

Sustainable Development and Poverty Reduction under Mubarak's Program

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Abstract

This paper describes and analyzes the major features of economic development and poverty reduction in Egypt during its transition to a market Economy.

It focuses on the changes in the situation of poverty and economic policies pursued as remedies by the government of Egypt and the ruling NDP.

Sustainable development and poverty reduction is the core of the President Mubarak's election campaign for his fifth term for the presidency.

We attempt to explain the obstacles encountered by the Egyptian economy in terms of adjustments and general economic arguments on poverty. Finally, we refer to the necessity for enhanced accountability in the society to accomplish the goal.

Keywords: Egypt, Transition, Poverty Reduction, Mubarak's Program, EHDR

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1. Introduction

This paper describes and analyzes the Major features of economic development and poverty in Egypt during its transition to a market economy. It focuses on the changes in the situation of poverty and economic policies or adjustment policies as remedied by the government of Egypt and the ruling National Democratic Party (NDP).

Sustainable development and poverty reduction is the core of the President Mubarak's election campaign for his fifth term for the presidency.

However, this paper does not cover the full range of the topics; rather it attempts to explain the obstacles encountered by the Egyptian economy in terms of adjustments and general economic arguments on poverty, with the aim to give the general reader an understanding of the special features of poverty in Egypt.

Finally, we refer to the necessity for enhanced accountability and transparency in the democratized and decentralized society to accomplish the goal.

2. Obstacles and Adjustments

Egypt's economic development has been affected by several internal and external events, which have led to changes in the regime, cabinet and policy frameworks, as well as by adjustment policies. Though the July Revolution of 1952 allowed Egypt to achieve independence from foreign dominance in terms of economic resources and politics, the

government's new aspiration for social justice, followed by nationalization and the socialistic regime, came at the cost of some inefficiency in resource allocation and X-efficiency. These structural problems or policy-induced distortions became obstacles for subsequent development.

Before the July Revolution, poverty, illiteracy, and disease were an unholy trinity for Egypt, and solution of these problems were the main political, economic and social objectives of the government. The first land reform was undertaken soon after the revolution, and the government began to build the administrative organs for comprehensive central planning. Liberal trade and investment policies were rejected under the unfavorable climate with Western countries following the nationalization of the Suez Canal Company in 1956. The government formulated and implemented long-term development plans in the framework of the socialistic regime, laying special importance on social justice in the field of employment in the government and public sectors, the adjustment of minimum wages, the procurement of fundamental items based on subsidies, the expansion of educational and health services, and innovations in various economic and social dimensions.

However, despite some early success in the 1960s, this experiment ultimately failed, partly due to the June War of 1967 and partly due to the inexperience of the institutions¹.

In the early 1970s, the Sadat regime began to open Egypt, politically and economically, to Arab and Western counterparts. The government shifted its strategy from public sector-led to private sector-led development, from a closed to open economy (Infitah, the Open Door Policy), and from an inward to outward orientation. The major policies were to

¹ For an evaluation of experiments in socialism and central planning, please see Hansen

encourage an inflow of financial resources from the Arab oil-exporting countries and the introduction of new production and management technologies from the West in order to increase production factors and improve the technology coefficient. In addition to providing wider management autonomy to the existing public sector and new private sector, the government facilitated the procurement of foreign currencies by establishing a parallel market for the importation of raw materials and investment goods². These incentives failed to bear fruits, as this period saw a sudden shortage of foreign currencies following the continuous expansion of consumption in the wake of the October War of 1973, the reconstruction of infrastructure damaged during the war, the building of new infrastructure, and military debts contracted with the United States at high interest rates varying from 12 to 14% per annum³.

In summary, the policies were always halfhearted⁴. A substantial transition to a decentralized and market-oriented economy was not achieved.

During the latter half of the 1970s, the IMF recommended economic reforms to restore an internal and external equilibrium. The main reform policies were exchange rate unification in the place of a multiple exchange rate system of the Egyptian pound and

[1969], Al-Gritly [1977], Abdel-Khalek [1982], etc.

² The parallel market was intended primarily to attract workers' remittances, but also to encourage tourism and certain exports.

