutrition program. Budget allocations for the program increased slightly, from LE212 million in 1997/98 to around LE343.3 in 2003/04 (IDSC, 2005); the 2013/14 budget increases spending on the program to expand days and scope of coverage to 160 school days at a cost of LE800 million. Overall, this has meant an increase in spending of 277% in 17 years, or an average annual increase of 16%. These increases—*planned mainly for 2013/14*—are less remarkable when compared to annual increases in food prices, which rose during the period 2009–2013 alone by more than 73%, for an average increase of more than 18%. In addition, the number of primary school students increased from 7.4 million in 1999 to about 10 million in 2013, or an increase of 34%.[5]

The allocations for the program do not appear in the aggregated final account and hence cannot be monitored; in addition, the program targets limited areas with no clearly announced criteria. Still, the effectiveness of this program has been barely analyzed.

The *cash* component of the social protection scheme remained very low. It comprises two types of transfers: social pensions (about LE215 per family in 2012/13 with a planned raise to LE300 by end of 2013/14) and child pensions. These two sorts of transfers are targeted demographically rather than on an individual basis, causing leakage to the non-needy, especially considering the programs' weak managerial capacity.

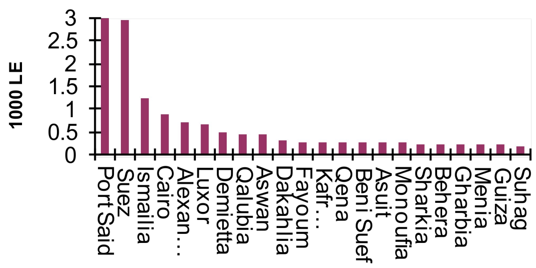
[5] The fiscal stimulus plan includes an additional LE400 million in the 2013/14 budget. This will be explained below in a separate section.

The last strand analyzed in this study that will channel economic growth toward poverty eradication is the equal distribution of development and basic needs.

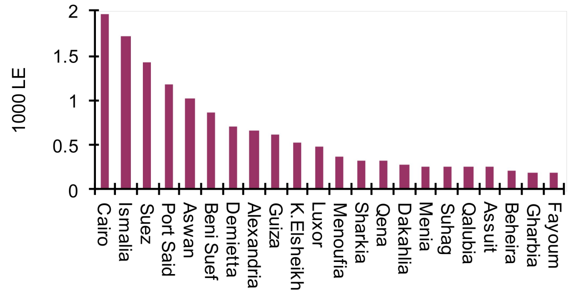
The unequal allocation of services that fulfill basic human needs can be monitored on two levels: the horizontal (spatial allocation) and the vertical (economic standards and accessibility to services across wealth quintiles).

As shown in the six graphs below, the pattern of social services distribution in Egypt is not only geographically unequal, investment is also obviously concentrated in only a few governorates. The per capita share of investments allocated for human development and infrastructure in most Egyptian governorates is less than 30% of the annual per capita share of investments in the best-funded governorate. Unfortunately, governorates with the highest per capita shares are not, in most cases, the neediest.

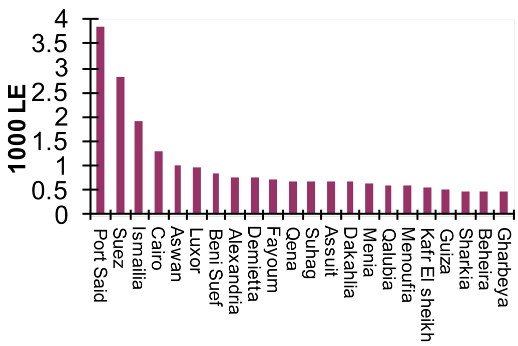
Graph 11: Per-capita investment in health and education 1997–2002



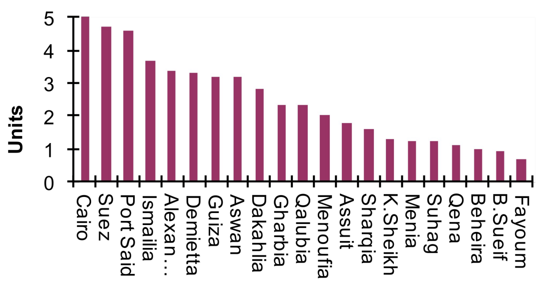
Graph 12: Per-capita investment in water and sanitation 1997–2002



Graph 13: Per-capita investment in health and education 2002-2007



Graph 16: Health units per 100,000 population in 2008



*Sanitation is measured for main villages

<u>**Source: per capita investment was**</u> calculated by the researcher using unpublished data from the Ministry of Economic Development on planned (not implemented) investments. Development indicators are from the Egypt Human Development Report, 2010.

Regarding accessibility to services, Abdel Haliem in 2012 revealed through a quantitative survey that the main reason for primary school attrition among the poor was the cost of education. This cost increased in some cases due to the presence of *informal* payments required by service providers, lower level local administrators and teachers.

Less than 5% of poor families and less than 3% of the poorest received public social assistance for the resumption of basic education, while more than 10% of households in the poorest and poor quintiles depended on informal community transfers to educate their children.

Taking children out of school was not the first step parents took when they faced income-related shocks. More than 50% of family heads who did so tried first to solve their problems through borrowing, but they started to sell their assets to repay the loans. After their assets were sold, parents found it difficult to keep children in school.

In almost 20% of the cases, a household's ability to provide children with needed nutrition had a great impact on the suspension of the child's education. When the child felt perpetually sick and unable to go to school, he/she started to stay home. In many cases, the school administration asked for bribes to "cover" the child's absenteeism. If the bribe was not paid, the child would be kicked out of school, according to respondent poor households.

Access to health services was no better. Answers of the poor population regarding the utilization of "available" public health units showed that more than 55% could not depend at all on public health units, largely due to the poor quality of services and low standard of local doctors.

