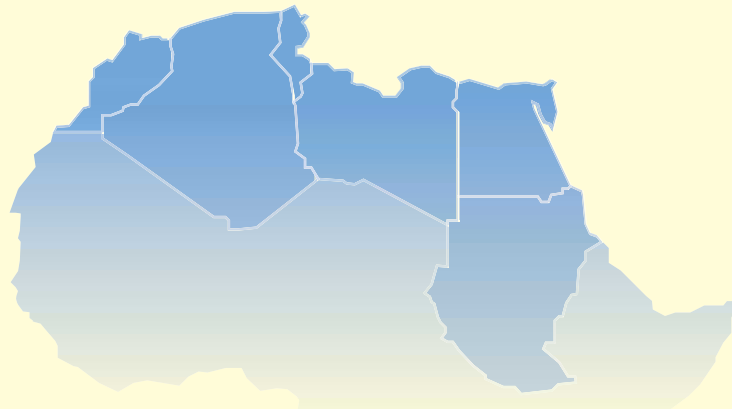




International Labour  
Organization

# Towards Decent Work in North Africa

No. 1



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## Poverty, Employment and Policy-Making in Egypt

A Country Profile

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## Preface

At the World Summit for Social Development, held in Copenhagen in 1995, the Member States of the United Nations made 10 commitments for action intended to reduce poverty, achieve social progress and raise the standard of living of their populations. Commitment 3 related to the creation of employment and the reduction of poverty in general, Commitment 7 being particularly concerned with the situation on the African continent. Following the Summit, the United Nations created an interagency task force on employment and sustainable livelihood, led by the ILO. The task force considered that the ILO “because of its mandate, tripartite structures and expertise has a special role to play in the field of employment”. Thus, out of the two commitments, emerged the Programme on Employment Generation and Poverty Reduction in Africa, known for short as the Jobs for Africa (JFA) Programme. Funded by the United Nations Development Programme (UNDP), JFA seeks to promote investment-led economic growth and to ensure that this growth maximizes employment and reduces poverty.

The JFA programme is a methodology aimed at identifying the root causes of poverty and employment deficits in Africa and at formulating and applying a comprehensive and integrated approach to overcoming them. This approach includes measures in 11 areas with direct bearing on poverty and employment. It is also meant to contribute towards reaching the ILO goal of Decent Work for all job seekers in the world. The areas in question include macro-economic policies, with a focus on investment-led strategies, labour market information and training. They also comprise fields where efforts for employment could be particularly rewarding, such as micro, small and medium enterprises, employment-intensive infrastructure, rural development and the informal sector. Given the specific vulnerability of women in the labour market, their employment is singled out as an area for action. Micro-finance, is viewed as an effective tool for the reduction of poverty and the promotion of employment of the very poor. In view of the conflicts that have torn apart some countries on the continent, particular attention is accorded to means of action in countries emerging from conflict. Finally, the JFA approach seeks to strengthen the role of social partners in facing up to poverty and employment issues. Obviously, after shortcomings and weaknesses are identified, and policy measures to redress them are formulated and applied, specific employment creation projects can be designed. The implementation of these projects would need the mobilization of larger funds than those intended for the JFA programme.

Ten countries were considered for the application of the JFA methodology in the first stage. Algeria and Egypt from the North Africa sub-region were among five additional countries added to the initial group, in a second stage. At present, the ILO has extended the possibility of applying the JFA approach to all African countries wishing to benefit from it. Sudan has thus become the third country in the North Africa sub-region covered by the JFA programme.

Logically, before the JFA methodology is applied, a first necessary undertaking is to review the poverty and employment situation in the concerned country. This is the object of the present **Poverty and Employment in Egypt: a Country Profile**. Two eminent academics, with deep knowledge and vast experience in these two interrelated topics, Professors Naglaa El-Ehwany and Heba El-Laithy, undertook to review the situation in Egypt. After a brief introduction, intended to place the country profile in perspective, the authors examine in Section 2 the evolution of poverty and employment in Egypt in the last decades, before focusing on the situation in the year 2000. In drawing up the profile, they point to trends in competitiveness, productivity and incomes. The authors also reveal the sectoral distribution of employment and the characteristics of employment according to sector ownership, status in employment, occupation, economic activity and educational achievement. In charting a poverty map of Egypt, they bring out the geographical distribution of the poor and their demographic characteristics. In all this analysis, gender is taken into account and specific information on female employment and poverty is highlighted. In dealing with employment, the critical situation of youth is emphasized and information is provided by age groups. Before they do that, the authors critically review the sources of information on employment, bringing out the inconsistencies that need to be

redressed. The authors go on to describe and analyze the integration, or otherwise, of employment and poverty-reduction objectives in policy-making, and the institutions for employment promotion and some specific programmes they carry out. In their conclusions, the authors include recommendations for policy measures that should help in expanding employment opportunities and in reducing poverty in Egypt. However, all through the paper, recommendations are also explicitly or implicitly made each time the shortcomings in any given policy area are analyzed.

Since the JFA methodology is one of employment policy formulation and implementation, this country profile is intended for policy-makers, researchers and beneficiaries of employment promotion measures and employment institutions. However, it should also be useful for policy-makers in charge of macroeconomic, sectoral, social protection and services policies. Obviously, the country profile is but a cornerstone. Other more focused research may have to be undertaken to sharpen knowledge about the best ways to reach the concomitant employment and poverty objectives.

This country profile, prepared in the framework of the JFA programme, is the first in a new series of publication of the ILO Area Office and the North Africa Multidisciplinary Advisory Team (NAMAT) in Cairo. Titled *Towards Decent Work in North Africa*, the series will include research papers on any of the six countries serviced by NAMAT or on the sub-region as a whole. Areas of research will include those contributing to reaching the ILO strategic objectives focused on labour rights, employment, social protection and social dialogue, the overall goal being to allow for decent work for all in the sub-region. We hope that the series will contribute to debate on social and economic policies and to the promotion of the ILO's principles and values in the countries we cover.

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# 1. Introduction

During the seventies and early eighties, Egypt achieved significant progress in social and economic development. Egypt enjoyed high rates of economic growth within this period as GDP grew by about 8 percent. Government expenditure on social services expanded substantially with growth, leading to improvements in household welfare. Development progress was financed largely by resources from abroad; by foreign aid and by the quasi-rental income earned by the state, as a result of exogenous rises in oil prices and remittances. During the seventies, the rate of unemployment was low while the eighties witnessed a situation where two groups that are traditionally described as poor - wage labourers and small landholders - enjoyed an improvement in their position as a result of the increase in rural wages and remittances. Since 1981, the strong external position weakened sharply when the oil related sources of foreign exchange started to decline and the debt problem blew up. The decline in oil prices and the consequent decline in revenues, affected the poverty situation indirectly through decreases of public expenditure and development Programmes geared to the poor. By the mid eighties, the problem of unemployment became more pronounced with the acute economic crisis.

In 1987, the government responded to the deteriorating situation with a series of economic reforms to reduce the budget and external account deficit. The reforms included steps to reduce barriers of trade and price distortions in the economy.

The economic reform and structural adjustment Programme (ERSAP), launched in 1991, entails a stronger shift from a centrally planned economy with a relatively small private sector to a decentralized, market based and outward oriented economy in which the private sector plays the leading role.

The two main components of this Programme are: the stabilization Programme aiming at correcting the macro fiscal and monetary imbalances in the short and medium terms; and the structural adjustment Programme with longer term reform.

Egypt has been successful in reversing a trend of declining growth that persisted since the mid eighties. Real GDP grew at an average of 4.0 percent since 1990, real per capita GDP grew at 1.8 percent, and inflation has been brought down from a high of 21.1 percent in 1991/92 to 7.2 percent in 1995/96. The budget deficit was reduced to 1.3 percent of GDP as of 1995/96, and the balance of the current account improved. Most macro economic indicators point to the success of Egypt's structural adjustment Programme in achieving macro economic stability. By 1997, Egypt enjoyed a strong fiscal stance, which would buttress its efforts to embark on the "high-growth" trajectory predicted by the World Bank (1997).

These achievements however must be viewed within the context of the challenges that Egypt must still contend with, notably unemployment and poverty. The rate of unemployment is still relatively high, reaching almost 9 percent, and the profile of the unemployed is alarming. The number and characteristics of the poor are equally alarming. Evidence points to the inter relation between poverty and employment. The fact is that poor individuals do not necessarily suffer from unemployment, as they cannot afford being without jobs or income, yet their main problem is underemployment, low wage rates, bad working conditions, in both formal and informal sectors, and lack of insurance and security. Recent studies indicated that the command over resources of poor groups of population depends on three key elements: (a) effective working hours, (b) average earning per hour worked, and (c) the price vector of basic goods and services. Therefore, causes of poverty are : insufficient employment opportunities, low earning per working hour and high prices of basic goods and services. The employed poor pay a heavy price for being compelled to work in order to survive: in low earnings, long working hours and harsh working conditions which drastically curtail their well being. Poor workers have to accept whatever pay and employment condition are available.

The whole question thus becomes: what has Egypt done within the context of poverty, unemployment and employment? This is the main concern of this study. Besides the introduction, the study

consists of four sections. Section 2 overviews the employment and poverty situations in Egypt and their evolution during the last three decades. Section 3 analyzes how national policy-making and investment Programmes approach the issues of employment, unemployment and poverty. Different partners sharing the responsibility of tackling employment and poverty problems are the main focus of section 4. It also sheds light on their efforts in this respect. Finally, section five concludes with policy recommendations.



## **2. Overview of the employment and poverty situation and assessment of the state of labour market information and poverty monitoring systems**

### **2.1 The Labour Market Situation**

The performance of the labour market is determined by the macro-economic performance in the country, and particularly by the GDP growth rate. More important is the labour-content of this growth, i. e. whether growth creates sufficient jobs at an equivalent rate and uses labour-intensive techniques.

The Egyptian economy achieved unprecedented growth rates during 1974-1985, reaching an annual average of 8 percent. However, the rate of growth was jobless, in the sense that economic growth did not generate job opportunities at a proportional rate, and that the rate of job destruction exceeded the rate of job creation. Despite the fact that migration to oil producing countries amounted to 10 – 15 percent of the labour force, and also despite the continuation of the state's role in appointing new graduates, the major sectors that generated employment during that period were non-tradable sectors and construction. These sectors failed to provide sufficient job opportunities to the growing labour force. Meanwhile, economic management failed to utilize available resources to increase investment in traditional labour-intensive sectors. Accordingly, the employment capacity of the agricultural sector declined and the proportion of workers in the manufacturing sector deteriorated due to the adoption of capital-intensive techniques. Thus, open unemployment emerged.

The following years witnessed a severe economic crisis with many internal and external structural imbalances due to shortage of foreign exchange resources. Accordingly, the Egyptian government adopted a comprehensive Economic Reform and Structural Adjustment Programme (ERSAP) since 1991 and succeeded, first, in correcting major macro economic imbalances in a short space of time, and then, in enhancing economic growth by the mid-nineties. This is shown by the improvement of economic indicators in table (2.1) in the Appendix, despite our reservations on the accuracy of these official data.

Nevertheless, accelerated growth was associated with a labour market increasingly afflicted by many distortions and disequilibria. The following sub-sections highlight these distortions, and special emphasis will be given to their evolution since the mid-seventies. Before so doing, we will shed light on the state of labour market information and sources of data.

#### **2.1.1 Labour Market Information**

The main problem facing any analysis of the Egyptian Labour market situation and evolution is scarcity and inaccuracy of official data, as well as the contradiction of information among the various sources, and even data from the same source may vary.

There are three official sources of labour market data. The first is the Population Census (PC) which is a complete enumeration undertaken by the Central Agency for Public Mobilization and Statistics (CAPMAS) usually once every ten years. Data from any census cannot be compared with any source other than previous censuses. Moreover, the PC as a large-scale operation does not provide accurate results. It should be noted that the findings of the 1996 Census - in particular - have been subject to much criticism for lack of accuracy and adoption of an inefficient measurement process (Fergany, 1999). The second source is the Labour Force Sample Survey (LFSS) which is also carried out by CAPMAS and conducted annually to follow up current trends in employment. Since 1985 several improvements in the design of LFSS occurred, such as adopting two reference periods, one week and three months; undertaking the LFSS twice or four times a year and publishing results in a consolidated annual bulletin; and increasing the size of the sample to cover 48000 residential units.

The October 1988 LFSS was carried out as a special round with different definitions. This has led to serious comparability problems with previous rounds of the survey. The third source is the Ministry of Planning data which is prepared on the actual deployment of the labour force according to non-standard classification of economic activity.

It has to be noted that the three sources of data are non comparable. The data prepared by the Ministry of planning are estimates based mainly on annual reports of government organizations and public sector authorities and on unpublished reports for the private sector. They are mere annual averages and the methodology of their calculation is unknown. As for the LFSS and PC, they treat army and police personnel differently; while the PC identifies them as part of the labour force, the LFSS screens them off. Moreover, the PC considers employment for the age group 6 plus, but the LFSS considered it for the age group 12-64 till 1994, when the age-bracket 15-64 was used, consistently with the labour law. Thus the LFSS does not capture child labour. The LFSS October 1988 round has considered employment for the age group 6 plus. People over 65 years who do not work are classified by the PC as outsiders, while the LFSS classifies them as jobless workers. Also, the two sources of data are also different in their treatment of leave of absence. Suspended workers as well as those on long (one year plus) unpaid leave, are among the unemployed in the PC but excluded from the labour force in the LFSS. Finally, graduates carrying out public service are identified as jobless by the PC but excluded from the labour force by the LFSS (Nassar, 2000). The LFSS were never carried out in the same years as PC, which could have allowed for a more accurate comparison of results.

In our following analysis we will use data of the three PCs 1976, 1986 and 1996, as well as data of the LFSS 1998, taking into consideration the non-comparability of the two sources of information. The objective is to follow-up the trend and the evolution of labour market indicators in the latest available year, rather than compare the absolute numbers or relative shares.

In addition to these sources of data, special surveys have been conducted in the last ten years:

- The Labour Market Information Project of CAPMAS and IDRC (National Survey) (1988).
- Social Fund for Development “Egyptian Integrated Household Survey - An Analysis of Labour-Related Data”, Social Fund, (Arabic) 1995.
- Social Fund and CAPMAS; Labour Market Requirements in the different Governorates, Suez, (Arabic) 1998.
- The Labour Market Survey 1998 (EPIC and Economic Research Forum) (National Survey).
- The survey on the “Socio-economic Conditions of Work in Greater Cairo Region, 1998” (Social Research Center and Friedrich Ebert Stiftung).

## **2.1.2 Labour Force and Employment**

The population of Egypt more than tripled since 1955, and despite the declining rate of population growth from 3% in the 1980s to 2.1% in the mid 90s, the population stood at 59.2 million in 1996 and 64.2 in 2000, including 2.6 million living abroad. The refined participation rate, defined as the proportion of the labour force in the age group of 15-64 to the population in the same age group, increased from 46.4% in 1986 to 48.3% in 1996. This overall increase was mainly due to the increase of the female participation rate, particularly in rural areas.

The Labour Force (15-64 years) amounted to 17.15 million persons in 1996 (according to the Latest Population Census) and to 17.63 millions (according to the Latest LFSS in 1998). The Labour force has been growing at an approximately constant average rate of 2.9% per annum across the intercensus periods between 1976-1996. Such constancy, however, masks major differences. The growth of rural labour force exceeded the corresponding growth in urban areas, a matter that reflected the rapid growth of population in rural Egypt. In addition, the female labour force grew at a high rate outweighing the corresponding rate of males, as shown in table (2.2) in the Appendix. This in turn

raised the female share to over 21% of the total Labour Force in 1998. Such a gender-based shift in the labour force structure was a result of higher rates of employment of females holding secondary and above intermediate education certificates. It is also attributed to more employment of married females in the age bracket 30 years and above. However, if the definition of the subsistence labour force is adopted, which includes subsistence agriculture and animal husbandry, participation rates of females will be higher (Assaad, 1999). As for males, higher school enrollment has reduced the rate of male employment. More significant in this respect is the early withdrawal of non-educated males from the labour market in the age of 50 and above. According to CAPMAS, labour force reached 18.9 millions in the year 99/2000. It is worth mentioning that while the growth of the Labour Force during the nineties exceeded the growth of population, it lagged behind the growth of GDP.

As for the number of the employed persons, it amounted to 15.6 million in 1996 (PC) and to 16.2 million in 1998 (LFSS) and to 17.4 million in 99/2000 (CAPMAS), against 11.4 million in 1986. This entails an average annual growth rate of 3.2% since the mid-eighties; taking into consideration that the growth rates of rural, and female, employment are faster than the rates of growth of urban, and male, employment respectively. This is illustrated in table (2.3).

The structure of employment by type of sector ownership (public, private), as reflected in table (2.3), reveals certain results which are contradictory to the objectives sought by macro economic policies since the adoption of the open-door policy in the early seventies and the implementation of ERSAP since 1991. Contrary to expectations, the private sector did not play the expected role in creating job opportunities, whereas the government administration played a major role in this regard. This is due to the fact that agriculture is traditionally the main provider of job opportunities in the private sector. But the capacity of agricultural activities to create jobs has deteriorated since the mid-seventies due to several reasons, among which are the shortage of agricultural investment and workers migration either to Gulf oil states, or to urban areas, or alternatively, to the construction sector. Another major factor was the prevalence of mechanization. Outside agriculture, the other major private sectors are tourism, construction, the activities of real estate and business services. These sectors could not create jobs at a sufficient rate. Furthermore, the private manufacturing sector did not generate sufficient jobs, due to the fact that this sector employs capital-intensive techniques, and produces product mixes that are also capital-intensive, e.g. capital and durable goods. On the other hand, the state is still the major sector in generating non-agricultural employment and government is the fastest growing sector.

The gender pattern of private sector employment growth is quite striking. While female employment in private enterprises declined sharply by 79.2 percent (thus surpassing the rate of decrease in male employment in the same sector) over the period 1990-1998, it increased significantly outside enterprises, mainly in the informal sector, by 267 percent. Moreover, the government is still the main orientation for employment growth in particular for women, while the contraction of the public sector was felt more on female employment (-40.8%) rather than male employment (-15.7%) (Nassar, 2000).

Related to the above, is the distribution of employment by sectors and branches of economic activity, as shown in table (2.4). Developments of this structure reveal major distortions represented by a decrease in the relative share of workers in the commodity sectors, against an increase in the employment-generating capacity of the services and distribution sectors. This is evident from the fact that in 1998, the commodity sectors accounted for only 52.1% of total employment against 64% in 1976. The underlying cause of such a decline is the decrease of employment growth rate in agriculture and the slow-down of employment in manufacturing and construction.

