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The American University in Cairo

School of Global Affairs and Public Policy

INTERNATIONAL AGENCIES AND THE REFORM OF FOOD SUBSIDIES IN
EGYPT AFTER THE REVOLUTION OF 2011

A Thesis Submitted to the

Public Policy and Administration Department

in partial fulfillment of the requirements for the degree of
Global Affairs

By

Marie Di Pietrantonio

September 2013

The American University in Cairo

School of Global Affairs and Public Policy

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The American University in Cairo
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INTERNATIONAL AGENCIES AND THE REFORM OF FOOD SUBSIDIES IN
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Marie Di Pietrantonio

Supervised by Professor Ibrahim Awad

ABSTRACT

Egypt has a very expensive and extensive food subsidy system representing a heavy burden on the State's public budget. At the same time, however, these subsidies secure the livelihood of the most vulnerable part of the Egyptian population. While this situation is not sustainable in its current form, no agreement on the extent of the reforms needed and how they should be conducted has yet been reached. This research aims to examine the different viewpoints of stakeholders involved in this issue as well as it intends to investigate the position of different international agencies on food subsidies in general, and in Egypt in particular. Furthermore, does this thesis look at how international agencies influence government decisions on food subsidy reforms and it attempts to determine the other factors of importance in this matter. The analysis is being based on publications from these institutions and on interviews conducted with stakeholders involved in food subsidies reforms. This allowed us to conclude that all actors agree on the fact that the Egyptian food subsidy system needs to be reformed due to its high cost and because it is not sufficiently targeted and suffers important leakages. Regarding the changes that should be introduced, two main positions can be identified; the financial institutions advocate for an immediate switch to a less costly cash transfer system, while the UN organizations, although not against cash transfers, argue that those are not sufficient in protecting the livelihood of the poor in Egypt and are rather in favor of keeping and improving the current system.

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1. Introduction

1.1. A historical background on food subsidies

The Egyptian food subsidy system can be divided into two components. The first one is the subsidy for baladi bread¹ (82% extraction) and flour. These products are available for everybody and theoretically limited to 3 loaves a person, in practice, however, there is no limitation on the quantity that can be purchased by the people. Until recently, the government was providing flour at a subsidized price to the bakeries which would bake the bread and sell it at a subsidized price of 5 Piasters (less than 0.1 US\$) instead of the 25 Piasters market price². Bread is a major component of the daily diet of Egyptians, which is well illustrated by its name in the Egyptian dialect “aïsh” which also signifies “life”. This designation reflects how central bread is in Egypt; Egyptians have a culture of bread which is found in every meals. In 2009 subsidies on bread and flour represented 76.37% (10 billion EGP) of the total expenditure for food subsidies.

The second component includes basic goods available at a very low price through a ration card or a smart card. Each household possessing this card is entitled to specific quotas of rice, cooking oil, sugar and tea that they can purchase in specific retail outlets called “tamwin” which mean supply in Arabic. There are two types of ration cards; the green card and the red card. While the first is aimed at the poorest households and offers a higher subsidy rate, the second card targets less vulnerable households which are entitled to a lower subsidy rate. In practice, 93% percent of the card owners benefit from the green (full subsidized) card. This shows already the lack

¹ Baladi bread is the typical Egyptian pita bread. Made of whole wheat, the loaves are about 15-20 cm in diameter and 1-2 cm thick.

² The recent reform on the supply chain of the baladi bread will be detailed in section 5.

of targeting according to the economic level of the recipients in the system. The expenses for rationed goods in 2009 was 3.1 billion EGP. (Ramadan and Thomas, 2011)

The system of consumer food subsidies has first been introduced during the Second World War to help Egyptians in a time when goods were scarce and inflation high. Subsequently food subsidies remained as a social safety net which was to guarantee a stable price for certain food products in time of economic hardship and more specifically to safeguard food-price inflation. It has been used to alleviate food insecurity at the household level and to guarantee a minimum calorie intake for the most vulnerable. (Ramadan and Thomas, 2011; Trego, 2011)

In the fifties, under the rule of Gamal Abdel Nasser, the country was heading towards a system of state-led socialism and the subsidy program was expanded. As part of the new system established, farmers were obligated to give off part or all of their harvest at prices below the free-market price destined to redistribution. The government of Nasser further expanded the food subsidy system in the 1960's as part of a broader consumer welfare program which was also subsidizing housing, energy, water, health, education and other non-food goods like soap and cigarettes. During this period, ration cards were introduced for a small number of items. The card was initially designed at quantity rationing against commodity shortages and did not necessarily involve price subsidies. Although it was quite extensive, the food subsidy program under Nasser remained at a modest percentage of the state budget. (Ahmed et al. 2001) This can probably partly be attributed to the fact that producers had to bear a part of the burden of the subsidies themselves.

In 1970, when Sadat came to the power after the death of Nasser, the food subsidy system was one of the few social policies that that were not reversed. The program was even extended to 18 new food items including beans, lentils, frozen fish, meat, and chicken, as well as rice and yellow maize. However, those subsidy expansions became more and more costly due the international context. Because of Nasser's agricultural policy which was not encouraging production and the rising population, Egypt became highly dependent upon wheat imports and suffered a lot from the world wheat price which quadrupled between 1972 and 1973 leading to severe problems of deficit. At this time, expenditures on food subsidies augmented drastically rising from 0.2 percent to 14 percent of the overall government expenditure. It was under Sadat and his *Infitah*³ policy when Egypt first started with the International Monetary Fund (IMF) in 1976 in order to negotiate the Egyptian external debt. An agreement would require a package of economic reforms and a program of structural adjustment. The IMF at this time identified the food subsidies as an area quite suitable for reducing government expenses. After completing negotiations with the IMF in January 1977, Sadat announced a suppression of the subsidies of basic foodstuffs. This decision provoked violent "bread riots" which were threatening the stability of the regime in such a way that the decision of cutting food subsidies had to be reversed. (Ahmed et al. 2001; Trego, 2011)

When Hosni Mubarak took office in 1981, the burden caused by food subsidies on the budget had become unsustainable and thus had to be reduced. Subsequently a careful subsidy reform was conducted; gradually and without any previous announcements, some subsidized items were removed from the ration card. The number of subsidized items was reduced from nearly twenty to merely four in a dozen of years. Subsidized

³ The *Infitah* was President Sadat's policy of opening the country to private investment.

foods consumed mainly by higher income groups like meat, chicken, fish and others were removed in a move to better target the poorest part of the population. It was also under the reign of Mubarak that a partial ration card for higher-income households was introduced and that the new-borns were not added on the card after 1989. In 1991, the Government of Egypt (GoE) concluded an agreement with the IMF and the World Bank, known as Economic Reform and Structural Adjustment Program (ERSAP), which increased the necessity of macroeconomic cleansing. (African Development Bank Group, 2010) Food subsidies were also part of the targeted reduction of public intervention on the free market. (Omar, 2012) It resulted that by 2000, only 67 percent of the population held a ration card (against 93 percent in 1990). In parallel, the government also addressed the bread subsidies; the size of the loaf was decreased from 160 to 135 grams and the price increased gradually to be until it reached five Piasters from its initial price of one Piaster. In order to implement this smoothly, the method used was to introduce a more expensive and better quality loaf and then progressively decrease its quality and then eliminate the cheapest loaf. Thereby, the cost of food subsidies declined to 2.5 billion EGP in 1991/92 which represented 5.5% of the total government expenditure. (Gutner 2002; Trego 2011)

In the twenty-first century, the food-subsidy system became primordial for the welfare of the population as Egypt faced many periods of significant food price increase. First, in 2003, the devaluation of the Egyptian Pound - the country switched from a fixed to a flexible exchange rate - brought about an inflation of 28 percent. Furthermore has the food market been more severely affected by a inflation in this sector of nearly 38 percent. Then, in 2007–08, food prices rose in conjunction with the international trend. Egypt as a net food importer was affected badly by this global rise in food prices. (Trego 2011) Finally, in its current post-revolutionary situation,

Egypt is facing a new phase of hardship with high inflation rates. The Egyptian situation is therefore really complex and it can be seen that attempts to reform the food subsidy system are very sensitive politically as well as socially. Numerous reform attempts under Mubarak's regime are illustrative of the complexity of the issue. After reducing the items and recipients of subsidies, he had to expand them again after the inflation of 2003. A 10 Piasters loaf in addition to the 5 Piasters loaf of bread was introduced to give extra affordable bread choices to the population. In 2004, the government reintroduced new items on the ration card like rice, ghee, pasta, beans, lentils, tea, and additional quantities of edible oil. These changes again entailed a raise in expenditures for food subsidies. In 2004, in order to focus on economic reforms, the President appointed Ahmed Nazif as a Prime Minister. As part of larger economic reform, Nazif sought to reform the subsidy system. His cabinet studied ways to distribute food subsidies to the needy population in a better-targeted manner. They sought in particular to replace in-kind subsidies by cash transfers. (Trego, 2011) In December 2007, Prime Minister Nazif announced the planned transition to a cash-transfer system for food subsidies. The response of the public to this proposal was negative and Hosni Mubarak quickly reacted to the public uproar and proclaimed that he would not reform the food subsidy system. The discussion on switching to a cash subsidy system was thus postponed. The global food-price crisis also played a role in dropping the idea of cash transfers. (Trego, 2011) Previous expansion of the subsidized food basket had also been revised as it appears they were not economically efficient and were failing to alleviate poverty. Thus in 2006, the higher quality bread has been eliminated as well as other commodities on the ration card; ghee, pasta, beans, and lentils have been removed from the ration card and replaced with an additional portion of sugar.