When asked about health finance, more than 90% of families in the poorest quintiles answered that they had no sustainable access to any sort of public health-related finance or insurance; their main problem was inconstant access to *affordable medications*; fees for doctor's visit were not a problem, but rather medicine was the main issue. This led most chronically ill poor heads of households to cease their medical treatment. They resumed it when they had access to informal loans (Abdel Haliem, 2012).

On the public revenues side, in spite of rising GDP, the annual growth rate of tax revenues deteriorated from 20% in 2003/04 to 14% in 2007/08, while the share of tax revenues to GDP decreased from 16% in 2005/06 to 14% in 2007/08. That has meant that the growth in GDP has not been reflected in higher state revenues that could be utilized for social investments. Law 91/2005 and its amendments, public procurements laws and Law 8/1997 on investment with its multiple exemptions were the tools used to boost private sector-led growth, without regard to the growth of public revenues in the form of taxes.

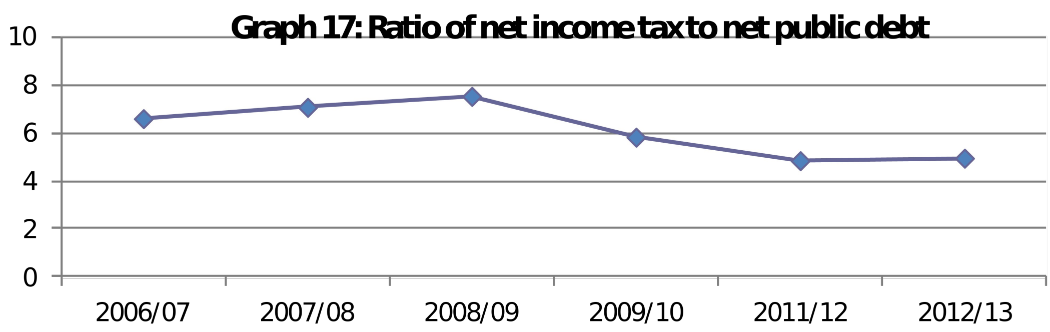
Sales tax was an increasingly important source of revenue, its share increasing from 34.5% of revenues in 2006/07 to about 41% in 2011/12. Consumers (some of them poor or middle income) were the main generator of these tax revenues. On the other hand, corporate tax contributions to total tax revenues (excluding payments by General Authority for Petroleum and the General Authority for the Suez Canal) showed no relation to growth figures. In the highest growth year (2007/08), corporate tax accounted for no more than 11.7% of total tax revenue. Slight increases in years when growth rates were declining may be attributed to better collection ability, not real profit accumulation.

Revenues from fees and taxes on some capital gains made an extremely minimal contribution to total tax revenues. This tax directly affects the rich and could generate a fair share of revenues that could be used in eradicating poverty.

Due to this unfair tax system, the private sector did not contribute enough in taxes to fund services for the poor. The government nevertheless continued with massive privatization, attempting to finance wage bills, subsidies and interest rates through public debt and privatization revenues. This may explain why privatization arrears were not accompanied by any increase in health or education spending.

The ratio of income tax revenues to net public debt slightly increased from 12.2% in 2004/05 to 14.5% in 2005/06. It then started to decline reaching 12% in 2009/10 (including tax payments of public economic authorities, which only appeared in the final public account of fiscal year 2005/06). This can also be viewed through the very slight increases in income tax revenues, excluding the revenues of general authorities, to net domestic public debt even in years of high growth.

Public budget figures show that promoting economic growth led by the private sector largely relied on policies that increased inequality rather than encouraging more equality.



Source: Egyptian Ministry of Finance, Monthly Fiscal Report

Table 3: Main components of tax revenues in various years (% of total tax revenue)

	2001/02	2006/07	2007/08	2008/09	2009/10	2011/12	2012/13
Income tax	38.6	51.2	48.8	49.2	44.9	44.1	46.6
.. Employment	12.8	5.4	5.4	5.6	6.7	7.7	7.8
.. Non-employment		3.1	3.0	3.1	2.9	2.7	2.5
Corporate tax	25.6	42.7	40.5	40.4	35.3	33.6	36.5
.. Petroleum Authority		22.2	21.4	20.9	18.9	16.5	18.2

.. Suez Canal		8.0	7.5	6.4	5.5	5.7	4.9
..Other companies		12.3	11.7	13.1	10.9	11.4	10.1
Sales tax	41.1	34.5	36.2	38.4	39.5	40.9	37.0
Tariff receipts	14.2	9.1	10.2	8.6	8.6	7.1	6.7

Source: Egyptian Ministry of Finance, the final account of the public budget

*In 2012/13 the government started collecting taxes on the Central Bank surplus as well.

To sum up, patterns of public spending affected the relationship between growth, poverty and inequality. The government utilized fiscal tools to boost growth, depending on profits and capital accumulation, but its choices did not lead to meaningful trickle-down effects. This explains the tremendous increase in absolute poverty, and not only inequality.

Profit accumulation benefited from the inequitable sales tax systems, subsidies on intermediate goods, almost free energy and the absence of minimum wage regulations. Corporate income tax contributions to revenues were very low as well.

Public debt and privatization were the main tools employed to fund the budget, harming the poor and creating intergenerational negative spillovers.

This pattern was never sustainable. As debt accumulated, fiscal complications began to overwhelm monetary policy management. The government share of banking-sector credit did not decrease, but instead rose from 26% in 2001 to 36% in 2006; it only declined in 2008 in favor of more household credit, to stimulate the economy through encouraging consumption.