In accordance with the above mentioned distribution, employment by occupation (table (2.5)) shows that the only group with above average growth rate is the group of professionals and managers. Thereby, their relative share in employment has more than tripled during the period 1976-1996, and they ranked second after agricultural employment. It should be noted here that more than one third of the em-

ployed females are working as agricultural workers, another two fifth as professionals, managers and in technical occupations and 11% as sales workers. Also, women have made significant advances in the government sector compared with the private sector.

As for the structure of employment by working status, the detailed data of the three censuses, as revealed in table (2.2), show that the majority of workers are cash-wage-earners (on average 62.8%). The ratio of employers, on the other hand, was higher in the mid-nineties, as compared to the mid-eighties. The relative share of the self-employed has decreased during the same period, while unpaid workers have substantially increased in number during the period between the last two censuses, with an average growth rate amounting to 79% over the period, and also have increased in 1998. This is particularly evident in the number of female workers in rural households, who are non-wage earners. Females are the most vulnerable group as more than a quarter of them is unremunerated in comparison to 10% for men.

Another peculiar attribute of Egypt's labour force is its educational status. In spite of improvements in the levels of education, the two groups of "illiterates" and "barely literate" accounted for slightly over 50% in 1996. In contrast, holders of intermediate certificates, above intermediate, and university graduates, increased substantially, and together their relative share in employment almost doubled during the period 1976-1996, to reach 39% of the total.

### **2.1.3 Unemployment**

The decade of the sixties was characterized by full employment, as the unemployment rate amounted to only 2.2 percent in 1960, and also by low levels of productivity due to overstaffing in the government units and public sector. Open unemployment started to emerge in the mid-seventies. However, unemployment remained at a low level not exceeding 4.3%, according to the data of the 1976 Census. Then, and after a decade of jobless high growth of GDP and also, with the severity of the economic crisis that started in the early eighties, the problem of unemployment became more pronounced, and the unemployment rate reached 11.1%, according to the 1986 Census. Given the slow-down of the economic growth rate during the decade 1986-1996, along with the decline of investments, the problem of unemployment remained unresolved, and the unemployment rate, as recorded by the latest census, amounted to 9%. The 1998 Labour Force Sample Survey shows that the rate of unemployment amounted to 8.2% against 8.8% in 1992. According CAPMAS and the Ministry of Manpower data, unemployment remained constant at only 8% during the three years period 1997/98-99/2000 with approx. 1.5 million persons, unemployed (Council of Ministers, December 2000).

The previous rates, officially recorded since mid nineties entail a declining trend and an attenuation of the unemployment problem. This comes as a surprise to many researchers, in the light of the performance of the Egyptian economy since the mid eighties, and in the light of the many distortions that characterized the employment growth and structure. In fact, evidence points to the imperative result of higher unemployment rate, as compared with the corresponding rate in the mid-nineties.

The seriousness of the problem also lies in the structure and characteristics of the unemployed and the development of its structure since the mid-seventies. Such development reveals a steady trend of increasing unemployment among youth with no previous work experience. Almost 94% of the unemployed in 1998 were new entrants to the market. About 90 percent of this category belong to the 15-29 age group and 70 percent of these are in the 20-29 age group, as illustrated in table (2.6).

The distribution of the unemployed shows a continuity of the pattern that prevailed in the mid-eighties, with the majority represented by holders of intermediate certificates, increasing from 67% in 1986 to about 75% in 1996. The illiterates, as well as the barely literate, accounted for a marginal ratio in both decades of the eighties and the nineties. In contrast, new university graduates experience high unemployment. From a gender perspective, table (2.7) indicates increasing numbers of unemployed educated females across the three censuses, at levels substantially exceeding those of males.

One of the main reasons is the fact that males have largely replaced females in agricultural activities. Also, female employment in the non-agricultural private sector increased at a significantly lower rate, relative to the increase in male employment. Furthermore, large numbers of female workers in public sector companies, particularly in the middle-age bracket, were laid-off in preparation for privatization. As for rural -urban distribution, the number of unemployed remained relatively constant in the urban areas between the mid-eighties and the mid-nineties, whereas the corresponding numbers in the rural areas grew at an average rate of 4.4% per annum. The rate of growth of rural employment is by far less than the growth rate of rural population and labour force. The trends of “Feminization” and “Ruralization” of unemployment are obvious from data in the table.

Finally, it should be noted that the number of workers who became unemployed is decreased between the last two censuses. This could be explained by the ineffectiveness of unemployment insurance schemes as they apply only to workers of the public and formal private sectors, and exclude government sector employees, and because the law stipulates six stringent conditions for entitlement to unemployment payments. Hence workers tend to seek jobs either in the informal sector, or through self-employment.

These facts underline the seriousness of the unemployment problem in Egypt during the nineties. These facts also show that education correlates negatively with employment, indicating wasteful investments in the field of human resources. It is important to note that open unemployment is not the sole phenomenon that indicates misuse of human resources in Egypt. Rather, it is accompanied by disguised unemployment. The latter is found in the government departments, public authorities and in the informal sector, and is associated with low productivity and low wage levels.

Furthermore, an important aspect of significant demand / supply imbalances in the Egyptian labour market, is the inadequate supply of skilled labour, and the oversupply of unskilled labour.

## **2.1.4 The Informal Sector Employment**

The informal sector plays an important role in the Egyptian economy, as it has been absorbing large and increasing numbers of workers since the mid-seventies.

Employment in the informal sector was estimated at 2.4 million workers in 1976, against only 170 thousands in the formal private sector. This implies that employment in the informal sector represents 93% of the total non-agricultural private sector. The number of workers in the informal sector stood at 2.4 million and 2.9 million in 1980 and 1985, respectively, against less than one million during the sixties.

In the nineties, the labour market witnessed a substantially high growth of the informal private sector, a matter that resulted in doubling the total number of workers during one decade. Table (2.8) shows employment in the informal private sector. Our estimation is based on adding all workers in the private sector outside the establishments, to all workers in the private establishments employing less than 5 workers. Agriculture is excluded in both cases. Using this method, which has been adopted in other studies, and based on a survey undertaken by CAPMAS (Kamel, December 1999), it was found that the number of workers in the informal non-agricultural private sector amounts to 4.8 million approximately, distributed between workers outside establishments (48.5%) and workers inside establishments (51.5%). This means that workers in this sector represent 31% of the total number of workers in the Egyptian economy, 46.9% of the private sector workers, and 85.9% of the private sector workers, excluding agriculture, fishing and hunting. According to the 1986 Census the total non-agricultural informal sector workers amounted to 2.6 million, distributed between: workers outside the establishments (42.3%) and workers inside establishments employing less than 5 workers (57.7%). These represent 33% of the private sector workers and 76% of the non-agricultural private sector workers. This confirms the doubling of the informal employment in one decade with an average annual growth of 8.7%, as compared to growth of the labour force and formal employment, during the

same period, with average annual rates of 2.9% and 3.2%, respectively. During that period also, the relative share of workers outside establishments grew at 7%, while the corresponding share of workers inside the establishments declined. Wholesale and retail activities absorbed about 41% of the informal employment, followed by building and construction, then manufacturing and transport.

This analysis indicates the importance, and the growing role of the informal sector in Egypt, with respect to the absorption of employment and income generation for a remarkably high percentage of workers during the nineties. Being widespread in both rural and urban areas, the informal sector is capable of absorbing females, males and minors, a high percentage of whom are engaged in productive activities. They do not conform with the stipulations of the labour and insurance laws, or with the other controls that govern the other sectors of the economy.

In general, the growth of the micro and small business in the formal and informal sectors is an outlet for new employment opportunities. Micro-enterprises are those employing less than five workers, while small enterprises employ 5-9 workers. The relation between the size of enterprise and the informal sector can be explained in the light of the criteria used to define this sector. The establishment size in terms of the number of workers, is the criteria used in this regard, according to which establishments employing less than 10 workers, in some studies, or less than 5 workers in others, fall within the informal sector.

### **2.1.5 Wages Behavior**

During the decade between the mid-seventies and the mid-eighties, real wages increased significantly due to the growth of the national economy, with major variances existing between different branches of economic activity. Similar variances also existed between public and private sectors.

Since the mid-eighties, and with the exacerbation of the economic crisis, real wages in the different economic sectors declined and this trend continued till the mid-nineties. By 1994/95, real wages had declined to two-thirds of their 1985/86 levels.

The steady and steep downward trend of real wages in all economic activities – and in both public and private sectors – during the nineties is highlighted in table (2.9) in the Appendix. The data show the average nominal and real weekly wages, taking 1986 as a base year. It appears that, while total nominal wages increased by 160% during the period 1987-1996, total real wages decreased by about 25%. The decrease was more pronounced in the private sector, as opposed to the public sector. The largest decrease was experienced in: commerce, hotels, manufacturing, building and construction, and agriculture.

In this regard, it is worth mentioning that the gender bias in the Egyptian labour market is obvious. Female workers receive, on average, only 83% of a male wage. While government and public sector employment contributed to the narrowing of the wage gap (about 93%), the underpayment of females is conspicuous in the private sector, where, on average, a female is being paid slightly over two-thirds of a male's wage.

### **2.1.6 Competitiveness and productivity**

Competitiveness is measured by unit labour cost. For any country to stay competitive, it should enhance its labour productivity and restrain its labour cost, in order to hold down its unit labour cost. In Egypt, emphasis is always laid on the manufacturing sector due to its prospects for growth and its potential for increasing exports and job opportunities. Hence, unit labour cost is analyzed in this sector to depict the trends of wages and of labour productivity, although we believe that this method of measurement is crude and simplistic. Estimate of TFP is more important, and this requires attention to

the quantity and quality of physical capital and the sophistication of embodied technology. Further studies are needed to assess total factor productivity and the ability of human capital to adapt to change in technology.

Table (2.10) in the Appendix shows that the absolute real value of unit labour cost decreased during 1980-1995 which may imply that the competitiveness of Egyptian labour in manufacturing increased. In fact, the decline in unit labour cost was not only an outcome of real wage decrease, but also a result of labour productivity decline. The low level of labour productivity in manufacturing, and in all sectors of the economy in general, is among the most important constraints on competitiveness in Egypt. Moreover, declining real wages and overall productivity lead to a downward spiral, where low productivity and low returns to labour result in a low-level poverty trap. Studies of the determinants of labour productivity reveal that it depends on a number of factors including capital formation, education and training, technological change and infrastructure. The experience of other countries, such as Turkey, shows how important it is to increase labour productivity to be competitive, as it succeeded in raising productivity in the manufacturing sector at an annual rate of 3.4% since 1995 (El Ehwany, 2001).

The above analysis shows clearly that the labour market in Egypt has been characterized by many aspects of disequilibria, and that these distortions represent a major challenge to the National Policy decision making. Sections 3-1 and 3-2 of this study discuss what the Egyptian government has done in this regard.

## **2.2 The Poverty Situation**

Poverty is usually thought of as a lack of income, because it is income that is largely assumed to determine one's material well-being. But "income poverty" is only part of the picture. Just as human development encompasses much broader aspects of life than mere income, so poverty should be seen as having many dimensions. Poverty cannot be objectively defined through the use of minimum level of income or consumption, but also involves people's access to income and resources, and self-perceptions of their economic situation and position in society. Therefore, the broader concept of poverty accounts not only for, low levels of income and consumption and low levels of human development in terms of education, health and nutritional status, but also other aspects such as security and safety nets.

Amartya Sen defines poverty as deprivation of basic capabilities rather than merely low income. Thinking about poverty therefore entails attention to both income and non-income needs. The annual UNDP Human Development Reports introduced broader definitions and measurements of poverty such as the Capability Poverty Measure and Human Poverty Index. Capability poverty measure is intended to complement income measures of poverty, it focuses on human capabilities, as HPI does. But rather than examine the average state of people's capabilities, it reflects the percentage of people who lack basic, or minimally essential, human capabilities. Besides, The Human Development Report, UNDP 1997, introduced the Human Poverty Index which is a combined index of percentage of people expected to die before the age of forty, adult illiteracy rate, percentage of individuals with no access to health services or potable water and percentage of children who are severely underweight.

In the following sections we present a detailed overview of the state of income poverty as well as capability and human poverty.

### **2.2.1 The state of poverty information system**

Most data that is used in poverty analysis is collected by the Central Agency for Statistics and Mobilization (CAPMAS)- the official statistical agency. Egypt has a long history in collecting statistics, dating back to the beginning of the twentieth century. There are three main sources of data in this

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<sup>1</sup> Detailed steps of how to calculate these lines are in Appendix C.

respect, the population censuses, household income, expenditure and consumption surveys and the demographic and health surveys. Detailed description of these surveys are in the Appendix B.

### 2.2.2. Income Poverty

There is no shortage of poverty estimates for Egypt. But the quality of the estimates varies and the comparability over time and across regions is poor. It is clear that even with the same data set, different poverty estimates result. Debates about the methods of poverty measurement are common; views differ on how individual welfare should be measured, how cut-off points to distinguish between income groups should be set, and what measures should be used. Examples of such controversy are the studies of World Bank (1990), Korayem (1994), El-laithy (1996), Cardiff (1997) and El-laithy and Osman (1997). Some of the major differences are the construction of the food basket and the unit of consumption. For instance, Korayem (1994) and Cardiff (1997) used households as their units to measure welfare. However, using household as the unit of consumption can be misleading. Ravallion (1992) indicates that per capita consumption is preferable to household consumption. Using household consumption as the ranking variable underestimates the measurement in question, because household consumption does not reflect the number of members that constitute the household. Furthermore, poorer households tend to be larger in size than richer households. With household consumption as a variable, smaller households (which are typically richer) are more likely to be classified as poor simply because they are smaller, while larger households (which are typically poorer) are likely to be classified as rich. On a per capita basis, however, smaller households with higher per capita consumption would be ranked as richer than larger households with lower per capita consumption. The World Bank (1991), El-laithy (1996) and El-laithy and Osman (1997), used per capita expenditure within the household to place households above or below the poverty lines.

Since the EHDR 1996 was issued there has been an acceptable agreement of the poverty lines and poverty measurements to be used to assess poverty in Egypt. This report was the first to introduce a consistent approach to poverty measurement across space and time. The report used the three poverty lines<sup>1</sup> estimated by El-laithy and Osman (1997). These are; food poverty line, which was considered as the ultra poverty line, lower and upper poverty lines. Lower poverty line was estimated as the cost of essential food and non food requirements. Upper poverty line was estimated to reflect actual consumption expenditure of the poor, and not the essential needs only. The poverty profile presented below follow the same concepts and methodologies.

The profile provides a regional (urban/rural) analysis of the levels and trends of poverty in Egypt over the period 1990/91-1999/2000. The analysis is based mainly on the information obtained through two Household Income Expenditure and Consumption Surveys (HIECS) for the three reference points, 1990/91, 1995/96 and the preliminary results of HIECS 1999/2000. The profile uses the well established concepts, definitions and measurements of income poverty, adopted in EHDR 1996.

Using the preliminary data for the most recent household income, expenditure and consumption survey of 1999/2000, the cost-of-basic-needs method was used to construct absolute per capita urban/rural food, lower and upper poverty lines. Table (2.11) shows the food and total poverty lines for urban and rural areas in 1999/2000.

**Poverty estimates** showed that, in 1999/2000, overall poverty in Egypt stood at 20.15 percent, using the lower poverty line (Table 2.12). Thus almost 12 million could not satisfy their basic food and non-food needs. The poverty gap index was 3.78 percent, implying an average poverty deficit of the poor of L.E.206. Using the upper poverty line, overall poverty in Egypt rises to 52.06 percent, representing almost 32 million individuals.

Poverty levels are slightly higher in rural areas, based on both the lower and upper poverty lines.

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<sup>2</sup> These measures are described in details in Appendix C



The difference in poverty measurements between urban and rural areas is wider when using the upper poverty line. In 1999/2000, almost 5 million people in urban areas were poor, i.e. could not attain minimum food and non-food requirements, compared to 7 million in rural areas. However, the poverty gap index and the severity of poverty index are higher in urban areas than in rural areas, indicating an expenditure distribution that is more skewed towards the lower levels in urban areas.

### **2.2.3. The Characteristics of the poor**

Low income is not the only feature of poverty. Poverty is often associated with malnutrition, higher incidence of child mortality and morbidity, lower education levels, poor housing conditions and limited access to basic services of water and sanitation. An examination of the distribution of welfare in Egypt should therefore focus on the characteristics of those populations falling below a given poverty line, in addition to their numbers. This analysis is of particular value to policy makers entrusted with the design and targeting of poverty alleviation strategies. The section will provide a profile of the poor, in terms of age, household composition, employment characteristics, educational attainment and housing conditions. The major policies at the macro-economic level that have contributed to these characteristics are analyzed in the next section.

#### ***1st- Regional Poverty in Egypt in 1999/2000***

The incidence of poverty is the highest in Upper Egypt. Using the lower poverty line, poverty incidence is highest in Urban Upper Egypt (36.33 percent), followed by rural Upper Egypt (34.68 percent) and is lowest in the Metropolitan region (9.01 percent) (Table 2.12). The ranking of regions remains unchanged for other measures of poverty, indicating that not only do poor households in the Upper Egypt region represent large proportions of their population, but that their expenditure level is far below the poverty line. The only exception is for the Lower Rural region, which has the least poverty gap and poverty severity indices. In general, rural areas within each regions have lower poverty measures than their urban counterparts.

#### ***2nd- Geographical distribution of the poor; Poverty Map***

Regional poverty measures mask significant differences across governorates. The incidence, depth and severity of poverty<sup>2</sup> vary considerably within each region. Tables (2.13) and (2.14) present poverty measures for various governorates in urban and rural areas respectively.

**Urban Poverty.** As seen from the Table (2.13), irrespective of the poverty index or poverty line used, the poverty indices of all governorates in *Upper Egypt* exceed the corresponding indices at the national level. Poverty incidence is highest in the governorate of Assuit, being almost 30 times the level in Port Said (the governorate with the lowest incidence). This is followed by Sohag and Beni-Suef governorates. The same pattern holds for the poverty gap and severity indices. Assiut, Sohag and Beni-Suef have the largest poverty indices, which are almost double the national levels. Thus, poverty is very acute in Upper Egypt, especially in Assiut, Sohag and Beni-Suef, not only in terms of the proportion of the poor, but also in the depth and severity of their poverty. Moreover, all governorates in Upper Egypt contribute to national poverty by a proportion greater than their share in population.

In *Lower Egypt*, Qaliubiya, Menufiya and Sharkiya governorates are the only governorates where poverty measures exceed the national level. In addition, their contribution to national poverty increases if P1 or P2 are considered, indicating the depth and severity of poverty in those governorates.

