The political economy of food subsidies in Egypt

Reforms and strengthening of social protection

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ABSTRACT

Egypt’s widely used food subsidies have been controversial since they were first introduced in 1941 by President Gamal Nasser. Subsidies are implicitly non-targeted transfers that reduce the risk of food insecurity.

At the same time, they impose a heavy fiscal burden on governments. Over time, the majority of Egyptians have come to see food subsidies as the most concrete social benefit received from the government. Therefore, despite the fact that the current food subsidies system inadequately targets the poorest part of the population, past attempts at reform have proven difficult to implement. This paper has two objectives: 1) to assess historical linkages between the two main food subsidies programmes and socio-political stability in Egypt, and 2) to present alternatives for improving Egypt’s food-based social safety nets. This study finds that better targeting in lieu of eliminating food subsidies is the optimal option to avoid social unrest. In addition, this paper concludes by analysing the alternative safety nets and their limitations given the political context.
INTRODUCTION

On January 18 and 19, 1977, a country-wide protest unfolded in the streets of Egypt’s main cities following President Anwar Sadat’s decision to implement relatively small changes to the food subsidy system at the urging of international actors such as the World Bank and the International Monetary Fund (IMF). At that time, nine out of ten Egyptians lived in poverty, and the male unemployment rate reached 50 per cent of its population (Staff, 2011). The so-called ‘food riot’ was likely triggered by a growing dissatisfaction with poor standards of living, lack of opportunities and most importantly, the strong popular perception that food subsidies were the main service the government could offer. Protests like this one provided an important channel for bottom-up communication in the Egyptian political system. They were a signalling mechanism. The food riot lasted only two days since Sadat decided to re-establish former levels of food subsidies quickly after the riots started (Sachs, 2012).

In countries in the Middle East and North Africa (MENA), generalised price subsidies have been part of the ‘social contract’ for many years, especially with respect to food and fuel. Food subsidies have been embedded in Egyptian politics since 1941 when President Gamal Nasser created the programme to cope with food scarcity during wartime (Alderman, Braum, and Sakr, 1982). In emergency or war contexts, subsidies are often a good way for the government to reach the vulnerable population without targeting. However, Egypt’s subsidies continued long after World War II and became embedded in the government’s social benefits system.

Egypt’s food subsidy system has two components: the subsidised bread that is provided for the whole population and ration cards that are provided to eligible households. These cards allocate monthly quotas of basic foodstuffs according to house-
hold size (WFP, 2008). Drawing on registration data for the ration cards, the World Food Programme (WFP) found most of the beneficiaries to be literate and part of a non-vulnerable (i.e. food-secure) group. Food subsidies in Egypt are considered inefficient for two main reasons: a) they do not fully reach the most vulnerable and food insecure populations; and b) they represent a high cost for the government (World Bank 2005, Gutner 2002 & Korayem 2013).

Egypt’s food subsidy system does not seem to have one purpose; or if it did at its inception, that purpose has evolved over time. From a historical point of view, it seems that food subsidies were first provided by Nasser as a way to offset food scarcity during war. Since then, it has also been asserted as a benefit for all Egyptians regardless of their income level; a non-targeted social transfer to the poorest; and a signalling mechanism for the government to show its commitment to its people while withholding political freedoms. Finally, regardless of the initial intent, the public’s perception of the food subsidy system is also a reason that it has existed so long. This paper will not attempt to separate a singular purpose of the subsidies; rather it will look at the effectiveness of these different objectives and the efficiency of the system given the current political context.

Notwithstanding the complexity of the system, one irrefutable role of food subsidies in Egypt is to address the nutritional needs of the most vulnerable by providing an in-kind food transfer to the poorest households. However, the current targeting still leaves a great part of the poor in Egypt without access to benefits. In 2011 for example, only 15 per cent of the benefits from subsidies on bread reached the poorest quintile (Sdrolevich et al., 2014). In addition, food subsidies are costly for the government and come at the expense of investments in, for example, food production that could posit a better macroeconomic solution for controlling food prices in the long-term. In 1996–1997, the
absolute costs of the programme stood at (Egyptian Pounds) LE 3.7 billion (approximately US$ 472 million): nearly the same as profits from the tourism sector during the same period (Ahmed et al., 2001).