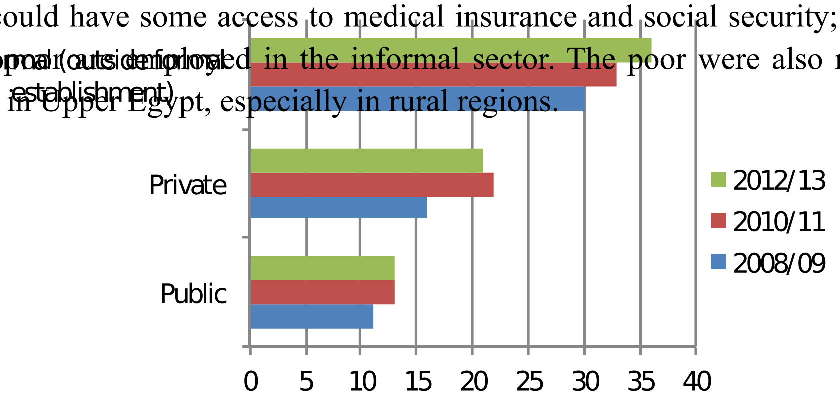
Table 4: Distribution of domestic credit by sector

End of June	2002	2004	2006	2008	2010	2012	2013
Net claims on government	26	30	36	30	42	54	60
Claims on public business sector	9	8	6	5	4	4	3
Claims on private business sector	56	53	47	51	42	32	28
Claims on household	9	9	10	14	12	10	10

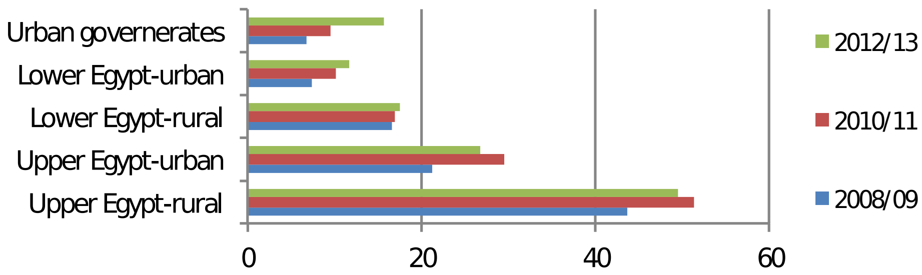
Source: Central Bank of Egypt, time series, www.cbe.gov.eg

All of this combined to produce the current mapping of income poverty in Egypt. The poor were concentrated in the informal economy, rather than the formal public or private sector, where they could have some access to medical insurance and social security; in fact 60% of the working poor are employed in the informal sector. The poor were also more and more concentrated in Upper Egypt, especially in rural regions.

Graph 18: Percentage of poor by labor sector



Graph 19: Percentage of the poor by region



Source:
CAPMAS, Household Income, Expenditure and Consumption Survey

Starting in fiscal year 2013/14, the government seemed to follow a dual-phase plan to boost growth, create jobs and maintain fiscal sustainability. The first phase included a fiscal stimulus plan while the second phase is expected to incorporate some contractionary fiscal policy measures.

For any stimulus plan to be effective, it should incorporate three main pillars: the plan should be timely, with a robust exit strategy and have clear numerical objectives.

The stimulus plan presented by the government, as announced by the MoF, incorporated two main components: stimulating the supply side and stimulating the demand side. It also included some components unrelated to stimulus per se; these are[6] longer term expenditure items.

Table 5: Main components of current stimulus package (2013/14)

Side	Project	Cost in million LE
Investment	Implementing needed infrastructure for 36 industrial parks	2600
	Providing 800,000 houses with natural gas	1481
	Payment of late contractors' dues	1200
	Social housing investments	3000
	Implementing 17 road and bridge projects	1145
	Improving the capacity of roads and bridges	1401
	Paving roads in governorates	1586
	Enhancing the capacity of roads and implementing 15 roads through the Central Agency for Urbanization	557

[6] The plan announced by the Ministry of International Cooperation includes other projects, such as the reclamation of 32,000 feddans, but there were no allocations for it in the released public budget.

Side	Project	Cost in million LE
	National Program for Water and Sanitation	2180
	Reinforcing the electricity network	456
	Waste management	882
	Second phase of third line of metro	273
	Railway projects	2000
	National Program for Land Reclamation	523
Operational	Enhancing the capacity of university hospitals	180
	Improving the operational capacity of equipments in MoH public hospitals	449
	Exemptions for school and university accommodations	190
	Stable contracting with temporary government workers	950
	Raising salaries of medical workers	1500
Human development and poverty-related	Subsidies for children's milk	355
	School nutrition expansion	400
	Funding for universal health insurance*	1500
Labor-force related	Worker training	250
Longer term program	Restructuring fund	350
	Contribution to debt of military production companies	650
	Support for some non-performing enterprises in industrial sector	500

Source: Ministry of Finance, the stimulus package document, www.mof.gov.eg

*There is no clear view or disaggregation that can show the real value and steps supporting the universal health insurance system. This figure reflects a very rough announcement from Ministry of Finance that was not clearly articulated or reflected in clear plans or budgets.

Despite being fairer in the spatial allocation of projects and targets, thus creating solutions for multiple problems, the fiscal stimulus plan followed entrenched approaches, comprising traditional construction, real estate and power-generation projects.

However, there are real concerns about the effectiveness of the stimulus plan for the following reasons:

- The sectoral distribution of the stimulus showed a heavy reliance on centralized, capital-intensive projects, which depend on direct contracting for implementation. The effect of such megaprojects on growth is very slow, the effect of increased money supply on inflation was more dominant that growth in GDP. The first phase of the stimulus plan ended with the lowest real GDP growth rate since 2010/11, at no more than 1%. The plan confronts the crisis using inadequate, shallow tools. Inflation increased from 8.7% July–September 2013 to 12% in October–December 2013.

- Poverty eradication depends on weak, traditional means, including debt relief for farmers, an expansion in the pool of beneficiaries of ration cards, expansion of the school nutrition program, public-school student exemptions from standard fees and textbook costs for this academic year, a three-month, 10–15% reduction in ticket prices for inter-governorate buses, and the sale of commodities at lower prices in state-owned outlets with very limited distribution.