³ The Egyptian governments repeated negotiations with the US governments deliberately to reduce the interest rates on the military debts to lower rates prevailing in the international markets after "the strong dollar" period. Details of the negotiations and compromises from the US governments were explained in several articles by Mervat al-Hasry and others in *Al-Iqtisadi*.

⁴ Egyptian officials and experts, to some extent, supported the structuralist's views on inflation and the undesirable effects of adjustment policies, especially, interest rate policy on price level and growth. See Abdel-Khalek and Korayem [1995] and several arguments by Kirkpatrick and Onis [1985], Kirkpatrick and Nixon [1987], and Porter and Ranney

demand management. However, a well-designed and decisive reform budget including reductions in subsidies was rejected following the food riots in 1977. Clearly, the national budget and balance of payments were under pressure from the servicing of external debts. However, the indebtedness was not eliminated. Instead, the solutions involved implementing reform policies and rescheduling the debts, or in other words, deferring repayment to the near future without any real debt relief.

During the 1970s and 1980s, voluntary and forced adjustments were introduced but without significant results. Financial repression prevailed and inflation led to an aggravation of the economic situation and unemployment, consequently poverty (**Chart 1**). During this period, some troubles involving informal money dealers and Islamic Investment Companies (IICs) emerged (Harik [1998]), leading to a freeze of the savings of Egyptian small savers and workers abroad, eroding the net value of their savings during inflationary period. A transformation of the illegal investment companies was successfully promoted by Prime Minister, Ministers of the Economy, presidents of the Capital Market Authority, and financial and legislative experts in the latter half of 1980s⁵. The illegal and informal financial intermediaries with a moral hazard were dissolved, and their assets were returned to small savers or investors in phases⁶.

[1982].

⁵ See detailed comments and contributions on the negative economic and social aspects of the Islamic investment companies made by various specialists and scholars in *al-iqtisadi*, especially, Mahmoud Fahmy, Mahmoud Abdel-Fadil, Saad El-Din Ibrahim, etc.

⁶ See an article by Editor, Essam Rifaat, in *Al-Iqtisadi*, December 28, 1998 on the situation of settlements of the various Islamic investment companies. Assets of the al-Rayan and al-Sherif, among them, were detailed by interviews with the most responsible Minister of Justice and Prosecutor General. Meanwhile, Prime Minister El-Ghazouly had already decided repayment to the investors to the al-Rayan from the state treasury.

This situation continued until the launching of ERSAP (Economic Reform and Structural Adjustment Program) in the early 1990s when the international community came to acknowledge Egypt's strategic importance on the occasion of the Gulf War in 1991. Long awaited financial liberalization and prudential policies were implemented in advance of the formal start of ERSAP at the beginning of 1991. The unification of exchange rates and liberalization of interest rates led to a rise in the inflow of remittances from workers abroad and speculative inflows. The stabilization was achieved by money supply control through the sterilization of inflows of foreign currencies by the issuance of treasury bills. The inflow of financial resources and accumulation of international reserves were induced by several positive economic and psychological environmental changes: a reduction of both military and non-military debts, restoration of the creditworthiness of the Egyptian pound and the emergence of an image of Egypt as a stable presence in the unstable Middle East.

ERSAP succeeded in stabilizing the economy through its austerity policy and *de facto* dollar peg of the Egyptian pound, and succeeded to some extent in transforming the economy to a market-oriented one through trade liberalization and privatization⁷.

The post stabilization experience in Egypt was harsh, involving the appreciation of the Egyptian pound and the expansion of fiscal expenditures to achieve the goal of expanding the population of areas outside the Nile Valley and the creation of employment. This period witnessed high growth rates for domestic goods industries and import-substituting manufacturing industries.

In addition, the economy underwent internal and external shocks including the Tragedy

⁷ See Subramanian [1997] and Handy [1998]. The IMF highly appreciated the

of Luxor and the economic crises in East Asia and Russia in 1997 and 1998.

As a result of rigidities in exports of non-oil manufacturing goods, Egypt experienced another dollar crisis in the aftermath of September 11, 2001. In a speech at the time, President Mubarak stated, “exports are a life and death issue.”