Despite several attempts, a successful reform of food subsidies in Egypt has not yet been mounted. A potential explanation is that the government fears that changes might result in more episodes like the 1977 food riots. It is possible that, despite minor changes over the years, the political functions of the food subsidies system in Egypt is still the main rationale for keeping it in place. Indeed, some scholars associate the rising prices in Egypt due to the global food crisis in 2007 with the chain of protests that generated the Arab Spring in 2011 (El-Bakry, 2008). By mid-2008, 88 per cent of the total budget designated to food subsidies in the country had been used to control price increases, while lines in front of government-owned bakeries were growing at a fast pace (El-Bakry, 2008). In the same period, however, when trying to suggest a change in the system for direct cash transfers instead of food subsidies, the government of Hosni Mubarak came under public attack for the suggestion.

In light of the close link between food subsidies and social stability in Egypt, this article intends to provide a chronological view of the recent political economy history and to present the current options for reforming a system believed to be inefficient in poverty reduction. Whilst defending the reform of the food subsidies system for a more efficient impact, this article walks through the main elements present in the political economy of the system that may explain its long-lasting popularity. In addition, by assessing the primary alternatives for strengthening social protection in Egypt, the paper brings to light the recent discussions of how to address the country’s social needs that were contributors to the mass protests during the 2011 Arab Spring.
THEORETICAL FRAMEWORK

Food subsidies as social transfers

Many governments use subsidies to meet their social protection goals. In many cases, politicians prefer in-kind transfers as they are easier to track and manage in comparison with cash transfers. Food subsidies are the biggest part of the Egyptian Social Protection System and thus the government’s most significant safety net, both in terms of cost and number of beneficiaries (Rohac, 2013). Their primary objective is to address poverty through improving food security.

However, the impact of the food subsidies goes beyond purely food security matters and needs to be analysed through the following aspects: their stabilising political function within the framework of a social contract, their importance for political stability given the public’s perception of their right to receive subsidies; and their efficiency as a social safety net.

The World Bank defines safety nets as: ‘non-contributory transfers designed to provide regular and predictable support to targeted poor and vulnerable people. These are also referred to as “social assistance” or “social transfers”’ (Gentilini et al., 2014). Often safety nets are part of a broader social protection scheme, incorporated under a strategy for poverty reduction, resilience building and food security enhancement.

The theoretical argument underlying social transfers is that the provision of regular and guaranteed support to beneficiaries allow them to make thoughtful decisions about how to use the transfer in order to plan ahead, invest or save (Davis et al., 2009). Their ability to ensure minimal support against shocks, and permit beneficiaries to allocate their budgets to activities that increase human capital, supports widespread transfer programmes around the world.

In the case of food subsidies (non-targeted, in-kind transfers), the links with human capital accumulation are not as straightforward-
ward as cash transfers (Arnold, Conway, and Greenslade, 2011). Even if, at times, the cash provided is not allocated to future investments, the immediate burden of vulnerable individuals is alleviated (Ames et al., 2001). The evidence of the impact of in-kind transfers on household spending and savings choices is inconclusive. Some suggest that they can in fact distort prices and contribute to overconsumption, thereby imposing welfare costs on the larger community (Sdralevich et al., 2014). There are substantial signals that food subsidies affect consumption as they have a direct influence on purchases that often exceed the amount desired (Alderman, 2002).

