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## Symposium Policy Note 3

# Cash transfers as an effective tool for social protection and shock response in Egypt

This policy note is one in a series of four notes that summarizes key findings and recommendations from 32 seminars that IFPRI organized between 2016 and 2020 under the Evaluating Impact and Building Capacity Project funded by the United States Agency for International Development (USAID) and from related research done in collaboration with national and international partners in Egypt. The briefs have been prepared on the basis of a joint symposium and are intended to give policy makers and program designers in the areas of social protection, nutrition, agricultural policy, and the digitalization of agriculture a quick overview of research-based recommendations on key policy issues that will better enable Egypt achieve several of the goals outlined in the Sustainable Development Strategy 2030.

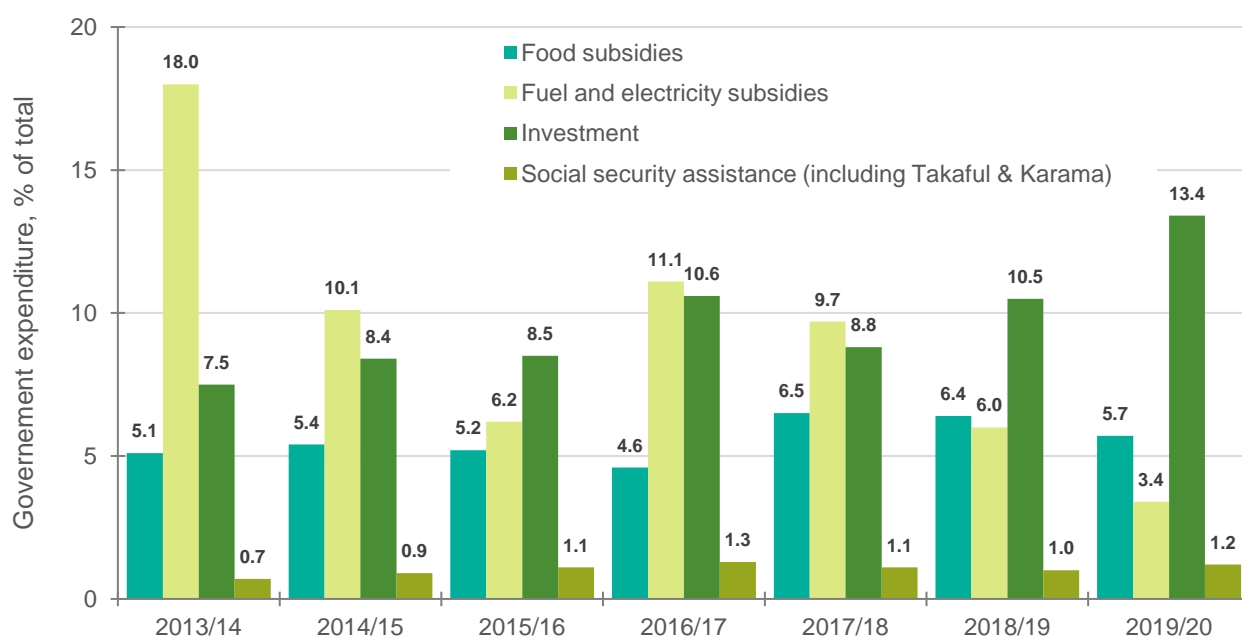
Social protection programs are essential for supporting Egyptians who are economically the most vulnerable. This brief makes the argument for moving more decisively toward a cash-based social protection system in Egypt. Four areas of action are highlighted:

- ▶ Continue the well-functioning Takaful and Karama program and consider increasing its budget to adjust transfers to inflation.
- ▶ Consider improving the targeting for Tamween food subsidies and integrating Takaful and Karama with Tamween.
- ▶ Continue the use of transparent and independent impact evaluations to assess social protection programs in order to maximize their benefits for Egypt and its people.
- ▶ Maintain the ability to respond flexibly to future shocks as an important feature of solidifying the national social protection system

Social protection programs are essential components of governments' toolkits for supporting the poorest and most vulnerable segments of the population. The economic disruption associated with the COVID-19 pandemic has thrown into relief the importance of a structured and responsive national system of social protection that can provide support in times of crisis. In Egypt, two of the most important social protection programs are the Tamween food subsidy system and the Takaful and Karama cash transfer program.