However, this crisis was overcome by utilizing the international reserves accumulated during the ERSAP stage. However, before the floating of the Egyptian pound in early 2003, several adjustments were made by changing the foreign exchange regime between a hard peg and float⁸. This stage was marked by economic stagnation and inflation. The recovery of sustainable growth was attained thanks to a favorable external environment, including an increase of oil export revenues and recovery of the tourism sector, which came in 2004, at a fortunate time for the new government, which was implementing drastic reforms in the income tax and import duty, working to resolve the problem of non-performing bank loans⁹, and enacting WTO-related laws such as an anti-monopolistic activities law.

In summary, the Egyptian government tried to enhance the economy through an “engineering” approach and “industrial organization” approach (Galal [2006]). However, it seems that accomplishment of accountability and transparency in the society is still on the

stabilization and recovery of the economy as a success story except delayed privatization.

⁸ See Mussa [2000] and Taylor [2005] on the exchange rate regimes and discussions between the authors and participants on which is the most suitable exchange rate regime for Egypt to adopt.

⁹ At that time banks were suffered from the bankrupts of major borrowers who were influential on the lending policies of banks, and this hampered the financial intermediation in Egypt. See various articles in Al-Iqtisadi in 2003. It is noteworthy to point that 250 investors received 28% of the bank loan without mortgages until the end of 1998 and other related problems detrimental to management of banks (Al-Iqtisadi, May 26, 2003). Several important comments were made by Salwa El-Antary of NBE on the relationship between increase in credits to private sector and increase in deposit in Egypt, as a whole (Al-Iqtisadi, June 16, 2003).

way. It is not easy for the society to enhance democratization and decentralization in general and to change the culture or belief from import substitution to export promotion or from import culture to export culture in particular.

Finally, economic stabilization and structural adjustment since ERSAP could not achieve the sustainable growth and poverty reduction. Then, sincere reform was needed for pro-poor development.

3. Situation of Poverty in Egypt

How do we define poverty and distinguish the poor from the non-poor? The aim of measuring poverty is to identify vulnerable groups of individuals who are unable to attain a standard of living that is consistent with a social standard.

As poverty has complex and multifaceted phenomena; the distinction differs depending on the methodology utilized: objective or subjective measurement, absolute or comparative, and money metric or other socioeconomic measurement. First, we start by utilizing money metric measures despite the difficulties involved. All studies on the poverty line utilize information from the Household Income and Expenditures Survey (HIES) and Household Budget Survey conducted by CAPMAS, a governmental statistical agency.

Since 1991, comprehensive economic reforms have been in place and sincere studies have been carried out to examine whether the reforms would adversely affect the welfare of the poor. At the beginning, low growth rates continued as an austerity policy was implemented. Later, the economic growth rate rose to as high as 5% in 1995.

Earlier studies on poverty in Egypt (**Table 1**) show that the poverty level increased from 1981/82 to 1990/91 in both rural and urban areas regardless of the level of incidence of poverty used by the author. However, from 1990/91 to 1995/96, namely the ERSAP period, significant disagreement appeared between authors in terms of the trend and level of poverty incidence. In urban areas, poverty increased. However, in rural areas, it either increased or decreased, depending on the study.

An early study (UNDP and INP [1996]) estimated the food-based poverty line for 1995/96 at LE3184 per household and LE594 per capita, and the cost of basic needs (lower expenditure poverty line) at LE4186 per household and LE814 per capita. According to the further study, the incidence of poverty increased in urban areas from 20.3% to 22.3%, and decreased in rural areas from 28.6% to 23.3% between 1991 and 1995. This contrast reflected mobility from rural areas to urban areas and worsening employment circumstances in urban areas. At the same time, to analyze this phenomenon, several studies were conducted on the effects of ERSAP on poverty. Some argued that ERSAP might adversely affect the income distribution¹⁰.