- There were no clear quantitative monitoring and evaluation tools.
- Ultimately, the stimulus plan was financed largely by grants, with no clear exit strategy if it failed.

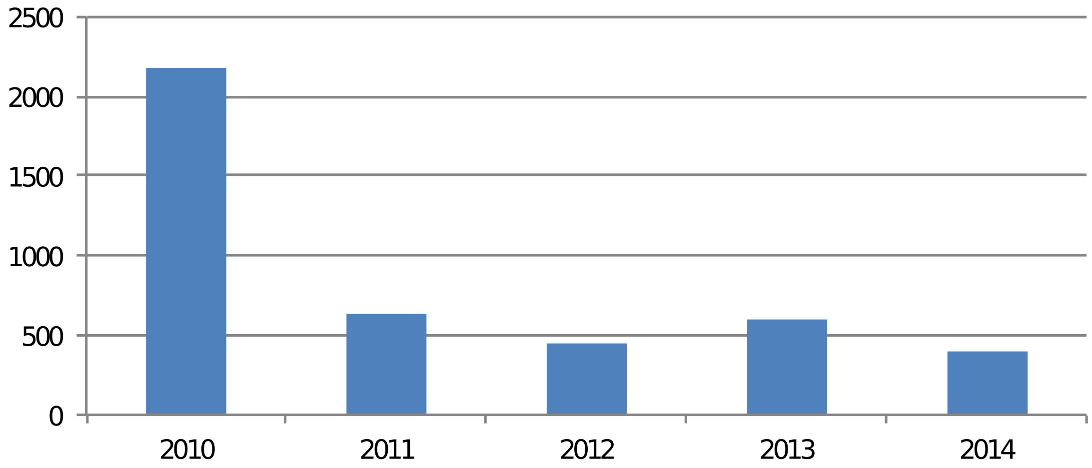
We can thus conclude that the government had no plan to channel growth toward poverty eradication; even during the current crisis, it is business as usual. The government's selection of favored sectors and its public-spending priorities cannot be analyzed in isolation from the growth policies of international financial institutions, especially the World Bank Group, which regularly cooperates with the government in shaping growth strategies and drafting its financial plan.

1.2 The World Bank policy package: maintaining unfair growth

Waiting for the trickle-down effect to take place, the poverty-eradication literature, donor organizations and governments have long dealt with social security programs targeting the poor as a short-term stop-gap for those negatively affected by economic reform rooted in private sector-led growth.

Despite its declining contributions to financing government plans, the World Bank Group was deeply involved in the policy-making process with the government through the Country Assistance Strategies (CAS), which was reflected in the Bank's financial plans in Egypt.

Graph 20: World Bank loans for Egypt projects, commitments by fiscal year (in million $)*



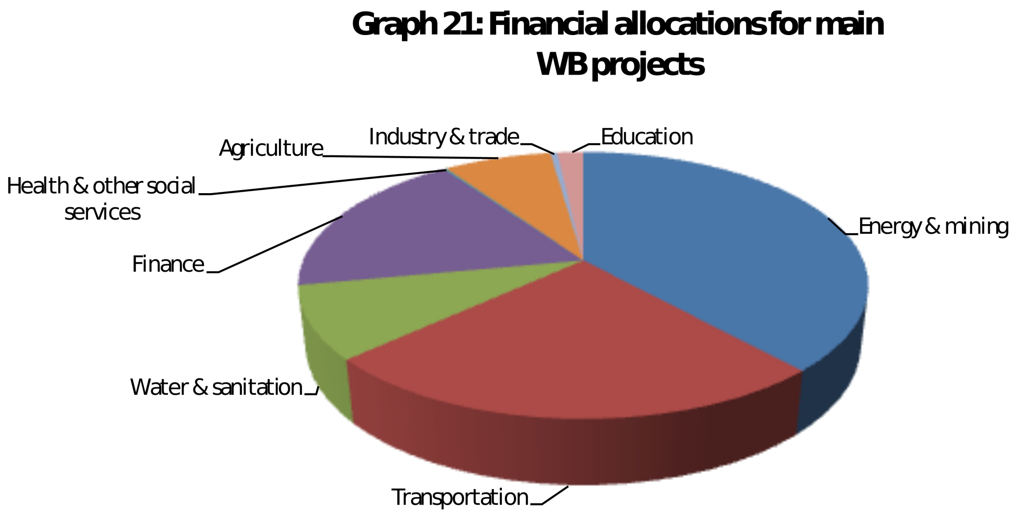
*Amounts include IBRD and IDA commitments.

Source: World Bank Egypt, http://www.worldbank.org/en/country/egypt/projects

The World Bank strategy for growth and poverty eradication, as stated in CAS documents, followed the same path as donor organizations, building on economic growth stimulated by the private sector, with some integrated interventions in promising sectors and public infrastructure, while dealing with poverty as an inevitable byproduct of this growth. This strategy largely overlapped with the view of the government, as explained earlier in this paper.

The Bank finances projects in more than 245 locations in Egypt. The sectoral distribution of banking finance favors transport, and energy and mining projects, while health and education projects receive the smallest share of World Bank Group finance.

Currently, the Bank's portfolio in Egypt includes 24 projects from IBRD for a total commitment of $4.6 billion. The projects are concentrated on power, transport, the financial sector, agriculture, social sectors, water and sanitation, and the environment.