1.2. Statement of the problem

Egypt is facing a deep economic crisis following the revolution of January 2011 that led to the removal of President Hosni Mubarak who has been in power for 30 years. The country's foreign currency reserves are diminishing rapidly, dropping from \$36 billion in 2011 to \$14 billion at the end of March 2013. Also, the budget deficit reached 11 percent of the GDP compared to about 7 percent in 2010. (Terra Lawson-Remer, 2013) Such a critical economic situation rekindles the government's responsibility to take measures to rebalance the fiscal deficit. The reforms needed would encompass two main aspects: the increase of revenues as well as the reduction of public expenditure. In 2008/09, food subsidies accounted for 6.1 % of the total government expenditure (Korayem, 2013) and nearly 2% of the GDP. (World Bank, 2013) This sector counts then for a relevant share of the government spending and is therefore not sustainable in its current form.

Reforming food subsidies is, however, quite a challenge for any post-revolution governments. Conflicting pressures are complicating the issue: on the one side are international financial agencies, like the International Monetary Fund (IMF) and the World Bank (WB) pressuring for strong reforms that include expenditure reductions, which would probably affect food subsidies. Those reforms are deemed necessary if Egypt wants to accede to the IMF's \$4.8 billion loan, which would secure the country's access to other loans from international banks as well as reassure investors. On the other side stands the Egyptian population, the poor in particular, that are already facing a deterioration of their living conditions due to the desolate economic situation of the country. The Egyptian population's firm position on this issue can be illustrated by the 2011 revolution's main slogan which was "bread, freedom and

social justice!” Since food subsidies ensure food security for certain Egyptian households, and on the other side a mean of redistribution, cutting them might be perceived as going against two of the three fundamental demands the Egyptian people voiced during the January 2011 revolution. This means that reforms on food subsidies might lead to revolts and “bread riots”, like it has already been the case in Egypt in the past. More popular revolts are barely affordable for any of the successive governments, which are likely to be fragile, highly contested and facing continuous turmoil. Under the reign of Morsi who hails from the Muslim Brotherhood, the IMF was pushing the government of Egypt (GoE) to adopt additional economic reforms (Ahram, 03.04.2013a) while the opposition speaking out against those reforms and organized protests against the IMF loan, claiming it would be too much of a burden for the country. (Ahram, 03.04.2013b)

The main issue at hand is that there is an acknowledged need for reform when it comes to food subsidies to help cut government expenditure. However, the different parties involved in taking decision – the government, the Egyptian people, and international organizations – have different interests regarding this issue and it will be very difficult to find an agreement on how this reform should be conducted. This is why any successive government will find itself in the middle of at least two opposing views and pressures concerning the food subsidy policy it has to adopt. However, international organizations do not only play a pressure role, agencies like the World Food Programme (WFP) mainly or the Food Agriculture Organization (FAO) and the United Nation Development Programme (UNDP) are also providing assistance to the government and, at the same time, to the population. They do not, however, have the instruments to impose anything on the Egyptian government and thus rather play a role of technical assistance.

This issue is then regrouping three levels; society, domestic policy and global policy. It is therefore an interesting study case of the interaction of these three levels in the decision making process. In order to do so, this thesis will first investigate the need for food subsidies in Egypt and how this sector can be reformed. It will then examine the position of different international agencies on the food subsidy policies and reform focusing on the IMF, the World Bank and the WFP. It will also seek to examine to what extent they affect the Egyptian government's decision making process and how the negotiations are being conducted. It focuses thus mainly on the process that on the content of reform.

The objective is to get a clearer idea on the matter of food subsidy reform process in Egypt. The thesis seeks to understand the settings for policy making in this field, with a particular attention on the global environment and the influence of international organizations.

To conduct this research, a first part of this study has provided a background on the historical context of the Egyptian food-subsidy system, including the role of food-price inflation, and the affect of the politico-economic situation. In the subsequent chapter, a literature review on food security and the role of food subsidies will be given in order to understand the *raison d'être* of these subsidies. This will be linked with the duty of the State toward its citizens and the social contract. An economic perspective will also be included in the impact of subsidies on food prices and the demand and supply equilibrium. In the second part of this chapter, food subsidy policies in Egypt will be examined focusing on the need for food subsidies in the current situation to ensure food security for the Egyptian households and on the necessity for a reform of the food subsidy system. The third part will look into what has been written about the international organizations and their policies toward food

subsidies in order to understand what is their position in this regard. In the fourth part, the data collected during the field investigation will be described. They will then be analyzed in relation to the problematic in the fifth part. A conclusion will bring a synthesized answer to the research question.

2. Hypothesis

As a point of departure, I assume that food subsidies in Egypt are necessary, given the level of poverty in the country. Researchers estimate that 25 per cent of the Egyptian population lives below the poverty line. (Abdel-Razek, 2011) They can therefore not afford food at a market price that is not only unstable but also significantly higher than subsidized prices. The food-subsidy system in Egypt, however, needs to be reformed since it benefits mostly the richest quintile with access to subsidies, while some of the most needy household are excluded from the subsidy system altogether. (World Bank, 2012) Thus the subsidy system in Egypt needs to develop a strategy that targets the most vulnerable households rather than the not so needy ones, not least because the burden that food subsidies are imposing on the state's budget, already in deficit, is unsustainable for the government.

Regarding the international organizations, I assume that the financial organizations are in favor of cuts in food-subsidies in order to 'clean up' the state budget. Although IMF does not give fixed conditions for its loans, it expects substantial budgetary measures and subsidies are form a significant part of the expenditures that are most suitable – or the less unsuitable - for cuts. They have thus a fiscal approach of the

problem. UN agencies, quite the contrary, are more concerned about human development and protection indexes. It can be assumed that the WFP will give priority to households' food security. Their concerns are focused mainly on the nutritional aspects. The influence of the IMF on the Egyptian government can be expected to be quite strong, since its recommendations are preconditions for its loan. However, the government is reluctant to engage in important reforms that might compromise its fragile stability. On the other side, The WFP, FAO and the UNDP have no leverage towards the Egyptian government. They can, however, influence it and provide much needed assistance and expertise.

The problematic of reforming food subsidies is further complicated by the existence of two dominating but conflicting rationales; the one focused on cutting expenditures, in order to balance the budget, advocate for a minimal subsidy program; while the others, who care about the living conditions of the people, defend a minimal living standard for the most vulnerable part of the population. The government is quite obviously stuck between those two rationales, whose contradictory character paralyzes any substantial solution to the problem of food subsidies that would be acceptable for the population and financially sustainable for the government. Although the pressure of IMF on the government for reforms of the subsidy system is strong, the successive governments are reluctant to start such a sensitive reform that might cost them a lot politically.

3. Methodology

In order to investigate the position of international agencies on food subsidies and how they influence Egyptian politics, a desk and qualitative research will be

conducted based on reports and publications from international organizations and semi-directed interviews. A focus will be placed on the International Monetary Fund (IMF) and the World Bank (WB) because of the role they play in shaping government expenditure and macroeconomic reforms. On the other hand, United Nations organizations like the World Food Programme (WFP), Food and Agriculture Organization (FAO), United Nation Development Programme (UNDP) and to a smaller extent UNICEF will be analyzed due to their involvement in food security issues.

A first part of the research was conducted using published data including reports from the pre-cited organizations, academic research, newspaper articles as well as official decrees and statements. In a second stage, interviews were conducted with officials from the above mentioned agencies, with the Ministry of Supply and Internal Trade as well as with experts. The information provided by the interviews will complete the data collected previously. The analysis of all those data combined will lead to conclusions that answer the research questions.

A shortcoming in the research is however the lack of possibilities for interviews from a larger rank of ministries or governmental officials in reason of their reluctance to talk about this sensitive issue and also because of the lack of possibilities to get into contact with such officials.

Another weakness of the research is that it does not bring the point of view from the IMF and WB through a personal interview, I tried however to reflect their opinion as well as possible from a large panel of publication from those agencies.

4. Literature review

4.1 The rational of food subsidies

4.1.1. Food security and role of subsidies

Food security is defined by the Committee on World Food Security (CFS) as: “when all people, at all times have physical, social and economic access to sufficient safe and nutritious food which meets their dietary needs and food preferences for an active and healthy life. The four pillars of food security are availability, access, utilization and stability.” (CFS, 2012, p.4) Consumer food subsidies seek to address the three last pillars, while the first pillar is included in the government’s agricultural policy. The Food and Agricultural Organization (FAO) describes food subsidies as “a common method of attempting to reduce food insecurity” (FAO website). They are indeed commonly motivated by household-level food security concerns. Those consumer-oriented food subsidy programs, mainly found in developing countries, were launched with the goal of assuring consumers access to a specified quantity of one or more food commodities at stable prices fixed by the government. Such a guarantee is a key consideration for vulnerable households, since price fluctuations, due to global or domestic factors, is the main reason for food insecurities. Many of these programs were initiated or expanded during war times or following poor harvests or extreme foreign exchange crises. The principal purpose of the strategy, when initiated, was clearly one of reducing uncertainty at a household-level concerning the ability to access a minimum amount of basic food staples. (Pinstrup-Andersen, 1988) Consumer subsidy programs and policies’ roles differ among countries and over time. In most of the cases the goal is akin to the following: to improve the real purchasing power of all

or certain groups of consumers by making some basic food items available at below-market prices; to ensure minimum calorie and nutrient efficiencies for “at risk” population groups like children and pregnant women or larger groups like “the poor”; to guarantee social and political stability especially in countries where the government has little legitimacy; as a form of partial wage compensation for the low salaries of the Egyptian population. (Adams, 2000; Pinstруп-Andersen, 1988) It has been observed (Pinstруп Anderson, 1988) that food consumption by low-income households is being affected by food subsidies, which lower food prices and thus raise the relative incomes and food security of the households. The income and price elasticity for staple foods tend to be larger among the poorest. This means that food price subsidies result in increasing household food consumption and their caloric intake.