In addition, Poverty Assessment Surveys, 43% of the respondents reported an improvement in their living conditions, whereas 57% experienced either no change (21%), or deterioration (36%). However, only 23% of the poor replied that their living standards had improved over the 1991-1996 period, as compared with more than double that percentage for the non-poor (50%). This analysis reveals that the burden of the ERSAP fell more heavily on the poor (UNDP and INP [1996]). The general economic condition and

¹⁰ See Korayem [1996], who concludes that ERSAP had negative impacts on employment

employment circumstances were the main factors influencing the improvement or worsening of living standards. However, special conditions such as retirement, aging, disease, entrance, graduation, marriage, and divorce are important factors.

As mentioned above, there are considerable differences in estimates of the poverty line, leading to changes in the incidence of poverty¹¹. These differences emerge from four technical problems, namely (i) economies of scale within households, (ii) consumption patterns in different regions, (iii) hypothetical or optimal cost of the diet of the poor, and (iv) basic needs requirements of different household members – young versus old, and male versus female.

Works done by, mainly, El-Laithy and Osman [1997] and the World Bank and the MOP, have resolved the four problems mentioned above. The measurement of poverty lines has been improved by defining household specific poverty lines instead of per capita poverty line, as explained in “Poverty Reduction in Egypt- Diagnosis and Strategy” Report (World Bank and MOP [2002a]). Starting from the definition of the food poverty line, by estimating the minimum caloric needs for individuals, and estimating the cost to obtain the minimum level of calories, necessary non-food expenditures to define the lower poverty line are assumed. This reveals differences of definitions and measurements of poverty among the studies. Results of the decisive estimation of the household specific poverty lines are shown in **Table 2**.

As for the definition, in addition to the dichotomy between the poor and non-poor, other

and prices, and poverty, consequently.

¹¹ The Egypt Human Development Report 1994 defined a poor person as one whose income is roughly one-third of per capita national income because of conceptual difficulties

definitions divide the poor into three groups¹². From 1990/91 to 1995/96, the non-poor in urban and rural areas decreased from 61% to 55% and from 60.8% to 48.8%, respectively. This implies that the increase in the number of poor and moderate poor was from 18.7% to 22.5% in urban areas and from 10.6% to 26.9% in rural areas. In the year of 1995/96, the ultra poor made up 7.4% of the population in all of Egypt, 7.7% in urban areas, and 7.1% in rural areas.

During the period from 1995/96 to 1999/2000, the Egyptian economy recorded increased growth rates of 6% per year on average. In 1999/2000, the poor population fell from 13.7 million people to around 11.0 million people representing 16.7% of the entire population.

This period is characterized by fiscal expansion and the appreciation of the Egyptian pound above mentioned. The appreciation of the Egyptian pound (the Dutch disease phenomenon) benefited the tourism and the manufacturing sectors that were inward oriented and protected from external competition. Afterwards, fiscal and monetary policies became inconsistent under the large government expenditures on mega-projects aiming to promote growth in the regions. In addition, internal security problems and the unfavorable external environment had an adverse effect on the Egyptian economy in the latter half of the 1990s. These external factors included the economic crises in emerging markets in East Asia and Russia.

With the instability in the Middle East caused by the aftermath of September 11, 2001

in estimating poverty line.

¹² These are the moderate (or mild) poor, the poor, and the ultra (or extreme) poor. The border between the non-poor and the moderately poor is the upper poverty line. That between the moderate poor and the poor is the lower poverty line. The ultra poor live below the food poverty line.

and the ensuing War in Afghanistan, the Egyptian economy started to shrink, recording low annual growth rates of around 3%. These factors led to a new dollar crisis and finally to the flotation of the Egyptian pound in early 2003. The floating, in turn, triggered an increase of price levels, and the CPI rose at an annual rate of 8.1% in 2003/04 compared to 3.2% in the previous year. This inflation which can be regarded as a one-time price increase, aggravated the situation of poverty and increased the incidence of poverty to 20.7% in 2003/04 (UNDP and INP [2005:207]).

Recently, results of a study were disclosed (Kheir-El-din and El-Laithy [2006]). In this paper, poverty indices were estimated as in **Table 3**. The objective of measuring poverty is to identify vulnerable groups of individuals who are unable to attain a standard of living that is consistent with a social standard. The features of poverty are analyzed by the poverty incidence (P0), the poverty gap (P1), and the severity of poverty (P2).