The Tamween ration-card system benefits about 70 million people, while the related *baladi* bread subsidy benefits about 83 million people. Together the programs make up 5.7 percent of the government's budget, compared with about 1.2 percent for other social security assistance, including the Takaful and Karama social cash transfer program (Figure 1). Even as fuel and electricity subsidies have been cut under various economic reform programs, spending on food subsidies has remained stable and even increased in recent years.

**Figure 1:** Government of Egypt expenditure on social protection, 2013/14 to 2019/20



Source: Ministry of Finance 2020.

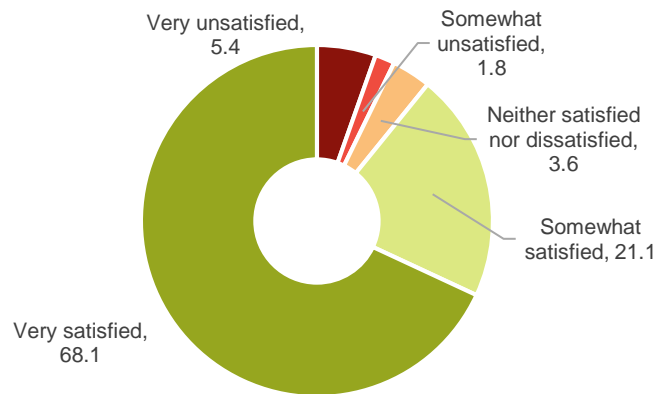
However, discussions are underway about transitioning from a system of social protection based on a network of subsidized basic commodities toward a more targeted, cash-based safety net with a planned outcome of graduating beneficiary households from poverty in the longer-term. In making this transition in social protection policies and programs, Egypt is moving toward the forefront of global development practice, and its system of social protection could become a model for other countries in the region and beyond. Rigorous quantitative studies of the trade-offs faced in this process are an important public good for policymaking both in Egypt and globally. In this note, we summarize the current state of research and policy initiatives around social protection in Egypt and make the argument for investing in a robust and flexible social protection system.

### **Takaful and Karama is a well-functioning cash transfer program, which successfully supports consumption and is well-targeted by international standards**

Egypt has been providing cash to poor households through its first conditional cash transfer program, Takaful and Karama, a social protection program run by the Ministry of Social Solidarity (MoSS) since March 2015. IFPRI's impact evaluation of the cash transfers found that program implementation works

well.<sup>1</sup> Consumption among households receiving cash transfers was 8 percent higher than among households that did not receive transfers. Beneficiary households significantly increased spending on children’s education and higher-cost food groups, such as poultry and fruits. Eighty-nine percent of the program beneficiaries are either very satisfied or somewhat satisfied with the program (Figure 2). The cash transferred to beneficiary households is given directly to women, which is perceived positively. Recipients interviewed in IFPRI’s qualitative evaluation expressed support for this element of the design of the program, although the same evaluation found that receiving these transfers did not increase women’s control over household decisions.

**Figure 2: Satisfaction with Takaful and Karama program, percent of beneficiaries**



Source: Breisinger et al. 2018.

IFPRI’s evaluation found that 67 percent of Takaful beneficiary households, prior to participation in the program, had consumption levels that placed them in the lowest two consumption quintiles for households with children. This level of inclusion of poor households is above average for programs that rely on a proxy means test (PMT) methodology for targeting (beneficiary selection). Self-selection and geographic targeting that prioritized poorer districts increased the targeting efficiency above what would have been obtained from PMT alone. However, overall targeting efficiency was better in rural areas than urban. MoSS is now working on improving outreach communication in urban areas regarding program eligibility.

### Takaful and Karama expansion has cushioned the impact of COVID-19 on poverty

Governments around the world have responded to the COVID-19 economic crisis by expanding social safety nets and developing new social protection initiatives.<sup>2</sup> As part of the response of the government of Egypt, 100,000 new households were included in Takaful and Karama and a large share of the beneficiaries of Daman (the old pension system) were also included in the program. According to research presented at an IFPRI seminar, the expansion of Takaful and Karama reduced the rise in the national poverty rate by 2.8 percentage points.<sup>3</sup> This rapid and impactful mechanism for providing cash to poor households to help them cope with COVID-related income losses would not have been possible without the pre-existence of the targeting database and cash transfer system already developed by the Takaful and Karama program.

