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The ADCR 2011: The Poverty Impact of Growth and Employment in Egypt (1990-2009)

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Acronyms and Abbreviations

EMEC	Egyptian Ministry of Economic Development
GDP	Gross Domestic Product
GDP pc	GDP per capita
GR	Growth Rate
HDR	Human Development Report
HIES	Household Income Expenditure Survey
HKJ	Hashemite Kingdom of Jordan
HPI	Human Poverty Index
ILO	International Labour Organization
IMF	International Monetary Fund
IT	Information Technology
PPP	Purchasing Power Parity
UN	United Nations
WB	World Bank
WDI	World Development Indicators

Introduction

This chapter concentrates on delineating and understanding the poverty impact of the main trends in growth and employment in Egypt between 1990 and 2009. Within the context of the 'Arab Spring' early in 2011, which was led by generally peaceful political transitions in Tunisia and Egypt, there is now a heightened interest in understanding the historical roots of these political upheavals. For example, why did widespread unrest develop in countries that appeared to be making economic progress during the 2000s? What were their underlying social and economic problems? How did such problems influence the political movement of 2011?

This chapter does not attempt to provide comprehensive answers to such questions but it does seek to identify some of the key contradictions that lay beneath the surface of apparent economic and social success. These underlying, and largely unaddressed, problems relate to the pattern of economic growth, the lack of productive employment, intense demographic pressure, rising food insecurity and the faltering provision of social protection and social services. This chapter starts with an examination of trends in poverty.

General Trends in Poverty

Income poverty trends in Egypt

While there is no official poverty line in Egypt and various estimates are available on national trends in poverty, we believe that the picture depicted below in table 1 captures the main features that need to be highlighted and explained.

The poverty headcount ratio in Egypt appeared to decline continuously during the 1990s—at least based on national surveys carried out every five years. If we accept that in 1990, the poverty incidence was 25.0%, there was an initial decline to 22.9% in 1995 and then a more dramatic decline to 16.7% in 2000. This represents about a 33% decline overall. This would be considered a good performance by international standards.

However, if we take 2000 as the base year, then the headcount ratio rose until 2009. Specifically, there was a rise from 16.7% in 2000 to 19.6% in 2005, and then to 21.6% in 2009. This represents about a 29% increase over roughly a decade. It could be argued that the estimate for 2009 reflects the impact of the global financial crisis and recession but the trend before the crisis was already negative, despite a significant increase in economic growth. Moreover, the poverty incidence is not appreciably lower in 2009 than it was in 1990 (21.6% versus 25.0%).

If we examine the urban-rural disaggregation of the poverty incidence, the trend for each area differs markedly over the whole period under review. Between 1990 and 1995, urban poverty edged up, from 20.3% to 22.5% while rural poverty declined noticeably, from 28.6% to 23.3%.

However, these trends were remarkably different for the period of 1995-2000. It appears that urban poverty decreased dramatically in this later period, namely, from 22.5% to 9.3%. We believe that this apparent sharp fall in urban poverty is not adequately explained. At the same time, rural poverty declined only marginally, i.e., from 23.3% to 22.1%.

In contrast, between 2000 and 2009 both urban and rural poverty *increased*, with rural poverty increasing the most in terms of percentage points (i.e., almost 7 points). Urban poverty increased by a couple of percentage points. However, this latter trend might be under-estimated.

In this chapter, we hope to shed some light on why these differing trends have occurred by examining changes in growth and employment. Clearly, Egypt's record on poverty reduction was moving in the wrong direction long before the political crisis of 2011.

Table 1: Poverty headcount ratio using national poverty line, 1990-2009

Region	1990	1995	2000	2005	2009
Urban	20.3	22.5	9.3	10.1	11.0
Rural	28.6	23.3	22.1	26.8	28.9
Total	25.0	22.9	16.7	19.6	21.6

Source: CAPMAS and World Bank

In passing, we note that poverty estimates based on national poverty lines in Egypt differ substantially from those derived from international poverty lines, such as the PPP estimates based on US$1.25 and US$ 2.50 per person per day. Table 2 gives the World Bank PPP-based estimates of poverty. These are the estimates that are used for tracking *globally* relevant progress on the Millennium Development Goals.

However, for the purposes of this chapter, we prefer not to dwell on these estimates since their levels and trends do not match national conditions. First of all, the estimates of extreme income poverty (i.e., for US$ 1.25) are incredibly low: 2-5%. Secondly, the estimates for both extreme income poverty and overall poverty (US$ 2.50) show an almost continuous decline between 1991 and 2005 whereas national estimates show reversals of direction during the 2000s. Thus, we do not consider the PPP estimates to be credible barometers of poverty trends.

Table 2: Poverty headcount ratio based on international poverty lines, 1991-2005

	1991	1996	2000	2005
Poverty rate at $1.25 a day	4.5	2.5	2.0	2.0
Poverty rate at $2 A day	27.6	26.3	19.4	18.5

Source: WDI

Interrogating income poverty trends

The Household Income and Expenditure Survey of 2009/2010 undoubtedly reflected, to a significant degree, the impact of the global financial crisis and recession. Based on assessing, between 2005 and 2008, a panel of households drawn from the 2004/05 HIES, a 2009 report by the World Bank, in conjunction with the Egyptian Ministry of Economic Development, gives a different account of poverty trends than that provided by the data in table 1 above.

In 2004/05, the HIES reported that the poverty incidence had risen to 19.6% from 16.7% in 2000 (the trend that we have already reported). However, the report by the World Bank and EMEC indicates that 'economic reforms' had produced rapid economic growth and a significant reduction in poverty between 2005 and 2008. The report also suggests that agricultural growth (despite its relatively low rate) was the driving force of national poverty reduction and that the real consumption level of the poor increased (despite a sharp rise in inflation).

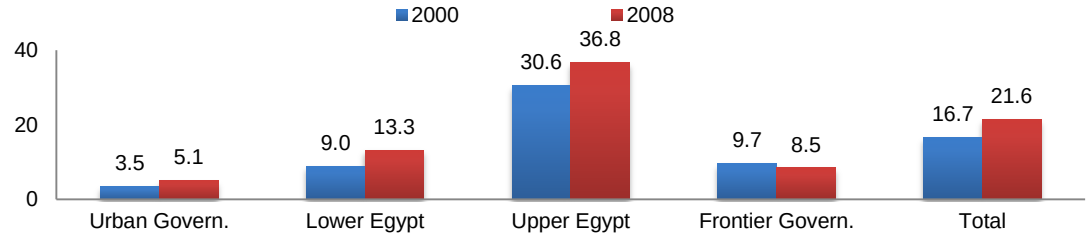
If the findings of this report are correct, then the reported rise in poverty incidence to almost 20% in 2009 must have been due principally to the global economic crisis. However, we believe that this is a misreading of the overall trends in deprivation in Egypt, not just among the rural poor but also among the urban poor.

What is particularly interesting about the results of the panel survey is that it shows substantial mobility, both upwards and downwards, among households. For example, 79% of the total population changed from one expenditure decile to another during 2005-2008. For every four poor persons who escaped extreme poverty during 2005-2008, three initially non-poor persons fell into it.

What these findings might also suggest is that we need to take a much wider view of deprivation and vulnerability in Egypt. Apparently, a significant number of Egyptian households (even in urban areas) remain vulnerable to falling into extreme income poverty because their incomes are only modestly above the poverty threshold.

In order to more fully understand the poverty trends in Egypt, we examine the regional picture. Figure 1 displays the changes in income poverty across the four broad regions in Egypt.