When food subsidies are regarded from a food security perspective, it is important to mention that food subsidy programs can also affect the food availability in the country by affecting agricultural production. In fact, under Nasser, farmers participated in agricultural cooperatives which mandated obligatory delivery of part or all of their production at prices below the free-market price. Growth in wheat production was slow during this time, whereas population growth was fast. It resulted that in 1963 wheat imports exceeded domestic production and lead to an increase in the balance of payment’s deficit. In the early 1980s, Egypt was only 20 percent self-sufficient in wheat, an incidence that had to be reversed, this is why the government began to address domestic agricultural production. In the mid-1980s, a national program started to distribute high-yielding long-spike wheat varieties to farmers, substantially increasing yields. In the 1990s, the agricultural sector was liberalized, which resulted

in further increases in productivity. Egypt increased its relative domestic production so that by 2000 it was 50 percent self-sufficient in wheat. (Croppenstedt et al. 2006)

4.1.2. Duty of the state and social contract

The notion of social contract is defined in political philosophy as an “agreement, between the ruled and their rulers, defining the rights and duties of each”. Subsidy policies need also to be studied in the framework of the state’s social policy and the social contract as well as its relationship with the market. It is therefore important to address the literature concerning the relationship between the market and the state as well as the state and its citizens. The market mechanism is defined by Dasgupta (1993) as a “resource allocation mechanism in which the State restricts its activities in the socio-economic sphere to facilitating the operation of private markets. This it does by developing and enforcing commercial laws [...], protecting private property rights [...], and so forth.” The author emphasizes, however, that generally, under the terms of the social contract, the state is obliged to do more than merely sustain the market mechanism. State intervention is indeed often necessary to balance dangers stemming from the free market that might leave aside the less competitive. The state can ensure a minimal welfare level for its citizens. Its main goal is to assist the disadvantaged and regain a balance between efficiency and equity. Welfare system or social policies are concerned with the public provision of goods and services. Interventions are aimed to guarantee access to a range of basic goods and services to improve wellbeing and achieve socially defined objectives. This can be provided through different mechanisms such as direct state provision, publicly financed payment systems, and government mandates to other organizations to provide services and to reduce insecurity or insure against risk in order to help vulnerable households or individuals

to resist shocks, such as, serious illnesses, disability or unemployment and to smooth consumption and income. The extent of the state intervention and the issue of state versus market have been in the center of the economic development discussions for many decades. (Omar, 2013) Welfare systems are to be seen as part of the social contract between the state and its citizens where the state engages in providing certain goods and services in return for more or less higher taxes paid by the citizens and low revenues. Also, the provision of these goods and services provide the state with a certain political legitimacy. In the decades after World War II, the welfare system has reached a relative level of maturity in many of the developed countries. During this period, most industrialized Western democracies had to adopt policies of income security and have provided their citizens with free or subsidized services in many areas such as education, health, housing and employment. (Omar, 2013)

In Egypt, it is mainly during Nasser's rule that a social contract between state and society began to emerge, emphasizing redistribution and equity as key principles justifying mechanisms such as consumer food subsidies. (Yousef, 2004) Yousef (2004) defines the type of social contract that was found in Egypt and other MENA countries from the 1940's to the 1970's as an "interventionist-redistributive social contract" which came with a "centralized, hierarchical, and tightly regulated corporatist structure of interest representation in the first decade after independence" (p.7). He sees this kind of system as a consequence of the extreme poverty that prevailed in the first half of the 20th century and very meager health care, education, nutrition and life expectancy. In Egypt, consumer subsidies became an implicit part of the social contract between the population and its government. It is part of the government's commitment to provide job opportunities and a minimum standard of living at affordable prices to alleviate the dire economic situation of many households

against accepting limitations on freedoms and ensuring political stability. It contributes therefore to the survival of the government and any attempt to reduce or eliminate this service might be perceived as a breach to the government's commitment for social provision and would break this social contract. This would generate unrest of a population whose living became a hardship and who is expecting a basic ration of food from its ruler. (Omar, 2013)

4.1.3 Food subsidies and market function

From an economic point of view, food subsidy programs imply that government intervention in the free market is such that food prices are kept lower to some or all consumers than they would be without it. There are different conflicting economic approaches regarding food subsidies and their implication on the market's functioning. In the early 1980's, the neoclassical approach was most prevalent as it was the system encouraged by the Bretton Woods Institutions and formed part of the "Washington Consensus". Those financial institutions would incite developing countries to remove general subsidies and replace them with targeted subsidies in the framework of the Structural Adjustment and Economic Stabilization policies (SAESP) (Dinit and Lippit). Those SAESP were widely recommended to developing countries in the 1980' and 1990' in order to receive IMF and WB's structural adjustment loans. Reductions of general subsidies were advocated as important preconditions for such loans in order to reduce the deficit and improve the efficiency through "getting the prices right". The main theoretical bases of those policies are the following macroeconomic paradigms; Supply-side; Rational Expectations and New Neoclassical Political Economy. (Dinit and Lippit) First, the Supply-Side approach

emphasizes that state intervention leads to more expenditure than tax revenues; it implies that expenditures should be borne by higher taxes. However, high taxes have a negative effect on investments and on economic growth. If investment goes down, the tax base diminishes, which in turn leads to lower taxes revenues. It is therefore important to keep a tax level that would generate an optimal margin of profit. The Rational Expectation theory puts the accent on the capacity of the market to regulate itself and to settle the imbalances to get to an optimal equilibrium. So, any state intervention is not only harmful but also does not have the expected effect due to the prediction of economic institutions that would take measures to prevent negative effects. Finally, the New Neoclassical Political Economy approach assumes that state agencies are not different from private agencies in the sense that they are also following their personal interest and trying to maximize their profits. All kind of economic interventions follow this target. It would therefore be better to remove all those interventions through liberalizing and privatizing and minimizing the state role.

To summarize, from the previous perspectives, we understand that any kind of state intervention in the economy is perceived as harmful, this means that for them, the economic approach to follow has to be “getting the prices right” including for food and energy, which entails removing general subsidies which bring price distortions and misallocations. The principle behind those theories and the SAESP is that building a better macroeconomic environment will encourage investment, which will bring growth, create jobs and increase salaries, which altogether will bring a poverty reduction. It could initiate a virtuous circle that would bring more growth and less poverty each round.

However, in the 1980's, such policies have lead to a failure of capital accumulation due to a decline in public expenditure and the rise of poverty due to the liberalization of food prices and subsequent decrease of the real wage of households. (Mohan et al, 2000) Furthermore was it hardly criticized for its disastrous social repercussions. One of the most important and influential critiques came from UNICEF in its 1987 annual report entitled: "Adjustment with a human face", which states that structural adjustment policies implemented in developing countries were harmful for the population. It criticizes the lack of consideration for the poor of the adjustment programs and denounces catastrophic repercussions on the population in most of the countries where such programs had been implemented. UNICEF's campaign for an adjustment that would protect the vulnerable parts of society had a certain influence on the Bretton Woods Institutions, which slightly changed their policies thereafter. In a speech at the US Chamber of Congress in 1990, Michel Camdessus, managing director of the IMF, recognized that a "responsible adjustment program must take these effects into account, particularly as they impinge on the most vulnerable or disadvantaged groups of society". (Stewart & FitzGerald, p.18) Ever since, the IMF has argued for cash transfers in order to compensate the food price increase for the most vulnerable people. It is nevertheless important to investigate the effect of consumer food subsidies on the free market. Particularly, the food subsidy programs that affect the market in three sectors: the agricultural sector, on inflation and on the foreign trade. The effect on the agricultural sector varies widely according to the type of food subsidy program implemented. Two main types of programs can be distinguished; the explicit and the implicit consumer food subsidies. In the explicit food subsidies, it is mainly the government that bears the cost of the program because it makes the budgetary outlays. On the other hand, implicit food subsidies are more

borne by the producers whose supply prices are held down. (Valdès, 1988) This was the kind of system that was implemented under Nasser where producers' prices were artificially kept low. Explicit consumer food subsidies do not necessarily have adverse effects on agricultural incentives. Moreover, such subsidies can enhance the purchasing power of consumers who will then increase their demand for food and thus provide opportunities for increasing prices for producers. Regarding implicit consumer food subsidies, they might be harmful to producers who are usually constrained to maintain artificially low supply prices, which in turn result in a negative incentive for the production that entails less production and less farm income. (Pinstrup Andersen, 1988) As demonstrated previously, this has been the case in Egypt under Nasser's rule when farmers had to deliver part or all of their production at low price which had the consequence of slow growth of wheat production. In the late 1970's, however, the burden of financing low food prices for consumers was gradually shifted from farmers to the government. (Pinstrup Andersen, 1988) Yet, Pinstrup Andersen (1988) specifies that negative effects may occur also with explicit types of subsidies if the part of the budget that the government spends those subsidies on would have been spent on public investment in agricultural infrastructure, technology development or research instead. A study of Egyptian food subsidies conducted by Scobie (1988) found, that while gross fiscal support to the agricultural sector rose with increasing fiscal costs of food subsidies during the late 1970s and beginning of the 1980s, the share of public investment in agriculture was reduced. It can, however, not be identified whether the reduction was caused by an increasing part of the budget spent on food subsidies. Scobie did not investigate the eventual stimulation to increase productivity resulting from a higher demand in the case of explicit subsidies. In case the demand is raised, with prices kept at the same