In parallel to this change, the poverty gap (P1) and the severity of poverty (P2) increased. It might be imagined that the aggravation was caused by stagnation and rapid increase in the price level during the period, especially after the flotation of the Egyptian pound.

According to this study, the incidence of poverty (P0) increased to 19.56% in 2004/05 despite the long improvement during 1990/91 and 1999/2000 in parallel to the changes in P1 and P2.

As the economy subsequently returned to a growth path and fall of price increase, it is rational that the incidence of poverty fell to 19.56% in 2004/05 (Table 3) from the figure mentioned above for 2003/04. Further, it is expected that a portion of those who escaped from poverty during 1995/96 and 1999/00 dropped into poverty during 1999/00 and

2004/05 (Kheir-El-Din and El-Laithy [2006:7-11]). In 2004/05, 19.56% of the population represents 13.6 million people.

4. Human Development Index

We have already defined poverty from income and/or expenditures (income poverty). However, poverty is a multi-faceted phenomenon, and it is more important to define poverty from Capability Poverty Measure (CPM), as shown in **Table 4**, for example.

Internationally, the UNDP issued the first Human development report in 1990, and the World Bank issued a special report on poverty in the same year.

Later, the World Summit for Social Development was convened and a new policy for development cooperation was formulated. The World Bank issued a comprehensive development framework in 1998, emphasizing the necessity of ownership in developing countries. In 2002, the Millennium Development Goals were formulated at the Millennium Summit.

In Egypt, the UNDP and INP published the first Egyptian Human Development Report 1994. This publication tried to disseminate the concept of human development in Egypt, and later, participatory development and so on. The reports display human development indices based on the Human Development Report of UNDP. The Human Development Index (HDI) is a summary of human development seen from three dimensions: (i) a long and healthy life measured by life expectancy at birth, (ii) knowledge as measured by the adult illiteracy rate and the combined gross enrollment ratio, and (iii) a decent standard of living as measured by GDP per capita (PPP US\$). In terms of HDI, Egypt ranked 119th

among 177 countries in 2003 with HDI, 0.659 (**Table 5**) . Meanwhile the rank is lower than the rank of GDP Index by ten. Comparing Egypt with countries with similar HDI ranks, the index of life expectancy at birth of Egypt, 0.75 and the index of GDP, 0.61, are comparable, but the education index, 0.62, is rather low compared to China, Turkey, and Indonesia. The reason for the low education index stems from the fact that the adult literacy rate is still low at 55.6% in Egypt.

In 1960, the literacy rate for individuals above 15 years old was 40% for men, 12% for women, and 25.8% for the population as a whole. Examining these figures, we see a rapid improvement in education in recent years, but one that has been slow compared to other countries.

Then, despite the rapid improvement of human development in Egypt, the rank is still as low as it was in 1975 due to the efforts of other countries (**Table 6**). Still, the prevalence of poverty is clear from the high proportion of (i) children under five who are underweight, (ii) births unattended by a doctor and/or trained nurse, and (iii) female household members aged six and over who have no education. These dimensions have a negative impact on poor families over generations.

Looking at information on capability poverty and income poverty in 1994/95 from the Demography and Health Survey (DHS), in urban areas, the situation is comfortable but poverty is severe in rural areas. By region, Upper Egypt lags in comparison to Lower Egypt. Sanitation, nutrition, level of medical care, access to hospitals and clinics, and related professionals affect the capability of people. The Egyptian government is eager to achieve the MDGs. However, the possibility of achieving them varies depending on the sector.

Extreme poverty and hunger have already been eliminated. Education, health, and the provision of safe water have been resolved to an extent. Gender equality and the improvement of women's status have been difficult to achieve.

As far as the MDGs are concerned, the goal to eradicate extreme poverty and hunger by halving the percentage of the population living on below PPP\$1 per day has been met in Egypt. However, 19.8% of the population still subsists on below PPP\$2 per day, a figure higher than the 16.7% incidence shown in the national lower poverty line, shown by the fact that, as shown above in Table 2, the lower poverty line is at around LE1100, and the higher international poverty line is at 1030. However, PPP\$2 is higher than the lower poverty line in Egypt excluding cosmopolitan areas.