Figure 1: Regional income poverty in Egypt (% below the national poverty line), 2000 and 2008



Source: Mohieddin 2010, compiled based on Income and Expenditure Surveys for the corresponding years.

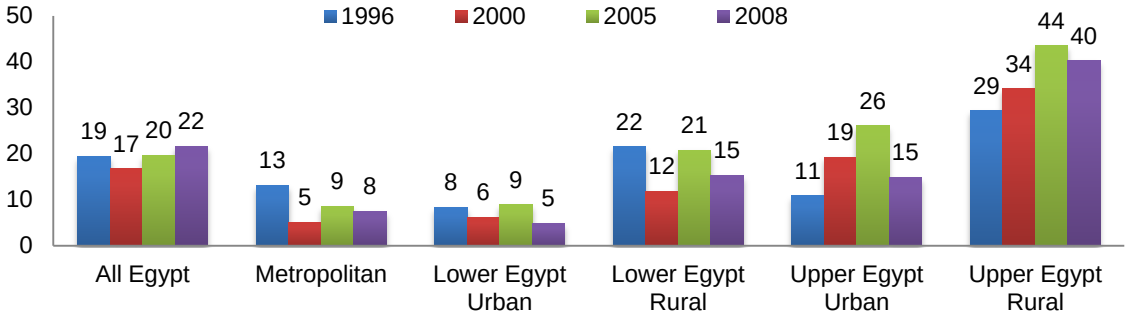
Evidently, income poverty rose over the 2000s in all areas apart from the Frontier Governorates. However, a more detailed categorisation and break-down of this income-poverty picture reveal a mixed performance *within* the above regions. While income poverty rose across most of Upper and Lower Egypt between 2000 and 2008, within these regions certain governorates, such as Luxor and Dakahlia, experienced a reduction in poverty rates by over one third.

Most analysts of poverty in Egypt argue that poverty is concentrated in rural areas, especially rural areas in Upper Egypt. It is noteworthy that Egypt had one of the highest rural poverty rates (28.9%) among the Mashreq countries in 2008.

Figure 2 shows that differences between Upper and Lower Egypt were acute and appear to have worsened in recent years. While poverty in rural areas of Upper Egypt was around 80% higher than poverty in urban areas in Upper Egypt in 2000, by 2008 the ratio between urban and rural areas was about 2.

The ratio between rural and urban poverty had also widened in Lower Egypt (see figure 2). In Lower Egypt, the incidence of rural poverty stood at 22% in 1996, more than double the urban poverty rate of 8%. Over the next 12 years both rural and urban poverty declined. However, by 2008 the ratio between rural and urban poverty had increased. While rural poverty shrank to 15%, urban poverty declined to 5%. In other words, rural poverty was now three times higher than urban poverty in Lower Egypt.

Figure 2: Urban and rural poverty in Egypt (% below the national poverty line), 1996-2008



Source: Mohieddin 2010

Note that figure 2 suggests that the significant decline in nation-wide poverty in the earlier period, between 1996 and 2000, appears to have been driven by a sharp fall in urban poverty that was focused in Lower Egypt and Metropolitan areas. But it would be worthwhile to conduct a re-examination of the trends in urban poverty in Egypt, especially given the context of the recent political crisis, which appeared to be focused in the large urban areas. It could well be the case that urban poverty has been significantly under-estimated-and/or general urban deprivation has been more widespread than commonly believed.

We refer the reader to the points made in Sabry 2009, a paper that closely examines urban poverty in Greater Cairo, which is home to about half of Egypt's urban population. Based on fieldwork in eight of Greater Cairo's informal settlements, Sabry finds that poverty lines are set too low to reflect people's most basic needs and that the settlement population is substantially under-represented in standard surveys. Part of the problem is that data on Greater Cairo are spread across five governorates, significant parts of which are officially considered rural. As a result, urban poverty in Cairo is grossly under-estimated. Moreover, since the population in such settlements has been growing rapidly, it is very likely that the common assumption that poverty has been falling in such areas does not represent the reality on the ground.

Trends in human poverty in Egypt

Changes in income poverty in Egypt have evidently been mixed across time and space. In general, the trends in income poverty in the 2000s were adverse. Moreover, the overall trends could have been more negative if the apparent reductions in urban poverty were over-stated.

We now turn our attention to trends in human poverty, which can often differ significantly from trends in income poverty. Tables 3 and 4 and figure 3 illustrate Egypt's progress in human poverty. Egypt's Human Poverty, according to Mohieddin 2010, was reduced from 24.8 in 2000 to 22.1 in 2008. This represents a modest reduction, especially when this trend is compared to the apparent achievements of other Mashreq countries over the same timeframe (see table 3).

Table 3: Human poverty index in selected Mashreq countries in 2000, 2005 and 2008

Country	2000	2005	2008	Percentage reduction between 2000 and 2008
Egypt	24.8	22.5	22.1	11%
Syria	19.3	13.8	12.6	35%
Jordan	8.2	8.1	6.6	20%
Lebanon	9.9	9.6	7.6	23%

Source: Various documents[i]

Table 4: Trends in human poverty in Egypt, 1995-2009

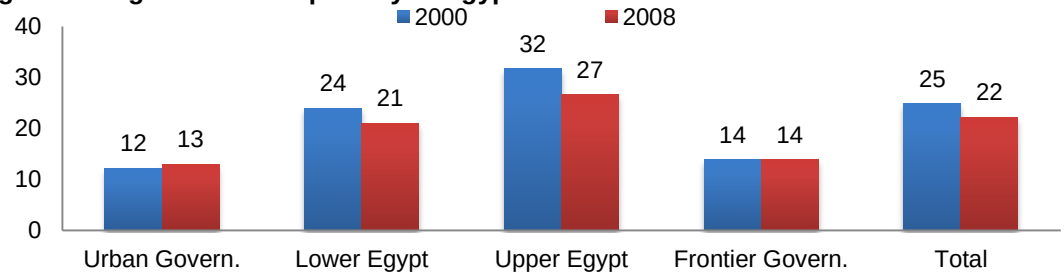
Indicator	Pre-2000		2000		2001-2005		Latest available data	
	Year	Value	Year	Value	Year	Value	Year	Value
Income Poverty	**1995**	22.9	**2000**	**16.7**	**2005**	19.6	**2009**	21.6
Human Poverty*			**2000**	**24.8**	**2005**	22.5	**2008**	22.1
HPI	**1997**	33	**2000**	**31.2**	**2005**	30.9	**2007**	23.4
Adult illiteracy rate (%)	**1997**	47.2	**2000**	**44.7**	**2003**	42.3	**2007**	33.6
Adult illiteracy rate (%)	**1998**	42.3	**2000**	**38.0**	**2004**	34.3	**2006**	30.5
Percentage of population without access to safe water source	**1995**	4.0	**2000**	**3.0**	**-**	-	**2006**	2.0
Probability at birth of not surviving to age 40	**1996**	10.3	**2000**	**7.8**	**2005**	7.2	**-**	-
Children under 5 severely underweight (%)	**1998**	10.7	-	**-**	**2003**	8.6	**2006**	6.0

Source: UN, Human Development Reports and National Human Development Reports, and Mohieddin, 2010.
*Note: Adult illiteracy rates for Egypt differ significantly by source. The Human Poverty Index calculated by Mohieddin (2010) is based on illiteracy rates from Income and Expenditure Surveys. The Human Poverty Index given in the Global Human Development Report for Egypt uses the UN database for illiteracy rates. This shows a large reduction in illiteracy between 2003 and 2007. This explains the discrepancy in trends in human poverty for Egypt. The Index given by Mohieddin (2010) is probably more accurate since it reflects national survey results.