level, this could indeed push the producer to innovate and invest in order to respond to a higher demand. Furthermore, the recent policy of the GoE to raise wheat productivity contradicts Scobie's assumption. Factually, it is not in the interest of the government, which has to supply subsidized food items, to reduce investment for production because this might create more dependency on imports and international price fluctuation. It is not clear whether and to what extent food subsidies have an influence on the inflation rate. However, Prinstrup Andersen (1988) has a hypothesis - specifying that it does not always work in this way - that if the changes in subsidy cost are reflected in similar changes in government deficit spending, this deficit spending might be financed through increased money supply and in this case the subsidies might cause inflation. Thus, while the prices of the subsidized goods are kept low, the prices of other goods will increase and the net benefits derived by consumers might be lower than the value of the transfer. This causal-effect relation is often overlooked in the literature and the debate regarding food subsidies. Indeed, governments often justify subsidies as a measure to control food-price inflation by keeping food prices low. Empirical evidence of the inflationary effects of food subsidies is, however, insufficient. Results from Egypt and Korea indicate that the effect can be large; it was found that a 10 percent increase in food subsidies in Egypt would result in a 5 percent increase in the rate of inflation. (Prinstrup Anderson, 1988) Andersen is thus not so clear on this particular aspect; there seems to be a lack of evidence to develop a clear stand on the influence of subsidies on inflation rates. The FAO (Website) also highlights that food subsidies 'distort' the consumption habits of a population. Subsidies on food items can lead to an increase in the consumption of particular food items that cannot always be produced domestically. Thereof resulting imports might expand consumption patterns, which could then shift away from the

local staple and disturbs the balance of payments. Furthermore would this be reflected in the availability of foreign exchange for other imports. It has been estimated that a 10 percent increase in imported food in Egypt would lead to a 1 or 2 percent fall in industrial production due to a decrease of raw material imports that provides the needed amount of foreign exchange for food imports. (Scobie, 1988) Implicit subsidies involve even greater consequences on foreign trade as, in addition to the increased demand, they usually reduce domestic supply, thus reducing self-sufficiency. This implies decreasing exports and increasing imports, which raise the demand for foreign exchange and thus enhance the pressure on the exchange rate. (Prinstrup Andersen, 1988) Implicit subsidies are therefore known to negatively affect domestic production. While there is no evidence on the exact repercussion of explicit subsidies on production, it can be inferred that they have a rather good influence on domestic production.

4.2. Food subsidy policies in Egypt

4.2.1. Poverty and need for subsidies

Egypt's poverty rates increased from 19.6 percent of the population in 2004/2005 to 25.2 percent in 2010/2011 (IFPRI *et al.*, 2013). This resulted in an increase in the prevalence of food insecurity of 17.2 percent, which equals 13.7 million people suffering from food insecurity in 2011, from 14 percent of the population in 2009 (WFP & CAPMAS, 2003). In the last decade, the country suffered from a succession of crises including the avian flu epidemic in 2006, the food, fuel and financial crisis in 2007-2009 and the difficult macroeconomic situation following the revolution of 2011. Those factors pushed twice as many people into food insecurity than those

moving out of it in 2011 (IFPRI et al., 2013). The rural Upper Egypt is particularly affected by poverty, with the poverty rate being as high as 51.5 percent (Adams and al., 2010). Also, chronic child malnutrition has also been rising in the past decade. By 2008, about one third of Egyptian children under the age of five were stunted, this rate is considered “high” according to the standards of the WHO. (IFPRI et al., 2013) This is mostly critical given that child malnutrition, particularly in the first 1000 days of life, irreversibly affects brain/cognitive development, productivity and health through adulthood. (Save the Children, 2012)

In Egypt, food insecurity is rather an issue of access to food than availability of food. Thus, there is a strong correlation between poverty and poor access to food. This makes food subsidies a crucial issue in a country with such a high rate of poverty. The government of Egypt is improving access to food for its population by its food subsidy program. Despite their shortcomings, subsidies are still highly needed by the population. They play an important role in protecting the poor against high food prices. Also, it has been estimated that a removal of the food subsidies would increase the poverty rate from 25.2 percent to about 34 percent. (Adams et al., 2010) In addition to their role as a contribution to food intake in households, the most important immediate benefit of food subsidies is the positive effect on real incomes of households. The income transfers occur through lower food prices. Food subsidies account for a significant portion of poor households’ net incomes. In fact, the poor spend a great part of their household budget on food; which means that a change in the price of food commodities has a bigger impact on their purchasing power than it has for middle and upper class households. Thus, a reduction of 10 percent in food prices should result in an increase of 6 to 8 percent in the real income of the poorest decile of the population, while on the other hand, the real income increase would only

be 1 to 3 percent for the richest decile. Also, in several of the programs analyzed, the value of the food subsidies received by low-income households account for 15 to 25 percent of their net incomes. (Pinstrup Andersen, 1988)

4.2.2. Need for reform

The literature on food subsidies in Egypt agrees on the necessity for reform of the Egyptian food subsidy system. The World Bank (2010) published a report that includes an overview on the issue and provides a wide analysis of the current food subsidy system's shortcomings. It emphasizes that the system suffers from significant leakages and that it is not targeted enough. A focus on those two deficiencies could allow the government to reduce its high expenditure in food subsidies significantly. In the fiscal year of 2008/2009 the cost of food subsidies reached LE 21.1 billion, a figure that equals 2 percent of the gross domestic product (GDP). However, these costs include the above-mentioned leakages, which the World Bank estimated to be of around LE 5.5 billion at a national level, which represents 28 percent of total food subsidies. The losses for baladi bread and baladi wheat flour subsidies - which represent two thirds of all subsidies - were estimated at LE 3.7 billion which is equivalent to 31 percent of the cost of those subsidies.

The Egyptian program of food subsidies reaches almost the whole population. Subsidized baladi bread is distributed through bakeries, which are open to everyone. In 2008/09, 81 percent of Egyptian households were purchasing baladi bread, a figure that does not vary very much according to expenditure groups: the share of households that purchase subsidized bread in the poorest quintile - 78 percent - is lower than in the three middle quintiles and is almost equivalent to the share of the richest quintile - 77.7 percent. Also, for the three middle quintiles this share is lower

for the 2nd quintile than for the two richer ones - 81 percent, 83.8 percent and 84.9 percent accordingly. Similarly, 67.6 percent of Egyptian households held a ration card in 2008/2009. In the case of ration cards, however, the share of the population holding it regresses from the poorest to the richest quintile – 76 percent and 57 percent respectively. Yet, according to the World Bank, (2010, p.20) “while 38 percent of the poorest two quintiles do not benefit from ration cards, two-third of the richest quintile have a ration card”.

Table 1: Share of households purchasing subsidized baladi bread

	2008 / 09					Average
	Poorest Q	2nd Q	3rd Q	4th Q	Richest Q	
Metropolitan	93.9	96.2	96.4	93.0	78.3	85.3
Lower Urban	91.0	94.1	94.4	94.0	83.0	89.5
Lower Rural	78.1	78.4	80.1	80.2	78.9	79.4
Upper Urban	89.2	87.4	91.6	87.4	71.9	83.4
Upper Rural	73.3	75.7	75.6	73.6	69.4	74.0
All Egypt	78.0	81.0	83.8	84.9	77.7	81.0

Source: World Bank 2010

Table 2: Share of households holding Ration Cards

	2008 / 09					Average
	Poorest Q	2nd Q	3rd Q	4th Q	Richest Q	
Metropolitan	51.7	52.5	53.1	53.6	49.1	50.8
Lower Urban	74.9	70.0	68.3	64.9	57.1	63.5
Lower Rural	79.7	78.0	78.2	77.7	75.3	77.6
Upper Urban	69.9	65.0	64.1	59.0	50.2	59.6
Upper Rural	78.4	76.3	74.5	72.1	71.0	75.6
All Egypt	76.0	73.3	71.5	67.7	57.4	67.6

Source: World Bank 2010

The World Bank (2010) calculated that by reducing the overall leakages to 10 percent and by excluding the richest 40 percent of the population from receiving subsidies,

LE9.5 billion or 48.6 percent of the food subsidies could be saved, while with excluding the richest 60 percent, 12.3 billion or 62.8 percent of food subsidies could be saved. Part of it could then be redistributed to the poorest quintiles. The exclusion of people who consider themselves as entitled to subsidies, however, might jeopardize the whole system. It could be interesting to investigate to which extent subsidies would lose their legitimacy or popular support if they did not benefit of the entire population anymore.

4.3. International agencies' role

4.3.1. International Monetary Fund and World Bank

The International Monetary Fund (IMF) has a dark past with social policies. Their structural adjustments policies imposed on all too many developing countries in the 1980's, as a way to control the growing budgetary imbalance and stagnation, had catastrophic repercussions on the most vulnerable parts of those countries' population. Most of the adjustment programs followed the idea of the trickle-down effect, a model that holds that the money of the wealthy benefit poorer members of society merely by improving the economy as a whole. In congruence with this way of thinking, no effort was made to prevent the further deterioration of the situation of the vulnerable in the short run. (Cornia *et. al.* 1987)

In Egypt, as in number of other countries like Nigeria Morocco and Peru, food subsidy reductions were introduced without paying attention to the structural disjunction it would create, and eventually led to civilians rioting and threatening government stability. (Muralidharan, 1991) Although the IMF does not officially oppose food subsidies, it still holds the opinion that subsidies are not suitable for the

free market because its redistributive mechanisms distort the good functioning of "perfect competition between free economic agents". (Muralidharan, 1991) The IMF and its Bretton Woods partner the World Bank are in favor of highly targeted subsidies only if they are really indispensable. This means that subsidies should only reach the most needy and exclude the ones that can bear the market price of the product. (Muralidharan,1991)

The IMF for example, insisted on cutting subsidies in West and Central African countries; claiming that subsidies were not effective in directly helping the poor and, besides that, only really foster smuggling and corruption (Ahmed, 2011). Furthermore, IMF estimates show that overall food and fuel subsidies accounted for more than 8 percent of the GDP in Egypt and Jordan in 2011. They state that generalized price subsidies in the MENA region are not very effective in helping the poor because they only make out a relatively small portion of the overall spending on subsidies. According to Nemat Shafik, IMF Deputy Managing Director, "it's a myth that generalized energy subsidies could help the poor as only 20 percent of those subsidies reach the poor while the remaining 80 percent benefit the non-needy," (IMF Survey online, 2012) They defend the need to replace "wasteful price subsidy regimes" that do not fulfill their mission since they benefit mainly the wealthy, with better-targeted social safety nets that protect the poor and are more cost effective. The money saved with this change could then be invested in infrastructure, education, and health, which would benefit the population as a whole.