Source: World Bank Egypt, http://www.worldbank.org/en/country/egypt/projects/ as of April 2014

Table 6: Evolution CAS views linking growth to poverty eradication

"The Trickledown Effect"

CAS	Main focus of work as stated by CAS documents on growth	Main focus of work as stated by CAS documents on poverty eradication
1997–2001	Export development Private sector-led growth Natural resource management	Human resources development (Health and education institutional reform) Improvement of social safety net Rural development
2002–2005	Support for macroeconomic stability, phased restructuring of the bank and corporate sectors, and improved infrastructure for greater competitiveness Also the gradual integration of Egypt into global markets, particularly in the context of recently initialed Association Agreement with the EU	Social security and social safety net Ensuring greater equity and efficiency in the allocation of social spending, through a Public Expenditure Review (PER) In the health sector, the Bank announced it would build on its ongoing efforts to reform the health sector, including a strengthened insurance system, continued improvement of management and decentralization, through both analytical and project involvement.
2006–2009	Building a robust financial sector that is more efficient and responsive to private sector needs International trade regime that features lower transaction costs; a business climate that features lower transaction costs for initiating, running, and shutting down business operations Concerning the enhanced provision of public services, Bank support will ensure that fiscal and monetary policies are consistent with the requirements of macroeconomic stability and that there is an increase in the supply and improvement of efficient infrastructure services (power, transport and telecommunications) Local development and capacity building	Improving the coverage and effectiveness of safety nets Reduce disparities between Upper and Lower Egypt, improve access and quality of the healthcare for the poor, and reduce gender disparities
2009–2012 and following Interim strategies	Private sector development to enhance growth Improving economic management through control of the fiscal deficit and initiating reforms to enhance transparency in government operations	Enhancing social safety nets through targeted programs Fostering inclusion, which involves ensuring broader access by disadvantaged segments of the population (women, youth, the poor, and lagging geographical regions)

CAS	Main focus of work as stated by CAS documents on growth	Main focus of work as stated by CAS documents on poverty eradication
	Job creation, through direct emergency lending and initiating steps to improve the environment for private sector-led growth and job creation	to infrastructure (water and sanitation, energy, and reliable transport), finance, and social services (health, education, and social protection) Enhancing citizen and community participation in the design, implementation, and monitoring of government operations

Almost all of the *public infrastructure projects* financed by the World Bank Group are based on the liberalization of services.

The main projects in the energy and mining sector include the North Giza power plant, the Ein Sokhna power plant, and the Helwan power plant. The Bank's vision for electricity generation, as portrayed in the CAS, has been to involve the private sector in the construction and operation of power stations as independent producers, who subsequently sell energy to the Egyptian Electricity Holding Company, which then sells it to consumers. There is an integrated policy of tariff liberalization, especially for industrial use.

Though WB safeguards states that Bank projects should serve and be part of concrete integrated development plans, the World Bank has financed major power plants on agricultural land along the Nile. This is a major problem in arid Egypt given that urban and industrial expansion is resulting in the loss of scarce agricultural land every year.

The two main projects financed by the WB Group were the development of the Cairo Airport and the railways restructuring project, which began in 2005, with additional finance for related services in 2010. Along with very promising quality- and safety-enhancement objectives, these projects aim to boost the competitiveness of rail services and liberalize transportation prices, which might directly negatively affect the poor and poorest who depend on rail transportation.

The main health project is the Health Insurance System Development, aimed at supporting the government in establishing an efficient, effective national health insurance system, including the development of functioning operations and management information systems. The financial disbursements should end in 2015. Utilization of this loan is so far unclear. It might be included in the fiscal stimulus to enhance the capacity of public hospitals.

Financial sector projects (including loans for small and micro businesses and enhancing the financial sector) were the only projects *partially* designed for poverty eradication. The Bank's view of poverty eradication largely involved enhancing the distribution and efficiency of social security expenditure and financing micro-business job creation through the Social Fund for Development (SFD).

This strategy faces challenges stemming from its biased theoretical structure. Although it is presented as a poverty-eradication strategy, the projects represent an attempt to deal with poverty as an inevitable byproduct of "growth." *The CAS intrinsically values growth and fiscal sustainability more than equality and poverty eradication.* In other words, there are poverty reduction or mitigation efforts, but no serious plans to deal with institutional or structural drivers of poverty that reproduce and perpetuate poverty—if not expand it—over generations.

This approach has *hindered* concrete measures to help eradicate poverty and put an end to radical inequality in a serious and effective manner. World Bank poverty-eradication projects are more preoccupied with efficiency rather than effectiveness.

Table 7: Main poverty eradication projects based on CAS

Main streams of WB projects	Target	Comments
Emergency labor-intensive investment	Create short-term employment opportunities for unemployed unskilled and semi-skilled workers and provide access to basic infrastructure services to the target population in poor areas	This project faces three main challenges: Firstly, like the majority of WB projects, implementation seems to depend on geographical targeting, which despite its advantages as a tool for executing fast-track initiatives for fair development, has two main limitations according to countries' experiences when used as a tool to allocate resources for poverty alleviation: 1. The rank of the poorest regions differs with any slight change in the indicators used to construct the deprivation index. More than 80% of the ranked districts in Ivory Coast could not maintain the same rank when indicators used to build the first poverty map in 1990 were changed for the same year (Baker and Grosh, 1994). 2. Country experience shows that geographic targeting of off-mainstream plans for poverty eradication can only lead to unsustainable successes. Comprehensive and Integrated Delivery of Social Services (CIDSS) geographical targeting plan in the Philippines is an example. The plan, which was applied during the period 1991–1998, reduced poverty by 8–10% in villages of intervention, but poverty indicators in these villages increased shortly after the conclusion of the intervention strategy (Baliscan, 2007, p. 13). Secondly, contracting and implementation details are ambiguous and are barely monitored by the local communities concerned. It is mostly carried out by a contractor who is expected to create short-term jobs. Short-term employment is not expected to lead to a sustainable effect on poverty. The results of HIECS 2012/13 show that 30% of poor workers are employed in temporary jobs. Thirdly, it lacks an integrated view of community development. The Social Fund for Development (SFD) has for years led public works projects in Egypt, but they were not integrated in a holistic plan for community development. They failed to eradicate poverty in poor areas.