The main purpose of the Egyptian government’s provision of food subsidies is unclear although the general idea of providing food subsidies is to ensure food security. However, this practice can have secondary, unforeseen outcomes such as: a) significantly influencing local diets; b) inducing the overconsumption of the subsided items; and finally c) not providing individuals with the freedom to choose what to eat, impacting individual liberties (Gutner, 2002). These negative consequences suggest that subsidies may not be the most effective form of safety net but citizens consider them entitlements, suggesting that their political appeal outweighs their practicality (Gutner, 2002).

There are indications that the average expenditure on food does not stop at subsistence levels, partially a result of having more incentives and means to acquire certain food items (Alderman, 2002). This affirms the idea that food subsidies promote overconsumption. Given the high cost of maintaining food subsidies, this dependency is likely to become unsustainable for the government to support at some point. Two main problems have been identified in relation to the use of food subsidies as social transfers. First, the programmes in Egypt are the inefficient and not well targeted since they do not correspond to real levels of consumption needs. Second, the costs to the government of supplying the subsidised item to meet the demand it creates may be
higher than the benefits, given that national expenditures with food subsidies increased over the years, but poverty and food security levels did not (World Bank, 2004; World Bank, 2010).

Despite their potential as a targeted safety net, the food subsidies were not well connected to an adequate strategy for poverty alleviation until recently. Furthermore, because of their inefficiency as a safety net for the poor, they also impose a heavy fiscal burden on public finances (Sdralevich et al., 2014). Time and time again, the government of Egypt has tried to reform this system to optimise costs and its impact. So far, these efforts have not been successful, as no government wants to change a system greatly entrenched within Egyptian society. The common idea of subsidies as entitlements has transformed the programme into the biggest source of social justice that could be provided by the government. This idea is further assessed in this article, taking into account the political nuances of reforms in the light of a current desire held by the government of Egypt to no longer be seen as the main provider of goods and subsidies to its citizens (World Bank, 2005).

**HISTORY OF FOOD SUBSIDIES IN EGYPT**

Although the use of food subsidies as a social protection tool is still being examined, their role in maintaining political stability has always been recognised. In societies where civil liberties are limited, the power of food subsidies as a symbol of the social contract between the government and its citizens cannot be underestimated (Singerman, 1995). Egypt remains a society that has weak political and social freedoms despite some economic liberties (Weinberger, 2012). The complex relationship between social unrest and food security is reflected in some of the so-called ‘bread riots’ that ultimately affected the political economy of food provision (Patel and McMichael, 2009).
Under Nasser’s government in the late 1950s, the government’s provision of subsidised food worked as temporary emergency relief at first. In order to respond to rising food prices, however, the government started to import large quantities of wheat and provide it to government-owned shops in a turn away from strictly emergency-based provision. During this period, subsidised bread became the symbol of the government’s social contract with its people. This has generated an ingrained mindset in Egypt that the government’s duty is to ensure affordable food and since the Nasser era the state has explicitly pursued this mandate (Khouri-Dager, 1996). Modernisation and social investments were hallmarks of the Nasser government, which introduced social support within the context of tight government control on personal freedoms. As Singerman (1995) noted,

The Egyptian Government’s policies of political exclusion have gone hand in hand with their public commitment to provide the basic needs of the population. Because it limits and controls mass participation, the government maintains its legitimacy by providing goods and services to the population.

More specifically, rationing food to cope with war times began in 1941 and underwent several reform attempts throughout the following years. In the face of rapid urbanisation and population growth, the need to control food prices in the 1960s was reflected in the expansion of food subsidies (Gutner, 2002). During the same period, Egypt became the recipient of a steady stream of surplus U.S. wheat that boosted the availability and consumption of the subsidised crop in Egypt given that the country was not sufficient in domestic production of wheat (Sharp, 2010).