For the *Metropolitan governorates*, Alexandria has the largest poverty measures. The incidence of poverty in Cairo amounts to 8.77 percent, ranking 19-th among the urban governorates. All its poverty indices are below the national level. Even though its contribution to national poverty indices is less than its share in population, it constitutes 19 percent of all urban poor. .

**Rural poverty.** As shown in Table (2.14)., poverty levels vary among governorates in rural areas. Similar to their urban counterparts, poverty measures in rural Upper Egypt governorates are above the national average, except for Giza. Assiut has the largest poverty indices, followed by Beni-Suef and Sohag governorates. With the exception of Giza, the contributions to the national poverty indices in governorates of Upper Egypt exceed their share in total population.

### ***3rd- Demographic characteristics: household size and dependency ratio of the poor***

Poor individuals tend to live in larger households. Average household size for poor individuals was 7.2 and 6.8 in urban and rural areas respectively, compared to 5.6 and 4.8 for the non-poor. Poor households also tend to have a larger number of children and fewer members of working age. In urban areas, the dependency ratio, defined as total population to working age population is 1.61 for the poor compared to 1.41 for the non-poor in urban areas, and respectively, 1.785 and 1.60 in rural areas.

### ***4th- Employment characteristics***

#### ***Employment status***

The majority of employed individuals in 1999/2000 were wage earners. The incidence of wage employment is higher in urban than in rural areas. Conversely, the categories that are self-employed without hiring other persons and workers without wages are more common in rural areas. This may be due to the fact that rural residents are engaged primarily in agriculture.

Substantial variations in poverty measures according to **employment status of individuals** are observed at all levels of analysis: national, urban/rural. In urban areas, the incidence of poverty is higher for self-employed without hiring other persons and workers without wages (street vendors) in marginal and unskilled activities as well as the unemployed with no previous jobs. While in rural areas the percentage of the poor is high in 'workers without wages' category.

Poor households have a larger proportion of working heads. However, the proportion of working heads is smaller in urban areas than in rural Egypt and in Egypt as a whole. The proportion of working heads was the lowest in the Metropolitan region and highest in the Upper Rural region. This is probably due to the relatively small degree of self-employment in urban areas.

Moreover, almost 61.5 percent of working individuals work six days a week and 28.2 percent work seven days. These percentages vary substantially between poor and non-poor groups, with lower poverty incidence observed for individuals working six days a week and higher incidence for those working seven days. ***This confirms the fact that poor individuals obtain low income per unit time of their labour. Poor individuals do not suffer as much from unemployment since their main problem is underemployment and low wages.***

#### ***Sector ownership of employment***

In 1999/2000, employment was dominated by the private sector. At the national level, 65.8 percent of employed individuals worked in the private sector, 25.8 percent worked for the government and 7.6 percent for the public sector. Compared to urban areas, a larger percentage of private sector employment is observed in rural areas, and smaller percentages for government and public sector. Government and public sector jobs are more common in urban areas, while private sector employment predominates in rural areas.

Employment in the government or in a public sector exhibits a correlation with welfare levels. Almost 10.81 percent of individuals employed in the government are found in poor households, and they contribute to national poverty by 27 percent. Their contribution to national poverty is far less than their representation in the sample (40 percent). Conversely, 19.59 percent of individuals work-

ing in private entities, are poor; they are over-represented in the poor group by more than twelve percentage points.

### ***Occupational Status***

In both urban and rural areas, the highest poverty indices are for individuals with *unclassified occupations*. In **rural areas**, agricultural occupations are most common for working individuals, followed by sales and service occupations. There is substantial occupational difference among the poor and non-poor individuals in all rural regions. The poor are disproportionately located in agricultural occupations; 58 percent of rural poor compared to 46 percent among non-poor. Particularly, the incidence of poverty among agricultural workers measured by P0 ranks second, followed by service and manufacturing workers. In **urban areas**, service workers account for 28 percent of the urban poor. Poor people are more likely to work in agricultural, industrial or craft and services jobs, and less likely to have white collar jobs. The lowest poverty indices and the lowest contributions to national poverty are for households with managers and professionals. Individuals in this category command higher educational levels and skills, and hence relatively higher income.

As the poor are mostly self-employed in the agricultural sector, wage policies enacted in the government and public enterprise sectors have little effect on poverty. Likewise, legislation regarding minimum wages paid by private employers affect only a fraction of the poor. It is evident that policies to reduce poverty must be aimed at self-employed workers in agriculture, particularly in Upper Egypt.

### ***Economic Activity***

Large differences are observed in the pattern of economic activity of the labour force between urban and rural areas. Agricultural activities are dominant in rural areas, while services, manufacturing and sales activities represent a large percentage of the labour force in urban areas. However, there is a small fraction of the population in urban areas engaged in agricultural activities.

At the **national level**, the poor are concentrated in agricultural activities; about 39.4 percent of the working poor are engaged in agriculture activities. Agricultural, construction and industrial activities are over-represented within poor groups, while individuals with services activities and bankers have larger shares in the non-poor group than their shares in population. Moreover, poverty measures are highest for individuals in agricultural and construction activities.

### ***5th- Education Characteristics***

Education is the strongest correlate of poverty, insofar as it determines the access of individuals to income earning opportunities through employment. Education was typically found to be a major explain observed patterns of poverty. The correlation between education and welfare has important implications for policy, particularly in terms of the distributional impact. This subsection will discuss the educational characteristics of the poor in terms of educational attainment and school attendance.

**In urban areas**, as shown in table(2.14), about 25.74 percent of the poor population was illiterate, 33.2 percent had basic education or below and only 1.91 percent had university education and above. The corresponding figures for rural areas are 35.28 percent, 25.08 percent and 1.07 percent. Poverty is highest, and most severe for illiterate individuals, with poverty measures in urban areas being higher than in rural areas. Evidence further points to the existence of a strong relationship between the education of the head of the household and that of the household members. At the national level, 74 percent of illiterate individuals belonged to households whose head was illiterate. The relationship was stronger in urban than in rural areas. Moreover, school enrolment of school-age children is considerably lower for poor households compared to the non-poor. In urban areas, the percentage of school-age children not enrolled was 12.4 percent for the poor compared to 4.1 percent for the non-poor. In rural areas, the corresponding figures were 27.6 percent and 14.9 percent. Consequently, the

ratio of poor working children is higher than the non-poor (3.7 percent and 1.6 percent), which indicates the significant role of working children as a source of income for their poor families.

### ***School Enrollment***

School enrollment can be thought of as an interaction of two factors: supply and demand. In other words, low school attendance is in part due to family decisions based on the opportunity cost of schooling (demand for schooling) and in part on the availability and quality of school facilities (supply of schooling). Neither side should be neglected when analyzing school attendance patterns.

The information collected in the 1999/2000 HIECS provides some insight into the considerations that underlie decisions made at the household level, particularly at different levels of welfare. One of the most important questions concerning the nature of poverty in any country is whether the poor constitute the same group of the people over long periods of time, or whether there is a large amount of entry in and exit from the ranks of the poor over years. An equally important aspect of this issue is whether children who come from poor families are likely to become poor adults with families of their own. Given the strong positive correlation between education and levels of welfare proven in the previous sub-section, the relationship between welfare levels and school attendance of children is given special attention.

The importance of schooling poses the question of whether children in poor families are less likely to attend school. School attendance of poor children is significantly lower than the overall average, in both urban and rural areas. The incidence of not attending schools for poor children was 12.43 percent and 27.57 percent in urban areas and rural areas, respectively, compared to 4.09 percent and 14.93 percent for non-poor children. Reasons for not attending schools for non-poor children, may be due to repetition rates or to social barriers specially for girls. Differences in school attendance are more pronounced between regions; school attendance in rural areas is generally lower than in urban areas. Also, differences between the poor and non-poor, within each region, are very large— about 10 percentage points. More specifically, 13.29 percent of poor children do not attend schools in the Metropolitan region, compared to 2.97 percent of the non-poor. School attendance is the lowest in the Upper Rural region. However, the Upper Rural region also exhibits the second highest incidence, depth and severity of poverty. Coupled with the premise that education is positively correlated with household welfare, it appears that the Upper Rural region in general is in need of targeted efforts aimed at enhancing education opportunities.

### ***6th- Housing Conditions***

In all urban areas, differences in access between the poor and the overall population were marginal; the main source of drinking water for the poor is the public water network. The differences however in indoor access to water between poverty groups were larger (97.31 percent for the poor and 98.86 percent for the non-poor). Differences across poverty groups are even wider in all rural regions (75.61 percent for the poor and 83.38 percent for the non-poor). Access to sanitation is very low for poor households, in both urban and rural areas. The proportion of households with access to sanitation through a public network for the poor is only half that of the non-poor in the Upper Egypt region, both in urban and rural areas.

#### **2.2.4 Trends of poverty:**

Using the results of the HIECS of 1990/91, 1995/96 and the preliminary results of 1999/2000, an assessment of the evolution of poverty in Egypt is attempted. Similar approaches were used to estimate poverty lines for 1990/91 and 1995/96, thereby controlling for inter-regional differences in the cost of living and for intra-regional temporal changes in the cost of living. The real value of the poverty line is therefore maintained constant across regions and over time.

Average per capita expenditure showed declines during the period 1990/91 to 1995/96 and increases during 1995/96 to 1999/2000 for both urban and rural areas. During 1990/91-1995/96, per capita expenditure declined by 2.04 percent, while the per capita expenditure of the bottom 20 percent of the expenditure distribution grew at an annual rate of 6.8 percent in rural areas and declined by a rate of 1.3 percent in urban areas. These resulted in a sharp reduction in expenditure inequality, especially in rural areas. As for the period 1995/96 to 1999/2000, increases in real average per capita expenditure were observed in both urban and rural areas. However, in urban areas, the pace of change is not the same for the bottom 20% compared to the total. Per capita expenditure grew slower for the bottom 20% compared to the whole population ( 2.818 % for the lowest quintile compared to 5.49% for the whole population). As a result, inequality has increased in urban areas. It seems that in rural areas growth is equally shared by all rural population as per capita expenditure growth rates are similar for all quintiles.

Gini coefficients, as measurements of inequality, indicate increases in per capita expenditure inequality during 1995/96 to 1999/2000 in urban areas and unchanged distribution pattern in rural areas. Changes in the poverty measures can be tracked quite closely by following the changes in mean expenditure and the poverty line together with changes in the Gini index. Typically, when the mean declined and Gini index rose, poverty increased, and vice versa.

### ***Poverty comparisons***

Table (2.19) illustrates poverty measurements at the national, geographic (urban / rural) levels for the years under investigation. In urban areas, the incidence of poverty has increased from 20.3 percent in 1990/91, to 22.5 percent in 1995/96 and then declined to 18.44 percent in 1999/2000. The poverty gap and severity indices followed similar trends over the two periods, indicating improvements in the living standards of urban population and in the extent of inequality of the poor, during the period 1995/96-1999/2000. All poverty measures indicate a decline in poverty levels in rural areas. The incidence of poverty measurements indicate slightly higher poverty levels in rural areas than in urban areas. However, in 1995/96 and in 1999/2000, the poverty gap index and severity of poverty index are slightly lower in rural areas than in urban areas, reflecting more equal expenditure levels among the poor in rural areas than in urban areas.

As far as the upper poverty line is concerned, poverty has increased steadily since 1990/91 (P0 increased from 39.01 to 45 to 48 percent in urban areas and from 39.20 to 50 to 55 percent in urban areas). All poverty measures showed substantial increases. Deterioration in expenditure levels, in rural areas, is larger than in urban areas.

### ***Growth and redistribution decomposition***

In this section, the *causative* factors underlying the measured changes in poverty are considered. It is important to understand how much of any observed change in poverty could be attributed to changes in the redistribution of expenditure levels as distinct from *growth* in average living standards. In other words, the growth component is the difference between the two poverty indices of the two dates if there are no observed distributional changes and therefore, the change is due to shifts in the mean per capita expenditure. Conversely, the redistribution component is the difference between poverty indices of the two dates if the mean had not changed and hence, changes are due to changes in expenditure distribution. Table (2.20) presents the results of the decomposition of poverty changes into growth and redistribution components, at regional levels.

The observed decline in urban poverty is mainly due to the increase in average per capita expenditure (growth component). The observed change in urban poverty is fully accounted for by the improvements in per capita expenditure, at least for the poorest of the poor. This is reflected in reductions in the observed incidence of poverty, poverty gap and severity of poverty measures. In rural areas, over the period from 1995/96 –1999/2000, the slight decline witnessed for the Gini indices are coupled

with increase in mean expenditures in real terms. These had resulted in the decline of all poverty measurements, in 1999/2000. To sum up, the single most important factor contributing to the decline in urban poverty has been favorable growth in per capita expenditure; the redistribution component is qualitatively unimportant.

Several factors are believed to contribute to the above observations. These are:

- The adjustment and reform Programme of the Egyptian agriculture, which has improved the performance of the agricultural sector, strengthened the market economy system, increased competitiveness of private sector and corrected extreme distortions in price structure.
- There is higher resource sharing in agricultural activities and less differentiation in labour skills in rural areas, which contribute to equity.
- As urban population got more benefits from subsidies than rural population, the impact of reducing subsidies had larger impact on the standard of living of urban population.
- Migration from urban to rural areas; as many rural households who have migrated to urban areas returned to live in the countryside, while their working members continued to work in urban areas.

### **2.2.5. Capability and human poverty**

EHDR argued that “ Poverty is usually thought of as a lack of income, because it is income that is largely assumed to determine one’s material standard of well- being. But income poverty is only part of the picture. Just as human development encompasses much broader aspects of life than income, so poverty should be seen as having many dimensions”.

Data obtained from the 1995 Egypt Demographic and Health Survey (EDHS) provide the basis for estimating capability poverty at the national and regional levels in Egypt. The capabilities included are presented by: a) the proportion of children under five who are underweight, b) the proportion of births unattended by doctor and/or trained midwives, and c) the proportion of females aged ten years and above who have no education. Capability poverty is generally higher than income poverty. 34% fall in the category of poor in capabilities. This difference between the two measures is exclusively due to the fact that capability poverty is considerably higher than income poverty ( 43% versus 23%) in rural Egypt whereas in urban Egypt capability poverty is lower than income poverty( 21% versus 22.5%).

As illiteracy rate, non-access to health services and malnutrition indicators are very high in Egypt, Human Poverty Index is also higher than income poverty indices. This index attained 32.3 percent for all Egypt. Substantial differences exist between regions, where Upper Egypt has the highest HPI (40.63 percent), followed by the Border and Lower Egypt regions , (32.84 percent and 28.67 percent, respectively) and the lowest region is the Metropolitan region where HPI in this region reached 20.87 percent. Differences between regions are due to differences in health and education indicators.

### **3. Poverty and employment in national policy making and investment programming**

#### **3.1 Employment in development and investment policies**

##### **3.1.1 Employment in development policies**

During the last five decades, successive governments had neither a systematic strategy for employment, nor detailed policies and Programmes for job creation as a coherent and integrated component of macro-economic policies. In fact the distortions and disequilibria of the labour market in Egypt, which affect its competitiveness, are a natural outcome of the complete divorce between macro-economic policies and employment policies.

In the early sixties, the government pursued the so called “guaranteed employment scheme” for social and political reasons. This was not a real employment policy and led to a sizable increase in the public sector and military employment, as well as government overstaffing, affecting negatively the level of productivity. During the decades of the seventies and eighties, the growth of the economy was jobless as mentioned in section 2, and successive long and short terms plans of governments did not give any priority to the problems of unemployment, job creation or the growing informal sector. Moreover, the total absence of employment as an important objective in a country suffering from mounting unemployment and deteriorating real wages was obvious in formulation and implementation of the policies of ERSAP during the nineties, where no job creation strategy or employment policies were included. The Social Fund for Development was established in 1991 with an aim of mitigating the negative impact of the economic reform Programme on vulnerable groups. The fund however is not responsible of creating permanent jobs for new graduates, who account for the overwhelming majority of the unemployed.

In short, the past experience of the period of the sixties to the mid-nineties indicates that the handling of the employment challenge by successive governments was characterized, on the one hand, by piecemeal measures and emergency Programmes whenever the need arose; and on the other hand by a focus on the level of investment with the assumption that employment is an automatic outcome.

With the seriousness of the unemployment problem in the last years and fears of social and political instability, the government of Egypt started to get concerned and give some attention to the employment challenge:

- The Council of Ministers, in March 15, 1997, identified the main objectives and plans of the government - in the so-called “Egypt and 21<sup>st</sup> Century” report in the doubling of the national income every ten years during the coming two decades, by increasing the GDP real growth rate from 4.8% to 6.8% during the years 1997-2002 and to 7.6% till the year 2017. This required an annual investment of 25% of GDP during the coming 20 years. The target was to create 550 thousands job opportunities every year, to absorb the labour force growth and the cumulative numbers of unemployed till the year 2002, and to keep employment at a rate of 97-98% of the labour force during the following years. The central component of the above-mentioned plan was the huge investment Programme aiming at increasing agricultural land through two Mega projects, one in Sinai and the other in Upper Egypt.

In fact, the objectives of this plan were too ambitious and proved too difficult to realize. Moreover, the impact of the Mega projects on employment has been debatable, where the private sector should participate with more than 80 percent of the planned investments in these projects. In fact, the shortage of basic infrastructure, natural resources and power, as well as the quality of land and the non-availability of sufficient water, are the major obstacles for growth of economic activities, and hence for job creation.

- The present government declared that it gives employment creation top priority in its agenda. The “Government Programme” submitted by the Prime Minister to the Parliament on 18 December 1999 stated that “All our efforts should be directed to increasing incomes, sustaining this increase and ensuring equality in its distribution, together with the creation of maximum employment opportunities”. To achieve these objectives, the programme indicated the need to create 650,000 jobs a year distributed as follows:
  - 150000 jobs in government services.
  - 200000 jobs through Social Fund Loans.
  - 200000 jobs in the private sector.
  - 50000 jobs in the Information and Communication sector.
  - 50000 jobs in distribution and maintenance services.
- In accordance with this “Government Programme”, the government launched a “National Employment Programme” in mid-2000. The programme indicated the need for a permanent employment strategy and the necessity of a new vision shifting from stop-gap palliatives to strategic thinking. The basic condition for such a programme is a macro economic framework that guarantees stability; 6% annual rate of growth on average over a 10-years period; and a pattern of growth which is employment-intensive. This so called “ Programme” comprises short-term and long-term plans that need the cooperation of the private sector with government in the following five areas:
  - One-** Emergency employment schemes with a view of correcting labour market imbalances, targeting bottleneck groups (nurses, maintenance workers, transport...) and deprived regions (especially Upper Egypt). The schemes also include launching a public works project.
  - Two-** Informal sector strategy through focusing on the viable sub-sector and upgrading it to the level of SE, as well as providing a package including credit, marketing, infrastructure and social protection.
  - Three-** Creation of the Training Fund with a research facility to monitor labour market demand and to cater for required skills. This demand-driven fund will be financed jointly by government subsidies to enterprises recruiting new graduates and by the private sector.
  - Four-** Approaching the problem of labour market information in an objective, timely and transparent way.
  - Five-** Upgrading and modernizing the employment services offered by the Ministry of Man power and other existing agencies, councils and funds.