5. Poverty Reduction Strategies

The degree of poverty and determinants of poverty were analyzed in the report, Poverty Reduction in Egypt-Diagnosis and Strategy (World Bank & MOP [2002]).

The situation of poverty and regional gaps in poverty has changed along with overall development in Egypt, and a dynamic analysis was done between years. The special features of the poverty in Egypt are as follows.

- (i) The principal source of poverty is related to labor. 85% of income comes from wages. The remainder is from revenues from mobile property, real assets, financial assets, and transfers (pensions)
- (ii) Unemployment is a factor behind poverty, and reducing unemployment is one of the principal economic policies of the government.

(iii) In urban areas, the ratio of self-employment is low and there is need to encourage micro and small enterprises.

(iv) The incidence of poverty among unpaid laborers is high and there is a need for decentralization in rural areas.

(v) In the agricultural sector, the incidence of poverty is high, at 22%. By contrast, the incidence is low in the manufacturing sector and service sectors, at 11% and 8%, respectively.

(vi) In Upper Egypt, the incidence of poverty is highest, at 34.2%, and the poor population, at 5.8 million, represents more than half of total poor population of 10.7million.

Poverty was dealt with and eased by cash transfers from the government to the poor in 1999/2000. As far as subsidies in kind, the subsidy for *balady* bread was most effective, lifting 730,000 people from poverty. However, the subsidy system is inefficient as it can be used by the non-poor. The subsidy for vegetable oils is least efficient, as it eased only 170,000 people.

Looking at the causes of poverty, the low level of education or illiteracy is most closely related to poverty. Among the poor, 45% of people are illiterate, and the higher the level of education, the lower the incidence of poverty. Further, 71% of illiterate individuals belong to a home with an illiterate head of household.

Based on these analyses, the Report, Poverty Reduction Strategy for Egypt (World Bank and MOP [2004]) formulated a poverty reduction strategy that involved: (i) increasing income by growth, (ii) increasing future income through education, and (iii) protecting the vulnerable through social safety nets .

In summary, poverty in Egypt stands out for its shallow nature, with relatively low P1 and P2 values as mentioned above. This means that it is relatively easy to lift people from poverty. In this respect, cash transfer through social security, Sadat and Mubarak pensions, and social insurance is playing an important role for alleviating poverty for those without pensions from the government and public sector nor organized private sector. However, resources for the safety net is insufficient. Consequently, the enhancement of these programs and raising the efficiency of targeting of subsidies are essential for reducing poverty in Egypt.

Although existing subsidy policies are reducing the incidence of poverty and contributing to political and social stability, it is clear that at the same time, the subsidy policies harm, to some extent, the efficiency of resource allocation, and benefit some agents (Helmy [2005]). In fact, the non-poor are benefiting at the cost of the poor. Thus, the policy requires particular reform in: (i) the selection of subsidized items, (ii) modernization of registration for ration cards, (iii) establishment of efficient delivery systems, and (iv) introduction of a price mechanism in energy.

Finally, it is important to devise a system that can contribute to improving targeting and equity, as well as contributing to long-term economic development.

6. Economic reform and Mubarak's program

In this section, we observe and analyze the process of decision-making and the contents of Mubarak's election campaign program.

In Egypt, the ruling NDP formulates a policy framework or vision and the NDP's

governments implement the respective policies. At present, Gamal Mubarak is responsible for the general policy as chairman of the policy committee and as deputy secretary general of the NDP following the re-organization of the party organs at the eighth general conference of the party in 2002.

At the same time, it was decided that annual conference would be instituted to be held during the 5 years between general conferences of the party.

In terms of a new policy framework and new thinking, education and scientific studies, health, sanitation and housing, Egypt and the world, economic challenges, youth, and women were raised as priority fields. Later, civil rights and democracy, conservation of land and urban development, and the present and the future of transportation sector were taken up at the first annual conference in 2003.

Those items are all important but in this paper, we will focus on the economic challenge.