Although it is fair to assume that any public policy can be reflective of the government’s stance at the time when it was first established, Egypt’s food subsidies programme has not fulfilled this primary purpose – whatever it may be (Pearce, 1982). If the
FIGURE 1: WHEAT DOMESTIC CONSUMPTION AND PRODUCTION IN EGYPT, 1960-2014

Sources: FAOSTAT and Agricultural Production Statistics by Country, no date.
idea for the programme was to function as a temporary relief mechanism to cope with food shocks during times of war or scarcity, the government could have maintained non-targeted and broadly accessible subsidies only during times of crisis and price increases. On the other hand, if it intended to boost agricultural production to keep a supply of subsidies to domestic consumers, it could have invested in local cereal (mostly wheat) production. If the original purpose of the grain subsidies in Egypt was to improve food security, then it has also failed because it does a poor job of targeting the most vulnerable. This lead us to believe that, rather than having a strong food security rationale, the system has become a powerful symbol of the broader social contract between the government and the population (Singerman, 1995). Figure 1 shows the constant trend of upward wheat production and consumption that indicates Egypt’s remaining dependence on imported wheat.

The bread riots

After the death of Nasser in 1970, Sadat came to power. In contrast with his predecessor, Sadat’s policies had a stronger appeal to the right-wing elites who were inclined towards ‘Western’ aspirations for a political economy (Sachs, 2012). The 1970s and 1980s were marked by trends of economic liberalisation measures strongly advocated by international economic institutions of the Bretton Woods. The World Bank, the IMF, private financial institutions, and the oil-producing Arab states all played a role in influencing Egypt’s economic policy (Korany et al., 2008). At the same time, due to economic and oil crises, and unstable food prices during the first decade of Sadat’s presidency, food subsidies were increased (Table 1).

The most notable episode involving food subsidies during Sadat’s rule was the bread riots (Patel and McMichael, 2009). The sequence of protests that flared up in Cairo and Alexandria in Jan-
Table 1
Total public expenditure, 1970–1980

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*1980 figures are actual figures from period January 1, 1980 to June 30, 1980.

January 1977 targeted the government, where demonstrators protested the food subsidy cuts proposed by Sadat. The social unrest was organised after the president complied with IMF negotiators who were advocating for a reduction in the subsidies system in the light of pressures for deep macroeconomic reforms (Gutner, 2002). Due to their connection to the IMF’s structural adjustment policies, these violent political demonstrations have also been called the ‘IMF riots’ (Walton and Seddom, 1994). Two days after the protests started, the government rescinded the cuts and decided to respond by further expanding the same programmes (Sachs, 2012).

The 1977 riots were a protest not only of subsidy cuts, but also economic changes in general. The event signalled two core issues regarding the role of food subsidies in political economy. On one side, the riots highlighted the strategies policymakers should avoid when reforming food subsidy systems. On the other side, they made evident the fact that externally imposed need for economic reforms did not seem to take internal political dynamics into account (Korany et. al, 2008). The policy to reduce food subsidies as a part of economic structural adjustments did not carefully think through the role the subsidies system had (and still has) as a political tool in Egypt. The riots were an important reminder of the role food plays in uniting civil opposition in Egypt.

According to political theory, those in power (‘the elites’) will only choose democracy over the status quo when income redistribution is less costly than a credible threat (Olson, 1993). If redistribution is too costly for the rich and insufficient to motivate the poor, this may be the cause for turning against democracy (Benhabib and Przeworski, 2005). Revolution is more likely if governments resist addressing the needs of the poorest. In 1977, just before the bread riots, the government decided between cuts affecting the military, industrialists, financial leaders, and cuts affecting the poor. The first three groups had enough access to political leaders to shift the burden of reform to the Egyptian masses (Hopkins, 1988).
Huntington and Fukuyama (1997) argue that political instability arises from tensions within political systems, particularly unfulfilled popular expectations, social change, and political mobilisation of dissatisfied groups. This idea is applicable to the 1977 food riots in Egypt. The fact that the government responded by increasing subsidies indicates that they were aware of this dynamic and decided to address popular expectations again as a way of meeting the less costly demands of the people in terms of political power. The act of increasing subsidies served as a ‘symbolic fulfilment of a social contract’ (Hopkins, 1988): that is, the government fulfilled public expectations by providing ‘material side payments’ (in-kind food in this case) and not addressing the basis of civil rights and democratic participation in social policies.