The IMF estimates indicate that cash transfer systems could result in about 50–75 percent of spending reaching the bottom 40 percent of the population, which would be far more effective than the actual 20 percent of the amount spent on subsidized fuel and 35 percent to subsidize food items. (IMF Survey online, 2012)

Since its self-defined mission is to “reduce poverty and support development” (World Bank website), the World Bank is more focused on poverty reduction and development. However it has an ideology similar to the IMF; the World Bank used to require adjustment program as a condition for its loans. In 1999, after the controversy about the effect such programs have on poverty, it changed its loan process by giving more autonomy to the government and a greater say to civil society on their anti-poverty strategies. In the same year, the Bank launched its Comprehensive Development Framework (CDF), which stressed “the importance of non-economic development such as nutrition, health and education status”. (Deacon, 2007, p.29) As seen before, the World Bank (2010) is in favor of reforms aiming at better targeting food subsidies to reach the poor and reduce the leakages that could both bring significant savings in the system’s expenditures. It does, however, not advocate for a total abolition of food subsidies. It recognizes their importance as a factor of poverty reduction and mitigation, especially the baladi bread which is primordial in the Egyptians’ diet. It also emphasizes on the good aspect of food subsidies being the government’s ability to purchase those goods at a lower price than in the free market, which means that the consumer’s benefit is higher than the government’s subsidy cost. This point is however disputable because the system suffers from leakages and weak targeting. Finally, they argue that subsidies are seen as “part of compensation mechanism for low level salaries and wages” and as the ‘most concrete benefits [they] receive from government spending. (World Bank, 2010, p.37) In the light of Deacon (2007) it can be said that this reflects aptly on the Bank’s tendency to advocate for a governmental social expenditure targeting the poor and only the poor.

4.3.2. UNICEF's adjustment with a human face

In its annual report of 1987, UNICEF criticized the fact that structural adjustment policies implemented in developing countries "did not make explicit effort to prevent the worsening of child well-being and often contributed to a rise in the number of people in poverty". (UNICEF,1986-1987, p.6) It stated that to advocate for "Adjustment with a human face" an adjustment would need to protect the vulnerable. Concerning the food policy, the report points out that increasing food prices, while households' incomes are diminishing, will create an aggravated nutritional status of children in the poorest families. It further criticizes the consequences of structural adjustments on nutrition; "There is now evidence that malnutrition increased and educational attainment deteriorated in the 1980s in at least 16 countries in Africa south of the Sahara, eight in Latin America, and three in North Africa and the Middle East." (UNICEF,1986-1987, p.6) In a book that develops the concept of "Adjustment with a human face" further (Cornia *et. al.* 1987), it is mentioned that nutrition interventions, such as targeted food subsidies, are essential in a country where the rates of malnutrition are high and they function as compensation measures when macro adjustment is likely to generate an increase in food prices. They however strongly recommend targeted subsidy programs. UNICEF does not only support food subsidies in theory, they also work on some subsidy projects on the ground. This is the case in Mozambique, for example, where they are now working with the government to expand the national food subsidy program in order to include all poor and vulnerable children. They are specifically working on the extension of the program to children who are responsible for raising other children which were not included before. (Bloemen, 2011)

4.3.3. The World Food Programme and Food and Agriculture Organization

Both the World Food Programme (WFP) and the Food and Agriculture Organization (FAO) are mainly working in collaboration with the governments and which cannot work without the agreement of the government of the country they are based in. Contrarily to the IMF or the World Bank, they do not have financial means of pressure. In addition to a normative function, in the case of the FAO, these organizations provide policy advice and technical cooperation to governments. For the FAO, general food subsidies allow a quick response to improve access to food and reduce the impact of price increases. However, general subsidies are really costly and are most of the time difficult to remove or scale down because it can imply important political cost. FAO would be rather in favor of "self-targeted" food subsidies, which are subsidies on products that are inferior. The principle of self-targeted food subsidies is to subsidize goods that are considered of "lower quality", these are goods that people would prefer not to consume if they could afford other items. A successful example of such a program was the distribution of yellow maize - which is a lower quality good - in Kenya in 1985 during the drought. It means that the ones that can afford it would still prefer to purchase white maize, which is a higher quality good. (FAO, 2010) The preference for targeted subsidy programs is shared by the WFP. They would, however, rather advocate for targeting by identifying the neediest users through methods such as geographic targeting and proxy means testing.⁴ They are in favor of a ration card with clear criteria and a regularly updated database of users. (IFRI et al., 2013) Both organizations also emphasize that good safety nets in place -

4 Proxy means tests are survey conducted in order to determinate whether an individual or household is entitled to receive a help from the government based on its need for this help according to a list of specific criteria, like if they have a TV or how many people sleep in the same room.

like an efficient cash transfer program for the needy - can help the nutritious status of the poor and can even help avoid using subsidies, in case of price increases, the government can scale up those measures. But in many developing countries, the safety nets are really weak or non-existent. The number of short-term policy options to protect the vulnerable is then limited. (IFPRI et al.,2013; FAO, 2010)

5. Data Collection (Interviews)

5.1. International agencies

The World Food Programme is an agency fighting hunger in the world. They also care about the nutritional status of the people and food security in a longer term. (WFP Website) In Egypt, it is therefore the main organization dealing with the issue of food subsidy reforms as a part of their agenda for the food security of the households and nutritional status of the population.

In order to obtain more information about their position on subsidy policy, I could interview Noura Abdel Wahab who is an economist working as program officer at the World Food Programme country office in Egypt. The following part comes therefore mainly from the interview with Noura Abdel Wahab.

According to her, food subsidies play mainly a role of income transfer and compensation that have protected the livelihood of the poor, especially during food prices shocks. This system has managed to provide a minimal caloric income per day to the population. WFP, however, also highlights a negative effect of this program

which allegedly generates an obesity problem because of its composition (IFPRI et al.).

WFP Egypt has a memorandum of understanding and good relations with Ministry of Supply and Internal Trade⁵ since 2005. The Programme has been supporting them in the food subsidy reform. In 2008, under the government of the deposed President Hosni Mubarak, there were already some talks for reforms but the food rising international food prices during this year made it impossible to pursue a reform of the food subsidies at this time. There was, however, several attempts to enhance the efficiency of the system and the WFP was in close relation with the Ministry in these efforts. WFP has been approached by the government to conduct a vulnerability report according to the criteria of WFP. They have done this vulnerability study in 2005, which touches the issue of food subsidies and access to food and gave some recommendations which were taken forward by the Ministry like the separation of production and distribution in the supply chain of baladi bread to reduce leakages. Additionally, they did a supply chain study review for the baladi bread in 2009-2010 and they also worked on simplification of the chain. In the beginning of 2013, the Ministry has started to reform the baladi bread supply chain. As seen previously, now the bakers have to buy the flour at the market price from the state mills while before the General Agency for Supplied Commodities (GASC) was procuring them the flour from domestic and international production at a subsidized price. Now the GASC establishes a market price for the wheat flour and bakeries have to buy it at this price. Then, they sell it at a subsidized price and the Ministry compensates them for the

5 The Ministry in charge with food subsidies was reshuffled and renamed several times in the last few years. The Ministry of Solidarity and Social Justice was created in 2011 after the revolution. Then from December 2011, it became the Ministry of Supply and Internal Trade.

difference. This system is reducing the temptation from the baker to sell in the black market the wheat that they used to get at the subsidized price of 60 EGP per bag of 50kg while the market price was 500 EGP. This is a first strategy to reduce leakages. The second strategy used is to mix flour with corn flour which cannot be used for baking other goods than baladi bread. The bakers are however not satisfied and accuse the Ministry not to compensate them enough for the high price of transportation. They are asking for 120 EGP while they receive only 80EGP. A study conducted by WFP and CAPMAS found however that their actual cost would be only 65 EGP. The reason of their anger might well be the loss of benefits - obtained through selling flour to the black market - generated by the reform. The Ministry has, however, adopted only part of the recommendations given by WFP. The agency advised that the role of GASC which procures all the wheat should be more challenged by private actors; if the subsidies are moved to the bakeries, they should let the free market operate and GASC should keep a strategic stock only to play a role of price regulator. This shows the influence brought by the WFP but illustrates also that the decision of whether and how to apply those recommendations remain fully in the hand of the Ministry of Supply.

Concerning the rationed subsidized items, a new system of smart card replacing the paper ration card has been introduced to 20 % of the ration card holders and it is aimed to replace completely the paper ration card. Using this numeric card that can contain more information about its user than a paper one, was also part of the WFP recommendations in 2005. WFP is in favor of the smart card rationing the food subsidies which is an efficient system for the Egyptian situation, the program needs, however, to be better targeted in order to include a bigger part of the poor and exclude

the non-needy. The composition of the subsidized food basket also has to be changed to improve its nutritional quality - adding for instance beans and lentils and removing tea. (World Food Programme, 2010) While agreeing both on the need for targeting, the Ministry has set criteria and questions to evaluate them that do not convince the World Food Programme which judges them not sufficient.