Furthermore, there are differing estimates of illiteracy rates in Egypt, which can produce variance in the evaluation of the degree of overall progress on human poverty in the country. There are only modest reductions in other indicators, such as the population without access to safe water, the probability of dying before age 40 and the percentage of children under five who are underweight. Nevertheless, whatever estimate is used, there is a recorded overall reduction in human poverty in Egypt, even during the late 2000s while, in contrast, income poverty appeared to be increasing.

Figure 3 displays the geographic distribution of human poverty for the years 2000 and 2008. It shows that for all but the urban governorates, human poverty decreased over this period. However, the *rise* in human poverty in urban governorates should be carefully noted.

Figure 3: Regional human poverty in Egypt in 2000 and 2008



Source: Mohieddin 2010, compiled based on Income and Expenditure Surveys for the corresponding years.

What were the trends in human poverty between 2000 and 2008 *within* governorates in Egypt? In Lower and Upper Egypt, all Governorates, except one (Behaira), experienced a reduction in human poverty over the 2000s. In the Urban Governorates, only Alexandria witnessed a reduction (which was small) in human poverty, while Cairo, Port Said and Suez all experienced an *increase* in human

poverty. Finally, in the Frontier Region, three Governorates (Red Sea, El Wadi El Gadid and South Sinai) experienced a reduction in human poverty while the remaining two Governorates (North Sinai and Mersa Matrouh) saw an increase.

Reported trends in inequality

Shortly, we will examine the record of economic growth and structural change in Egypt. But first we reflect on the potential impact of changes in inequality in Egypt on poverty. In general, recorded levels of inequality in Egypt are low by international standards. Within the region, Egypt has had generally lower levels of inequality than Lebanon and Jordan and its levels of inequality have been comparable to those in Syria and Iraq (see table 5).

Table 5: Inequality in Mashreq countries, 2008-2010

Country	Gini coefficient	Source
Syria	32.0	El-Laithy, 2009
Egypt	31.1	El-Laithy, 2010
Lebanon	36.1	UNDP, 2008
Jordan	39.6	HKJ and WB, 2009
Palestine	31.8	UNDP, 2010
Iraq	30.9	Republic of Iraq, 2009

Source: see endnote 1

The data in table 6 below suggest that there have not been dramatic changes in inequality over the last two decades. For example, changes in the Gini coefficient of expenditures indicate that inequality declined moderately during the early 1990s, rose again during the late 1990s, but then declined over the 2000s, ending up in 2008/09 at a level marginally lower to that in 1990/91. It is arguable, however, whether such measures of expenditures can adequately capture the degree of inequality in countries in which political elites have often ended up being economic elites as well.

The income shares of the richest 20% and the poorest 60% tend to confirm the general trends depicted by the Gini coefficient. The richest quintile of the population saw a drop in its share of personal income during the early 1990s but then a rise in the late 1990s during a period of increasing growth. Over the 2000s its share fell back slightly; and by 2009 it was slightly lower than in 1991. However, these trends do not appear to be credible if there were indeed increasing concentration of economic assets.

The poorest 60% of the population experienced a trend in their income share that corresponded to that of the richest fifth. During the early 1990s, the share of the poorest 60% rose but during the late 1990s it fell back. Over the 2000s, this share rose again, ending up in 2009 at a level very similar to that in the mid 1990s.

Table 6: Trends in inequality in Egypt, 1990-2008

	1990/91	1995/96	1999/2000	2004/05	2008/09
Income Share of Top 20%	41.1	39.9	42.1	41.5	40.4
Income Share of Bottom 60%	37.5	38.9	37.3	37.7	38.6
Gini Coefficient	32.0	30.1	32.8	32.1	31.1
Gini Coefficient*	44.6	34.5	36.2	32.0	-

Source: WDI

Note: Gini Coefficient* has been obtained from Kheir-El-Din & El-Laithy 2007

Some sources suggest, however, that there have been more substantial changes in inequality in Egypt. For example, Kheir-El-Din and El-Laithy 2006 carry out their own calculations of Gini coefficients based on data from the Household Income and Expenditure Surveys. These calculations suggest that inequality dropped precipitously in the early 1990s (during the period of economic stabilisation), rose slightly in the late 1990s but declined again during the early 2000s (during a period of renewed growth). Hence, they believe that changes in poverty have been more heavily influenced by changes in inequality than is conventionally assumed. El-Laithy (2010) further explains that without the recent reductions in inequality over the 2000s, the increases in income poverty witnessed over the same period in Egypt could have been even worse. However, such alleged drops in inequality remain to be adequately explained.

The political upheavals of 2011 and the corresponding widespread complaints about the severity of economic inequality in Egypt, especially based on the concentration of income at the top of the distribution, do not appear to square with some of these recent estimates. This is an area that certainly merits more research. However, the basic reliability of the expenditure data derived from standard household surveys could help explain some of the discrepancies between long-standing underlying economic realities and the depictions commonly presented in research based on expenditure indicators.

General Trends in Economic Growth

Now that we have examined the general trends in extreme income poverty (as well as inequality) and human poverty, what are the corresponding trends in economic growth? Figure 4 and table 7 provide relevant information. The figure documents, for the period 1990-2009, the growth of GDP while the table highlights, for the same period, the growth of GDP per capita and its averages for various periods. In the Annex we provide a more detailed analysis of the sources of economic growth in Egypt during 1991-2009.

Economic growth was slow in the early 1990s. For example, GDP growth per capita averaged about 1.4% during 1991-1995. The slowness of growth helps explain, no doubt, the modest decrease in the poverty incidence in this period. Between 1996 and 2000, in contrast, the growth of GDP per capita accelerated to 3.2%, and, correspondingly, poverty declined more rapidly—at least in urban areas.

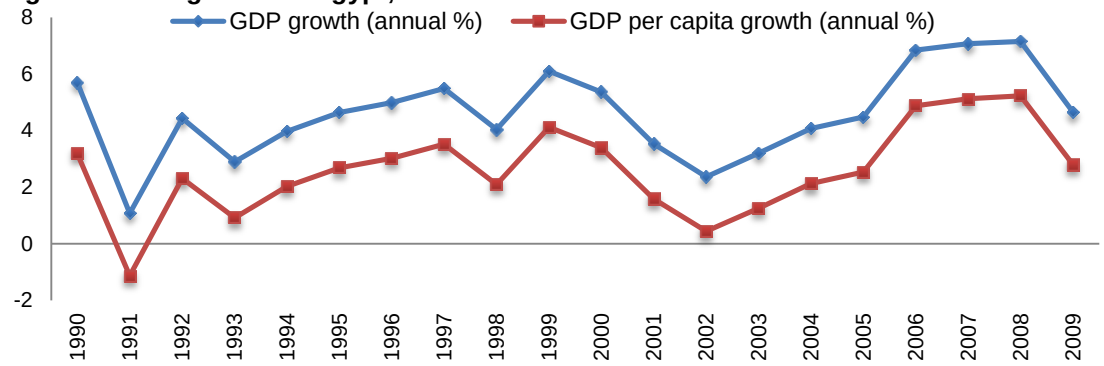
However, the early 2000s were marked by a significant decline in economic growth. The rate of increase in GDP per capita declined to 1.6% during 2001-2005. During this same period, poverty began to increase in both urban and rural areas, with a more pronounced increase evident in rural areas.