**Changing the subsidy status quo**

By 1980–1981, total expenditures on food subsidies in Egypt marked almost 14 per cent of total government spending whereas levels in previous decades reached as little as 0.2 per cent (Sadowski, 1991). When Hosni Mubarak became president in 1981, another strategy attempting to gradually reduce the subsidy system was put in place. Mubarak acknowledged the importance of reforming the system, but initially avoided specific proposals for how to do so. Instead, he ended up improving the targeting and quality of provided food items but did not remove the overall provision of subsidies during the 1980s (Nasser and Gomaa, 1998). Learning from Sadat, Mubarak initially adopted low profile, gradual reform measures that improved targeting but did not remove the benefits (Korany et al., 2008). In this regard, the gradual reform strategy was more successful in avoiding political instability in comparison to former attempts.

At the same time, elements of political restraint are constantly present in most political analyses of Mubarak’s government and
are said to have contributed to the general social stability as well. According to Sachs (2012):

Subsidy reform in the early years of the Mubarak era was marked by a gradual implementation of covert changes and distribution controls (...) domestically speaking, the government engaged in selective policy retreat and repression to calm popular anger.

As some civil liberties were granted in tandem with the opening of the market economy, the government justified withdrawing other political freedoms. Egyptians were granted some democratic civil liberties while they lost most of the political freedoms of expression and association they had in previous decades. Given this context, continuing to provide food subsidies at the cost of social access was an old tactic that was maintained during this period. As expected, however, a few protests driven by food price peaks also happened in the 1980s. Once again, bread riots in 1984 and 1988 provoked responses that combined retreat and expansion of subsidies followed by repression when the government directly intervened to control food prices (Sachs, 2012).

In the 1990s, the rate of change was accelerated as the government removed goods such as frozen meat, fish, tea, and rice from the subsidy system (Sachs, 2012). By 1995, only baladi bread, wheat flour, edible oil, and sugar were included – down from 20 goods in the 1980s. These changes to the status quo should have brought about opposition from the public based on historical reactions, but the gradual pace of the changes along with the political repression were strong enough that there was little room for protest (Sachs, 2012).

**Arab Spring**

Between 2008 and 2009, a global food crisis strongly affected food-importing countries such as Egypt, where prices
quickly increased. The cost of the minimum food basket in Egypt increased by 47 per cent between 2005 and 2008 (FAO et al., 2008). Consequences included increasing public discontent, which echoed the belief that neither the government nor political elites were able to address minimal food needs. Mubarak’s failures to direct political dialogue and his constantly repressive actions fuelled feelings of general anger and willingness for a change.

The government’s practice of balancing repression with new social benefits started to fail, as the need for a more participatory political system was demanded. Once expectations of government assistance were damaged, the regime in Egypt was threatened. In addition to high food prices, political oppression and restrained rights, there was a sequence of socioeconomic discontent that can be linked to the 2011 Egyptian Revolution. Youth unemployment, for example, reached 38.8 per cent of the labour force between 15 to 24 years (World Bank metadata). The widespread anger that mobilised Egyptians to Tahrir Square in January 2011 fit into a broader set of concerns over corruption, the ineffectiveness of the government and lack of social policies. Following Mubarak’s resignation, expenditure levels of the food subsidies programme were maintained, likely due to political apprehension: the 2012 budget remained as high as the years before, LE 18.9 billion in comparison to LE 13.6 billion in 2011 and LE 14.1 billion in 2009/10 (Ministry of Finance in Egypt, 2011).