In addition to these areas, the NEP aims at enhancing the competitiveness of the Egyptian economy as a long-term objective. This will be fulfilled through establishing a skill formation system that includes reform of the educational system; introduction of new skills (ICT); continuous -reskilling; as well as public service reform.

In fact, this “programme” has not been translated into action plans and remains in the realm of ideas. Moreover, it is a kind from emergency employment scheme and does not comprise any policies for sustained increase of employment in the formal private sector. In addition, the “programme” does not identify labour intensive activities in different sectors which are promising and could create job opportunities in the economy.
- In the “Government programme” declared by the Prime Minister in January 22, 2001, the centrality of employment objective was highlighted. While 833 thousands new job opportunities need to be created annually for the new entrants to the labour market and the already unemployed, the capacity of the economy is to provide 600 thousands jobs only. Three programmes were perceived to achieve this target, including jobs in government services (150 thousand); jobs through labour offices (200 thousand in the private sector); and jobs through credit programmes (250 thousand).



- The Ministry of Planning submitted in early 2001 the Economic and Social Development Plan for the year 2001/2002, which is the last year in the fourth five-year plan of 1997/98-2001/2002. The Plan aims at implementing the objectives stated in the government programme mentioned in the previous paragraph. The concern over the importance of the employment challenge is obvious as many policies in different areas have been stated to encourage job creation. Nevertheless, these policies are too general and too broad. Moreover, and according to the Council of Ministers, resources allocated in the plan are not sufficient to contain unemployment.
- In accordance with the Plan, the state budget for the year 2001/2002 indicated that its cornerstone is the deepening of social dimension of the economic reform as a main objective of government policy. The social dimension in this budget has been expanded to include, among other things, creating productive job opportunities for youth. In this regard, the budget aims at providing 700 thousand jobs in the short-term which will cost L.E 1.7 billion. It is worth mentioning here that the ever increasing number of the new jobs that is needed to be created annually implies that the economy is not capable of implementing the targeted plans of investment and employment and that the pool of unemployed is increasing. As for the medium term, the objective of the Budget is the restructuring of existing industries without laying off their employees. The long-term target of the budget is the upgrading of education and skills.
- In view of the shortage of skilled and well trained workers, the government launched in May 2001 a “national plan for training graduates and youth”. The detailed executive plan will be released in July, and will be implemented in four consecutive phases during September - December 2001. The plan will be financed through the state budget at a cost of L.E half billion. Graduates will be trained for 310 jobs, during a period ranging from three to six months, and will receive payments. After the training period, graduates will have the choice to work in non-governmental jobs or to set up a small enterprise financed by the SFD.
- In July 2001, the government launched a “government employment scheme”, according to which 800,000 job opportunities will be created in government entities, all over the country. However, this scheme will not create any jobs in the production sector and will increase the number of employees in the government which is already over staffed.

Finally, as poverty and unemployment coexist in most of the rural and urban regions, programmes that target poverty alleviation in Egypt work on the provision of credit to activate job creation through the establishment of SMEs, and also work on upgrading labour capabilities by more education and training.

It is clear from the above analysis, that the employment challenge is becoming central to the government’s concern. Yet, the approach to meet the challenge is still less than adequate.

### **3.1.2 Employment in Investment Programming**

The isolation of the employment problems from the macro-economic policies is apparent in the investment policies pursued since the sixties. In fact, these policies had an adverse effect on employment.

The past experience of the sixties reveals that import-substitution policies have encouraged capital-intensive industries and have reduced the cost of capital vis-a-vis the cost of labour. Hence, the employment intensity in the modern sector has declined. The decade of high growth rates elapsing between 1973-1983 was jobless, as mentioned before, due to the decline in the growth rates of productive sectors and the use of capital intensive techniques in manufacturing. Demand elasticity for labour decreased in the industrial and petroleum sectors from 0.9% in the period 1961-62 to 0.38% in the period 1971-1977, which is an indication of a low employment multiplier in both sectors (Nassar, 2000). Also, during the period 1983-1995 the highest labour-output elasticities were in the finance and trade sector, followed by the construction sector and the communication and transport sector, as shown

in table (3.1) in the Appendix. This table indicates that the productive sectors, and manufacturing in particular, were more capital-intensive.

The pattern of high capital / labour ratios in the different sectors, and the low employment intensity of investment in manufacturing prevailed in the nineties. During the implementation of economic reform, the role of the private sector in investment and production grew and reached about two thirds of national investment and GDP in the fiscal year 1997. While industry and mining attracted the highest private investment, manufacturing came at the top within this category. Meanwhile, manufacturing employed about 13% of total employment, ranking second after agriculture and had the highest absorptive capacity as regards generating employment. In an important study on the impact of investment policy on employment and poverty in Egyptian manufacturing, it was found that industries that come at the top in generating employment are simply the ones that attract high shares of investment, while industries that have the highest positive standardized impact on job creation are different (Abdel Latif, 2000). This is shown in table (3.2). This means that more investment generates more employment, with no role of an investment policy to direct scarce resources to sectors with high intensity of employment, or to encourage the most investment-attractive sectors to alter their usage of factors inputs in favour of more labour intensive techniques.

The target of investment policies in the Five-years plan (1997/98-2001/2002) is mainly to maximize the level of investment, particularly in manufacturing. About 22% of total investment in 2001/2002 has been allocated to this sector as compared to 15.7% in the first year of the plan. Yet more investment does not necessarily mean more employment.

Moreover, none of the successive investment laws in Egypt linked its package of incentives to levels of employment or contained measures to promote efficiency.

In short, the macroeconomics of investment policy in Egypt seem to be missing and there is a crucial need for an investment policy that focuses as much on the employment intensity of investment as on its level.

## **3.2 Poverty in national policy making and investment programming**

Poverty is not addressed explicitly in the national policies, nor is there a government or any other institution responsible for designing, implementing and monitoring poverty reduction programmes. However, the government always declares that its first priority is the welfare of low income groups. Poverty-reducing policies cannot be isolated from economic policies as economic growth is the driving force that makes job creation possible, and produces additional resources for government to be used for social programmes aimed at overcoming poverty. In the following we review how economic and social policies have affected the poor, we focus firstly on economic policies in general and agriculture and manufacturing policies in particular, and secondly on social spending.

### **3.2.1 Economic policy**

As a result of the stabilization programme, launched in 1991, the inflation rate declined from nearly 20 percent to 3.8 percent in 1997/98. It also corrected important distortions in the economy (such as negative real interest rates). Social indicators were protected. Items that account for a large part of the consumption budgets of the poor, such as bread, continued to be subsidized. The number of subsidized commodities was reduced, but the subsidy system was made more focused by improved targeting. Access to education and health was enlarged, as can be seen in improvements in infant mortality, life expectancy and steadily increasing literacy rates. The Social Fund for Development was set up to cushion the short-term adverse effects of the stabilization and reform programme. During this programme social expenditures in the budget were largely protected, with the main expenditure cuts falling on public investment, see table (3.5).

Egypt's *gross domestic investment and savings* rates have declined significantly during ERSAP years. Investment declined from high average rate of 26% of GDP during 1974-1984 to nearly 16%, since 1990/91. The 10 percentage points decline was concentrated in the public sector, while private investment remained almost unchanged at about 9 percent.

Moreover, public sector reform has a very significant and serious impact on the money incomes of the poor and on expanding the risks of the poor. This is due to the high probability of loss of jobs associated with reform. Excess labour in 116 public enterprises has recently been estimated at 600,000 persons ( Abdel-latif et al, 1995).

The loss of jobs means the loss of the main source of income, which is likely to be temporary or permanent depending on the probability of getting another stable job at a reasonable wage rate. The latter is inversely correlated to illiteracy- or low level of education- and low skills. Since these are typically the characteristics of poverty, the poor are likely to be the first to lose their jobs and last to find new stable ones. The poor have to accept whatever jobs are available. These are likely to be unstable, at low wage rate and in harsh working conditions. The probability of getting new job opportunities, or getting new sources of income, depends primarily on the possibilities of growth of the economy as a whole. Generally speaking, ERSAP's monetary and fiscal reforms have had so far a contractionary impact on total investment and growth of GDP (real GDP grew at an average of 4.0 percent since 1990, real per capita GDP grew at 1.8 percent). Interest rates have been allowed to rise in positive levels. It is these actions that have helped to bring down inflation. The highest cost of these measures has been the slow response of private sector investment - expected to compensate for the decrease in public investment – to the reform programme despite the latter positive contribution to macro-economic stability. Therefore, unskilled employees are expected to either remain unemployed or to work in the informal sector where jobs are not guaranteed. In both cases, employees among the poor groups in Egypt are expected to become even poorer.

In fact, there is no automatic relation between economic growth and poverty reduction. The effect of economic growth on poverty reduction depends on how it is channeled to improve the income of the poor. Previous analyses showed that the impact of economic growth in urban areas was larger than that in rural areas. Although changes in per capita income have contributed positively to poverty changes, improvements in income distribution have resulted in further poverty reduction, specially in rural areas.

Table (3.3) presents measures of elasticities of poverty reduction with respect to mean expenditures and to the inequality index. As poverty elasticity for mean expenditure is greater than unity for all poverty measures, poverty is highly sensitive to economic growth. Thus poverty levels should decrease faster than economic growth, provided that the growth process does not lead to an increase in income inequality. Economic policies that enhance economic growth will contribute to poverty reduction, though growth should be pro-poor.

### **3.2.2 Agricultural policies**

In rural areas, agriculture is the main source of livelihood for the poor. The poor are concentrated in agricultural activities. Changes in agricultural policies would thus have a large impact on the poor, specially the rural poor.

According to the EHDR (1996), investment shortage in infrastructure, in preventing land degradation, and in social services in rural areas, presents a major obstacle to the development of the agricultural sector. Fixed investment in the agricultural sector represented not more than 8 percent in 1992/95, while the contribution of this sector to GDP exceeded 16 percent, as shown in table(3.4)

Agricultural policies affect the level of rural poverty in two opposite directions; firstly most government agricultural policy changes associated with the structural adjustment programme led to an improvement in the rural-to- urban terms of trade by increasing real farm-gate prices of many cash

crops. On the other hand, agricultural policy plans to drop the provision of free inputs to certain crops, particularly fertilizers and seeds, and to remove fertilizer subsidies. Thus, drastic changes in the credit policy with the transformation of the role of the Principle Bank for Development and Agricultural Credit (PBDAC) and its withdrawal from marketing agricultural inputs and outputs have been implemented. Moreover, the relative low share of credit and investment granted to the agricultural sector presents a continuation of the bias against this sector. A possible negative impact of agricultural policy package could come through removing subsidies for inputs and fertilizers, while positive impact includes the reduction of export taxes and freeing cotton, rice and wheat prices. It is thus reasonable to conclude that the effects of economic reform in the agricultural sector have benefited many rural poor, while negative effects are limited to relatively few poor households.

The tenancy law could have a slightly negative impact on the poor, but we should note that only half of rural poor are engaged in agricultural activities and most of them are wage workers. However, the impact of this new law on the standard of living of rural population should be assessed.

### **3.2.3 Manufacturing policies**

The impact of investment policies in manufacturing, on poverty can be handled through their impact on employment and wage generation. As pointed out by Abdel-Latif (2000), “ investment policy in Egypt tends to be biased against employment as well as poverty issues. It is true that investment by itself does not lead to such a result. But investment policy does. Its effect exceeds the mere impact of investment on the level of employment, to the formulation of the characteristics of this employment , which may impoverish workers..”

The target of investment policy in Egypt has been to maximize the level of investment. Its major tool is a generous package of tax exemptions. It is thought that the more investment there is, the more employment and the less poverty will result.

During the period 1988-1998, manufacturing was the second sector, after agriculture as regard to absorption of labour. Moreover, larger firms have a higher investment-labour link than small and medium firms. Besides, investment intensity of labour is much less in formal firms than informal ones. Abdel Latif (2000) argued that the Egyptian manufacturing sector is less intensive than most other comparator countries. She also showed that there is no correspondence between wage, and labour intensity of investment and average wage per employer.

Poverty is always related to unskilled and employment in marginal activities, and hence low wages as a result of low productivity. In employment- poverty reduction policies, there is an essential need to reform the education system to meet basic market needs , accompanied with the provision of training programmes that will raise productivity levels. Thus, policies to promote employment generation may differ from those recommended to reduce poverty and increase welfare. Activating investment in sectors that generate more labour does not guarantee high level of wages or welfare for workers.

Moreover, Egyptian investment laws have not linked any of the investment incentives to the level of generating employment. In other words the investment legislation framework could not compensate for any of the negative factors in the investment environment against labour-intensive techniques. These factors tend to make many Egyptian firms restrict their usage of labour, at least on the basis of formal contracting.

### **3.2.4 Social spending**

Assistance to the poor in Egypt has been provided primarily through an extensive system of integrated subsidies. These subsidies covered basic food, electricity, housing, transportation and energy products. The food subsidy programme was the most extensive and open-ended one (specially the bread subsidy). The food subsidy system, available to all, first involved three commodities, cooking

oil, sugar and tea. As the programme continued, it extended its coverage to other commodities, such as flour and beans. Faced with growing deficit, the government began to cut many social expenditures, including the mostly food subsidy programme.

Structural adjustment aims at reducing budget deficit by increasing government revenues and decreasing government expenditure. The fiscal adjustment affected the living standards both directly and indirectly. On the one hand, most of the expenditure decline is attributed to reduction in public investment, with negative effects on growth and employment. Also half of the decline in current expenditure was due to reduction of consumer subsidies from 8% of GDP before adjustment to less than 2% in 1995/96. Price changes have an adverse impact on the poor. Studies showed that urban poor, however, are more vulnerable because they do not produce much of food they consume. They are therefore likely to suffer declines in their standard of living, with food price increases making them primary candidates for intervention. The rural poor are well insulated from changes in government pricing policies on food items.

However, the trends of public spending indicate that while public expenditure has declined as a percentage of GDP, the ratio of social spending on education and health to GDP have in fact increased.

In the following, we focus on one of the most important strategy for poverty reduction, that is education

### ***Public Expenditure on Education***

Public spending on education has increased in both nominal and real terms during the period 1990/91-1995/96. Public spending on education in current prices was L.E. 12.7 billion in 1996/97 compared to L.E. 4.6 billion in 1990/91. In real terms, public expenditure on education has increased by almost 55 percent over the same period; from L.E. 7.708 billion in 1990/91 to 11.976 billion in 1996/97.

These figures are however beset by internal inefficient allocation. On average, pre-university education, including basic and secondary, receive 68 percent of total government expenditures, compared to 32 percent for university. Education resources are however skewed toward current as opposed to investment spending, and away from primary toward university education. On average, 70 percent of total current expenditures went to pre-university education (aggregate for primary and secondary cycles) compared to 30 percent for university education. Investment expenditures, on the other hand, showed a clear bias against pre-university education up to 1994, when the pattern was reversed to attain an overall average of 54 percent for the period 1990/91-1996/97, as opposed to 46 percent for university education.

The Government of Egypt have recognized that illiteracy is probably the strongest source of poverty, combating it is an area most amenable to non-government and community efforts and interventions. As such, in addition to improving internal efficiency of resource utilization and quality of services in literacy programmes, efforts have been directed at greater mobilization of NGO capacities in providing literacy services. Government funding for this literacy campaign increased from L.E. 6.0 million in 1992/93 to L.E. 79.0 million in 1995/96. Coupled with an additional L.E. 105.0 million from the Social Fund for Development, government literacy services were availed in all 26 governorates (EFA Joint Report, 1997). Moreover, for most non-governmental organizations (NGOs) in Egypt, literacy programmes are an integral part of the package of services (including health and micro-credit) delivered to the public (Assaad, 1998).

## **4. The national employment policy-making systems and capacities**

Poverty and unemployment combatting has become a crucial goal of national action. To achieve this goal, many partners share the responsibility and participate in generating employment opportunities, directly or indirectly. These partners include governmental ministries and funds, the private sector and non-governmental organizations.

### **4.1 The Ministries of Manpower, and of Youth**

The Ministry of Manpower and Migration is responsible of monitoring labour market demand and identifies periodically the job vacancies in order to match labour demand and supply. The main mechanism of this function are the labour offices, which are supervised by the Ministry, and are currently subject to restructuring in order to enhance efficiency.

The Ministry issues a “National Bulletin for Employment” on a monthly basis as an important source of information on job opportunities. In addition, the Ministry supervises the activities of vocational training centers.

As for the Ministry of Youth, it focuses on training and will start implementing the National Programme for training 200,000 graduates in the training centers of the different ministries. The National Programme concentrates on preparing youth for employment through vocational training in 106 youth centers and in collaboration with the SFD. Moreover, the Ministry of Youth cooperates with Future Generation Foundation – a NGO – in training new graduates on acquiring a foreign language and computer skills as well as upgrading individual work skills. The Ministry finances 20% only of the cost while the Foundation bears the rest. The main objective of the different training programmes is building and upgrading working capacities.

### **4.2. The Ministry of Social Affairs and Insurance**

The Ministry of Social Affairs is engaged in a variety of interventions aimed at alleviating poverty either directly, through its social assistance and pensions programmes, or indirectly through the large number of NGOs it supervises and supports. The Ministry also supervises the Nasser Social Bank which is the institution that manages a large number of Zakat committees.

In addition to providing strong support to both SFD and Shorouk programme, the Government has a long tradition of managing and developing a variety of anti- poverty programmes through the Ministry of Social Affairs and Insurance in coordination with several governmental and non- governmental bodies. These include affiliated authorities, NGOs, the Nasser Social Bank, community development associations and local communities societies. Mubarak Solidarity Programme aims to achieve higher rates of human development for the limited income earning categories, such as the disabled, those with chronic disease and unemployed youth. An important feature of this programme is that it strikes a balance between mobilizing the production capabilities of beneficiaries and providing aid in money and in kind. The Bank also undertakes banking and investment activities (investments have reached LE one billion), and supports the establishment of new small projects by giving loans with 3-4% interest which is less than that prevailing in the market, on condition that the project yields social returns (investments reach LE 700 million yearly in this respect).