In contrast with the World Bank, the World Food Programme does not want to advance number of how many people should be excluded; they prefer to leave this decision to the Ministry. This reveals well the worry of not exerting a too strong influence on the Ministry or to push for certain policies, the WFP wants to keep mainly a role of adviser and does not want to be involved in decision making which are politically sensitive. They play rather a role of support, capacity building and they do not put themselves in the front line. They consider themselves as partner only. Based on the vulnerability research conducted by WFP and its partners, Abdel Wahab estimates however that about 40 percent of the populations need full subsidies and the next 20 percent need a partial ration.

While financial institutions like the World Bank and the IMF advocate for cash transfers, WFP is not in favor of this option, they are attached to more the stable in-kind subsidies because of the inflations rates. Cash transfers could replace in-kind only if there would be a mechanism to compensate the price changes, which is complicated because prices might even be different from one region to the other. While highlighting the need to improve the system, in a report prepared for the Ministry of Social Solidarity (World Food Programme, 2010) WFP states that “the replacement of the in-kind subsidy of baladi bread and Ration Card commodities to a

cash subsidy is not an appropriate choice if the objective of the GoE is to guarantee the basic needs for poor and low-income groups in Egypt, in light of the inflation rate, the global economic fluctuations, and the inability of the cash subsidy to be adjusted annually according to price increases.” And to add that “a staggering 98 percent of surveyed households prefer the current Ration Card system and would rather keep it than replace it with a cash system. Only 2 percent of the respondents preferred receiving cash instead of the commodities offered by the Ration Card”. WFP advocates for in-kind subsidies but with variety between the regions because the preferences differ from one region to the other. The food vouchers would also be a good solution; with the vouchers system, the Ministry is not the one procuring the food, the people simply go to buy from the supermarket which is then compensated by the state, while with the ration card, the Ministry of Supply is procuring the subsidized food to *tamwin* shops which are distributing the subsidized items.

The relations with the Ministry suffered from repeated changes of cabinet, making it difficult to deliver and have a good communication. This pattern affects the extent to which WFP can have an influence on the policy. Although a largely good relation, a mutual trust relationship and mutual knowledge need to be built and this is compromised when the Ministry is not stable.

When asked what is the main source of pressure for the government, Mrs Abdel Wahab identifies in a first place the IMF loan which puts them under pressure for reform. She thinks that although it is less primordial than energy subsidies since it costs less, the food subsidy system is also on the negotiation table and that even if food subsidies are not a specific requirement in the talks, they have to be reformed

because of the fiscal deficit. However, reforming the subsidies now is sensitive because of the political situation. Fuel and food subsidies are a very sensitive issue to the people so the actors in the power are very reluctant to reform it in the current period because they fear to lose popularity and therefore lose votes for the upcoming parliamentary elections.

5.2. Ministry level

In order to understand how the decisions are made at the governmental level, I decided to conduct an interview with officials working at this level. I had the honor to interview Dr. Gouda Abdel-Khalek who is currently a Professor of Economics in the Faculty of Economics, Cairo University. He served as Minister of Solidarity and Social Justice from February 2011 to August 2012. He could therefore give me some precious information and share his opinion on the subject.

First, when talking about reform, there is an issue of social contract; do the people want bread available at a subsidized price for everybody in Egypt, for the Egyptian citizens or to some Egyptians? For him this is a question that has to be rethought. However in the immediate time what is possible is at least to reduce the leakages.

The need for food subsidies is the consequence of poverty. So the policy key is not to focus only on subsidies but to have a national program to eradicate poverty, however, Egypt is still adopting policies which create poverty. The example of Brazil is often cited but in this case, a whole social program has been implemented. Then, Dr. Abdel Khalek emphasizes the importance of focusing not only on the demand side but also on the supply side. Thus, a program was launched last year to increase the country's

capacity to produce food. Since the subsidies are also the result of poverty in the country and two third of the poor are located in rural area, two birds could be killed with one stone by giving the farmers incentive to grow wheat. The Minister of Agriculture provided the farmers with high yielding variety wheat seeds which indeed resulted with a very good harvest in 2013; According to the FAO website, the government is expecting a harvest of 9.5 million tons of wheat for 2013 while the 8.8 million tons of 2012 were exceeding the level of 2011 by 5 percent.

The former Minister approves the current reform in the baladi bread supply chain which was started under his mandate. However, similarly to the WFP, he thinks that they do not go far enough. The way bread supply chain is working now is the following; the General Agency for Supply Commodities (GASC) procures the wheat from the local and international market and sells it to the mills at the national price - which is generally below the international prices - . While before, the government was providing the wheat at subsidized price in a way that the difference between the market price and the subsidized price was so big that it was giving incentives to bakers to sell the wheat on the black market. Now, mills buy the wheat at the market price (2500-2800 EGP), they turn it to flour and sell it at the market price - wheat plus their own profit - to bakers. The bakers bake the loaves and sell them at the subsidized price of 5 Piasters and then receive back the production cost plus benefit from the government. The problem in the current system is that the bakers lack liquidity and margin because they have to afford themselves the cost of subsidies until they get the money back from the Ministry. Dr. Abdel Khalek's opinion is that it would have been better if everybody operates at the market price and then the government buys the bread at the market price and distributes it at the subsidized price. With the new

system, GASC should change its mandate and role and instead of being an agency which buys wheat from national market or international market and gives it to the meals at a national price, it could play a role of a gatekeeper for the country's strategic reserves. Its role would be simply to stabilize the market of grain through its strategic grain reserves which would allow it to intervene in the market prices by injecting wheat on the market when its price is high.

Concerning the reform of the ration card system, until now few has been done. The only improvement is a change in the administrative procedure; before, every single application for the ration card used to have to be approved by the Minister himself. After the revolution this responsibility has been transferred to the directors of supply of each of the 27 governorates.

There is an important need for reviewing all the ration card holders in the system in order to actualize it. Indeed, some people use to fulfill the requirement to obtain the smart card and do not anymore because their situation improved. Similarly, on the ration cards for the households there are many users who passed away but who are still registered. The Ministry estimated that no less than one fourth of the ration card holders are not qualified for it anymore. However, this is a huge work and Abdel Khalek said they did not have the time or the energy to make this under his mandate. They preferred to focus in a first place on making sure that nobody is taking advantage of the system and on preventing leakage.

In Egypt, the subsidized items on the ration card are rice, sugar, oil and tea. To procure these commodities the Ministry of Supply puts public tenders and traders provide those commodities. For example, in the case of rice, Egypt produces more than its need of rice and an export ban of rice was introduced to make it available for

the Egyptians. When it comes to subsidized rice, every month GASC announces a public invitation to tender for traders to supply hundred thousand tons of rice and they take the offer with the lowest price. But the problem was that there was a monopoly of rice traders who formed a cartel to keep the prices high. The traders were buying rice at the beginning of the season at about 1800 EGP per ton from the farmers. Then, they would raise the price every month when supplying to GASC and at the end of the year in July the price hit 4000EGP. What was done was to switch from monthly, to four times a year procurements. In addition, the strategy was to have a strategic reserve of rice which could be used to influence the market because GASC needs to supply rice to ration card holders and if it does not have reserve it depends completely on the price set by the traders. Consequently, if the traders are using a price which is excessively high, GASC can use its own reserves instead of buying it to them. This serves therefore as a mean of pressure against high prices. This “game” is, however, very sensitive because, it requires fighting against the food providers but on the other side, there is the necessity to get the food because the ration card holders need food.

It can be therefore observed that working on subsidy policies requires experience learning. Abdel Khalek highlights also the importance of talking to the people. For example, when they started the new policies with wheat, in the summer 2011, he toured in seven governorates talking to the people working for the supply chain. Advocacy is really important and collaboration is needed to reach a success.

Regarding international organizations, the IMF surely is a big player in this area. Abdel Khalek deplores that evidences found in documents on the food issue produced by institution like IFPRI - which he consider as useful and interesting- are sometimes

used by the IMF to serve its own agenda, mainly to support the statement that food subsidy is bad and is the source of many economic ills in addition to inefficiency. Indeed, without supporting the point of view of the IMF specialized institutes point out the weaknesses of food subsidy programs and their need for reform. Those information can then be misuses by the IMF to support its own argument on the inefficiency of this type of social program. Of course, nobody can deny that the food subsidy system in Egypt is far from being perfect, but on the other hand it is still necessary since Egypt has a big problem of poverty.

The IMF is pushing for liberalization of trade but Adel Khalek argues that if Egypt liberalizes its trade completely with the rest of the world, it would not be able to face the competition of the agricultural goods coming from the north which are heavily subsidized. This would have a huge negative impact on the Egyptian farmers and would therefore raise poverty. Then, IMF seriously opposes progressive income taxes, however, they went heavily in favor of sales taxes and indirect taxes which are very regressive kind of taxes because its burden falls relatively more heavily on the poor people so this is not social at all.

The economist blames therefore the IMF for advocating for antisocial reforms which would worsen the situations of the poor in Egypt. They suggest other types of reform that would comply with the revolution's demand for social justice - for instance putting a tax on the stock exchange transactions which is a sector generating a lot of money but that is completely unproductive - .

With regards to the loan, IMF pretends not to have conditions but at the end of the day the government will have to submit a letter of intent which has to be acceptable for the Fund. The IMF talks officially mainly about reforming the energy subsidies.

However, delegations coming to Cairo were always advocating for a move from in-kind subsidies to cash transfers which would be less costly and that would be also the occasion to exclude more people from subsidies, while those people might need it. The former Minister thinks moving toward cash subsidies which are more efficient, is a good solution for the future but with its situation of mass poverty, Egypt is not ready yet for that. It can be noted here that Abdel Khalek agrees on the finality of the solution of cash transfers, however, he does not agree on the way to reach it; for him, even if that would be the most efficient solution it cannot be implemented in the current socio-economic situation, this could be implemented only after having addressed the problem of poverty in Egypt as a whole.