By the mid 2000s, however, economic growth was clearly accelerating. During the three years of 2006-2009, the rate of increase of GDP per capita averaged 4.5%. During 2007-2008, the IMF reports that the growth of *real GDP* was over 7%. In 2009, after the onset of the global financial crisis, GDP growth fell to 4.7% and is estimated to have been 5.1% in 2010. This recent deceleration could help to explain the rise of poverty from 19.6% in 2005 to 21.6% in 2009, despite the earlier spurt of growth during the mid 2000s.

Nonetheless, comparing the upward trend in GDP growth over the whole period of 2000-2009 with the corresponding rise in income poverty (see figure 1 above)

underscores the likelihood of problems in the *character* of Egypt's economic growth. For example, while GDP growth rates averaged 4.5% for the four years through 2009, such rates have evidently not served to reduce income poverty. Furthermore, if one believes that Egypt's income distribution, as measured by the Gini coefficient, improved over the last 10 years (see table 6), one would expect the country's growth to have been pro-poor. Yet income poverty has been on the rise in Egypt since 2000. Obviously, the data are not telling a consistent story, or at least not a complete story.

Figure 4: GDP growth in Egypt, 1990-2009



Source: ibid

Table 7: Per capita GDP growth rates, 1990-2009

Year	GDP pc GR	Year	GDP pc GR	Year	GDP pc GR	Year	GDP pc GR
1990	3.2	**1996**	3.02	**2002**	0.44	**2008**	5.23
1991	-1.13	**1997**	3.52	**2003**	1.26	**2009**	2.79
1992	2.31	**1998**	2.1	**2004**	2.12	**1991-1995**	1.36
1993	0.92	**1999**	4.12	**2005**	2.53	**1996-2000**	3.23
1994	2.02	**2000**	3.39	**2006**	4.88	**2001-2005**	1.59
1995	2.69	**2001**	1.59	**2007**	5.12	**2006-2009**	4.51

Source: ibid

Sectoral growth trends

Hence, we examine more closely sectoral growth trends in order to better understand how economic growth in the aggregate has affected poverty in Egypt. This effort is motivated by our concern with the *pattern* of economic growth, not just its pace.

The three figures below provide information on the economic growth of sectors and their changing shares in total GDP. It is apparent from figure 5 that agriculture has been growing the slowest over the whole period of 1990 to 2008. As a result, its share in GDP declined between 1989/90 and 2006/07 (see figure 6).

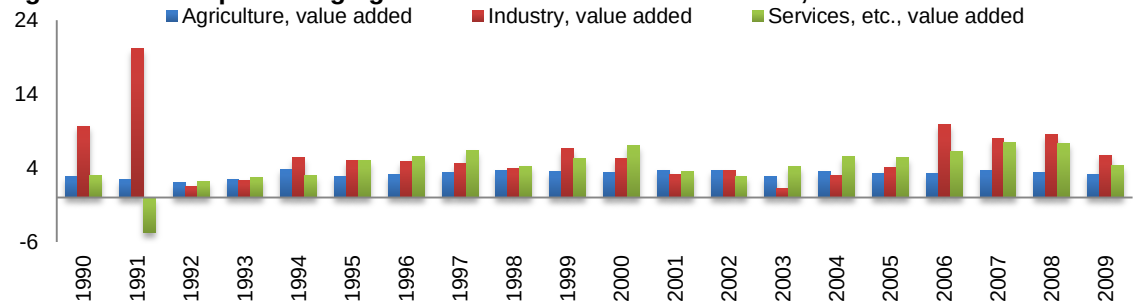
Industry (including the oil sector) had more rapid growth in the late 1990s than in the early 2000s. But this sector's rate of growth did increase during 2005-2009. Since the mid 1990s, growth of the services sector has been relatively buoyant, with the one exception being the early 2000s. The health of this sector would be critical, for example, for the urban poor in Egypt.

Since both industry and services were growing more rapidly during 2006-2009, one would have expected some decline in at least urban poverty. But this did not occur. Part of the explanation could be the sharp rise in inflation during this period. At the same time, continued slow growth of agriculture suggests that there would have been, at best, only marginal progress in reducing rural poverty. In fact, rural poverty continued to increase after 2005.

It seems evident that economic growth in Egypt was leaving the rural areas behind in the 2000s. But it is also not altogether clear that growth, even when it was rapid during this period, was benefitting large proportions of the urban population.

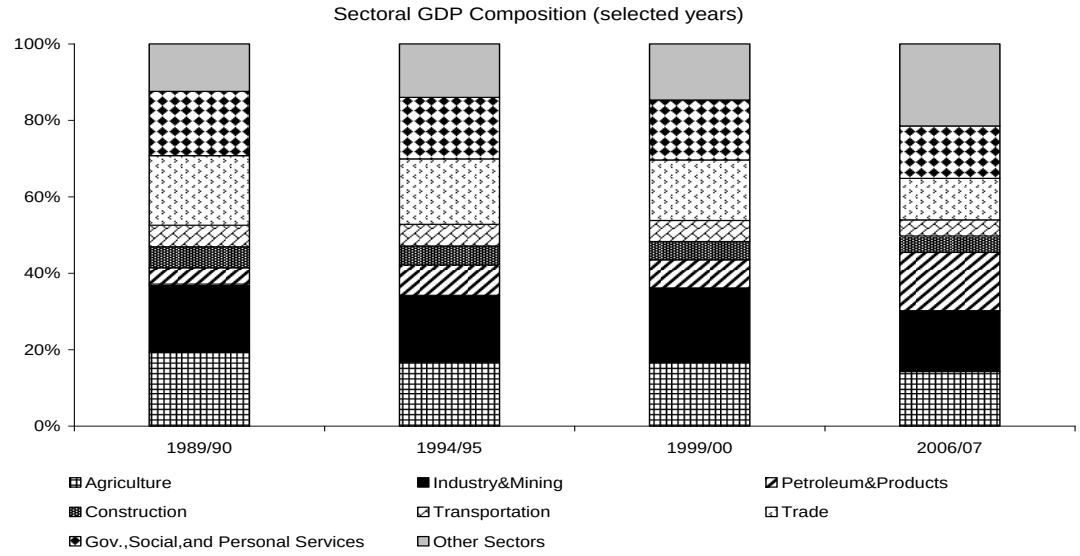
It is interesting to note, from figure 7, that the public sector re-asserted itself in the 2000s, recouping some of the share of total GDP that it had lost between 1994/1995 and 1999/2000. This trend suggests, by implication, that there was underlying weakness in the Egyptian private economy during much of the 2000s. Such weakness could take various forms, such as a lack of productive employment and stagnant real incomes.