Following years of increasing subsidies since the Arab Spring, the government of President Abdel Fattah el-Sisi projected and decreased its subsidy spending in 2014/15 (Figure 2). Despite the decrease, it is still too early to understand if the projections are linked to system reforms or if gradual cuts are taking the 2014 political stabilisation of Egypt into account. The Arab Spring signalled to the government that the basis of its social contract had limitations (Ghanem, 2014).
FIGURE 2 EGYPTIAN GOVERNMENT SPENDING ON FOOD AND ENERGY SUBSIDIES, 2009/10–2014/15


FOOD SUBSIDY REFORM

Strengthening social protection

In Egypt, social protection schemes are heavily dominated by the subsidy programmes that account for nearly the entirety of social spending in the country (Silva, Levin and Morgandi, 2013). In 2013, the Egyptian government spent roughly LE 4.31 billion on food subsidies alone (Oliver, 2015). Poverty levels remain high, even though food subsidies remain an important programme. According to the World Bank, the percentage of the population under the poverty line in Egypt increased from 18.4 in 1999 to 19.6 per cent in 2004 (World Bank, 2005).

Budgetary pressure and political sensitivity have made policy changes difficult. International pressure from governments
and economic institutions for structural economic reforms also play a significant role in how government approaches the reform of food subsidies. Although social safety nets are not, in theory, designed to substitute wide-ranging macroeconomic and social policies, they can play various indirect roles in relief and socio-economic development (Mkandawire, 2004). One argument addresses the consequences of removing subsidies in the short-term, such as macroeconomic effects like high inflation (Sdralevich et al., 2014).

The use of safety nets based on cash transfers has been suggested as an alternative to the current food subsidy programme by various scholars and international development agencies (World Bank, 2005; Gutner, 2002; Ghanem, 2014; Lofgren & El-Said, 2001). The rationale for cash transfers is straightforward: poverty is multidimensional and inconsistent income is a common reason for this. The current cash transfer programme in Egypt is still relatively small when compared to the food subsidies. It represented as little as 0.12 per cent of GDP in 2005, and it is still disconnected from other social benefits (World Bank, 2005). The recent announcement of a World Bank-designed US$ 400 million cash transfer programme in Egypt is bound to change perceptions of this safety net in the country (World Bank Press Release, 2015). However, substituting food subsidies for cash transfers in Egypt is an alternative that has been still under-researched. If implemented in the absence of complementary policies and strategies for exiting the programme, it could also represent a fiscal burden for the government in the long run. Developing a comprehensive approach to its social safety net would require a high level compromise by the government, and would entail an analysis of which economic and fiscal dimensions to include. Most importantly, the government will have to keep in mind how to balance the delicate political aspects that have been present throughout the existence of the system.
The inefficiency of food subsidies in Egypt

In spite of its generally successful political function as a social stabiliser, the food subsidies system in Egypt has not reached the poorest households efficiently. The subsidised *baladi* bread and wheat flour, for example, are expected to be available to all citizens. This is primarily limited by the proximity to the government’s bakery and beneficiaries’ willingness to wait in line for it (Ahmed et al., 2001). With respect to distribution, a study conducted by the World Bank (2005) disaggregated the Egyptians by income into five quintiles of expenditure levels. Further assessing national household surveys, the Bank demonstrated that the richest quintile received the largest portion of food subsidies (24 per cent) while the poorest quintile received the smallest portion (17 per cent). Even if the primary goal of the government is not to reach the poorest but rather the general population, it is still doing a comparably bad job at reaching the most vulnerable as an equal share overall.