The economic challenge consisted of (i) poverty reduction and increasing the living standard of low income earners, (ii) efficiency policy for the observation of competition and consumer sovereignty, (iii) organizational reform of income and import taxes, (iv) management of national wealth (including privatization), (v) financial sector reform, and (vi) disclosure and availability of data and information¹³. Further, there is a need to prepare the economic and managerial framework necessary for making decisions on future economic policies. In particular, the investment law, small enterprises law, law for business (including check law), e-trade, and amendment of the capital market law have improved the investment climate in Egypt.

¹³ See the economic challenge (NDP [2004]) published as a part of the New Thinking

Meanwhile the Egyptian pound was floated in the early 2003. This led to price hikes in Egypt from the depreciation of the currency and to an increase in international commodity prices and freight costs. President Mubarak repeatedly stated that the burden should not fall on the shoulders of low-income earners and the NDP demanded emergency relief policies for the poor. The main policies are: (i) a continuation of direct and indirect subsidies, (ii) extension of procurement, extension of distribution of subsidized wheat, (iv) development of a ration card system, (v) ratification of a specific tax on clothing, (vi) reduction and elimination of taxes on foods, (vii) reduction of registration charges for real estate.

President Mubarak presented the new Prime Minister Nazif in July, 2004 with the following four guidelines:

- (i) Achieving higher economic growth; create new employment opportunity for the youth by stimulating domestic and foreign investment.
- (ii) Protection of the vulnerable: assistance for the supply of fundamental and necessary services.
- (iii) Enhancement of educational, health and transportation services.
- (iv) Institution of a system for the respect of civil rights and freedom and independence of jurisdiction.

The Nazif government implemented a financial sector reform involving the settlement of non-performing loans and reorganization and mergers of banks. In addition, income tax reform (Law No. 91/2005) and executive law of income tax (Law No. 10/2006) were adopted. Further, the government created a Ministry of Investment and appointed members

(al-fakr al gadid).

of younger generations to ministry posts and related higher posts. It is now constructing institutions for investment and has re-launched privatization, which lost momentum in the unfavorable international and domestic environment to sale the national assets with proper prices.

The revenue from the privatization amounted to LE10.9 billion in the first half of 2005/06 compared to LE5.6 billion in 2004/05. A new law to prevent monopolistic activities was legislated along with a number of policies for the extension of ICT and for globalization.

The cores of the poverty reduction strategy are the creation of employment opportunities led by the private sector and the re-distribution policy mentioned above.

7. Promotion of investment and creation of employment opportunities

In his December 2004 speech on the government's policy, Prime Minister Nazif disclosed ten development programs¹⁴. The comprehensive program included policies for growth, employment creation, poverty reduction, and enhancement of social services, to address the problems facing the Egyptian society.

(i) Investment and Employment (A Investment, B employment), (ii) Subsidies, prices, purveyance of markets, (iii) services necessary for nationals, (iv) economic performance, (v) education and scientific research, (vi) health services and restraint of population growth, (vii) administrative systems, (viii) natural preservation, (ix) political and legislative reform, and (x) construction of a knowledge society.

¹⁴ *Al-Ahram*, December 20, 2004.

In the area of investment, special attention was given to the following issues.

- (i) Enhancement of credibility of the investment climate (including transparency).
- (ii) Elimination of administrative obstacles (referring to the new import tax law, exemption of import tax, sales tax).
- (iii) Provision of privileges for investors (modernization of industrialization, free trade)
- (iv) Introduction of promised projects.
- (v) Development of public and private sectors, and modernization of base for production and service.
- (vi) Enhancement of infrastructure, provision of export credits, encouragement of trade with emerging markets, etc.
- (vii) Provision of additional incentives to enterprises with an international reputation.
- (viii) Concentration on sectors with a comparative advantage utilizing natural and human resources, such as tourism, real estate, agriculture, oil industry, and IT, which yield high value added and create employment opportunities.

International institutions and donor countries as efficient for the sustainable development praise this policy framework.

Results of the policies are bright in the field of privatization, foreign direct investment, and tourism as well as increase of oil and non-oil exports. However, most of nationals could not policies by the status of unemployed and less paid.