Figure 5: Annual percentage growth on main economic sectors, 1990-2009



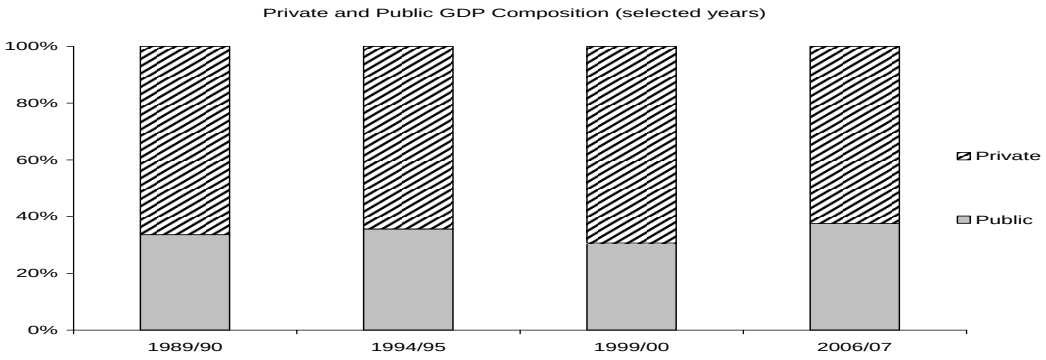
Source: ibid

Figure 6: Sectoral GDP composition in Egypt, 1989-2008



Source: Ministry of Economic Development, http://www.mop.gov.eg/

Figure 7: Public and private GDP composition in Egypt, 1989-2006

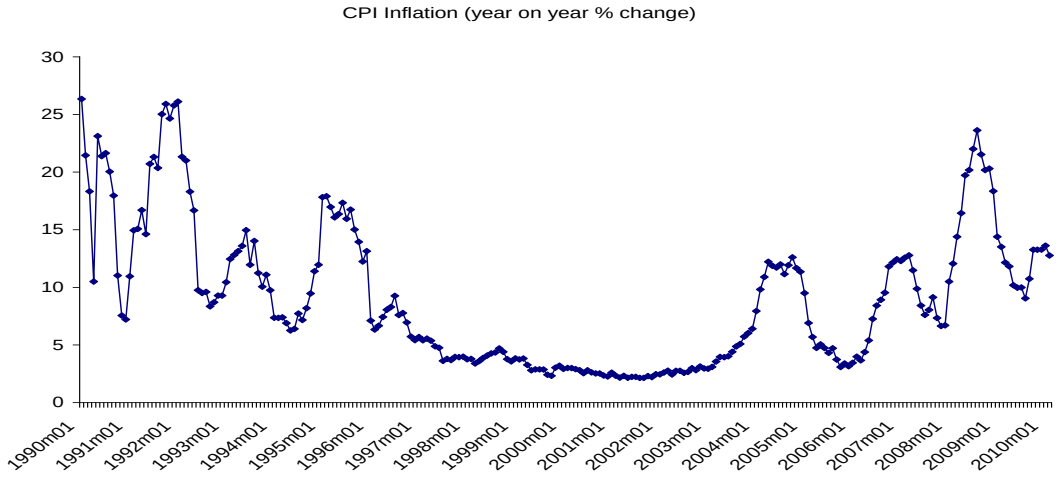


Source: ibid

The consequences of inflationary pressures in Egypt

We have examined trends in economic growth and structural changes. What about the trends in inflation? Such trends can have marked effects on the poor, particularly when increases in the rate of inflation are driven by increases in the price of basic necessities such as food and fuel. This appears to have been the case in Egypt during the period of the mid to late 2000s. Figure 8 documents inflationary trends in Egypt since 1990. It demonstrates that, despite some oscillations, inflation has been on the rise since the early 2000s.

Figure 8: Inflation in Egypt, 1990-2009



Source: IMF, International Financial Statistics

By mid 2008 inflation had skyrocketed to over 20%, as the fuel and food crises erupted. The sharp rise in inflation also likely contributed to rising rates of income poverty as the real incomes of the poor declined markedly.

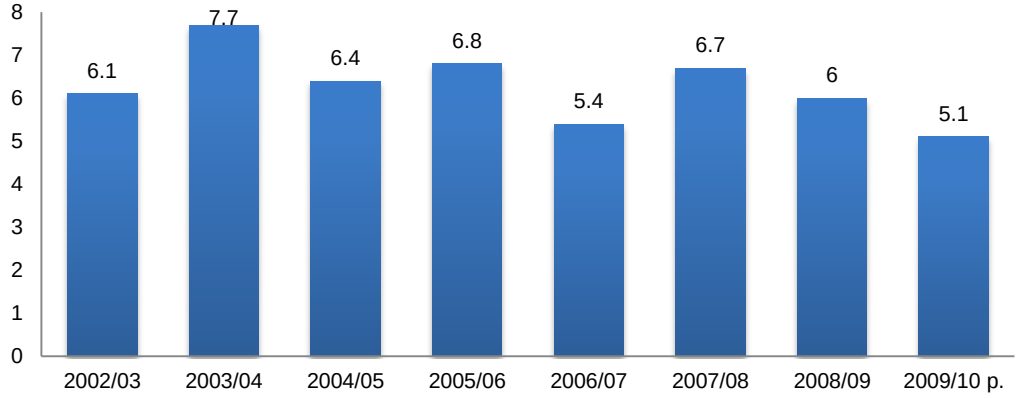
A recent study that examined poverty in Egypt in the wake of the crisis considers inflation to be the main factor behind increasing poverty after 2005 (see World Bank and Ministry of Economic Development, Arab Republic of Egypt 2010a). Through decomposing the effects of growth, redistribution and inflation on poverty, it finds that the acceleration of inflation was the primary driver, by lowering real wages and raising the price of food in both urban and rural areas.

The magnitude of the impact of such inflationary increases in recent years would have depended on the social safety nets and compensatory schemes that Egypt had in place at this time. Many recent studies (e.g., World Bank and Ministry of Economic Development, Arab Republic of Egypt 2010a, 2010b) have argued that the social policy response in general and the food subsidy system in particular have been costly, regressive and poorly targeted. These studies contrast the food subsidy bill of 2008/09 (which stood at 2% of GDP) to that of the late 1990s (when it stood at below 1% of GDP) to underline what they believe to be the unreasonably heavy fiscal burden of providing food subsidies.

However, a closer examination of the trends in subsidy provision and the associated costs since the early 2000s could yield a different interpretation. Since 2003/04 there has been a trend of reductions in subsidies and transfers relating to food and fuel prices (as a percentage of GDP). This trend has coincided with the period of rising food costs (see figure 8). Figure 9 illustrates that the share of Egypt's budget devoted to both food and fuel subsidies has not kept pace, in fact, with the rising trend in fuel and food prices over this period.

The food subsidy system has already undergone dramatic reforms during the 1980s and 1990s, with its total costs being reduced from 14% of GDP in the early 1980s (Gutner, 2002) to just 2% of GDP today. However, such reforms took place mainly at a time of declining world food prices. In recent years the IMF (IMF 2008, 2009) has been advocating that the Egyptian government further dramatically reform the food subsidy system and reduce its fiscal burden—even during a period of rising food prices.

Figure 9: Total food and fuel subsidies recorded on the budget in Egypt (% of GDP), 2002-2009



Source: IMF 2006, 2009 and 2010

Food subsidy coverage has historically been very broad in Egypt. Receiving such a subsidy is regarded by many as an entitlement. It is therefore a politically very sensitive issue (Gutner, 2002). Unfortunately, there is still insufficient research on the potential linkages between rising food costs (and the inability of food subsidies to keep pace with these) and the political events of 2011 in Egypt. Historic lessons (see Gutner, 2002) suggest that previous political upheavals in Egypt have been closely associated with exactly such developments, e.g., the regime-threatening 1977 bread riots.

Most analysts focus on how poorly targeted food subsidies have been. For instance, Mohieddin (2010) shows that the distribution of food subsidies in particular has mostly benefited the better-off. This regressive tendency is displayed in table 8, which shows that the extreme, moderate and near poor received only 38% of all food subsidies in 2006, while the remaining 62% of subsidies went to the better off proportions of the population. In addition, recent studies have suggested that urban areas have benefitted disproportionately from food subsidies in Egypt. In per capita terms, benefits from food subsidies were around 10% higher in urban areas than in rural areas in 2008/09 (World Bank and Ministry of Economic Development, Arab Republic of Egypt, 2010b).