### Takaful and Karama alone cannot lift all Egyptians out of poverty

International experience shows that cash transfers improve welfare for the poorest, but there is little evidence of their effectiveness in moving households out of poverty. In Egypt, IFPRI’s impact evaluation similarly found that after an average of one year of receipt, the Takaful and Karama cash

<sup>1</sup> Breisinger, C., H. ElDidi, H. El-Enbaby, D. Gilligan, N. Karachiwalla, Y. Kassim, S. Kurdi, A.H. Jilani, and G. Thai.. 2018. *Egypt’s Takaful and Karama cash transfer program: Evaluation of program impacts and recommendations*. IFPRI Policy Brief. Washington, DC: International Food Policy Research Institute (IFPRI). <https://doi.org/10.2499/9780896295964>

<sup>2</sup> Gentilini, U., M. Almenfi, I. Orton, and P. Dale. 2020. *Social Protection and Jobs Responses to COVID-19 : A Real-Time Review of Country Measures*. Washington, DC: World Bank. <https://openknowledge.worldbank.org/handle/10986/33635>

<sup>3</sup> El-Laithy, H., 26 September 2020. <https://www.slideshare.net/ifpri/heba-ellaithy-cairo-university-2020-ifpri-egypt-covid19-and-social-protection-from-effective-crisis-protection-to-selfreliance>

transfers had not led to increases in asset ownership or income generation. While this may be explained by the short time horizon of the analysis and the generally challenging economic situation in Egypt in 2016/17, there is a strong rationale for assisting cash transfer beneficiaries to find jobs or self-employment.

The fiscal sustainability of social safety nets is a particular concern worldwide due to the COVID-19 crisis and expansion of social support mechanisms during a time of reduced government revenue. To expand coverage in Egypt, spending on the cash transfers was increased by 2.3 percent.<sup>4</sup> These measures are critical to protect the poor in the short run. But there are limits as to how far cash transfer programs can be expanded – large expansions of such programs can eventually cause a significant drag on economic growth due to crowding out of investment. The alternative to moving to a permanent welfare program is to find a way to move households sustainably out of poverty.

### **Forsa as a new graduation program**

The Ministry of Social Solidarity is launching Forsa as a new program that will build on Takaful and Karama. Forsa aims to graduate beneficiaries from dependence on cash transfers, either through transfers of productive assets with accompanying training and social support or through a wage employment approach that focuses on job matching and training. The productive asset and support modality is based on the “targeting the ultra poor” model pioneered by BRAC, an international development organization based in Bangladesh. Small-scale replications of this model in more than 10 countries around the world have been rigorously evaluated and consistently show significant and persistent gains in the consumption of program beneficiaries.

A key question, however, is how well this model can be scaled up to the national level. Forsa will be a pioneer in attempting to replicate the success of the graduation model using targeting and mentoring approaches that build on the national Takaful and Karama program. At the same time, Forsa is testing the potential of a radically different approach to graduating households from poverty that involves solving failures in the labor market through a job matching service. In both modalities, the plans for Forsa are grounded in a theory of behavioral change in which soft skills are crucial factors for success.<sup>5</sup>

### **Several reform steps to improve the longstanding Tamween food subsidy have also been undertaken**

While there is little doubt that in recent years Tamween has helped prevent many people from falling into poverty, there are at least four major areas in which the Egyptian food subsidy system can be improved: (1) costs, (2) targeting efficiency, (3) leakage rates, and (4) skewing of diets toward high-calorie foods with low nutrient value. To address some of these shortcomings, reforms of the program were undertaken in 2014.