### **4.3. The Productive Family Project, (PFP)**

The government had recognized the need of the poor for micro credit. In 1964, it established through the Ministry of Social Affairs a scheme for social assistance called the Productive Families Programme (PFP). It is a mixed training/loan/contract production and marketing system. This is a socially oriented national project. Its main objectives may be summarized as: (1) Developing human resources through developing the capacity of the individual and the household, (2) Creating job opportunities for mem-

bers of the society who are capable and willing to work by providing support to their projects, (3) Promoting production and investment values at the individual and the household levels, and (4) Exploiting available local raw materials. Preference in contracting micro loans under PFP is given to beneficiaries earning less than LE 100 per month. The services provided under this programme are numerous and varied.

Furthermore, the PFP offers technical assistance by providing families with updated designs from the Designs and Forms Center and the Graphics Design Center, to upgrade skills and enhance efficiency.

The project is managed at the national level by the Productive Families Society with branches all over the country, one for each of the 27 governorates. Beneficiaries of the PFP from 1992 to 1996 were about one million families.

Realizing the importance of this NGO and its branches, and also the extent of the financial problems they face, the Social Fund for Development (SFD) approved several loans to these regional branches to finance micro projects under their sponsorship. The SFD, through its Community Development Programme, has been, since its establishment in 1992, an important source of funds to this programme through the Productive Families Association.

Loans have been predominantly invested in standard and repetitive agro-activities. The average size of loan per family being very small, it does not allow developing employment opportunities outside the family but rather permits sustaining income - generating activities to help the beneficiaries upgrade their status without however growing to a qualitatively different level. Information on incomes generated by these loans is not available. Furthermore the impact of training received by family members before the loan contract does not seem to be monitored. What is being monitored by the association is the number of trainees and of training courses provided. No impact assessment has been attempted. It has been noted that loans have been fairly successful in maintaining and stimulating financial self reliance of their recipients, without however improving their social status significantly.

In addition, the PEP objectives appear to be very ambitious given the institutional capabilities, technical skills and financial means available to the implementing association and its branches. The association's regional and local branches work under very difficult conditions and suffer from bureaucratic constraints. However, if upgraded, they may play a very important role in social and economic development as they are widely dispersed in rural and urban areas, and are in an advantaged position to reach the grassroots in remote villages and districts.

#### **4.4 The national programme for integrated rural development (Shorouk)**

Rural development is of prime importance for poverty alleviation in the country as a whole. In addition to its importance in directly alleviating rural poverty, rural development helps alleviate urban poverty by creating employment opportunities and favorable living conditions in the rural areas, thereby discouraging, if not stopping, rural out-migration to the urban areas. Moreover, rural development modernizes agriculture and increases its productivity and this, in turn, benefits the poor in both rural and urban areas by increasing the food supply at constant if not at lower prices. The Organization for the Reconstruction and Development of the Egyptian Village (ORDEV) initiated, in 1994, a balanced and comprehensive rural development programme and named it "Shorouk", meaning sunrise. The National Programme for Integrated Rural Development is an integral part of developing local administration to be based on ever expanding grassroots participation in all aspects of life at the rural communities' level. The ultimate goal of this programme is to close the gaps between urban and rural areas. To achieve this strategic goal, the programme sets four major objectives: development of the local environment through efficient utilization of local resources; increasing productive and stable local employment opportunities through diversification of economic activities; enhancing the effi-

ciency of local socio-cultural, educational, training, health and public utilities services; and enhancing the performance of governmental and non-governmental local institutions.

The Shorouk programme was designed to be phased in over the period 1994-2017. This period has been divided into four phases: Launching phase; take off phase; flashing phase; and sustainability phase

Within this programme's framework, the concept of integrated rural development refers to a process of deep change to achieve comprehensive and interlinked progress in the different aspects of life at the Egyptian rural community level. This process is undertaken by the local community through democratic participation with government assistance.

Conceptualizing rural development in this way underlines its dynamic aspect as a continuous process targeting multidimensional development changes in rural Egypt. The basic idea underlining Shorouk planning is decentralization and popular participation.

The sum total of investment required for the programme until 2017 is estimated at LE 267 billion. It is assumed that one third of the required investment will be financed through Government budget. This contribution represents nearly 60% of the investment in infrastructure, and 55% of the investment in human resources and institutional development. This heavy dependence on Government finance raises two questions: The first relates to the relationship between the national development plan and Shorouk projects. Selection of the projects that will be included in the development plan depends on both availability of finance and the set of targets to be achieved. What would happen if any conflict of interests arose between this plan and the demands of local communities? The second problem lies in the gray area between complementarity and competitiveness. Local communities' contributions might pull projects towards those villages where resources, (financial or in kind), are available, and not to where they are urgently needed.

According to Shorouk projected investments, about one third of total investments will be directed to infrastructure projects, one fourth to human resources and institutional development projects, while the rest will be devoted to economic activities projects. With the exception of the latter; which can be partially financed through loans to individuals and/or groups, Shorouk projects are mainly community-based.

During the period 1995/98, total investments amounted to LE, 526 million, out of which 66% was funded from the Government budget. Total number of permanent jobs reached 30,881 as opposed to 24,343 temporary jobs. As presented by table(4.1), 59% government funds were invested in infrastructure projects. Economic development projects were mainly funded from Local Community Fund. These projects created more than 46% of job opportunities, where the average cost per job attained LE. 17,035.

#### **4.5 The Social Fund for Development**

The Social Fund For Development (SFD) is a semi-autonomous governmental agency under the direct supervision of the Prime Minister. Financed by the Government of Egypt in cooperation with the World Bank/IDA, the European Union, Arab Funds and other donors. The SFD was created to protect and improve the status of the poor and the unemployed, during the period of economic transition. Its mission is to facilitate the implementation of Egypt's economic reform programme by mitigating the adverse effects of structural adjustment on low income groups, and by strengthening Egypt's institutional capacity (governmental and non-governmental) to develop new social programmes and upgrade existing ones.

It should be noted that one of the new options currently being considered by the SFD is to extend part of the loan package as a non-refundable grant, with the remaining portion realistically and soundly priced. The adoption of this option, and similar ones, serves to provide youth and start-ups with ad-



equate support while preparing them to deal with the market forces, thus offsetting some of the negative effects of subsidies. Consistency with the SFDs new strategy, aiming at self-reliance should be a primary factor in determining the aforementioned grant portion of the loan package.

## **SFD Programmes**

The objectives of the SFD are primarily achieved through promoting income and employment generating activities, providing basic social services, and enhancing local participation and awareness through five core programmes; namely, Public Works Programme (PWP), Community Development Programme (CDP), Enterprises Development Programme (EDP), Human Resources Development Programme (HRDP), and Institutional Development Programme (IDP).

The Implementation Completion Report summarizes the role of the SFD's five core programmes as follows: (1) The Public Work programme(PWP) supports labour-based public works projects, carried out by local contractors, using local material and local labour. The primary focus of the PWP is to provide basic services and **employment to the youth**; (2) the Community Development Programme(CDP) is designed to improve the quality of services at the community level in low income areas, in partnership with NGOs and the beneficiary community. CDP projects include social development activities (health and education) and productive activities (income generation and capacity building); (3) the Enterprise Development Programme (EDP) was conceived to create sustainable job opportunities in the small and micro sector by providing packages of technical assistance, business counseling, training and credit to both new and expanding businesses; (4) the Employment and Retraining Programme (ERP) responds to the needs of public enterprise employees during and immediately following the restructuring and privatization of the firms that employ them. The ERP funds labour adjustment schemes that mitigate any labour displacement that may occur in the process. It also trains unemployed new graduates in skills that are relevant to market demands; and finally (5) the Institutional Development Programme (IDP) was designed to strengthen the management and technical capabilities of the SFD and the intermediary agencies in order to optimize the implementation of their activities. A full description of these programmes and their intended beneficiaries can be found in Khier-El-Din (1997).

The SFD does not implement the contracted projects directly, but rather through intermediaries or sponsoring" agencies (469 agencies). These agencies are: governorates and local community agencies, banks and financial institutions, NGOs, or ministries. More than half the SFD resources are channeled to beneficiaries through banks., governorates and localities get around 24%, central government agencies receive around 15%, so around 40% of the SFD financing is used to complement government budget in public works and human development related activities, such as the eradication of illiteracy and basic health services to women. Finally, NGOs serve as the channel for less than 9% of SFD funds. The Employment and Retraining Programme has channeled a marginal 3% of the funds.

To address specifically those in need, the SFD has adopted several targeting approaches; (i) Under geographic targeting, benefits are channeled to persons falling within a certain category, such as size of assets, employment status or type, and geographic location. Since the poor tend to be located in areas that suffer from a greater deficiency of basic services, targeting by geographic location is a practical and cost effective mechanism for reaching the poor. A poverty map is constructed for the different regions based on a set of indicators such as income, household characteristics, employment and unemployment, access to social services, and housing conditions; (ii) under the self-targeting mechanism, project designs include self-screening methods so as to preclude the benefits for the higher income non-eligible population from the project. These could include requirements like beneficiary participation in self help communal construction projects and labour-based infrastructure programmes like unskilled labour; (iii) targeting through components and sub-projects signifies that certain com-

ponents may have a more direct impact on selected target groups than others. Involving the beneficiaries in the projects ensures that one or more components specifically address their needs; (iv) the choice of implementing agencies is especially important, particularly in relation to poverty alleviation. Resorting to organizations that operate with, and have extensive knowledge of local conditions can be extremely effective in enhancing the benefits of a project, (SFD 1996).

Employment generation is a central purpose of three of the five core programmes of SFD, namely PWP, CDP, EDP; it is also relatively easy to measure and may thus be taken as an indicator of performance. During the first phase, data indicate that employment programmes have measurable impacts benefiting thousands of people estimated at of which 251,065 permanent jobs and 109,616 temporary jobs. The most successful of the SFD programmes in generating employment is the EDP which has been responsible for generating more than 60% of permanent job opportunities and close to 55% of temporary jobs, followed by CDP and further by PWP which mainly created temporary jobs (21.9%) with very few permanent jobs in operating and maintaining public works projects. Using the latest available figures from the SFD, it appears that disbursement per actual job created is L.E. 5,856 for all SFD programmes. However there are wide unexplained variations among programmes. While the cost per job is L.E. 2,111 in CDP and L.E. 5,292 in EDI, which is the main source of employment generation, it rises to an unexplained L.E. 18,217 in PWP, a programme which is supposed to provide cheap labour opportunities to unskilled workers.

Although funds for Phase II have not yet been completely transferred, the SFD has achieved impressive results through available resources. According to the Annual SFD Report, 2000, the total disbursed amount was 2185 million pounds, during 1997-2000, total number of beneficiaries amounted to 12,021,283 and the number of job created reached 448,737 out of which 24% were temporary.

In the following, we review two of the SFD programmes that have contributed to more than 80% of job opportunities created by the SFD. These are; EDP and CDP.

### **The Enterprise Development Programme (EDP)**

The Enterprise Development Programme (EDP) aims at creating viable and sustainable employment and income generating opportunities in the small and medium enterprise sector. It fulfills this objective through providing credit for the targeted groups of **unemployed graduate youth, women, and existing enterprises** with a potential to expand (SFD/GOE, 1995 Annual Report). It thus provides sustainable means of income generation and contributes to the reduction of the adverse effects of unemployment. While it addresses mainly small and medium enterprises (SMEs), it also has an impact on poverty alleviation programmes by creating employment opportunities at all levels of skills. Its credit philosophy is based on proper assessment of feasibility studies in lieu of collateral and guarantees, thus providing affordable support to its target groups for establishing new small business or increasing the sustainability and expansion of existing ones (GOE/SFD, Annual Report, 2000). It also plays a major role in spreading awareness about such small enterprises among the youth, encouraging them to establish, own and manage their private enterprises.

Apart from providing project funding, the EDP provides an array of institutional capacity building and technical assistance 3 to 7% of the loans value is given as a grant for institutional capacity building of sponsoring agencies (banks or NGOs which disburse the loans to the end beneficiary). This includes developing the financial and legal skills and capabilities of the project supervisors in those agencies. Moreover, technical assistance is offered to the entrepreneurs to upgrade their capabilities. This assistance is provided in the preparation of the feasibility studies as well as in the form of technical advice from reputed experts in the field. In addition, the EDP has also provided training to its beneficiaries through training agencies active in the respective fields (SFD, Annual Report, 2000). Coupled with this trend are the permanent exhibitions set up in various Egyptian provinces, as well as the increasing number of roving exhibitions. The aim of such fairs and exhibitions is to increase marketing aid for the products of such small projects.

## The Community Development Programme

The main objective of the Community Development Programme (CDP) is to design and implement projects that would alleviate poverty and upgrade the living standards for the poorest segments of the population. This is carried out in partnership with NGOs, PVOs, local authorities and the beneficiary communities. This programme aims at: (a) enhancing the accessibility of funds to the targeted communities; (b) providing basic human needs and primary health care services to deprived areas and; (c) upgrading the capacity of NGOs and PVOs and increasing their involvement in the development process; and (d) mobilizing local initiatives in social development and basic services deliveries and in productive income-generating activities. It focuses on low income households, women and children in rural and urban poverty areas as well as on unemployed youth.

The CDP's **social development activities** were designed to raise the quality of life of community members through the provision, increased accessibility and improvement of basic services, primarily in health, education, population and family planning, and the environment.

During Phase I of its operations, the CDP funded **productive activities** with grants and loans to low income population groups in rural and urban areas. The CDP financed working capital, training and the equipment required for the beneficiary to start an economically productive activity or to expand an existing one. The grants were used to cover technical assistance - including vocational and managerial training needed by either the intermediary agency (IA) or the beneficiaries, and the operational costs of the IA.

## Economic and Social Impact Assessment of EDP and CDP

In a recent study conducted by SFD (Kheir El-Din et al., 1999) to assess the economic and social impact of EDP and CDP, both quantitative and qualitative approaches were applied. The quantitative approach was based on a sample survey of a number of EDP and CDP beneficiaries in three different governorates, while the qualitative approach included in-depth focus group discussion with credit officers, banks' officials and NGOs staff. The following observations were reported:

- EDP has been successful in generating employment opportunities, particularly in cases where new projects - rather than existing ones - have been funded. This programme also appeared to be cost-effective in providing these job opportunities, although wide variations have been observed in average cost per unit worker among activities as well as between governorates. Industrial projects have been found to be the most employment generating while agricultural projects had the least impact on employment.
- CDP projects are so small that their impact on employment outside the family appears limited. Micro-projects in manufacturing activities engage, on average, more workers than in other activities - especially trade and agriculture -and should thus be encouraged.
- A general policy of studying possible local agricultural industries should be considered to make SFD even more effective in creating employment opportunities and in helping to promote economic development in poor areas that lack any industrial possibilities and thereby achieving poverty alleviation.
- Income of beneficiaries under both EDP and CDP increased and made a positive contribution to household spending on basic needs. However, it neither contributed to improving housing conditions nor was it spent on children's education.
- Most EDP projects visited appeared to be sustainable, unlike CDP micro-projects which showed little sustainability beyond loan duration. This indicates that the size of micro-loans under CDP should be increased in addition to considering renewing these credits to projects in well selected activities to allow the owner to achieve self-reliance and to overcome poverty.
- The social impact of EDP and CDP loans in terms of changing attitudes and behavior within the

household appeared to be minimal. Low interest in public life, little political or civic awareness and low sense of social participation have been observed among beneficiaries of both programmes. However, it has been noted that the majority of borrowers are keen on having their children complete their education. EDP beneficiaries have further shown appreciation of private endeavors as reflected by their preference to have their children develop their own projects.

- NGOs are in an advantaged position to reach the grassroots and to mobilize local capabilities as they have a far outreach to remote villages and isolated communities. Thus they may appear to be appropriate sponsors of CDP micro-credit. However, they suffer from serious bureaucratic ties, lack of technical capabilities, and financial constraints. To enhance their capacity and involvement in project formulation and in achieving local empowerment, intensive retraining and technical assistance have to be extended by the SFD in addition to financial support.
- Finally, the need for the SFD to develop a data base about poor households and their needs and about productive activities in various areas where the SFD is actively involved cannot be over-emphasized. Information would include economic and social data on each region and the local community, available production opportunities, existing projects, local manpower, technical expertise, local activities specific to each region and locality and possibilities of enhancing them. NGOs, if supplemented with necessary skills could be particularly helpful in this domain.
- The project-based approach of SFD to poverty alleviation and employment generation excludes by necessity those who cannot work and those who are too poor to apply for project funding and wait for their implementation. The first group includes elderly people, poor children, poor unskilled women, and the disabled. In addition to being unable to work, this group of people may also be deprived from the benefits of social services and basic infrastructure provided by SFD activities as they lack the necessary means to participate. As an illustration, sending a child to school requires providing food, clothing, and writing material, which the ultra poor cannot afford. Enjoying improved infrastructure, potable water or sewerage, requires extending these facilities to various housing units, which the ultra poor also cannot afford. Alleviation of poverty for this group requires direct transfers, in cash or in kind, which is beyond the scope of SFD and is increasingly provided for by direct private transfers, or through *Zakat* funds and NGOs.
- The emphasis on demand-based projects presents a number of obstacles to participation of the ultra-poor. They require submitting applications and proposals, soliciting estimates, etc. Furthermore, implementation of such projects involve gestation periods i.e. waiting before income is generated or benefits accrued. The ultra poor often cannot afford this time commitment.

#### **4.6 Non-Governmental Organizations (NGOs)**

At present, there are 14,000 NGOs registered under law 32 of 1964 with MOSA .This law stipulates that organizations registered under this law can either be welfare organizations, which can only operate in sharply delimited fields of activities, or community development associations, which can work in multiple activities. According to MOSA, 74% of all NGOs registered with MOSA are welfare organizations, who provide training and small and micro financial activities. Most organizations derive their resources from services fees, the sale of their products , local charitable contributions, subsidies from MOSA and other government agencies, and in some cases foreign funding. Although the traditional role of government in meeting the needs of the poor has been declined, an energized non-governmental sector is playing a steadily growing poverty alleviation role in Egypt. This is happening in the context of the greater availability of donor support to non-governmental actors, either directly from donors or through SFD. However, NGOs sector is unprepared yet to take on a major role in poverty alleviation, Assaad, (1998).

NGOs have emerged as key players in the field of micro-credit. They have played the role of intermediaries in various dimensions. NGOs have been active in starting and participating in micro-credit programmes. They have developed resources and tools to monitor progress and identify good

practices. They are more common as intermediaries for credit in comparison to other institutional forms. However, the important constraint to reaching the poor is the relatively small numbers of NGOs that can implement innovative and successful programmes. The Alexandria Businessmen Association (ABA) has been one of the most successful NGOs. Table ( 4.3 ) in the Appendix shows small and micro-credit programmes in Egypt. It is obvious that many NGOs play an important role as implementing agencies in several types of programmes.