However, without such subsidies, the poor, as well as a sizeable proportion of the population, would have been appreciably worse off. The latest World Bank report acknowledges, for example, that “food subsidies lifted 9% of Egyptians out of poverty in 2008/09” (World Bank and Ministry of Economic Development, Arab Republic of Egypt, 2010b, p. ii). An additional consideration is that many Egyptian households have income levels just above the extreme poverty line so food subsidies help those vulnerable to poverty as well as those already suffering from it.

Table 8: Food subsidies distribution between the poor and the better-off, 2006

Items	The poor			Total %	% Better off	Total %
	% Extreme poor	% Moderate poor	% Near poor			
Baladi Bread	4	14	20	38	62	100
Improved Bread	0	1	3	4	96	100
Ration Cards Subsidies	4	16	23	34	57	100
All Food Subsidies	4	14	20	38	62	100
% Daily Calories from Subsidized Food	43.5	40.4	36.4	30.0	24.6	

Source: World Bank 2007

In addition, the beneficial impact of food subsidies might be understated by referring to changes in standard indicators of nutrition and human poverty. See, for example, the indicators in table 4 above. In countries such as Egypt, children might no longer be recorded as being underweight but the nutritional content of their food could have been significantly downgraded as a result of rising prices (Sabry 2009). Food insecurity has been a major problem in the Middle East in general, and in Egypt in particular. This would have certainly adversely affected the poor but it would have also adversely affected the real incomes of a much broader proportion of the population, contributing to thereby stoking widespread popular discontent.

Trends in the Labour Force and Employment

We now turn our attention to issues related to demographic trends and employment generation in Egypt. Like many developing countries, Egypt has been confronting major demographic challenges as its youthful population has been reaching working age. Though such a trend could portend a 'demographic dividend', as the working-age population increases relative to both youthful and elderly dependents, such a dividend could be reaped only if there is a corresponding increase in gainful employment. Short of such an achievement, the increase in young workers would only portend an increase in the 'working poor'.

Demographic shifts in Egypt

One could postulate that there have been both positive and negative demographic trends in Egypt during the 1990s and 2000s. The rate of growth of the total population has remained relatively stable. During the period 1988-1998, it was 2.1% while during the period 1998-2006, it was 2.0%. But the growth of the working-age population (15-64 years of age) has been faster in both periods (3.0% and 2.7%, respectively).

As a result, youth unemployment has remained a major challenge for Egypt. For example, 27% of the population aged 15-24 years is formally unemployed. There has been a general mismatch between young people's educational achievements and the nature of the demand for workers generated by the economy. While public-sector employment has diminished, the private sector has not grown rapidly enough to productively absorb young workers.

A possibly hopeful sign is that the age group of 15-24 years has recently been growing slower than before. During 1988-1998, this group grew by 3.4% but by 1998-2006, it was growing by 2.1%. But this cohort still needs to secure productive jobs. Although the Egyptian economy has experienced less intense *new* pressure to

create jobs for the younger cohort of workers, it has still fallen woefully short of providing enough jobs to the working-age population as a whole. Thus, it has been failing to reap the potential benefits of the so-called 'demographic dividend' even though dependency ratios have generally been falling.

Many younger workers have been thwarted in finding decent formal-sector jobs. The trend towards informalisation, which had increased in the 1990s, continued during the 2000s. For example, informal employment as a share of total employment had risen from 57% in 1998 to 61% in 2006 (Assaad 2007). During the first five years of the 2000s, three-quarters of the new entrants to the labour force were obliged to take up informal work.

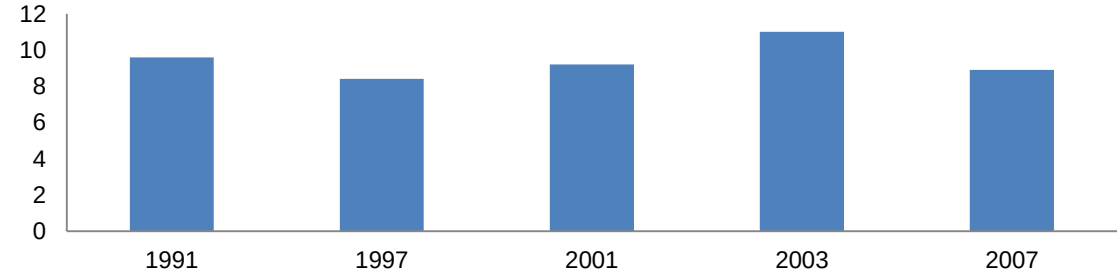
Also, the rural labour force has continued to grow more rapidly than the urban labour force. There has been a continued rapid growth of the rural working-age population (which was growing by 2.8% during 1998-2006) and an increased participation of women in the rural labour force. This growth in the rural labour force has not been matched, unfortunately, by a corresponding increase in economic activity and thus job creation in rural areas. The resultant disparity between the growth of the labour force and the availability of gainful employment has been a major explanation for the continuance of poverty in Egypt and the marked increase in widespread economic and political discontent.

Employment trends in Egypt

The unemployment rate is often a misleading indicator of labour-market conditions in developing countries. While it can indicate the inability of better-off workers to find employment appropriate to their education and skills, it tells us, in reality, very little about the prospects of poorer workers. Nonetheless, we start our discussion of employment trends with figure 10, which provides ILO statistics on unemployment based on labour force surveys.

According to figure 10, unemployment rates in Egypt initially declined between 1991 and 1997 but rose thereafter between 1997 and 2003, almost reaching 12%. They have since been reduced slightly, with the unemployment rate in 2007 comparable to that in 1997.

Figure 10: Unemployment rates in Egypt, 1991-2007



Source: ILO, Laborsta database.

One important stylised fact about the Egyptian labour market is the large proportion of young people in the total number of the unemployed (Assaad 2007; Assaad 2009). Table 9 highlights the heavy burden of youth unemployment in Egypt. Between 1997 and 2007, those under the age of 25 years comprised 57-66% of the total unemployed. There was a slight decline between 2003 and 2007, i.e., from 66% to 63%, but this was due undoubtedly to the slower growth of the age group 15-24 years (namely, 2.1%) during 1998-2006.

Table 9: Unemployment according to age in Egypt, 1997-2007

Years	1997	2003	2007
Under 25	57%	66%	63%
25-39	42%	33%	36%
40-54	1%	1%	1%
Over 60	0%	0%	0%

Source: ibid

A major concern is that the public sector (including both public enterprises and the government) has become unable to provide jobs in line with the growth of the labour force. Its share of the employed fell from 39% in 1998 to 30% in 2006, for instance. Meanwhile, the formal private sector did little to take up the slack: its share of total employment rose from only 8% to 10%. In contrast, informal wage employment, which was growing by 7.7% between 1998 and 2006, increased its share of total employment from 13% to 17%. In other words, the growth of employment in the informal private sector took up most of the slack from the loss in formal public-sector jobs. This is likely to be one major reason why the acceleration in economic growth in Egypt during part of the 2000s did not translate into rising real incomes and, thus, any meaningful reduction in income or human poverty.

An additional problem is that most wage employment remains concentrated in very small firms. For example, nearly half of all wage employment in 2006 was in microenterprises having fewer than five workers. And this segment was growing, in fact, much faster than larger firms. Most of the wage employment in small firms is informal. In firms with fewer than 10 workers, for example, the proportion of informal employment in the total is over 80%.