Until now, no agreement can be reached since the IMF wants to sign a deal with a government with a solid and broad popular base to ensure the feasibility of its application. On the other hand, the IMF also does not find that enough has been done till now to reduce the amount of subsidies and to reduce the fiscal deficit.

5.3. Experts

Dr. Hania Sholkamy is an anthropologist who is currently associate professor at the Social Research Center of the AUC. She conducted many researches on food subsidies in Egypt and participated to a pilot program of conditional⁶ cash transfer and has been working on issue of subsidies reform as a technical advisor to the Ministry of Social Affairs. The program of conditional cash transfers that the Social Research Center was developing in cooperation with the Ministry was stopped in July

⁶ Conditional cash transfers contrast with unconditional cash transfers. The first are delivered only if the recipients respect some defined pre-conditions, like sending their children to school. In opposition, the second does not require any other condition from entitled recipients.

2012. This program was supported by UNDP which would provide technical assistance like supporting the Social Research Center's cooperation with the Ministry. The program itself was, however, financed by the GoE. It aimed to provide cash transfers to the woman in the family who can prove that their children attend 85 percent of the school time.

For Sholkamy, there is a problem at the decision making level because there is a fragmentation between the different levels, there is not a strong integrated cabinet that takes decision and implements them. There is no coordination and long term planning and monitoring. This has always been the case but it is worse since the revolution.

It is difficult to know which direction the Ministry of Supply want to take because the government has been changed several times since the revolution of 2011. This implies also that the Minister which takes the lead has each time to get familiar with the issue. For example, the Minister Bassem Ouda, in position under Morsi's presidency was in favor of moving to cash transfers but had no clue of what had been done before. He had also political pressure since he was close to the Freedom and Justice Party (FJP) in power who had committed to rationalize the economy. On the other hand, the party needed to keep its popularity, this is probably why they opened new registrations for the ration card, even if this doesn't mean people are going to get it.

The international pressure plays also a role of course, but this is not the main point because it is clear that, as seen previously, the system is not efficient because it is too costly and it fails to fulfill sufficiently its social role.

She sees conditional cash transfer as an additional social program for the ultra-poor for which food subsidies are not enough. In the case where in-kind subsidies would be

removed, the cash transfers could be one of the compensation but this would not be enough. An experimental program of conditional cash transfers had already successfully been implemented in some villages in different regions of Egypt.

According to Sholkamy, statistics are not a problem for a better implementation of the food subsidies, there is the Household Income and Expenditure Survey (HIES) which gives a proxy of who is poor and who is not, there is information but the problem remains to decide who is poor. The Ministry of Supply in 2008-2009 did a registration for the ration card which has 13 million families on it. This means that the problem is not the data but the difficulty of setting a fair poverty line that satisfies everybody.

She also thinks that proxy means testing (which are usually used by the World Bank) is no suitable for Egypt, because you need a self-registration mechanism and then an appeal mechanism so that if you do not agree with a decision you have a chance to appeal and have your case re-examined.

It would facilitate a lot the process to have universal targeting categories like for instance, all kids below the age of five living in poor area or all person above the age of 65 should have a cash transfer. To secure the livelihood of the people, more than one approach and those approaches are needed and they have to to be simple and transparent.

The way used until now by the Ministry of Social Affairs for the social assistance is that people have to prove that they are poor which is almost impossible. It results that for example, in Upper Egypt 75 percent of the households have not access to any kind of social assistance while in this area, over 50 per cent are poor. This shows that social assistance is not sufficient in Egypt and gives justification to the importance of in-kind food subsidies as an additional livelihood protection.

Regarding the baladi bread, in the new system the leakages of wheat and flour are reduced, but instead the leakages are in the bread since the baker do not sell all the loaves at 5 piasters but keeps some of them to sell them at a higher price. This is already a little bit better because this system at least succeed in producing more bread. Any system based on control and punishment is not going to work, they need to raise awareness.

There is a big pressure on the decision maker in the post 25th January environment. There are too many people on the ration card; about 60 million but what they get is actually not much. Indeed, in 2009 the government extended the number of people eligible for the ration card but reduced the subsidized quantities. The program is valuable to people but it is not a good program in term of the way it is implemented and in term of the composition of the food basket that is subsidized.

The most pressuring aspect for reforms is the fiscal deficit. This creates also a pressure from the IMF but also of all other donors and investors who need a minimum of guarantees. The only difference between the IMF today and the IMF twenty years ago is that today they look at the outcomes, they do not tell the countries how to get it, but at the end the budget deficit needs to be reduced. At the national level, it has always been depending on the political ramifications. The subsidy regime is very important because any failure can upset the people very much and generate unrests. According to Sholkamy, there was a good political opportunity to reform subsidies just after the revolution that the Supreme Council of the Armed Forces (SCARF) missed. After the revolution, for example, there was a general good will from the

international community, they could have contracted loans with the IMF with low interest rates and apparently soft conditionality. At the population level, reforms would also have been more acceptable at this time. Internationally and locally, there was more good will and support at this time.

Another important element to take into account is legitimacy; it is very difficult for a government to engage sensitive reforms without enough legitimacy. Mubarak did not have enough popular support, and then came the army with a certain legitimacy which vanished quite quickly, finally the Muslim Brotherhood, although they had a democratic legitimacy proved to be more willing to control the country than to govern it and this made them lose also a lot of credibility toward the population.

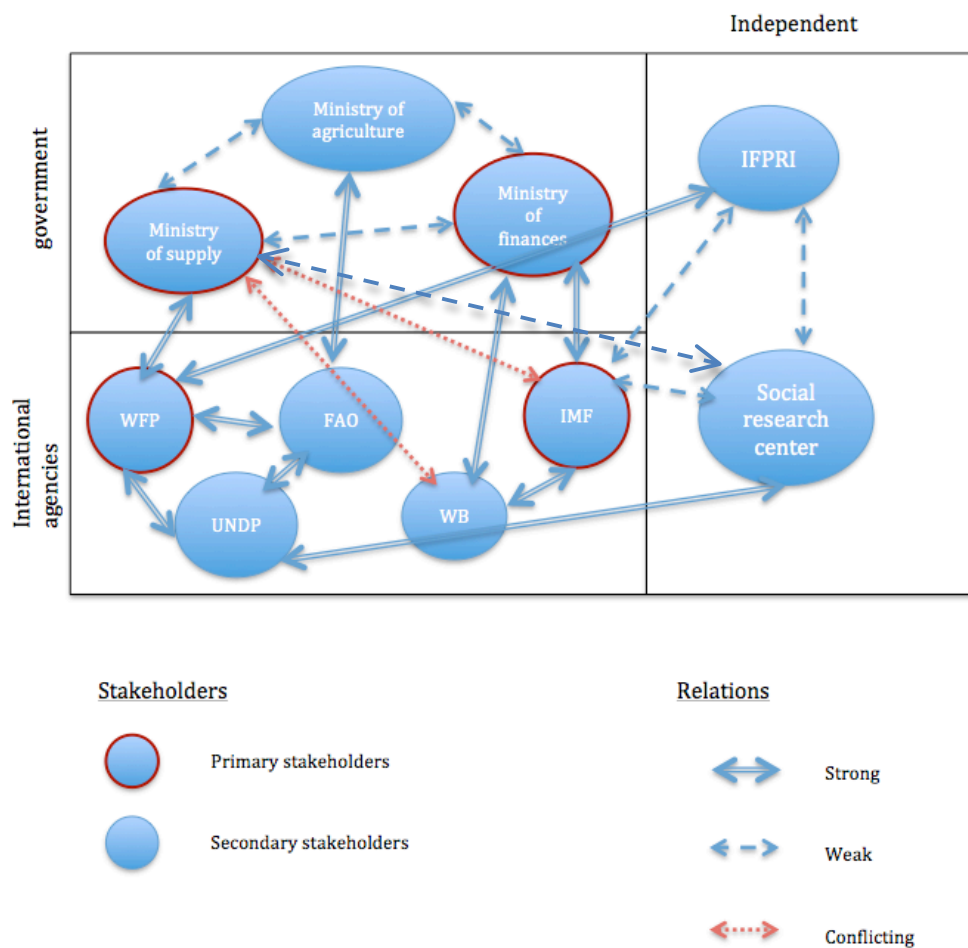
The WFP had a wonderful influence in enabling the government to move to a different production circle and estimate the waste. IFPRI in 2007 did a study about the ration card and its utilization. The government knows everything about the system from a fiscal aspect but has very poor information on the social, nutritional or economic features. The donor agencies like the WFP are thus very effective and useful in compensating this weakness. Around the year 2005, the government began to be interested about the previous aspects only because of the need to rationalize the budget. The donors played an important role in enabling the government to learn more about the incidences of their own practices.

Regarding the negotiation with the IMF, Sholkamy confirmed that the IMF is suggesting an unconditional cash program financed by the World Bank. She emphasize that the obstacle to a deal for the IMF loan is not only on subsidies but also on many other issues like taxes, the political situation, etc.

6. Analysis of the material

6.1. Stakeholder analysis of food subsidy policy reform

The Stakeholder analysis allows a better understanding of the relations between the different stakeholders involved in food subsidy reform.



- Primary stakeholders are the Ministry of Supply, the Ministry of Finance, the WFP and the IMF.
- The ministries have weak relations and coordination between each other.

- The UN agencies have a strong coordination of their activities.
- The IMF and the World Bank have strong relations with the Ministry of Finance, however their relations with the Ministry of Supply are rather conflicting.
- The independent research centers are providing information to the stakeholders.
- The Ministry of Supply has close ties with the World Food Programme.