Despite their very large number (at least 14,000 NGOs in various fields of activity with an extensive geographical coverage), with remarkably few exceptions, NGOs suffer from severe institutional and policy constraints. These constraints inhibit them from playing an active role in the development process in general let alone make a substantial contribution in meeting the large demand for financial services to the SME sector. Some of these weaknesses include, among others, lack of adequate leadership and managerial capabilities, lack of appropriate accounting and financial systems, weak human and material resource base, lack of talented and committed professional staff, an organizational culture that favors social work, weak internal governance, limited ability to mobilize human and financial resources.

Donors, as well as other institutional actors, follow their own agendas and strategies towards poverty reduction strategies (that may or may not overlap with other actors to varying degrees) with a limited extent of coordination among the various actors (government, donors, NGOs,. etc.). No clear policy towards this problem has yet emerged and with the lack of a standard operational definition, the effectiveness of these efforts is greatly diminished. This has resulted in a situation where different programmes actually compete with each other, thus minimizing the potential impact of their efforts.

## 5. Concluding remarks and policy recommendations

The main findings of this study can be summarized as follows: The labour market in Egypt has been increasingly suffering from many distortions and disequilibria during the last two decades, namely, the slow rate and distorted structure of employment growth; segmentation along several divides; mounting rate of unemployment between educated youth with increasing trends of “feminization” and “ruralization” of unemployment; growing role of the informal sector during the nineties and the sharp decline in real wages in all sectors of the national economy. Also, the analysis shows that the increasing “competitiveness” of Egyptian labour in manufacturing during 1980-1995 is an outcome of a decrease in real wages and a decline in labour productivity.

These findings confirm the fact that the problems of the labour market in Egypt, which affect its competitiveness, are a natural outcome of the complete divorce between the macro-economic policies and the employment policies. In fact, Egypt never had a systematic strategy for the labour market.

It appears, therefore, that the main challenge facing decision makers in both the medium and long terms lies in the creation of sufficient, productive and permanent jobs to reduce unemployment, and in enhancing labour competitiveness. This challenge can only be met through adopting a comprehensive strategy and designing precise and detailed policies and programmes for employment.

The proposed employment strategy will be complementary to and integrated with the macro-economic policies. The main objective of both is to achieve a high labour-intensive rate of growth, hand in hand with raising labour productivity and competitiveness, and offering productive job opportunities to the poor. Equally important, is a crucial need for developing the capital intensive activities because they generate more jobs and have a positive impact on productivity. What is really needed for the Egyptian economy is a reasonable combination of both capital –intensive and labour-intensive activities in all branches of the economy.

### **Four areas of the employment strategy can be perceived:**

The first area is related to the macro-economic policies necessary to ensure sustained and high rate of growth. This would require macro-economic stability, increasing domestic and foreign investment, and encouraging the private sector to increase its role, relative to that of the state, through reducing the obstacles that hinder private investment.

The second area of the employment strategy is to maximize the employment content of growth. This should take place on two fronts: accelerating the rate of job creation in the formal sector, and improving work conditions and solving the problems of the informal sector. As for the first front, the labour-intensive activities in the manufacturing and services sectors should be targeted, particularly in small and medium-size enterprises, for both local and foreign markets. Detailed studies should be carried out to identify these branches of economic activity. As mentioned, pro-employment policies can promote high levels of investment in three major areas of private sector activity with large employment multipliers: export-oriented manufacturing by domestic and foreign firms, small scale enterprise operations in all of non-agricultural sectors and high growth service activities including information, finance, transport, tourism and personal services. Within the manufacturing sector, growth industries will be concentrated in the high value added, labour-intensive own-stream subsectors which use skilled labour and enjoy strong links with the world market. Examples of such industries with comparative advantage (RCA greater than one) are: aluminium, base steel products, household metal equipment, several petrochemicals, pharmaceuticals, leather goods, furniture, plastic products, cotton and non-cotton textiles, knitwear and garments and a wide range of processed foods. In addition, construction materials and ceramic fixtures, glass products, sanitary ware, ceramics and tiles are new dynamic products with increasing rates of export growth. This will go hand in hand with creating job opportunities on a broad scale in the New Development Projects launched by the government. In view of the growing role of the informal sector in absorbing employment and generating incomes, more

attention and help should be given to activities that have potential for growth, through solving the problems of credit, marketing and production techniques. Expanding protection and improving work conditions in the informal sector are necessary to reduce poverty.

As for the third area of the employment strategy, training, the study already reveals the low and decreasing trend of real labour productivity in manufacturing since the mid-eighties. The low level of labour productivity in the Egyptian economy, in general, has contributed to push up the relative price of labour vis-à-vis capital and hence, lowered the labour intensity in the manufacturing activities. Therefore, upgrading the skills of the labour force requires sound and coherent policies for reforming current training and retraining systems, expanding their scope to include labour intensive sectors other than manufacturing, and linking training with skills required in the labour market. The private sector should be involved in the training programmes.

Finally, and clearly related to training, upgrading of skills in order to raise productivity depends heavily on increasing human development. Investment in human capital entails increasing spending on health, nutrition, housing and education, along with reforming the education system and improving its quality.

It is to be noted that the four above- mentioned areas of the Employment Strategy will not be efficient without reforming the legal and institutional framework of the labour market, civil service reform, and providing an effective social safety net.

The International Labour Organization can be of great help to the government of Egypt in implementing employment policies and programmes. Worldwide, the ILO offers technical assistance to help governments achieve the goal of full and productive employment as a priority of economic and social policies, as well as reduce unemployment and promote adequately remunerated employment.

As for poverty, it is evident from the previous analysis that poverty is a highly sensitive issue in Egypt, from the political point of view. Most officials deny the existence of poverty. However, they realized that ERSAP may have adverse impact on the standards of living of “low income groups”, and hence several policies have been designed and implemented to help those groups. Although policy formulation and basic planning on poverty reduction is absent, Egypt has pursued multi-dimensional strategies for raising Egyptian standards of living, including; income generation, human capital and safety net strategies. The Egyptian government pursues poverty alleviation objectives through a variety of channels, including direct assistance to the poor through the Ministry of Social Affairs (MOSA), free education and literacy programmes through the Ministry of Education, free health care through local health units and large public hospitals of the Ministry of Health, subsidies for bread flour, sugar and oil through the Ministry of Trade and Supply and rural development projects through the Ministry of Agriculture. With these in spite of efforts, poverty still exists among certain socio-economic groups. Poverty is more prevalent in Upper Egypt, among self employed without hiring others, workers without wages and out of labour force individuals, as well as among individuals with low levels of education. What seems to be absent is co-ordination between institutions to form one set of poverty reduction strategies. This applies to intra-ministerial coordination, inter-ministerial coordination, co-ordination between government agencies and NGOs and between the different NGOs.

The previous analysis points to the notable impact of economic growth on poverty levels, as it was observed in urban areas, during 1995-1999/2000, where poverty changes were mainly due to changes in average per capita expenditure. When growth is coupled with improvement in redistribution of expenditure, changes in poverty were even larger. This is actually what occurred in rural areas.

Poverty reduction policies and programmes are far more likely to succeed when government, communities and individuals, in coordination, are active partners in the conception, design, and implementation of the programmes. A major reason for lack of coordination is the absence of a clear policy framework to guide poverty reduction efforts by one government entity to facilitate coordination of

the interventions of the various actors. Government ministries, civil society and the private sector should be brought together to coordinate their work and arrive at a division of labour which is in the best interest of the poor. Participation makes development more client-oriented, building local ownership of programmes. This promise has all too often been neglected.

Decentralization of decision-making and resources is another key ingredient in creating local ownership of poverty reduction programmes. The intended beneficiaries must play a part in decision-making process through local assemblies and NGOs. Only in this way can local communities take control of their lives and programme outcomes. Decentralization and local control thus has two faces, one is the encouragement of civil associations and the dense social networks of the poor. In order to be effective however, they must have political space in which activities are not deemed to be illegal or oppositional, and in which they can gain access to state and other resources as legitimate representatives of the poor. The other face of decentralization, is the devolution of government, and the need for some form of decentralization of state powers to provide better governance and a more effective way of providing services and public goods.

Poverty alleviation could be approached in *three ways*; from a welfare, economic or human capital viewpoint. A welfare approach would consist of making direct income transfers to the most needy, either through cash transfers or through subsidized goods and services. An economic approach would focus on interventions designed to improve income earnings for the poor. Finally, a human capital approach would aim at increasing the poor's potential earning by raising their productivity through nutrition, health, education and training programmes. The last two sets of strategies entail changing the characteristics of the poor. There are several advantages to policies aimed at changing characteristics of the poor. First, policies that succeed in changing the characteristics of the poor are in large part removing the causes of poverty, not just reducing its effects. Second, many of these policies may be less costly in the long run since they aim to raise the productivity of poor households.

### **Some policy recommendations for poverty reduction can be summarized as follows:**

Firstly, it has been recognized that growth is necessary but not sufficient condition to ensure that the poor participate in the fruits of economic growth. To have the greatest impact on poverty, the benefits of economic growth should be widely shared. In this context, much public investment might still be needed to crowd in rather than crowd out private investment. While non productive expenditure must be avoided, investment spending on infrastructure as an example, should be sustained, even in cases where the private sector shows interest in investing in such areas. Moreover, the required investment policy should care as much for the welfare intensity of investment as for its levels. Therefore, the design of employment-welfare packages should widen its focus to include issues more than mere employability. The welfare aspect- measured in terms of levels of wage should also be considered.

Secondly, SME development should be treated as a national priority designed specially for the youth. It requires the coordination of efforts among all government and non-government actors and entities. SME development requires reforming and stimulating the financial sector to address the financial needs of SMEs on sound economic basis. It also requires reforming the educational system in order to provide an adequate supply of skilled labour that is able to assimilate modern production techniques. Moreover, marketing and trade systems have to be further developed in order to enhance the competitiveness of SME products in local and international markets. Finally, significant legal and regulatory reform are needed in order for this vital sector to develop and expand.

Finally, as for human capital formation, education and health should be the focus of any public policies to eradicate poverty. In the field of education, several measures should be taken to improve the effectiveness of public expenditures, reallocate resources from higher to basic education, reduce



fees in basic education, apply general cost recovery measures in higher education, improve the quality of education offered at the primary and preparatory levels and encourage girls to join schools, taking into account the culture and traditional barriers. Support for the eradication of illiteracy and drop-out rates among the poor is the single most important strategy objective from a development perspective.

In the field of health, medical insurance coverage should be extended in parallel with health reform. Extended coverage would require the Health Insurance Organization to establish new contracts with hospitals and physicians in order to provide the additional medical care needed. Extending infrastructure such as safe water and sanitation to regions in which poverty prevails, provides a reasonably efficient method for improving the individual's health status and hence reducing poverty.

(In conclusion up with general remark) In spite of the numerous efforts to reduce poverty, and to create jobs, poverty still persists and even the number of the poor has increased. The persistence of poverty among certain socio-economic groups during the 1980's and 1990's points to the existence of certain economic and social factors underpinning the perpetuation of poverty across generations. Available information collected in Egypt indicates that rigid centralization, lack of coordination, and weak institutional and capacity building, in both governmental and non- governmental organizations, are major drawbacks in implementing poverty reduction and employment generation policies. Lack of coordination among the providers of assistance to the poor results in minimizing the effectiveness of these efforts, duplication of efforts or conflicting initiatives. The absence of good governance has been a major obstacle to the proper execution of policies and programmes. Issues of employment and poverty have always been discussed in isolation of economic policy, especially investment policy.

## Appendix A.

**Table(2.1) Selected Economic Indicators**

	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/2000
Real GDP Growth Rate	3.7	1.9	2.5	3.9	4.7	5.0	5.3	5.7	6.1	5.1
Average Annual Inflation	14.7	21.1	11.1	9.1	9.3	7.3	6.2	3.8	3.8	2.8
Unemployment (%)	9.3	9.2	10.0	9.8	9.6	9.2	8.8	8.3	7.9	7.4
Fiscal Deficit (% GDP)	17.7	5.4	3.5	2.1	1.2	1.3	0.9	1.0	4.2	4.8
Current Account % GDP ( <i>including official transfers</i> )	10.2	6.4	4.9	0.8	0.6	-0.3	0.2	-3.0	-1.9	-1.2
Foreign Debt (% GDP)	106.9	77.9	64.4	59.8	54.8	45.9	38.0	34.0	31.7	29.3
Total Debt (% GDP)	311.0	270.1	251.2	257.1	227.1	203.6	173.5	180.3	-	-
Total Debt % Exports (G&S)	23.2	24.6	11.7	13.8	12.7	12.0	7.2	7.2	-	-
Debt Service Ratio	23.2	24.6	11.7	13.8	12.7	12.0	7.2	7.2	7.5	7.2
Reserves / Months of Imports	6.3	12.1	16.1	18.8	16.4	15.7	15.7	14.3	12.8	10.2

Source: Ministry of Economy and Foreign Trade, Monthly Economic Bulletins, March 2000 and June 2001.

**Table (2.2) Distribution of the Labour Force by Working Status (15 years and more)**

Working Status	1976		1986		1996		Av. rate of growth %		1998	
	No.s	%	No.s	%	No.s	%	1976-86	1986-96	No.s	%
Employer	858.111	8.93	513.969	4.01	1.094.955	6.39	-4.01	11.30	2.592.000	14.70
Self-Employed	1.990.544	20.71	3.208.389	25.06	3.195.665	18.64	6.12	-0.04	1.954.900	11.08
Employee	6.271.954	65.24	7.662.066	59.84	10.874.337	63.42	2.02	3.56	9.670.900	54.85
Family worker	0	0	1.302	0.01	447.024	2.61	n.a	79.30	1.965.100	11.15
Unemployed	34.343	0.36	270.398	2.11	75.116	0.44	22.92	-12.02	88.800	0.50
New-entrants unemployed	375.386	3.91	1.148.860	8.97	1.459.955	8.51	11.84	2.43	1.358.700	7.71
Unclassified	83.431	0.87	0	0	0	0	-	-	-	-
<b>TOTAL</b>	<b>9.613.769</b>	<b>100.00</b>	<b>12.804.984</b>	<b>100.00</b>	<b>17.147.052</b>	<b>100.00</b>	<b>2.91</b>	<b>2.96</b>	<b>17.630.400</b>	<b>100.00</b>
Urban	n.a	n.a	6.226.605	48.63	7.904.930	84.72	-	2.42	7.650.400	43.39
Rural	n.a.	n.a.	6.578.379	51.37	9.242.122	53.90	-	3.46	9.980.000	56.61
Male	8.915.529	92.74	11.406.835	89.08	14.527.709	84.72	2.49	2.45	13.890.000	78.78
Female	698.240	7.26	1.398.149	10.92	2.619.343	15.28	7.19	6.48	3.740.400	21.22

Source: Calculated from CAPMAS, General Population Censuses, 1976, 1986 and 1996, and Labour Force Sample Survey, 1998.

**Table (2.3) Distribution of Employed Persons by Sector (15 years and more)**

Sectors	1976		1986		1996		Av. rate of growth %		1998	
	No.s	%	No.s	%	No.s	%	1976-86	1986-96	No.s	%
Government	1.786.064	17.67	2.545.315	22.36	4.374.613	28.02	3.61	5.56	4.382.800	27.08
Public Enterprises	964.583	9.54	1.287.719	11.31	876.729	5.62	2.93	- 3.77	1.161.600	7.18
Private Enterprises	7.355.770	72.78	7.537.285	66.20	10.336.689	66.21	0.24	3.21	10.498.500	64.87
Foreign Enterprises	0	-	10.842	0.10	23.911	0.15	-	8.23	140.100	0.86
Unclassified	0	-	4.565	0.04	39	0.00	-	-37.89	-	-
<b>TOTAL</b>	<b>10.106.417</b>	<b>100.00</b>	<b>11.385.726</b>	<b>100.00</b>	<b>15.611.981</b>	<b>100.00</b>	<b>1.20</b>	<b>3.21</b>	<b>16.183.000</b>	<b>100.00</b>
Urban	n.a	-	5.446.613	47.84	7.214.167	46.21	-	2.85	7.047.000	43.55
Rural	n.a	-	5.939.113	52.16	8.397.814	53.79	-	3.52	9.136.000	56.45
Male	n.a	-	10.343.844	90.85	13.526.684	86.64	-	2.72	13.187.000	81.49
Female	n.a	-	1.041.882	9.15	2.085.297	13.36	-	7.19	2.996.000	18.51

Source: Calculated from CAPMAS, General Population Censuses, 1976, 1986 and 1996, and Labour Force Sample Survey, 1998.

**Table (2.4) Distribution of Employed Persons by Branches of Economic Activity (15 years and more)**

Branch of Economic Activity	1976		1986		1996		Av. rate of growth %		1998	
	No.s	%	No.s	%	No.s	%	1976-86	1986-96	No.s	%
	Agriculture & Fisheries	4,089,252	44.25	4,347,447	38.18	4,872,806	31.21	0.61	1.15	4,822,700
Mining & Quarrying	32,474	0.35	42,430	0.37	63,090	0.40	2.71	4.05	69,000	0.43
Manufacturing	1,297,342	14.04	1,489,152	13.08	2,168,257	13.89	1.39	3.83	2,042,200	12.62
Electricity, Gas & Water	61,487	0.67	95,946	0.84	159,170	1.02	4.56	5.19	203,400	1.26
Construction	408,878	4.43	842,300	7.40	1,260,052	8.07	7.49	4.11	1,287,100	7.95
Trade, Hotels & Restaurants	821,678	8.89	846,752	7.44	1,627,284	10.42	0.30	6.75	2,226,900	13.76
Transport, Storage & Communications	472,794	5.12	653,052	5.74	909,313	5.82	3.28	3.37	954,100	5.90
Finance, Insurance & Business Services	87,117	0.94	236,508	2.08	706,254	4.52	10.50	11.56	440,500	2.72
Community & Social services	1,816,151	19.66	2,615,721	22.97	3,758,685	24.08	3.72	3.69	4,135,800	25.55
Unclassified	151,210	1.64	216,418	1.90	87,070	0.56	3.65	- 8.70	1,200	0.01
<b>TOTAL</b>	<b>9,238,383</b>	<b>100.00</b>	<b>11,385,726</b>	<b>100.00</b>	<b>15,611,981</b>	<b>100.00</b>	<b>2.11</b>	<b>3.21</b>	<b>16,182,900</b>	<b>100.00</b>
Urban	n.a	-	5,446,613	47.84	7,214,167	46.21	-	2.85	7,046,900	43.55
Rural	n.a	-	5,939,113	52.16	8,397,814	53.79	-	3.52	9,136,000	56.45
Male	8,644,522	93.57	10,343,844	90.85	13,526,684	86.64	1.81	2.72	13,186,900	81.49
Female	593,861	6.43	1,041,882	9.15	2,085,297	13.36	5.78	7.19	2,996,000	18.51

Source: Calculated from CAPMAS, General Population Censuses, 1976, 1986 and 1996, and Labour Force Sample Survey, 1998.