Main streams of WB projects	Target	Comments
		In addition to geographical targeting plans, in recent years, funds have been allocated for Upper Egypt, with an annual subsidy set aside in the public budget for development and investments in the region. This amount reached LE600 million in 2013/14 budget estimates. But this geographical targeting was not effective and did not yield results. Poverty increased in rural Upper Egypt from 43.7% in 2008/09 to more than 51% in 2010/11. The subsequent decline in poverty rates in some Upper Egyptian governorates cannot be attributed to geographically targeted plans. In addition, poverty in some targeted areas increased heavily. In Qena for example, the poverty rate rose from 39% in 2008/09 to 51% in 2010/11 and then up to 58% in 2012/13. At the same time, poverty increased in areas that were denied targeted programs despite need, including Fayoum, Kafr al-Sheikh and Giza. Above all, there is nothing to guarantee sustainability.
Access to finance for micro and small enterprises	Contribute to increased access to finance for micro and small enterprises on a sustainable and commercial basis, thus promoting growth, job creation, and an inclusive financial system, as well as ease the impact of the global economic crisis on micro and small enterprises The total amount disbursed from the World Bank to the SFD was US$237 million, accounting for 79% of the total loan amount. The loan period started on 9 March 2010 and is expected to end on 31 December 2015.	The Social Fund for Development (SFD), meanwhile, is facing structural problems undermining its effectiveness. The SFD still lacks reliable monitoring and evaluation systems for its work and depends on prior monitoring, not parallel or post monitoring systems for loans. A survey-based study performed in April showed that the benefit of SFD loans among the poor and poorest was very low, raising doubts about the effectiveness of these loans in creating real job opportunities in the targeted group (Abdel Haliem, 2012).[7] In addition, SFD work is to a considerable extent related to the presence of local development NGOs. These NGOs have the limited diffusion rate among

[7] The survey question was: "What are the main financial institutions you borrowed from during the last five years? Please rank according to personal trust."

Main streams of WB projects	Target	Comments
Promoting Innovation for Inclusive Financial Access	The objective of the Promoting Innovation for Inclusive Financial Access Project is to expand access to finance for micro and small enterprises (MSE) in Egypt, using innovative financing mechanisms, with a special focus on youth and women, as well as underserved regions. The project comprises one component, a line of credit to the SFD to finance MSEs, provided through eligible performing financial institutions. These could be banks or micro finance formal institutions. The SFD will be responsible for communicating the features of the loan to the financial institution, appraising, negotiating, overseeing implementation of contracts with banks, and monitoring the quality of the portfolio. PFIs will provide credit, equity participation, and/or convertible debt to MSEs according to the nature of the PFI. Under this project, loans granted to financial institutions are of three groups (up to LE5 million, LE5–25 pounds and above LE25). This loan is expected to be closed end of 2019.	NGOs in Egypt. Above all, small and medium enterprises in Egypt still face multiple problems related to training, marketing and low profitability, in addition to the question of finance sustainability. Most of these problems remain unsolved. The effectiveness of SFD-managed loans is analyzed either through the SFD itself or in irregular studies performed by World Bank consultants, raising multiple questions about the de facto credible effects of these loans.
Social safety nets reform-conditional cash transfers	The project aims to restructure the subsidy system in Egypt to target the poor with cash rather than universal in-kind subsidies. The ultimate objective is to create a concrete social safety net in Egypt. Recent announcements from the government, stated that the World Bank will be granting Egypt a loan of about US$200 million to launch the conditional cash transfers project in Egypt. The idea of conditional cash transfers (CCT) is to grant the poor and poorest individuals a regular cash transfer based on compliance with specific conditions that guarantee human capital accumulation (e.g. school attendance, primary health care).	The in-kind subsidy system in Egypt suffers from various deficiencies, leading to inefficiency and ineffectiveness in serving the goals of poverty programs. In many cases, especially in the case of oil subsidies, it supports the rich more than the poor and subsidizing intermediate goods creates corruption in the distribution channels. Nevertheless, restructuring subsidies has multiple risks, any measures to restructure subsidies should be cautious enough to avoid the following problems: **<u>Inflation</u>:** inflation rates are expected to increase, fueled not only by direct and indirect price increases after phasing out of in-kind subsidies, but also as a result of injecting more cash into a recessed economy. Social safety nets should be integrated with in-kind subsidy programs and should not depend on cash programs alone. **<u>Obligation on the government:</u>** some

Main streams of WB projects	Target	Comments
		empirical studies show that SSN cash payments may be pro-cyclical rather than countercyclical, meaning that governments give more to the poor when a flourishing economy increases public revenues and gave less to the poor when facing economic crises. This leaves the poor suffering during crises when they depend only on cash programs rather than in-kind ones (Woodhouse, 2004). **Reach and targeting problems:** there are no databases that include all eligible citizens, which may mean that benefits go only to the lower middle class and not to the neediest. Discussions on managerial capacity and reach should be related to exclusion errors and a cost/benefit analysis of alternative targeting mechanisms. The fact that geographic targeting is cheaper and easier to apply should not lead to a rash decision to rely on it. In fact, targeting should be individual rather than geographic. Geographic targeting means that the government implicitly accepts that households of equal living standards but living in different locations have unequal economic standards after the intervention, which is completely unfair. **Managerial capacity:** lack of managerial capacity at the local level makes the process of distributing cash transfers, determination of eligibility, and monitoring and evaluation very difficult, and can create multiple incentives for corruption. **Integration with other programs and services:** for cash programs to succeed they should cover each and every cause of poverty. They should also be integrated with contributory and non-contributory pension systems, minimum wages and free effective public services, and multiple approaches for subsidizing basic commodities and services that are essential to the consumption patterns and health of the poor sectors. Regarding the proposed conditional cash transfers project, empirical evidence demonstrates that CCTs improve outcomes related to health, nutrition and education, in

Main streams of WB projects	Target	Comments
		addition *to their limited inflationary effects*, being targeted to specific human development services. Yet, CCT programs have three other major difficulties to overcome: (1) unfair distribution stemming from payments being made only to categories of beneficiaries already highly likely to be benefiting from public services such as schools or hospitals, as opposed to beneficiaries who need to be induced to go to school; (2) expected low uptake because the cash transfer offered may be insufficient to meet the opportunity cost; and (3) expected lack of effectiveness due to the low quality of public sector and necessary infrastructure. The best practices and outcomes for CCT—e.g., the Brazilian case—were built on an integrated plan for rights attainment, not merely as a CCT program. After all, the CCT's main positive impact was on extreme poverty, not inequality (de Souza, 2012).