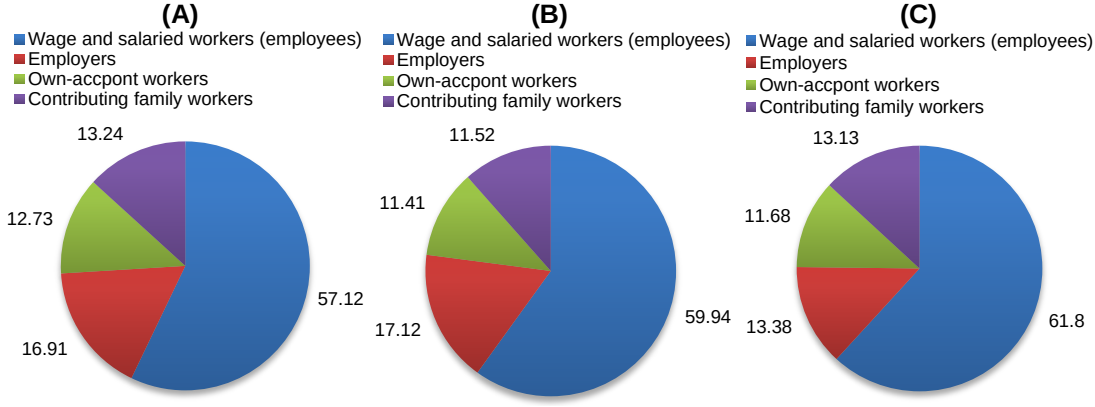
Status in employment

If we examine the ILO categorisation of status in employment, we find that between 1995 and 2006, there were no significant improvements in the Egyptian labour market. The share of workers in wage and salaried employment rose only marginally. In 1995, this share was 57.1%; in 2000, it was 59.9%; and by 2006, it was 61.8%. This represented only about an 8% increase over this period (see figure 11).

The share of workers in ‘vulnerable employment’ exhibited a different pattern during this period. Own-account workers and contributing family workers (often unpaid) are regarded by the ILO as constituting the vulnerably employed. The combined share of these two classifications totalled almost 26% in 1995. By 2000, this share had fallen significantly to 22.9%, with both classifications contributing to the decrease. This trend reversed, however, between 2000 and 2006 so that the share of the vulnerably employed had risen back up to 24.8% in 2006.

As a result, there had been little change in the prevalence of vulnerable employment in Egypt between the mid 1990s and the mid 2000s. These trends appear to be consistent with the U-shaped trend of extreme income poverty, which first decreased between 1995 and 2000 and then rose during the 2000s. Poverty and vulnerable employment are closely associated.

Figure 11: Employment in Egypt by status in 1996 (A), 2000 (B) and 2006 (C)



Source: ibid

Employment by sector

ILO data suggest that trends in sectoral employment also underwent only modest changes between the late 1990s and the mid 2000s. For example, the share of the total employed who are in agriculture started out at 30.7% in 1997. Even by 2002, this share had dropped significantly, namely, to 26.9%. However, by 2006, this share had risen back up to 30.4%, almost the same as in 1997. Since the share of agriculture in total GDP had dropped over this same period, the inevitable implication is that those workers who continued to be employed in agriculture had a lower average income per worker. Surplus labour in agriculture remains excessive since there are few promising employment opportunities in urban areas.

The above picture is confirmed when considering employment data from the last two HIES surveys for Egypt. According to data for the agricultural sector, the ratio of employment to the working age population declined from 23.2% in 2004/05 to 19.5% in 2008/09 (World Bank and Ministry of Economic Development, Arab Republic of Egypt, 2010a). This is the most dramatic reduction in employment in all of the sectors.

Employment in industry (including manufacturing, mining and utilities) grew weakly during 1998-2006 and its share of total employment even dropped, from 17% to 15%. In contrast, the fastest growing sectors in Egypt were 1) financial and business services, 2) transport, storage and communications and 3) trade, restaurants and hotels (based on revived tourism). But these sectors appear unable, on the whole, to provide the broad-based productive and well-paid employment that the Egyptian labour force needs.

Over this same period, manufacturing employment, which tends to pay above-average earnings, experienced a decline in its share of total employment—from 13.5% in 1997 to 11.6% in 2006. The share of the employed in construction, which tends, in contrast, to pay lower wages, rose from 7.3% in 1997 to 8.9% in 2006. HIES survey data confirm these general trends. The ratio of employment to working-age population in the manufacturing sector declined from 6.3% in 2004/05 to 5.6% in 2008/09 while the sectors with the most significant increases in this ratio were mining and utilities and construction.

The loss of employment opportunities in better-paying manufacturing jobs, and the corresponding increase in less well-paid construction jobs, is one indicator of the general stagnation of employment in Egypt. This is a major explanation of the rise in the 2000s of income poverty, the slow decrease in human poverty and, probably, the intensification of popular discontent.

Educational attainment and employment

In Egypt some progress has been achieved in educational terms and expenditures have risen over the last two decades. Adult illiteracy rates appear to have come down, although by how much is still debatable (see our earlier discussion). Literacy rates in Egypt still remain comparatively low when they are compared to those in other Mashreq countries. Some progress on female literacy has been made, with a recorded rise from 57% in 1992 to 67% in 2002. But, on the whole, about one third of the labour force remains illiterate. This statistic implies that many Egyptian workers still lack basic educational skills.

In recent years there have been heightened concerns about the quality of Egypt's educational system. For example, there have been high repetition and drop-out rates and teacher-to-student ratios have been worsening (Mohieddin 2010). In addition, the private costs associated with attending public schools have been on the rise.

Of particular concern in Egypt has been the pronounced mismatch in the levels of education provided and the jobs on offer in the economy. The educational system currently fails to provide the appropriate vocational education and training to meet the range of demands of the labour market.

One result has been the lack of education and skills for basic formal-sector employment, as we have already mentioned. Another result has been high unemployment rates even among young people with relatively high levels of education (those with secondary-school and university graduates).

For example, according to El-Laithy's calculations on the latest available data (see table 10), over one quarter of 18-29 year olds with a university or higher educational degree are unemployed, compared to around 15% of those with only a secondary qualification. Of the 18-29 year olds from poor households who have secured university-level educational degrees or higher, about 30% are unemployed. The Egyptian economy has apparently failed to absorb even better-off students in remunerative employment. Such students can afford the luxury of remaining unemployed. At the same time, many students from poorer backgrounds also receive a low-quality education, which leaves them unprepared for even basic formal-sector employment. As a consequence, they continue to be pushed in droves into the low-paying informal sector.

Table 10: Youth unemployment by education level and poverty status, 2008-2009

Poverty status	Secondary	Above secondary	University or higher education
Poor	16.05	28.67	29.37
Non Poor	14.27	21.27	25.27
All Youth	14.71	22.26	25.62

Source: El-Laithy 2010.

In general, the Egyptian economy has proven unable to provide widespread productive employment to its burgeoning labour force despite historically high rates of economic growth before the global financial crisis and recession. Not only has this weakness been a major contributor to persistent levels of extreme poverty but also it has led to relative deprivation in real incomes among a much broader proportion of the Egyptian population. Combined with the relentless demographic pressure of a continuous influx of young workers into the labour force each year, the woeful lack of employment opportunities has, no doubt, been a major cause of rising economic distress and political discontent.

Summary of Main Findings

Despite fairly rapid rates of economic growth in Egypt in the 2000s before the global crisis, extreme income poverty rose appreciably. The impact of the global crisis only worsened an already deteriorating overall trend. The household-level data that are available suggest that rural income poverty rose much faster than urban income poverty during this period although the scale of the latter, particularly in large metropolitan areas, is likely to be under-estimated. Relative income deprivation in urban areas, particularly in rapidly growing informal settlements, is likely to be substantially larger than commonly assumed.