**Table (2.5) Distribution of Employed Persons by Occupation (15 years and more)**

Occupation	1976		1986		1996		Av. rate of growth %		1998	
	No.s	%	No.s	%	No.s	%	1976-86	1986-96	No.s	%
Professionals, Scientists & Managers	826.848	8.60	1.588.053	13.95	4.370.197	28.00	6.74	10.65	5.090.700	31.45
Clerical Workers & Like	700.950	7.29	998.992	8.77	1.123.399	7.20	3.61	1.18	1.073.900	6.64
Sales & Services Workers	1.442.913	15.01	1.428.312	12.54	1.456.208	9.33	- 0.10	0.19	1.633.600	10.09
Workers in Agriculture & Fisheries	4.033.281	41.95	4.302.166	37.79	4.676.481	30.00	0.65	0.84	4.673.000	28.88
Production Workers & Like	2.052.506	21.35	2.769.172	24.32	3.860.486	24.73	3.04	3.38	3.711.600	22.94
Unclassified	557.271	5.80	299.031	2.63	125.210	0.80	- 6.04	- 8.34	-	-
<b>TOTAL</b>	<b>9.613.769</b>	<b>100.00</b>	<b>11.385.726</b>	<b>100.00</b>	<b>15.611.981</b>	<b>100.00</b>	<b>1.71</b>	<b>3.21</b>	<b>16.182.800</b>	<b>100.00</b>
Urban	n.a	-	5.446.613	47.84	7.214.167	46.21	-	2.85	7.046.700	43.54
Rural	n.a	-	5.939.113	52.16	8.397.814	53.79	-	3.52	9.136.100	56.46
Male	8.915.529	92.74	10.343.844	90.85	13.526.684	86.64	1.50	2.72	13.186.800	81.49
Female	698.240	7.26	1.041.882	9.15	2.085.297	13.36	4.08	7.19	2.996.000	18.51

Source: Calculated from CAPMAS, General Population Censuses, 1976, 1986 and 1996, and Labour Force Sample Survey, 1998.

**Table (2.6) Distribution of New Entrants Unemployed by Age (15 years and more)**

Age Brackets	1976		1986		1996		1998	
	No.s	%	No.s	%	No.s	%	No.s	%
15 -	114438	30.49	214715	18.77	325411	22.29	319200	22.05
20 -	204554	54.49	656650	57.40	551018	37.74	570700	39.43
25 -	56394	15.02	227256	19.87	454988	31.16	425100	29.37
30 -	0	-	45306	3.96	128538	8.80	128500	8.88
35 and over	0	-	0	-	0	-	4000	0.28
<b>TOTAL</b>	<b>375386</b>	<b>100.00</b>	<b>1143927</b>	<b>100.00</b>	<b>1459955</b>	<b>100.00</b>	<b>1447500</b>	<b>100.00</b>

Source: Calculated from CAPMAS, General Population Censuses, 1976, 1986 and 1996, and Labour Force Sample Survey, 1998.

**Table (2.7) Distribution of New Entrants Unemployed by Educational Status (15 years and more)**

Educational Status	1976		1986		1996		Av. rate of growth %		1998	
	No.s	%	No.s	%	No.s	%	1976-86	1986-96	No.s	%
	Illiterate	117192	21.32	22557	1.95	35087	2.40	-15.19	4.52	8100
Read & Write	56904	10.35	16959	1.47	21820	1.50	-11.40	2.55	12500	0.86
Primary	24950	4.54	9503	0.82	14672	1.00	-9.20	4.44	18800	1.30
Below Intermediate	18875	3.43	19468	1.68	16355	1.12	0.30	-1.73		
Intermediate	191480	34.83	781334	67.59	1088086	74.53	15.10	3.37	1019400	70.42
Above Intermediate	11180	2.03	72010	6.23	100598	6.89	20.47	3.40	127800	8.83
First university Degree	53792	9.78	233838	20.23	183144	12.54	15.83	-2.41	260900	18.02
High Diploma	10	0.00	0	0	192	0.01	-	-		
M.A.	13	0.00	0	0	0	0	-	-		
PhD	3	0.00	0	0	0	0	-	-		
Unclassified	75342	13.71	371	0.03	1	0	-41.22	-44.66	-	-
<b>TOTAL</b>	<b>549741</b>	<b>100.00</b>	<b>1156040</b>	<b>100.00</b>	<b>1459955</b>	<b>100.00</b>	<b>7.72</b>	<b>2.36</b>	<b>1447500</b>	<b>100.00</b>
Urban	n.a	-	625011	54.06	639323	43.79	-	0.23	603400	41.69
Rural	n.a	-	531029	45.94	820632	56.21	-	4.45	844000	58.31
Male	389741	70.90	808963	69.98	930484	63.73	7.58	1.41	703000	48.57
Female	160000	29.10	347077	30.02	529471	36.27	8.05	4.31	744500	51.43

Source: Calculated from CAPMAS, General Population Censuses, 1976, 1986 and 1996, and Labour Force Sample Survey, 1998.

**Table (2.8) Employment in Non-Agricultural Informal Private Sector by Economic Activity, 1996**

<b>Economic Activity</b>	<b>Employment in Establishments using less than 5 Workers (1)</b>	<b>Out of Establishments Employment (2)</b>	<b>Total Employment (3)</b>	<b>% to Total (4)</b>
Mining and Quarrying	312	12.523	12.835	0.3
Manufacturing	484.890	244.242	729.132	15.1
Electricity, Gas & Water	159	4.672	4.831	0.1
Construction	16.466	943.137	959.603	19.8
Trade	1.468.904	504.993	1.973.897	40.8
Hotels & Restaurants	150.683	34.988	185.671	3.8
Transport, Storage & Com.	52.174	469.571	521.745	10.8
Finance & Insurance	810	5.718	6.528	0.1
Real Estates & Bus. Serv.	94.609	28.462	123.071	2.5
Education	7.702	14.676	22.378	0.5
Health & Social Work	90.484	6.694	97.178	2.0
Community, Soc. & Pers. Serv.	125.516	50.263	175.779	3.6
Services to Households	-	13.929	13.929	0.3
Int. Organizations	78	-	78	0.0
Unclassified	1.257	14.893	16.150	0.3
<b>Total</b>	<b>2.494.044</b>	<b>2.348.761</b>	<b>4.842.805</b>	<b>100.0</b>
		<b>48.5</b>		
<b>% to Total</b>	<b>51.5</b>	<b>Rural 1.021.491</b>	<b>100.0</b>	
		<b>Urban 1.327.270</b>		

(1) Calculated from: CAPMAS, **General Population Census**, Detailed results of Establishments, 1996, Table 12, pp. 197-207.

(2) Calculated from: CAPMAS, **General Population Census**, Detailed results of Establishments, 1996, Table 25, pp. 163-170.



**Table (2.9) Trends in Average Nominal and Real Wages by Sectors and Economic Activity, 1987-1996**

(Nominal: L.E. per week)

(Real: 1986 = 100)

Economic Activity	Sector	1987		1990		1991		1994		1995		1996		%of change 1987-1996	
		N	R	N	R	N	R	N	R	N	R	N	R	N	R
Agriculture and Fisheries	Pu	27	25.1	35	19.6	42	19.6	56	17.8	59	17.8	74	19.8	174.1	-21.1
	Pr	17	15.8	32	17.9	30	14.0	51	16.3	58	17.5	59	15.8	247.1	0.0
	T	25	23.3	34	19.0	39	18.2	54	17.2	59	17.8	64	17.1	156.0	-26.6
Mining and Quarrying	Pu	49	45.6	92	51.4	80	37.3	109	34.7	128	38.6	129	34.5	163.3	-24.3
	Pr	64	59.6	172	96.1	189	88.2	249	79.3	205	61.8	278	74.3	334.4	24.6
	T	59	54.9	114	63.7	127	59.3	165	52.6	160	48.2	181	48.4	206.8	-11.8
Manufacturing	Pu	38	35.4	56	31.3	56	26.1	79	25.2	90	27.1	102	27.3	168.4	-22.9
	Pr	37	34.4	49	27.4	54	25.2	72	22.9	73	22.0	76	20.3	105.4	-41.2
	T	38	35.4	54	30.2	55	25.7	77	24.5	84	25.3	93	24.9	144.7	-29.7
Electricity, Gas and Water	Pu	30	27.9	40	22.3	57	26.6	64	20.4	70	21.1	88	23.5	193.3	-15.8
	Pr	33	30.7	-	-	96	44.8	95	30.3	46	13.9	119	31.8	260.6	3.6
	T	30	27.9	40	22.3	57	26.6	65	20.7	70	21.1	88	23.5	193.3	-15.8
Construction	Pu	40	37.2	53	29.6	60	28.0	85	27.1	89	26.8	100	26.7	150.0	-28.2
	Pr	46	42.8	75	41.9	64	29.9	144	45.9	127	38.3	93	24.9	102.2	-41.8
	T	40	37.2	55	30.7	61	28.5	88	28.0	91	27.4	100	26.7	150.0	-28.2
Trade and Hotels	Pu	34	31.7	49	27.4	57	26.6	84	26.8	90	27.1	106	28.3	211.8	-10.7
	Pr	36	33.5	51	28.5	61	28.5	66	21.0	77	23.2	82	21.9	127.8	-34.6
	T	34	31.7	49	27.4	58	27.1	77	24.5	85	25.6	83	22.2	144.1	-30.0
Transport and Storage	Pu	34	31.7	49	27.4	54	25.2	83	26.5	88	26.5	111	29.7	226.5	-6.3
	Pr	49	54.6	72	40.2	70	32.7	123	39.2	118	35.6	119	31.8	142.9	-30.2
	T	36	33.5	53	29.6	57	26.6	88	28.0	92	27.7	112	29.9	211.1	-10.7
Finance, Insurance and Bus. Serv.	Pu	38	35.4	66	36.9	68	31.7	95	30.3	100	30.1	107	28.6	181.6	-19.2
	Pr	112	104.3	118	65.9	151	70.5	210	66.9	233	70.2	230	61.5	105.4	-41.0
	T	49	45.6	76	42.5	85	39.7	120	38.2	131	39.5	170	45.4	246.9	-0.4
Soc. And Pers. Serv.	Pu	39	36.3	61	34.1	47	21.9	62	19.8	61	18.4	73	19.5	87.2	-46.3
	Pr	31	28.9	42	23.5	47	21.9	63	20.1	81	24.4	88	23.5	183.9	-18.7
	T	33	30.7	46	25.7	47	21.9	63	20.1	79	23.8	94	25.1	184.8	-18.2
All Activities	Pu	37	34.5	55	30.7	57	26.6	81	25.8	88	26.5	103	27.5	178.4	-20.3
	Pr	42	39.1	57	31.8	64	29.6	84	26.8	88	26.5	91	24.3	116.7	-37.9
	T	38	35.4	55	30.7	59	27.5	82	26.1	88	26.5	99	26.5	160.5	-25.1

**Notes:**

- (1) Pu = Public, Pr = Private, T = Total, N = Nominal, R = Real.
- (2) Real wages are calculated using Urban CPI for Year 1986 = 100; National Bank, Economic Bulletin, vol. 5, No. 3, 1998
- (3) Public Sector includes Public Enterprises.
- (4) Private Sector: Establishments using 10 workers or more.
- (5) In 1996 the classification of Economic Activities is different in CAPMAS data from previous years. In that year the data are more detailed for Agriculture, Trade, Finance, Social and Personal Services. For the purpose of accurate comparison, we calculated the average nominal wage in each of the four activities as an average of the sub-activities in that year.

**Source:** -Normal Wages: CAPMAS, Employment, Wages and Hours of Work (EWHW), Several issues.  
 - Real Wages: Calculated.

**Table (2.10) Real Wages, Real Productivity and Real Unit Labour Cost in Manufacturing Sector**

<b>Years</b>	<b>Real Wage \$ Per Worker</b>	<b>Growth Rate %</b>	<b>Real Productivity \$ Per Worker</b>	<b>Growth Rate %</b>	<b>Real Unit Labour Cost (\$)</b>
1980	70.237		84.909		0.827
1981	83.213		97.337		0.854
1982	78.243		94.486		0.828
1983	82.735		96.886		0.853
1984	83.453	- 5.8	102.563	2.7	0.813
1985	82.228		114.675		0.717
1986	72.184		118.417		0.609
1987	69.604		125.868		0.552
1988	66.296		178.031		0.372
1989	38.692		111.281		0.347
1990	20.156		55.731		0.361
1991	11.288		33.86		0.333
1992	10.544	- 11.4	37.074	- 8.4	0.284
1993	10.352		36.160		0.286
1994	10.516		33.547		0.313
1995	9.776		33.003		0.296

**Source:** Calculated from UNIDO (1998), **Industrial Statistics Database**.

Consumer Price Index (1990 = 100) was used to get Real Wages. GDP Deflator (1990 = 100) was used to get Real Productivity.

**Table 2.11: Region Poverty Lines (L.E.)**

Region	Food Poverty Line	Regional Poverty Lines	
		Upper	Lower
Urban	902	952.9	1297
Rural	707	1324.6	955

Source: The Preliminary Results of HIECS 1999/2000

**Table 2.12: Regional Poverty Measures, (percent**

Region	Lower Poverty Line			Upper Poverty Line		
	P0	P1	P2	P0	P1	P2
All Egypt	20.15	3.78	1.15	49.63	14.52	4.91
All Urban	18.44	3.89	1.31	46.07	16.81	5.43
All Rural	21.41	3.69	1.03	52.27	12.82	4.52
Metropolitan	9.01	1.69	0.54	31.26	7.98	2.92
Lower Urban	17.93	2.99	0.88	57.87	15.45	5.61
Upper Urban	36.33	8.85	3.18	69.26	25.02	11.47
Border Urban	10.38	1.65	0.45	35.90	9.07	3.20
Lower Rural	11.26	1.38	0.30	44.62	8.66	2.60
Upper Rural	34.68	6.72	1.98	69.13	20.37	8.04
Border Rural	11.23	1.40	0.28	36.50	7.98	2.48

Source: The Preliminary Results of HIECS 1999/2000

**Table 2.13: Poverty Measurements by Governorate ,(percent), in Urban Areas**

Governorate	Lower Poverty Line			Upper Poverty Line		
	P0	P1	P2	P0	P1	P2
Cairo	8.77	1.72	0.56	28.95	9.99	2.64
Alexandria	11.32	2.04	0.63	35.69	12.25	3.30
Port Said	2.61	0.37	0.07	11.41	3.73	0.70
Suez	4.19	0.53	0.12	18.55	6.09	1.13
Damietta	3.59	0.29	0.06	26.80	8.41	1.09
Dakahlia	21.50	3.58	0.98	58.87	20.28	5.96
Sharkia	26.90	4.48	1.30	72.01	24.97	7.54
Qaliubia	16.06	3.13	1.04	52.73	18.02	4.98
Kafr El-Sheikh	12.24	2.02	0.71	54.64	17.85	3.91
Gharbia	13.14	2.19	0.64	44.42	14.96	3.83
Menufia	26.38	4.70	1.30	65.32	23.46	7.11
Beheira	19.83	3.02	0.86	59.94	20.30	5.55
Ismailia	7.74	0.84	0.17	35.99	11.46	2.20
Giza	21.60	4.14	1.29	53.16	19.13	6.14
Beni-Suef	50.42	15.11	6.04	76.83	34.52	16.27
Fayoum	40.22	9.06	2.89	74.21	29.40	11.34
Menia	23.23	4.69	1.49	58.97	21.20	6.71
Assiut	63.11	18.04	7.20	90.87	41.22	19.87
Sohag	57.88	15.92	6.07	85.07	37.95	17.73
Qena	34.74	6.47	1.90	76.17	27.66	9.61
Aswan	34.11	7.32	2.23	63.37	25.00	9.23
Luxour	40.92	11.89	4.37	58.63	26.83	12.52
Red Sea	11.51	3.14	1.02	35.81	13.49	3.40
New Valley	12.90	2.33	0.63	41.41	14.06	3.82
Matrouh	18.17	2.11	0.40	45.10	15.39	4.37
North Sinai	7.76	0.38	0.12	36.52	11.21	2.47
South Sinai	0.00	0.00	0.00	7.42	2.32	0.05
Total	18.44	3.89	1.31	46.07	16.81	5.43

Source: The Preliminary Results of HIECS 1999/2000

**Table 2.14: Poverty Measurements by Governorate ,(percent), in Rural Areas**

Governorate	Upper Poverty Line			Lower Poverty Line		
	P0	P1	P2	P0	P1	P2
Damietta	0.00	0.00	0.00	3.097835	0.117868	0.012406
Dakahlia	16.38	2.07	0.46	54.39509	11.08061	3.316897
Sharkia	13.19	1.53	0.32	51.40006	9.657466	2.732022
Qaliubia	8.99	1.25	0.29	29.8188	5.977508	1.844558
Kafr El-Sheikh	5.10	0.48	0.08	31.52459	4.69082	1.149599
Gharbia	8.67	1.20	0.29	34.50884	6.200867	1.849855
Menufia	20.50	2.46	0.53	54.57893	12.31185	3.851116
Beheira	7.56	0.84	0.18	37.14304	6.222852	1.664268
Ismailia	7.96	1.04	0.21	29.97153	5.619963	1.645448
Giza	15.64	2.25	0.51	42.36701	9.447407	3.078497
Beni-Suef	51.37	10.53	3.16	81.30372	26.83143	10.97393
Fayoum	33.97	6.06	1.61	72.91497	19.47415	7.061397
Menia	24.63	3.73	0.96	61.55516	14.88955	4.994445
Assiut	56.16	12.67	4.02	82.93269	29.23239	12.55186
Sohag	42.12	8.46	2.58	77.4009	23.34324	9.182637
Qena	26.52	4.63	1.28	62.28371	15.71131	5.589895
Aswan	17.41	2.96	0.87	44.82955	10.65806	3.73369
Luxour	36.24	9.11	3.28	48.54518	18.84532	8.721413
Red Sea	4.51	0.57	0.11	27.34834	3.9162	1.028296
New Valley	7.29	0.42	0.02	28.01903	4.970012	1.274359
Matrouh	16.64	2.77	0.64	41.92087	10.62394	3.514066
North Sinai	25.60	3.01	0.58	62.60025	14.98475	4.690761
South Sinai	0.00	0.00	0.00	8.084804	1.186607	0.197806
Total	21.41	3.69	1.03	52.27261	12.82442	4.52315