6.2. Factors affecting the Egyptian government

Here it is important to distinguish external and internal factors that affect government decisions on the issue of food subsidies. At an internal level, the government faces many pressures that sometimes contradict each other. First, there is a need to cut the expenditure in order to balance the budget deficit because the economic situation is not sustainable. Food and fuel subsidies alone account for more than 25 percent of the state's expenditure⁷. (Korayem, 2013; Galal, 2013) Beside this, the state expenditure goes mainly on debt services, public wages and salaries and the remaining budget goes for diverse kind of public expenditure; including health, education and investment. Costly and inefficient subsidy program can naturally be seen as suitable field for cuts and for reforms. On the other hand, while necessary, those reforms are very sensitive because they will necessarily affect a population that might react to the loss of services. When it comes to food subsidies, it is particularly sensitive because it touches on two of the three demands of the revolution: bread and social justice. The

⁷ Expenditure for subsidies are included under the chapter "Subsidy, Grants, Social Benefits" which account for about 30 percent of the State's Public Budget. (Ministry of Finance, 2012)

reform has therefore to be very well conducted to avoid the risk of worsening the economic and social situation of the most vulnerable parts of the population. Finally there is a political aspect that plays a very important role in the post-revolutionary context. After the toppling of Hosni Mubarak, the country has yet to build itself again, it has no democratic tradition and the country thus lacks experience of democratic participation. Any actor taking power has to undergo a lot of pressure and resistance from an opposition that would not miss any opportunity to criticize its actions. In a situation of political transition, stability is a difficult goal. Hence any government is reluctant to take unpopular decisions that might jeopardize its stability and survival. Furthermore, there is a strong ongoing struggle for power, so any mistake might make one party lose popular support and would signify a loss of power. A fact that could be very harmful, considering the perspective of legislative or presidential elections.

When it comes to the international pressure, clearly the biggest pressure is the one stemming from donors and investors, which are both represented by the IMF. Indeed, an agreement on the IMF loan would be kind of a green light for other donors to lend money to Egypt and for investors to invest in the country, as it would give them a sort of guarantee of the country's solvency. Even if there are no conditions to the loan, any measures taken to improve the macro-economic situation, has to suit IMF ideology. Since they are not in favor of high taxes, which for them distort the market because they are a disincentive for production, the main measure that can be taken is cutting public expenditures. As noted above, subsidies are probably the budget line where there is most room for reforms and cuts. Even if food subsidies represent fewer expenses than fuel subsidies, the IMF is nevertheless pushing for reforms that would lead to a shift towards cash transfers. On the other hand, the Ministry of Supply is

closely advised by the World Food Programme that is not in favor of a total shift to cash transfers. The WFP defends the necessity of in-kind food subsidies. It eventually plays a role of balance. It is also the organ that advocates for the population. Their priority is the food security of households. They are not looking at the fiscal aspect in detail, but rather on the effect on the ground and on populations. They do not have a means of pressure in order to influence the government. But their main concern being the population, the government readily listens to them because the population's will is a big pressure in the decision-making process.

6.3. Position of international agencies

The IMF is in favor of a food subsidy reform because they do not find the actual program to be efficient and highlight that it fails to accomplish its mission since the poor benefit only partly of it. In addition to their high cost, extended social public policies, like the one conducted for subsidies in Egypt, distort the market. They advocate replacing it with a cash transfer for the poorest part of the population, which would reduce spending considerably.

The World Bank holds a similar opinion; they severely criticize the inefficiency of the current system with its huge leakages. Although they support the idea of cash-transfer in general, they do also recognize the necessity of in-kind food subsidies, but are still in favor of excluding 40 to 60 percent of the population from those benefits.

The World Food Program endorses the need for reforms in the food subsidy system in Egypt. They agree on the need of better targeting in order to include the poor that are

excluded from the program and to exclude the rich who benefit from subsidies they do not need. However, they still emphasize on the necessity of in-kind food subsidies in the current situation. A cash transfer system alone would not be able to respond to the irregularity of food prices and a system of adaptation would be very complicated to implement since the price can vary widely from one region to the other. They think however that the composition of the subsidized basket should be modified in order to bring better nutritional value; it should also take into account the regional preferences. They are also active in a campaign of bread fortification, which aims to enhance the nutritional quality of the subsidized baladi bread.

6.4. Negotiation positions between IMF and the Egyptian government

The negotiations between the government of Egypt and the IMF have been taking place since 2011. Until the day this work is being finalized, no agreement has been reached. In a first place, the SCAF refused an agreement with a low interest rate of only 1.5 percent and favorable terms. This can probably be explained by the bad reputation of the IMF in Egypt and the unwillingness of the SCAF as an interim government at that time to take important decisions. Indeed, the SCAF justified their refusal by the reluctance of the population to borrow from the IMF again. Probably, as they were here only as a transitional government, the SCAF just did not want to risk taking an unpopular decision or even just an important decision. Then, when the Muslim Brotherhood came to power, having to deal with the very ill economic situation of the country, they reengaged in negotiations for a 4.8 billion dollar loan. However, the situation has changed and the conditions of the loan became less favorable. The IMF would not accept any agreement without sufficient adjustment

measures that would guarantee an improvement of the fiscal deficit. Two main reasons, both political, can be identified to explain why no agreement has been reached yet. First, the Muslim Brotherhood in power was very reluctant to take economic measures such as reforming the subsidy system, because they feared to lose popularity in light of the upcoming parliamentary elections. Furthermore, because the government of Mohamed Morsi was already weak and suffering from instability, cuts in public spending might have threatened his position. Second, the IMF was not ready to sign an agreement with a government that was isolated from other political powers. In the absence of a broad based political will, the IMF feared that the structural adjustment cannot be implemented. This is why in Spring 2013 they started to meet with opposition figures to discuss the loan. Regarding food subsidies in the negotiation, it is difficult to evaluate to which extent they are important in them. Surely, the reform of energy subsidies is more important to the IMF, since it is a more costly program. It might also be that talks on food subsidies are more sensitive for the financial institution because it does not want to face the same accusations as in the past, when UNICEF criticized the harmful nutritional effects of structural adjustment policies on the population.

As said previously, the IMF looks more at the outcomes now. Most probably, reforming food subsidies is not an explicit requirement for the loan, but since the GoE is asked to rationalize its macro-economic situation and the current food subsidy system being inefficient, it would necessarily be part of it. This hypothesis can also be reinforced by the fact that the delegations coming to Cairo were always suggesting a cash program financed by the World Bank as an alternative to in-kind food subsidies. Food subsidies are therefore tackled in the negotiations between the IMF and the GoE. However, they are not the main and central element in those

discussions, but one issue among many others. There are many other reasons for the deadlock of the negotiations besides the lack of commitment for food subsidy reforms.

7. Conclusion

In the debate about food subsidies in Egypt, everybody agrees on the necessity of reform and on the unsustainable character of the current system. The divergences of all involved parties are about the extent of this reform. Furthermore, everybody seems to agree on the finality of cash transfers replacing in-kind food subsidies, since such a system is in fact more efficient economically. Yet, while the IMF is for an immediate transition to cash transfers, other UN agencies like the WFP claim that such a program is not yet appropriate for Egypt due to the high prevalence of poverty in the country and the instability of prices. A cash transfer system would then not be able to ensure a sufficient level of security for the most vulnerable part of the population in the current situation.

Additionally, there is a general agreement on the need for a better-targeted system in order to include the poorest parts of the population and to exclude those who do not need subsidies on food items. This question is, however, very sensitive because it is very difficult to evaluate who actually needs these subsidies and who should be excluded from the program. Only the World Bank dared to bring numbers by advocating for an exclusion of 40 to 60 percent of the population, this recommendation was, however, very broad and is not clear on which criteria should be determined who does and who does not need subsidies. The other problem with the

exclusion is, that it might cause a loss of support from the population to the program. Indeed, people who would not benefit anymore from the subsidies might oppose its fairness and legitimacy. This might actually be a reason why there had never been any serious attempt to improve the targeting of the program. When it comes to international agencies, the IMF might possess significant means of pressure for reducing expenses on food subsidies which would be part of the economic adjustment required to rebalance the budget in order to receive their 4.8 billion loan that would open the door for investors in the country. However, organizations like the WFP also have a great impact on the government's decisions. Indeed, they are somehow the people's voice in the debate; with their great field experience they have collected a good knowledge of what the people need. The people being a great strength in the post-revolutionary context in Egypt, their needs cannot be ignored in the decision-making process.

Even though international organizations have a certain influence on the decision-making, the issue of reforming food subsidies remains mainly one of domestic policy. The political situation of the transition prevents any serious attempt to reforming the subsidy system. No government managed, until the time this research is being conducted, to get enough legitimacy to conduct such a sensitive reform. Actually, any government that would start this reform would necessarily be criticized by its opponents for its mistakes and its ineffectiveness and those, in turn, would be used to destabilize its survival. There are too many strategic aspects in the current context paralyzing any concrete decision. It will therefore not be possible to engage in any reforms as long as the different parties see only their own ideological prospective for the country and are not ready to cooperate for its overall well-being. The absence of a

significant legitimacy and a broad political base makes it very unlikely in the current situation for any government to be able to introduce a substantial, acceptable and sustainable solution to the problem of food subsidies.

A solution to break this deadlock could be to create a commission on food subsidy reform that would include representatives of every political force, of the Ministry of Supply and the Ministry of Finance, and of international organizations like the World Food Programme and the IMF. Independent consultants could also be consulted if needed. Such a commission that would focus only on this specific issue could help finding a compromise and going beyond the political disputes and rivalries since its outcome – success or failure - could less easily be imputed to one single political force. The positive aspect regarding this issue is that, currently, the gap between the different political actors in Egypt is concentrated on issues like the level of conservatism or the place of religion in the state; the issue of food subsidy reform is likely to face smaller differences of opinion. Such a commission could help drafting the principle elements of a way forward for reforms that should then be implemented by the Ministry of Supply. Before the implementation stage, it will be crucial to inform and prepare well the population for the upcoming changes in order to make them more acceptable.

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