During the 2000s, measures of human poverty continued to decline. But progress on standard measures, such as the Human Poverty Index, is heavily dependent on declines in adult illiteracy in Egypt that are recorded by international data sets. Widespread deterioration in the quality of the country's educational system calls into question the quality of such data. Indices that rely more on national data, such as that used by Mohieddin 2010, suggest that human poverty declined only modestly during the 2000s.

Most measures of inequality would suggest that there has been little change in the distribution of expenditures. In the late 2000s, the income share of the richest fifth of the population remained about 40%, which was very similar to its level in 1990/91. Some commentators have even suggested that income distribution improved in the 2000s. However, the stability (and even the alleged decline) of such measures runs counter to the popular perceptions of the alleged rise in the concentration of economic power and wealth. Available measures of inequality do not register any such concentration or suggest that relative deprivation (in addition to extreme poverty) has been on the rise. Yet it is difficult to explain why popular discontent with the Egyptian government could be so intense and prevalent without a widespread and progressive worsening in economic well-being.

Economic growth in Egypt was at historically high levels during the 2000s, despite the impact of the global economic crisis. Even in 2010 growth was estimated by the IMF to be about 5%. But the *pattern* of economic growth has not been conducive either to employment generation or poverty reduction.

Growth in agriculture has been weak. This helps to explain the pronounced rise in rural poverty. Despite credible growth rates in both industry and services, urban poverty appears to have been on the rise during the 2000s. Part of the explanation seems to be the anaemic growth of the Egyptian formal private sector.

During the 2000s, inflation was also on the rise in Egypt, fuelled mostly by sharp increases in food and fuel prices. Yet budgetary allocations to subsidies on food and fuel were not able to address the resultant squeeze on real incomes. Egypt remains a food insecure country, with agriculture increasingly incapable of meeting its domestic demands for food. At the same time, international pressures to reduce and more narrowly target food subsidies have made the situation only worse.

By the 2000s, Egypt was confronting a daunting demographic challenge: it had to provide adequate employment opportunities to a large influx of young workers into the labour force. Most of the policy focus has been on youth unemployment, which afflicts mainly young workers from better-off families, who can afford to remain unemployed. But workers across the board have had few viable job opportunities. Public-sector employment has been downsized while growth in the formal private sector has been too weak to compensate for such losses.

As a result, workers continue to stream into the large informal private sector, to be employed in small firms offering low wages and precarious working conditions. There has been little change in the magnitude of 'vulnerable employment', which remains a significant share of the total. The share of the total employed who work in agriculture appears to be about the same as it was in the late 1990s. Meanwhile, the share of total employment in industry, and in manufacturing in particular, has dropped.

Egypt's educational system has failed to provide future workers with the essential skills needed even for basic employment in the formal private or public sector. Simultaneously, the young people who have secured post-secondary school degrees cannot find the job opportunities corresponding to their higher skills. The quality of the education that they have received has also been suspect, despite its rising private cost to their families.

The trends and factors enumerated above contribute, to some degree, to explaining why the 'Arab Spring' of popular protest swept across Egypt so quickly and gained such pervasive support. While the international development community has focused its attention on extreme income poverty, relative deprivation appears to have intensified across a much larger proportion of the Egyptian population in the 2000s.

A rapidly growing labour force; the acute shortage of decent jobs; the calamitous rise in food prices; the faltering of the agricultural sector; cutbacks in basic social protection, such as food subsidies; the downsizing of public employment; and the deterioration in basic social services, such as education, which have compromised advances in basic human capabilities: these are the factors that we have attempted to highlight in this chapter. And, very likely, these are the difficulties that not only contributed significantly to a political 'revolution' but will also remain unresolved long after a new democratically elected regime takes power in Cairo.

Endnotes

[i] References of tables 3 and 5: El-Laithy 2010, El-Laithy & Abu-Ismail 2009, Hashemite Kingdom of Jordan & World Bank 2009, Republic of Iraq 2009, UNDP 2009a, UNDP 2009b and UNDP 2010

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APPENDIX

Some background to growth trends

1991-1995

In the early 1990s, Egypt underwent a radical stabilisation programme, with growth plummeting sharply in 1991 and remaining slow thereafter. The Government had to undertake drastic measures, adjusting its primary fiscal deficit by 17% over four years. See IMF, 1997 http://www.imf.org/external/pubs/ft/wp/wp97105.pdf. While inflation was volatile in the early years, its overall trend was downwards thereafter.

1996-2000

Growth began to pick up by the mid 1990s, driven mostly by increases in private investment. However, in 1998, growth dropped sharply due to several factors: i) emerging market crises associated with the Asia financial crisis of 1997-98; the Luxor incident; and a sharp drop in oil prices (see Kheir-El-Din, H. and El-Laithy H., 2006). After recovery in 1999, economic growth began to slow again in 2000. During the late 1990s, the public sector began to experience a shortage of resources. Revenue as a percentage of GDP was in pronounced decline, dropping from about 30% in 1993-94 to almost 20% by 2005.

2001-2005

Growth was negatively affected in 2001 and 2002 by the attack in New York on September 11, 2001 and the ensuing War on Terror. Investment was in secular decline and output per worker grew on average by only 1.3% annually during 2001-2004. Inflation remained below 5% until about 2003 and then slowly started to increase.

Government revenue also continued its decline. Tax rates on corporate and personal income were lowered in order to stimulate growth of private consumption and investment. The highest marginal tax rate for individuals was lowered from 32% in 2003 to 20% in 2006. Similarly, the corporate tax rate was reduced sharply from 40% in 2003 to 20% in 2006.

A sharp depreciation of the Egyptian pound in 2003 (by 30%) helped spur the growth of exports and tourism in 2004-05. The current account began to generate a surplus in 2003. However, the surplus was progressively diminished after 2004. During this same period, total investment began to rise continuously and inflation also began to peak, due in part to the depreciation.

Domestic credit to the private sector also began to contract during the early 2000s and continued downward through 2008. By 2004, liquid liabilities (M3), measured as a ratio to GDP, began to exceed domestic credit, even though the former also began to decline. These trends suggest that while the Egyptian economy was becoming moderately financialised, domestic firms remained starved of credit for productive investment.

2006-2009

Economic growth increased significantly during this period, reaching over 5% in both 2007 and 2008. Services (tourism) and construction were regarded as the main drivers of growth during 2006-2008, prior to the onset of the global crisis.

Communications and IT were also growing significantly. In addition, government revenues were rising sharply.

But agriculture continued to grow slowly, at about 3% per year. Hence, despite more rapid aggregate economic growth, rural poverty continued to rise, especially in Upper Egypt's rural areas. While volatile, inflation also began to exceed 10%. By 2008 inflation was skyrocketing to over 25%, as the fuel and food crises erupted. The sharp rise in inflation also likely contributed to rising poverty rates as the real incomes of the poor declined markedly.

Some analysts (see Achcar 2009) suggest that the rise in economic growth in Egypt in this period was due not to internal dynamism, but to a favourable turn in external factors. He argues, for instance, that increased inflows of FDI, remittances and tourism receipts explained much of the increase in growth. But this more favourable external environment was attributable to the oil boom and the improved economic fortunes of the oil exporters in the region. The bulk of FDI and remittances reaching Egypt can be traced, for instance, to these countries. And much of this FDI flowed into the usual mix of real estate, the purchase of privatised companies and tourism facilities.