Source: The Preliminary Results of HIECS 1999/2000

**Table 2.15: Poverty Measurements by Employment Status, (percent)**

Region	All Urban		All Rural	
	P0	No. individuals	P0	No. individuals
Wage Earner	14.93	29243	17.752	15122
Self-employed Hiring Others	11.24	4256	17.301	6531
Self-empl. not Hiring Others	23.22	5143	17.519	7810
Worker without Wage	29.85	1198	24.461	8048
Unempl. with No Previous Job Exp.	17.32	224	16.715	73
Unempl. with Prev. Job Exp.	22.88	3521	14.546	1728
Total	18.44	125287	21.41	100830

Source: The Preliminary Results of HIECS 1999/2000

**Table 2.16: Poverty Measurements by Sector of Employment , percent**

Region	All Urban		All Rural	
	P0	No. individuals	P0	No. individuals
Government	10.81	32.83	12.21	17.15
economic organization	5.43	0.20	0	0.04
public	8.94	7.96	10.97	2.55
private	19.59	58.42	20.48	80.10
cooperative	9.9	0.07	10.35	0.12
NGO	10.53	0.09	12.5	0.02
foreign	2.69	0.42	0	0.03
total individuals	18.44	100	21.41	100

Source: The Preliminary Results of HIECS 1999/2000

**Table 2.17: Poverty Measurements by Educational Status, (percent)**

	All Urban				All Rural			
	P0	P1	P2	No. individuals	P0	P1	P2	No. individuals
below age	24.71	5.47	1.89	18.38	27.49	4.99	1.43	24.60
illiterate	30.45	6.92	2.45	15.59	25.13	4.56	1.31	30.05
read and write	20.96	4.28	1.41	12.09	18.89	3.05	0.82	12.96
below secondary	18.58	3.82	1.27	19.44	17.72	2.72	0.7	16.50
secondary	12.51	2.28	0.7	20.04	12.1	1.79	0.44	12.29
above secondary and below univ.	9.23	1.38	0.4	3.11	7.54	0.98	0.2	1.22
university	3.02	0.41	0.12	10.92	6.03	0.78	0.17	2.34
above university	1.12	0.26	0.07	0.43	2.78	1.32	0.63	0.04
Total	18.44	3.89	1.31	100	21.41	3.69	1.03	100

Source: The Preliminary Results of HIECS 1999/2000

**Table 2.18: Enrollment rate and Percentage of Working Children of Children Aged 6-15 Years by Region and by Poverty Status, (percent).**

Region	Enrolled	Not Enrolled	% of working Children
<b>Total Urban</b>			
poor	87.57	12.43	3.25
non-poor	95.91	4.09	1.17
all	91.44	8.56	2.28
<b>Total Rural</b>			
poor	72.43	27.57	6.09
non-poor	85.07	14.93	4.06
all	79.06	20.94	5.02

Source: The Preliminary Results of HIECS 1999/2000

**Table 2.19: Regional Poverty Measures, (percent)**

Region	Year	Lower Poverty Line			Upper Poverty Line			Gini Index
		P0	P1	P2	P0	P1	P2	
All Urban	1990/1991	20.3	4.3	1.1	39.01	10.80	4.00	
	1995/1996	22.51	4.38	1.6	45.00	12.80	4.90	33.8
	1999/2000	18.44	3.89	1.31	46.32	13.99	5.57	37.2
All Rural	1990/1991	28.6	4.5	1.4	39.20	12.00	4.05	
	1995/1996	23.3	4.3	1.2	50.20	12.50	4.20	24
	1999/2000	21.41	3.69	1.03	52.50	13.33	4.72	23.96

Source: The Preliminary Results of HIECS 1999/2000

**Table 2.20: Regional Decomposition of Changes in Poverty,**

Region	Growth Component	Redistribution Component	Actual Change
All Urban	-5.97	1.90	-4.07
All Rural	-1.27	-0.62	-1.89

Source: The Preliminary Results of HIECS 1999/2000

**Table (3.1) Elasticity of Employment by sector, 1983-1995**

	Elasticity of Employment, 1983-1995		
	Employment growth	Output growth	Elasticity
<b>Total</b>	1.84	2.99	0.61
<b>Agriculture</b>	0.84	1.65	0.51
<b>Industry</b>	2.68	3.63	0.74
Manufacturing and mining	2.13	3.45	0.62
Electricity, gas and water	4.40	12.71	0.35
Construction	3.85	2.54	1.51
<b>Services</b>	2.28	3.08	0.74
Finance and trade	4.01	2.28	1.76
Transport and communication	3.96	3.51	1.13
Comm., social and pers services	1.30	3.10	0.42

Source: Radwan ,S. Job Creation and Poverty Alleviation In Egypt: Strategy and Programmes, UNDP-ILO, Geneva, August, 1997.

**Table (3.2) Labour indicators in Manufacturing by activity (92/93-95/96)**

	<b>Change in employment (%)</b>	<b>Employment growth rate (ratio)</b>	<b>Contribution of one pp investment*</b>
Food	-1.2	0.00	-0.04
Textiles	41.3	0.10	3.30
Wood	4.8	0.12	12.13
Paper	-13.0	-0.09	-1.91
Chemicals	0.3	0.01	0.02
Non-Metallic	14.2	0.11	1.04
Metal	8.9	0.30	5.28
Engineering	43.5	0.23	2.35
Other	1.1	0.48	2.77
Total	100	0.07	1.0

**Source:** Abdel Latif, L., "Investment Policy, Employment and Poverty in Egyptian Manufacturing", Conference socioeconomic on Policies and Poverty Alleviation Programmes in Egypt", SFD & CEFRS, Cairo, October 2000.

\* The contribution of one percentage point (pp) of investment to pp employment generation.

**Table 3.3: Expenditure and Inequality Elasticities**

<b>Urban Areas</b>		
Absolute poverty line		
	Expnd Elast	Ineq Elast
P0	-2.61	2.89
P1	-4.02	6.66
P2	-5.59	10.42
<b>Rural Areas</b>		
Absolute poverty line		
	Expnd Elast	Ineq Elast
P0	-3.21	1.63
P1	-4.32	3.70
P2	-5.51	5.81

**Table(3.4) Percentage share of Agriculture and Industry**

<b>Year</b>	<b>Fixed investments(% of total)</b>		<b>Gross Product (% of total)</b>	
	<b>Agriculture</b>	<b>Industry</b>	<b>Agriculture</b>	<b>Industry</b>
1992/93	7.2	16.5	16.5	16.7
1993/94	8.1	15.7	16.5	16.7
1994/95	7.6	18.2	16.3	17.2



**Table 3.5: Public Social Spending and related programmes (percent of GDP)**

	1990/91	1996/97	Average 1987/88 - 1989/90	Average 1991/92 - 1993/94	Average 1994/95 - 1996/97
Total	10.3	10.3	9.9	9.8	10.3
Current	7.5	7.6	7.8	7.26	7.25
<b>Subsidies</b>	2.96	1.75	3.3	2.54	1.9
<b>Education</b>	3.13	3.95	3.2	3.3	3.92
<b>Health</b>	1.15	1.06	1.1	1.25	1.24
<b>Community</b>	0.22	0.29	0.12	0.17	0.20
<b>Investment</b>	<b>2.84</b>	<b>3.26</b>	<b>2.1</b>	<b>2.56</b>	<b>3.04</b>
<b>Education</b>	.97	1.5	0.661	1.04	1.45
<b>Health</b>	0.5	0.4 8	.44	0.44	0.40
<b>Housing</b>	1.36	1.2 5	1.01	1.06	1.14
<b>Community</b>	.014	0.02 7	.014	0.014	0.27

Source: Egypt Human Development Report, 1997/98, INP and UNDP.

**Table 3.6 Per Capita Public Expenditure, in LE.**

year	per capita public expenditure at current prices	per capita public expenditure at constant 87 prices
1983/84	345.4246	523.9625
1984/85	378.0264	531.7794
1985/86	486.5563	559.9255
1986/87	477.2559	477.2559
1987/88	632.8013	546.9211
1988/89	615.5661	455.8322
1989/90	615.2602	387.7415
1990/91	740.8032	420.435
1991/92	938.6737	351.7518
1992/93	1049.863	342.4609
1993/94	1072.305	308.6572

**Table 3.7: Average Per-student Current Expenditure – Nominal and Real (L.E.)**

Year	Pre-University Education		University Education /1		General CPI 86/97=100
	Nominal	Real	Nominal	Real	
1990/91	208	86.8	1705	711.6	239.6
1991/92	242	90.3	2214	826.1	268.0
1992/93	305	105.9	2539	881.9	287.9
1993/94	338	110.7	2520	825.4	305.3
1994/95	381	117.4	2618	806.8	324.5
1996/97	455	129.4	3292	936.3	351.6

1/ Excluding El-Azhar

Source:Tabbala, Expenditure on Education and the Extent of Benefit by the Poor, Aback ground paper for EHDR 1998/99.

**Table(4.1) Shorouk's Investment, Number of job Opportunities and Number of Projects by Type of Activity**

Sector				Employment Opportunities			number of Projects
	Govern-ment	Others	Total	Perm- -enant	Tempor- ary	Total	
<i>1995/96 Infrastructure</i>	31811	8839	40650	610	2704	3314	158
<i>Human Develop.</i>	22217	13341	35558	444	1574	2018	203
<i>Economic Develop.</i>	11451	9507	20958	4978	143	5121	1178
<i>Total</i>	65479	31687	97166	6032	4421	10453	1539
<i>Infrastructure</i>	53998	21871	75869	1138	4590	5728	397
<i>1996/97 Human Develop.</i>	21044	14581	35625	445	1490	1935	193
<i>Economic Develop.</i>	10472	6457	16929	4021	131	4152	1643
<i>Total</i>	85514	42909	128423	5604	6211	11815	2233
<i>Infrastructure</i>	121327	54025	175352	2630	10313	12943	2301
<i>1997/98 Human Develop.</i>	41369	16857	58226	728	2930	3658	809
<i>Economic Develop.</i>	37443	29449	66892	15887	468	16355	6367
<i>Total</i>	200139	100331	300470	19245	13711	32956	9477

**Table (4.2) Fund Allocations to Various Programmes In Phases I and II, 1997**

Programme	Phase I		Phase II	
	Million L.E	%	Million L.E.	%
Public Works	622.84	22.4	322.43	8
Community Development	347.44	12.5	621.44	15.5
Enterprise Development	1,457.99	52.5	2,722.71	68
Human Resource Development	182.56	6.6	199.17	5
Institutional Development	165.54	6	137.85	3.4
Total	2,776.37	100	4,003.60	100

Source: GOE/SFD Annual Report, 1997.

**Table(4.3) Number of Contracted Projects and Disbursed amount in 1997-2000**

	number of Contracted projects	Disbursed amount (000 L.E)
Enterprise Development	2348493	1491728
Public Works	347653	283636
Community Development	381169	241934
Human Resource Development	264265	168105

Source: GOE/SFD Annual Report, 2000.

**Table(4.4) Number of Projects, beneficiaries and of created jobs, 1997-2000**

	number of projects	number beneficiaries	Number jobs created	
			Permanent	Temporary
Enterprise Development	83829	89345	311803(total)	
Public Works		9851411	2816	83013
Community Development		2051941	16595	25248
Human Resource Development		28586	9262	
Total		12021283	340476	108261

Source: GOE/SFD Annual Report, 2000.

## Appendix B

### The Population, Housing and Establishments Census:

The first population census was conducted in 1897. Since then population censuses were conducted every ten years, with two skipped points due to wars. The Population, Housing and Establishments Census collect information on number of individuals and their main characteristics such as their age, sex, education level, employment and activity status, ownership of some durable goods. Housing characteristics are also collected, in terms of number of rooms, house ownership, connection to piped water electricity and sanitation, and some basic amenities. Finally, information about number of establishments, ownership, number of workers, main activity, etc. The Population, Housing and Establishments Censuses provide a wealth of information about employment and living standards in Egypt. They can be used to construct several deprivation indices. These censuses were used to construct the frame for any nationally representative surveys, such as Labour Force and expenditure sample surveys. The recent census was conducted on November 1996.

### Household income, Expenditure and Consumption Survey:

Egypt conducted household budget surveys since 1957/58. It was intended to perform these surveys every five years. But because of wars, these surveys were stopped for some time. Dates for these surveys are 1957/58, 1964/65, 1974/75, 19981/82, 1990/91, 1995/96 and 1999/2000.

The 1995/96 HIECS included 14805 households, of which 6622 in urban and 8183 in rural areas. In 1999/2000, the total sample was 47949 households, of which 28754 in urban and 19195 in rural areas.

The 1990/91, 1995/96 and 1999/2000 HIECS were based on the Censuses sample frames and the questionnaire design and administration were similar across the three surveys.

Household budget surveys present the single most important source of information for poverty analysis. They record information on household income and consumption expenditures on more than 600 items of goods and services, and are therefore a good source of information on the distribution of welfare within the society. These surveys are particularly important because of their comparability, in terms of survey design and administration, and hence the opportunity they offer in making comparisons over the period and inferences over a period that roughly coincide with implementation of ERSAP.

In terms of quality, the survey data can be judged “better than average”. The samples are nationally representative. They were randomly and systematically chosen, and a stratified multiple stage sampling was used. The sample size for both surveys is large enough to allow for inferences at the regional and governorate levels, with the exception of Border governorates where the sample size is small. Levels of bias and imprecision for both surveys are within statistically acceptable margins.

### Sample Size of the 1995/96 and 1999/2000 HIECS

	1995/96		1999/2000	
	Households	Individuals	Households	Individuals
Urban	6622	28911	28754	125287
Rural	8183	45028	19195	100830
Total	14805	73939	47949	226117

The survey was administered over 12 months, with 10 visits to the household over a period of one month. Basic information about all household members was collected. These information includes age, gender, education, occupation, economic activity, employment status and housing conditions. A household diary is kept for one full month, where all consumption expenditure transactions for all

household members were recorded. Expenditure on food items included imputed value of own-produced commodities where these have marketed equivalents. Expenditure of non food items were collected for the previous three month or the previous year depending on the type of commodity. The annualized sum of monthly or quarterly household expenditures was then used to construct the consumption basket for total annual household expenditures.

Data of the recent survey was collected from October 1999 to September 2000. This is the largest survey ever conducted in Egypt. The last three surveys of 1990/91, 1995/96 and 1999/2000 are highly comparable in terms of sampling procedure and data collection.

It should be noted that these surveys were not designed, although it can be used, to measure poverty levels, but to extract weights for constructing the consumer price index and to predict the consumption levels needed for designing the national plans. However they provide a wealth of information about expenditure and consumption levels as well as individual and housing characteristics.

### **Demographic and Health Survey:**

These surveys were conducted since 1988, every other year; 1988,1990,1992,1994,1996,1998 and 2000. They were intended to collect information on fertility rates, use of contraceptives, infant mortality rate and child mortality. The recent surveys collect information on malnutrition indicators and Anemia prevalence. Data on household characteristics are also collected. These surveys provide information on poverty as multidimensional concept, that takes into account education level, malnutrition and other health status.

# Appendix C

## Estimating Poverty Lines

The following steps were adopted for estimating poverty lines for 1999/2000:

- (i) In choosing the quantities of food that stipulate food energy requirement, the composition of the required diet is set to accord with observed diets of the poor. Using Unpublished data sets, we obtained the quantities and values of all food items consumed by every household expenditure bracket and also their gender and age structure. First we focus on the expenditure pattern of the lowest 40% of population with respect to their per capita expenditure within the household and the average calories intake per adult equivalent of households in each bracket is then evaluated using the actual quantities consumed by those households, the corresponding calories for each food item and the age and sex structure of those households. The consumption pattern of households that yields basic calories requirements becomes the base of the subsequent steps. This step ensures that the consumption habits and taste of the poor is reflected in the chosen diet.
- (ii) The diet of the reference household is augmented to yield adequate food energy intake, which is set at 2200 calories per person per day( or 3000 calories per adult equivalent). Ravillion, 1993, explained this step as follows: let us denote the actual food consumption vector of the reference group of households. The corresponding caloric values are presented by the vector  $k$  and food energy intake of the reference household is then  $kr = kxr'$ . The recommended food energy intake is  $k^*$ . The reference food consumption bundle used in constructing the poverty line is then given by  $x^* = (k^*/kr)xr$ . Thus the relative quantities in the diet of the poor are preserved in setting the poverty line.
- (iii) In order to evaluate the non-food expenditure, Engels curves were fitted by which the food share is regressed on log total expenditure relative to the cost of basic food needs, augmented for household size. That is,  $s_i = \alpha + \beta \log(x_i/z^f) + \gamma h_i$  (5), where  $s_i$  is the food share,  $x_i$  denotes total per capita expenditure,  $z^f$  is the food poverty line estimated in step 2 and  $h_i$  is the household size.
- (iv) Non-food expenditure per household member was estimated for households who are capable of reaching their requirements, but choose not to do so. This is the non-food expenditure of households whose total expenditure is just equal to the food-based poverty line. Non-food is added to the food poverty line to yield a lower poverty line. That is;  
 $Z = Z^f (2 - \alpha - \gamma \text{average household size for the poor})$ .
- (\*) The upper poverty line was estimated at the total per capita expenditure, for households who spend on food an amount equal the food poverty line.

## Poverty Measurements

It has become standard practice in poverty comparisons to use the Foster-Greer-Thorbecke class of decomposable poverty measurements. It is given by:

$$P_\alpha = 1/n \sum_{i=1}^q [(z - y_i) / z]^\alpha$$

where  $y_i$  denotes income or expenditure of the  $i$ -th poor individual,  $z$  is the poverty line,  $q$  is the number of individuals whose consumption or income is less than the poverty line, and  $n$  is the population size,  $\alpha = 0, 1$  or  $2$  depends on which poverty measure is used. These include three indices: the head count, the poverty gap and the poverty severity indices.

The **head count index** (P0) is a measure of the prevalence of poverty. It denotes the percentage of households who are poor - as defined by the poverty line - as a proportion of total population.

$$\rho_0 = q / n$$

This measure however, is insensitive to the distribution of the poor below the poverty line. This is captured by the following two indices, P1 and P2. The **poverty gap index** (P1), is a measure of the depth of poverty and it denotes the gap between the observed expenditure levels of poor households and the poverty line. Assuming perfect targeting, the poverty gap index indicates the amount of resources (transfers) needed to bring all households in poverty up to the poverty line.

The **poverty severity index** (P2) measures the degree of inequality in distribution below the poverty line and it gives greater weight to households at the bottom of the income (or expenditure) distribution.

$$P_2 = 1/n \sum_{i=1}^q \{ (z - Y_i) / z \}^2$$

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