Source: Projects are described on the World Bank Egypt website.

To conclude, the World Bank Group strategy was built on the liberalization of services, private sector-led growth, and poverty-eradication plans limited to targeted transfers and social safety nets. This strategy focuses on creating free markets without clear measures to protect basic economic rights to minimize its negative effects.

2. Rights-based perspective: the growth-poverty eradication-equality nexus

At a time when private sector-led growth was meant to create more jobs, unemployment increased as new workers entered the labor market, the informal sector expanded to absorb these newcomers, and the growth structure became narrower and more fragile.

There were no effective mechanisms to enforce the right to minimum wage, a comprehensive social security system, or functioning social assistance or pensions to help mitigate poverty risks or eliminate its effects during economic crisis. The only channel available for informal workers to access any sort of pension when they are over 60 years old is to subscribe to a private pension fund, yielding a pension of LE120 per month.

The way the public budget financed this unfair growth gave rise to more inequality. The growth was financed through public debt and the provision of unfair benefits to business owners at the expense of workers, who had to pay more for liberalized services and received less in real terms for their work.

The unfair distribution of resources, spatial isolation and the acceleration of growth horizontally (spatial) and vertically (personal) were additional triggers for community deprivation, generating a vicious circle that tied community deprivation to individual poverty and vice-versa.

The institutional structure backing growth comprised three main groups of factors that intensified the unequal distribution of growth and its benefits:

1. Institutional factors that deny fair access to means of skill accumulation and public resources.

2. Institutional factors that deny access to fair opportunity even given equal resources.

3. Lack of means to express needs and account for their satisfaction.

The Egyptian government and the World Bank CAS and its projects failed to address many of the problems outlined above.

Poverty-eradication plans did not adopt needs-based approaches, which focus on a group of basic services that should be accessible to each human being, to ensure a stake in the products of growth.

For years, the strategies targeting growth abandoned the poor, while at the same time, the poor have always borne the consequences of economic crises. After the international recession in 2007/08, the Egyptian government increased the sales tax on some basic goods to compensate for lower income tax revenues caused by the depression, while non-wage expenditure on health and education was reduced. As a result, the portion of the population under the extreme poverty line increased from 3.6% in 2004/05 to 6.1% in 2008/09.

According to several government announcements about plans to reduce the budget deficit, cash transfers will supplant in-kind subsidies, as the government seeks more effective and efficient direct relief for the poor. This is expected to have inflationary effects that will be borne by the poor and poorest, at a time when the government does not have the capacity needed to reach unregistered individuals in the lowest wealth quintiles. The value of cash transfers for poor families as recently announced by the government does not exceed LE300–450 per household, an extremely low sum considering the poverty line, which was estimated at LE214 per individual per month (extreme poverty line) and LE327 per individual per month (national poverty line), according to the Household Income, Expenditure and Consumption Survey.

In fact, social safety nets as a whole—in the literature and country experience—do no more than mitigate risk for the poor; they will never stop poverty creation and will be neither effective nor efficient if not instituted within a social-protection framework that adopts a rights-based approach. In this approach, social safety nets are only one of multiple economic components that include basic labor rights and the right to education, health, housing, nutrition and social security. Moreover, the human rights approach views institutional and governance-related aspects as an integral part of guaranteeing access to rights. This can only be achieved through empowering the human being to be able to claim and account for his rights.

A human rights approach provides practical guidance for the design, implementation, evaluation and monitoring of poverty-reduction efforts and integrated fair growth leading to sustainable equality, which should in turn lead to sustainable growth.

Inclusive, fair growth should generate procedures that help end poverty creation and enhance the equal distribution of growth itself, not only its returns. This can only be attained through facilitating job creation through small and medium enterprises, market regulations that preclude the unfair accumulation of profits through market monopolies by a small group of producers and traders, equal access to resources and opportunities, progressive tax structures and concrete social protection schemes.

This paper offers some propositions to deal with the current state of poverty by focusing on resource management, while avoiding harming the poor or further poverty accumulation through hasty, inflationary measures. The proposed plan starts with saving resources by fighting leakages in subsidy distribution channels as a first step toward subsidy reform, accompanied by a parallel re-evaluation of the effectiveness of multiple subsidy funds that benefit producers and exporters. Final rather than intermediate products should be subsidized to reduce incentives for smuggling subsidized production inputs and help rationalize their use, especially in energy-intensive industries.

The proposed plan will not succeed without concrete reform in the institutional process of budgeting and planning, by moving toward bottom-up approaches, transparency, local monitoring and community-based targeting. This is to guarantee the effectiveness and sustainability of public services and poverty-eradication components, in addition to localized growth.

In order to attain fairer growth, the government should act against market distortions and monopolistic powers, starting by revisiting all current monopolistic practices and market regulations. Amendments should be made to Law 3/2005, which was designed in such a way that made it toothless, to enable and enforce fair and real market correction mechanisms. The law was not designed to counter monopolies; all it could do is to broadly define "monopolistic practices." In addition, the sanctions on producers engaging in anti-competitive practices remain very weak.