**FIGURE 3 DISTRIBUTION OF FOOD SUBSIDY VALUE BY EXPENDITURE**

![Figure 3: Distribution of Food Subsidy Value by Expenditure](image)


Leakage, which is when a subsidised item does not reach the intended beneficiary, is historically high\(^1\). Greater availability

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of grain also induces overconsumption and waste. Egypt is the world’s biggest importer of wheat and one of its biggest consumers too. In 2013, Egyptians consumed between 180 to 200 kilograms of the grain (AEGIC, 2015). If leakages could be eliminated and the coverage of the programme narrowed, savings could be up to LE 27 billion. Additionally, using IFPRI’s 1997 regional poverty head-count (Datt and Jolliffe, 1999) and national data on distribution, Ahmed et al. (2001) identified that the regional supply of food subsidies was not sensitive to regional distributions of poverty.

What the data suggests is that the system does an extremely poor job of targeting the needy. Furthermore, in the case of wheat, which is the foundation of the Egyptian diet, incentives to overconsume not only affect people’s diets but also ensure that the country remains dependent on the import. Despite the prevalent agreement among the main policymakers on the need to reform the system, the political sensitivity of the policy has challenged the government in finding the most feasible strategy to do so.

Reform options

An IMF report on the reform of subsidies in MENA found that the main determinants of accomplishing subsidy reforms are ownership, communication and consultation (Sdralevich et al., 2014). Egypt, however, has not yet been successful in these three elements. Other countries in the region like Tunisia were effective at reforming their food subsidies in the 1990s after experiencing public riots in reaction to attempts to change the system. An important lesson that Tunisia can share with Egypt is the notion that, to reduce subsidies, the government should convince the wealthiest sectors and perhaps more importantly, the large middle class, that they do not need the benefit. To do so, Tunisia used a media campaign to sensitise the public to impending
changes and to explain the new compensation measures it would introduce to mitigate any negative impacts that these changes might have on the poor (Sdralevich et al., 2014). While this approach has not been used by Egypt, it is a successful tactic by a nearby country that could be considered.

Before focusing on modes of communicating reform, discussions need to focus on whether the system should be substituted by a different safety net or if it should be improved through better targeting. In the latter case, basing a reform on better targeting of the food subsidy system to reach the poorest households is an option that does not add significant costs for the government; indeed, it may reduce them. For instance, increasing the use of ration food cards (or smart cards) would provide beneficiaries with the freedom to choose if they want to purchase food goods, and if so which ones and how much (Korayem, 2013).

In any of the cases, modifying the current food subsidies system would have serious impacts on poor households if not accompanied by alternatives for strengthening social protection structures (Rohac, 2013). Seeking to understand the importance of the subsidised food goods to poor Egyptians, Korayem (2013) assessed the average expenditure by this group on subsidised food commodities. She calculated the average household expenditure on subsidised food commodities as a percentage of the total food expenditure and applied it to the different expenditure groups. By using data from the 2004/05 HIECS, Korayem found that subsidised food items were more significant in the overall budgets of the lower expenditure households when compared to all other quintiles.

The importance of subsidised goods for the poorest Egyptians does not come as a surprise. In order to ensure that reforming the system is done progressively on the basis of informed political dialogue with society, the public must be aware of the economic benefits of such a reform, which does not seem to have been the case in Egypt. In addition, any adjustments to the food subsidy
system need to consider how to meet the needs of both rural and urban poor; targeting mechanisms to ensure pro-poor measures; and a gradual process of linking government’s social expenditures with human capital formation (Oliver, 2015).

Maintaining in-kind benefits, on the other hand, would ensure that the minimal necessary commodities stay at low prices. Pro-poor oriented, in-kind benefits could potentially benefit the poorest households that have a bigger concern with subsistence rather than choosing what to eat. As Korayem (2013, p.20) concludes:

For the subsidy beneficiary, choosing between two kinds of subsidy systems is equivalent to choosing between having freedom of choice of what to buy, but always being insecure regarding the quantities given potential price changes, or choosing to guarantee a certain amount of basic commodities at affordable prices but being deprived of the freedom to choose what.

