



## THE EGYPTIAN FOOD SUBSIDY SYSTEM STRUCTURE, PERFORMANCE, AND OPTIONS FOR REFORM

AKHTER U. AHMED, HOWARTH E. BOUIS,  
TAMAR GUTNER, AND HANS LÖFGREN

Egypt's food subsidy system has been a mainstay of the government's long-term policy of promoting social equity and political stability. It has also been a major component of the social safety net for the poor, guaranteeing the availability of affordable staples, helping to reduce infant mortality and malnutrition, and mitigating the adverse effects of recent economic reform and structural adjustment. The cost of the system has declined considerably from 14 percent of government expenditures in 1980/81 to 5.6 percent in 1996/97. The absolute cost, however, remains high: In 1996/97, the total cost was 3.74 billion Egyptian pounds (LE) or about US\$1.1 billion. The government and various stakeholders agree that the system's costs can be further reduced and its efficiency improved with better targeting to the needy.

*The Egyptian Food Subsidy System: Structure, Performance, and Options for Reform* evaluates the economic, political, and technical feasibility of reducing costs while improving or maintaining the welfare of the poor. The report addresses five questions: (1) How well does the present system target the poor? (2) How much leakage—the pilferage of subsidized foods in the distribution channel—occurs? (3) At what cost does the government transfer income to the needy? (4) How can subsidies be better targeted to the needy? and (5) What are politically feasible options for reform?

The subsidy system includes four foods: *baladi* bread, wheat flour, sugar, and cooking oil. *Baladi* bread and wheat flour are available to consumers of all income levels without restrictions. Sugar and cooking oil are targeted—they are available only to

those with ration cards. In principle, higher-income households should get low-subsidy red ration cards and lower-income households should get high-subsidy green cards.

### TARGETING THE NEEDY

The present system does not target the poor as well as it should. Subsidy benefits are about equally distributed across income groups: 1 percent of the population receives more or less 1 percent of the benefits. This distribution pattern is quite similar to the one of the early 1980s and reveals that the majority of benefits accrue to the non-needy. Poor targeting combined with system leakage led to only about one-third of the subsidy going to the needy. Of this, *baladi* bread accounted for 65 percent; wheat flour, 13 percent; sugar, 12 percent; and cooking oil, 10 percent.

*Baladi* bread and wheat flour accounted for about 77 percent of the subsidy in 1997. The untargeted system for these goods allows all consumers to benefit, but is an expensive way to improve the food security and nutrition of the poor.

Sugar and cooking oil subsidies are not well targeted. A majority of the wealthy households (about 71 percent of households in the top three quintiles) carry the high-subsidy green ration cards. These households receive about 62 percent of the rationed subsidy benefits. On the other hand, about 10 percent of needy households hold the low-subsidy red cards, and about 14 percent of poor households have no card of any kind.

Food subsidies can be better targeted to the poor. For this to occur, the following measures are needed:

1. *Baladi* bread distribution outlets should be concentrated in poor neighborhoods. Currently in urban areas, the number of *baladi* bread outlets in wealthy neighborhoods is greater per capita than in poor ones.
2. Rural areas and other areas where poverty is concentrated should receive higher shares of total food subsidies. A strong urban bias exists in the allocation of subsidies across Egypt. According to the 1996 census, 57 percent of the population lived in rural areas, but only 30 percent of food subsidies were allocated to these areas in 1996/97. Moreover, governorate-level allocations do not consider the geographic distribution of poverty.
3. The ration card system for sugar and oil should provide high-subsidy green cards only to low-income households and convert the green cards of non-needy families to low-subsidy red cards.
4. The government should mix maize flour with *baladi* wheat flour at flour mills. Intermediaries would not then be able to sift the mixed flour to separate the higher quality wheat flour to sell at market prices.
5. A proxy means test, which relies on indicators highly correlated with household income, should be applied to distinguish poor from non-poor households.

## LEAKAGE AND COST-EFFECTIVENESS

Considerable leakage occurs because the subsidies create a strong incentive for intermediaries to sell subsidized foods illegally at market prices. Twenty-eight percent of subsidized wheat flour leaked in this way, 20 percent of sugar, 15 percent of cooking oil, and 12 percent of *baladi* bread.

Overall, the government spends LE 3.06 to transfer LE 1.00 of income to a needy household through the food subsidy system. The cost of transferring LE 1.00 to general consumers of *baladi* bread is

LE 1.16. But because 61 percent of the benefit from the *baladi* bread subsidy goes to the non-needy, the cost of reaching a needy household increases to LE 2.98. At LE 4.64, the cooking-oil subsidy is the least cost-effective in directing LE 1.00 of income to the needy. The costs of transferring LE 1.00 of benefits to needy consumers through sugar and wheat flour subsidy system are LE 3.34 and LE 3.71, respectively.

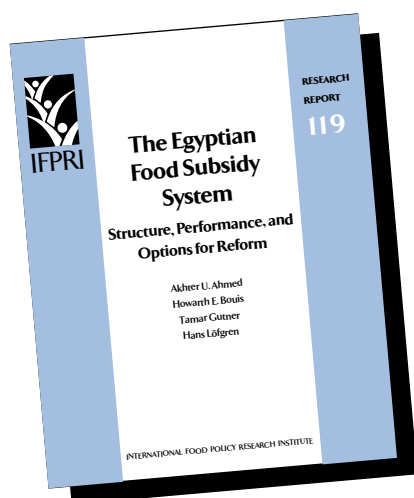
The current *baladi* bread subsidy provides a relatively effective means of transferring benefits to the poor, particularly the urban poor, helping to protect them against shocks that may arise from the ongoing economic reform process in Egypt.

## PRACTICAL REFORMS

A number of reforms are administratively and politically feasible. Because there is no pressing need for far-reaching change, government officials and various stakeholders believe that extreme measures such as increasing the *baladi* bread price to eliminate the subsidy or targeting bread subsidies by using food stamps or coupons are unrealistic. The feasible reforms can be divided into two groups, based on the degree of political opposition they would probably encounter. Policies that would likely meet little opposition include revamping the ration card system by decreasing rationed food subsidies for the non-needy, and mixing maize flour with *baladi* wheat flour at the milling site to reduce leakage. Options that would engender greater opposition are eliminating the sugar and oil subsidies, targeting bread outlets to poor neighborhoods, and reallocating supplies to the governorates according to their poverty levels. The losses the non-needy would incur from these reforms do not appear to be large. Therefore, these options are feasible if the political will exists to implement them.

To obtain this publication instantly, download at <http://www.ifpri.org/pubs/pubs.htm#rreport> or order online. To order by post, please fill out and send the coupon below to IFPRI. If your order is not received within 3 weeks (USA) or within 6 weeks (outside USA) please let us know.

Copyright © 2001 International Food Policy Research Institute. All rights reserved.



Please send me a copy of *The Egyptian Food Subsidy System: Structure, Performance, and Options for Reform* by Akhter U. Ahmed, Howarth E. Bouis, Tamar Gutner, and Hans Löffgren.

Name/Title \_\_\_\_\_

Organization \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_  
 \_\_\_\_\_