The Nazif government is implementing various policies following Mubarak's program that was prepared at the second annual conference of the NDP in advance of the presidential election in October 2005. Several parts of the program have been implemented

with the annual budget starting July 2005.

The program itself, a comprehensive one, was thoroughly presented in the election campaign.

The program¹⁵ is based on two axes, the protection of civil rights and democracy, and guaranteeing socioeconomic stability through living standard improvement, poverty reduction, and employment creation. The creation of employment opportunities is deeply linked to investment. In this area, the policy committee of the NDP promised the creation of 4.5 million jobs in the six years from 2006/07 to 2011/12 centered on 1,000 factory projects and tourism in addition to small projects and new village projects. As far as the 1,000 factory projects, the Ministry of Trade and Industry has disclosed the recent performance. The efforts carried out by the government are praiseworthy, though the achievements are ambiguous.

The program contains socioeconomic elements and targets people from low-income groups to the middle class. For low-income earners, goals in the field of living standard improvement includes the expansion of health insurance coverage to 100% by 2010, improvement of educational levels, provision of housing, transportation, and the water and sanitation projects. It is particularly notable that the projects include housing projects to construct 500,000 houses for young people in six years. Water and sanitation projects are important for the improvement of environment and health.

In the area of income, plans call for the doubling of wages of government and public sectors employees (5,100,000), economic authorities (500,000), and the public business

¹⁵ See NDP [2005].

sector (500,000) in six years. In addition, the protection of workers in the informal sector, development of the pension system, and expansion of social security coverage to people without pensions are major items of the program. Within the pension program, the number of beneficiary families is scheduled to increase from 650,000 to 1,000,000 families. In addition, a special insurance fund will be established.

For the middle class, education and job training are seen as important. Further, the amendment of the mortgage financing law to facilitate home buying is important. As for living standard improvement, an increase in the number of buses with air conditioners and establishment of new sporting clubs are attractive components of the policy.

The presidential election resulted in a continuation of the Mubarak's regime for another six-year term. However, in the subsequent election for the people's assembly, the opposing forces with Islamic members made a substantial victory, attaining around one quarter of the 448 seats elected. The government and ruling parties are eager to show recent good performance of Mubarak's program¹⁶ but are frustrated by the negligence or negative appraisal from people in contrast to the international financial institutions such as the IMF and the World Bank.

8. Conclusion

In this paper, we have described changes in poverty in Egypt in relation to changes in economic policies and adjustment policies.

Making judgments regarding performance is difficult as poverty is a multifaceted

¹⁶ See NDP [2006] and MOP [2006].

phenomenon. Using monetary measurements, we can analyze how poverty is affected by growth and changes in prices. At the same time, it is essential to pay attention to re-distributional system, without which the poor could not benefit from the development of the economy.

Using the definition of HDI, the absolute indices are improving and we can conclude that living conditions are improving. However, regional and gender disparities are to be ameliorated.

On the economic front, recent growth is deemed sustainable and the government is seen as having certain ability to enhance the provision of social services. The growth rate is estimated at 6.9% in 2005/06 and expected to exceed 7% in 2006/07. In the Five Year Plan starting from 2007/08, annual growth of 8% and employment of 3.7 million youth are projected. In particular, the plan calls for reducing unemployment from 8% to 5.5% at the end of the plan. In addition, in the annual plan for 2007/08, the government is planning to increase wages and subsidies and improve the living standard of low-income earners¹⁷. This budget will be made possible by increased revenues from income tax reform and privatization. At the same time, the plan calls for reducing the budget from 9.6% in 2003/04 to 6.7%. Thus, sustainable growth and poverty reduction policies are on track. Economic freedom has been secured and is expanding.

However, if we look at frustration among people, a lack of satisfaction based on several political and civil developments are rampant in Egyptian society.

The authors of EHDR 2005 set targets for poverty reduction and described the necessary

¹⁷ *Al-Ahram*, May 7, 2007.

expenditures to achieve them. Lead Author, Heba Handoussa says that democratization and participation at the decentralized level become a major tool for cultural transformation, such that citizens own, manage and respect utilities and services and are proud and willing to share collectively in the responsibility for their quality and sustainability (UNDP and INP [2005:vii]).

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