Investing in the implementation of a cash transfer programmes as a way to reform food subsidies is an alternative frequently supported by the international community. Although an impact evaluation on the effects of cash transfers in Egypt should be conducted before any policy is cleared to replace the current safety net, such programmes should be considered. Cash transfers provide an interesting aspect of both protecting living standards of households, as well as promoting wealth creation through income’s increase. Depending on context, they may also help prevent households from suffering shocks and transform relationships within society and between citizens and the state. (Arnold, Conway & Greenslade, 2011). For a country like Egypt, the use of this safety net can have the potential to address the multifaceted factors of poverty that the other alternatives cannot do. Furthermore, if there is social resistance against the idea of providing cash transfers to the poor, adding conditions to the
scheme could encourage general acceptance. As scholars like Hickey believe: ‘Conditional transfers have an intuitive appeal to elites as they help make better citizens of the poor’ (Hickey, 2006). Still, conditioning the cash transfer would require further budgetary investments for the government as beneficiaries would need to be provided with educational and health services, for example. Analysing how the conditionalities would benefit citizens and as well the Egyptian government is not assessed on this article but suggests that future research should be dedicated to the issue.

Nevertheless, it is important to remember that there is no one ‘right’ modality (Hoddinott et al., 2013). The relative effectiveness of different models is highly dependent on contextual factors that reflect the kind and geographic incidence of poverty in Egypt (2013). Whereas the discussion of potential reform options is important, the readiness of the government of Egypt to coordinate and implement it is an important concern. While this article believes in the importance of enhancing Egypt’s social protection network, it recognises the need for further analysis of reform within the present political context. The feasibility of the most adequate model needs to be appraised. For this reason, considering the reform under a real political process will be essential for its future success.

CONCLUSION

Despite the myriad efficiency issues, the food subsidy programme in Egypt has shown at least one positive impact for food security. The popular baladi bread programme has especially been important in providing the minimum necessary amount of calories for the poorest Egyptians despite its nutritional and macroeconomic consequences in the long-term. As history has shown, changes to the food subsidy system involve a risky politi-
cal trade-off. However, subsidies and rationing systems are more appropriate for emergencies or ad hoc interventions. The macroeconomic effects, in the long run, can produce distortions in consumption patterns and import rates of the subsidised food, thus representing a fiscal burden for governments. It is therefore in Egypt’s best interest to reform the system while balancing the political costs.

Finding the best political process to reform the system is just as important as the reform itself. Perhaps the most acceptable options combine a progressive reduction of the benefits to the wealthiest population while increasing compensations for the most vulnerable. Policy options including improved targeting are likely to be the preferred strategies in moving towards more pro-poor policies that can better affect and reach the poor and reduce impact on government expenditure.

At the same time, the process has to strongly consider the political elements linked with the food subsidies programme. The national history of social unrest could indicate that attempts to reform subsidies systems without discussing Egypt’s social contract were failures. The use of conditionalities (attendance rates at schools, vaccinations, and other mechanisms that try to ensure that people use the money but with certain obligations) is an interesting possibility as they could exclude the wealthiest -- who do not need benefits – from the subsidies whilst showing them that whoever is receiving the benefits is ‘deserving’ of them. Taking into account the political importance of the food subsidies, conditioning better targeted programmes for food assistance and poverty alleviation can be a way for the government to make the idea of a transfer more acceptable to the top quintiles (Fiszbein & Schady, 2009).

It is important for Egypt to understand what reform process would be most feasible for the introduction of better social protection schemes given the country’s socio-political and economic context. While pro-poor policies are less costly for the govern-
ment than the current food subsidies system, it is essential to identify the financial feasibility of new programmes in order to implement the reform effectively, doing what no Egyptian government has successfully managed to do. The present government has to define a path to food subsidy reform in parallel with its need for other related reforms in order to realistically improve development, thereby promoting economic growth. Better targeting of the poorest populations that are more vulnerable to food price shocks may be an interesting first step, especially in a programme like food subsidies that, in its current shape, ends up benefiting the elites without fully addressing the poor.

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