Improving the competitiveness of small and medium enterprises as the main engine for labor-intensive growth is essential for a fairer pattern of growth.

Unfortunately, thus far the main channel available to finance these activities is the SFD[8], whose grant criteria favor existing medium businesses rather than small and micro start-up enterprises. The SFD depends on prior rather than subsequent monitoring for loan beneficiaries; all risks are borne solely by the small loan holder.

[8] There are plans to issue a new micro-finance institutions law, but we cannot comment on its anticipated effects until it is revised.

New channels to finance SMEs are needed. These channels should depend on specialized, well-managed private or public sector entities that can act as an intermediary between the banking sector and the beneficiary, rather than trying in vain to change the role and structure of the existing banking sector to fit the SME model.

In addition, international institutions and the government support and finance strategy should focus on direct lending to small businesses, especially in sectors employing more of the poor population, rather than channeling loans and financial services through large enterprises in the belief that their backward and forward linkages will directly foster SMEs, which has not happened in the past.

Regarding the informal sector, the government should provide a concrete set of incentives for more decent jobs by opening channels for the voluntary formalization of the informal sector.

In addition to incentivizing fairer growth, the government should intervene directly to ensure a more equal pattern of resource distribution and infrastructure needs. Needs-based funding formulas, rather than geographical targeting, are needed to allocate services equitably and reach the poorest communities.

Wage and pension systems should be reformed to institute a unified wage system rather than fragmented funds and special wage frameworks.

Indirect taxes should be abandoned in favor of direct, progressive income tax rates and capital gains and property taxes. Taxes on wealth and wealth gains can offer a solution to deficit problems.

Regarding subsidy reform and poverty eradication interventions, the structure of subsidy programs should be revised in line with the following priorities:

1. Reduce leakages in distribution channels by allowing the presence of distribution companies, owned by local NGOs, the private sector or local governments. New mobile-based technologies should be used to monitor distribution.

2. Revise the pattern of production subsidies, especially those provided through unmonitored funds, in order to minimize public budget pockets and unmonitored allocations and utilize this money effectively, or cancel some subsidies and use the funds to finance subsidies and cash transfers to the needy population, after adjusting for inflation effects.

3. Subsidize the final product, not intermediate inputs for production monopolies.

4. Maintain a strong food and basic needs system to provide subsidized basic needs. This is crucial to mitigate inflationary effects. Innovative distribution tools, such as vouchers and mobile subsidies, can be used to cover the uncovered needy and provide access to higher quality nutrition and basic goods.

5. Phase out energy subsidies for industrial, commercial and luxury tourism uses—especially capital- and energy-intensive subsidies—with a concrete, comprehensive study of environmental effects.

6. Take concrete measures to eradicate all monopolies on food and essential goods.

7. Only after the above measures are instituted, governance enhanced, and capacity building undertaken for the system to allocate subsidies and transfers, should the government take steps to gradually revise household consumption patterns and car use for the highest income quintiles, with a parallel plan to utilize the surplus to target the lower middle, poor and poorest wealth quintiles after they are all registered. Smart cards can be used to guarantee fair consumption for each user, a crucial step with gradual effects, rather than removing all subsidies, causing unmanageable inflationary effects.

8. Use the accumulated surplus—which should be announced in a transparent manner—to enhance health and education services and provide adequate unconditional and conditional cash subsidies to poor households to enable them to sustainably move above the poverty line.

The following components should be adequately integrated:

- Improve the quality of free public services for the poor.
- Clearly identify and announce methods to identify the poor (inclusion errors are more tolerable than exclusion errors).
- Improve the capacities of communities to identify the poor and manage distribution.
- Put a concrete monitoring and evaluation plan in place.
- Build an integrated social safety net with the following components:
  1. Social pensions for the elderly and needy that are positively correlated to the minimum wage.
  2. Concrete assistance programs to counter all sorts of temporary risks, including unemployment.
  3. Promotional programs such as conditional cash transfers.
  4. Multiple insurance channels.

This reform process can never be effective without an integrated institutional reform plan that depends on:

- Bottom-up approaches for planning and budgeting and more decentralization.
- Enhanced governance and decentralization, especially since the capacity of local administration units is very poor.
- Integrated, localized planning and an integrated vision for local growth projects, based on decent work opportunities for the local population.
- Revised budgeting and planning processes to end leakage.
- Labor legislation reform to protect workers' rights.

Concluding remarks

Market imperfections, fiscal policy prioritization, interest groups and oppression, poor governance, lack of checks and balances, and non-transparency all lead to poverty accumulation.

The Egyptian economy is in dire need of serious reform that goes far beyond the fairer distribution of returns to touch the process of economic growth and targets.

Distribution can no longer be dealt with as a post-growth objective; in fact, growth itself has long been built on incentives and procedures that contribute to poverty creation. Thus, revising economic targets to include distribution and human capital empowerment cannot be delayed.

This entails revising priorities in the public budget. On the revenue side, there must be a focus on fair distribution and enhanced economic incentives through the institution of property, capital gains and progressive income taxes; on the expenditure side, subsidies that serve the lower middle-income bracket, the poor and the poorest must be increased, instead of subsidies to capital-intensive industries and producers.

Another implication is related to the market structure; monopolies and supply-side inflation remain highly effective in the case of Egypt. Working against monopolies in food, cement and fertilizers should be a complementary measure to fight price hikes.

The itemized public budget is not clear, and does not help in monitoring or understanding the real cost of any economic objective. There are multiple, overlapping funds and unclear allocations in the budget's structure. The planning and budgeting process thus needs to be completely revised to be transparent.

The World Bank Group must incorporate labor and all economic rights in its safeguards. It should consider increasing its focus on governance and the transparency of public administration and modifying monitoring and evaluation tools for all Country Partnership Strategies projects to bring them in line with the proposed course for fairer growth.

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