In terms of reducing leakages, the reforms shifted support to a direct subsidy of production costs for *baladi* bread bakeries, rather than supplying bakeries with quotas of subsidized flour. This change was also intended to prevent bakeries from attempting to minimize the use of flour and, as a result, has reduced the number of quality violations by bakeries.<sup>6</sup>

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<sup>4</sup> [http://www.mof.gov.eg/MOFGallerySource/English/PDF/Executive\\_Budget\\_Proposal\\_2020-2021\\_Citizen\\_Ver\\_en.pdf](http://www.mof.gov.eg/MOFGallerySource/English/PDF/Executive_Budget_Proposal_2020-2021_Citizen_Ver_en.pdf)

<sup>5</sup> Elshabrawy, A. 22 September 2020. <https://www.slideshare.net/ifpri/atef-elshabrawy-moss-2020-ifpri-egypt-covid19-and-social-protection-from-effective-crisis-protection-to-selfreliance>

<sup>6</sup> Al-Shawarby, S.. The Tamween food subsidy system in Egypt. *Arab FNS Blog*, IFPRI. 29 January 2018. <https://egyptssp.ifpri.info/2018/02/26/the-tamween-food-subsidy-system-in-egypt/>

The new system also gives beneficiaries more choice in allocating their program benefits among different food items. This partially addresses the concern raised by IFPRI researchers and others that ration-card beneficiaries had lower dietary diversity than non-beneficiaries. Across the income distribution, ration-card-holders were found to consume larger amounts of rice, sugar, and oil and smaller amounts of meat, fish, and dairy than did those without ration-cards.<sup>7</sup> The reformed food subsidy system allows beneficiaries to substitute other commodities for *baladi* bread and has expanded the basket of subsidized goods to include more food items, such as pasta, lentils, milk, and frozen beef, as well as nonfood items, such as soap. The new system has contributed to a 30 percent increase in the dietary diversity of beneficiaries.<sup>8</sup>

### **Improving targeting for food subsidies would result in large economic benefits**

As policymakers are considering plans to improve the targeting of food subsidies, ongoing IFPRI research, based on an economywide model for Egypt developed with the Central Agency of Public Mobilization and Statistics and the Ministry of Planning and Economic Development, provides additional evidence on the potential benefits from food subsidy reforms in Egypt. Results of simulations run in the model show that reducing the number of Tamween beneficiaries will accelerate economic growth and reduce poverty, even if the savings are only used to reduce the fiscal deficit. Maintaining the food subsidy for a smaller number of beneficiaries with better targeting or combining a reform of the food subsidy with an expansion of cash transfers can generate growth in the long term without sacrificing the welfare of the poorest households in the short term.<sup>9</sup>

In general, cash transfers are cheaper to administer and, given the increased food choices cash facilitates, result in better nutrition outcomes. In the debate over food subsidies versus cash transfers for social protection, however, food subsidies have the important advantage of protecting consumers from price shocks and volatility. If cash transfers are used, the benefits must be indexed to and adjusted for inflation.

IFPRI researchers who have looked at cross-country evidence emphasize that different modalities have their own advantages; and each can be improved to ensure the food security of the poor more efficiently.<sup>10</sup> The best starting point for changing the Tamween modalities may be small pilot projects for cash only and for cash-for-food only in selected communities. The insights gained from such pilot projects would put decision-makers in a strong position to choose the most promising modalities to pursue in moving forward with food subsidy reform in Egypt.

### **Work toward a unified national social protection strategy and program that includes improvements in health and education services**

Adequate health and education services are an important component in the development of a comprehensive national social protection strategy for Egypt. Having accessible and effective health and education services in place increases the likelihood that beneficiaries of asset-building or income-generating activities will graduate out of poverty.

Collaboration among the different ministries concerned is also key. The Takaful and Karama program uses a smart-card system for transferring cash to beneficiaries at post offices and automatic

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<sup>7</sup> Ecker, O., P. Al-Riffai, C. Breisinger, and R. El-Batrawy. 2016. *Nutrition and economic development: Exploring Egypt's exceptionalism and the role of food subsidies*. Washington, D.C.: International Food Policy Research Institute (IFPRI). <http://dx.doi.org/10.2499/9780896292383>

<sup>8</sup> Al-Shawarby, S. "The Tamween food subsidy system in Egypt." *Arab FNS Blog*, IFPRI. 29 January 2018. <https://egyptssp.ifpri.info/2018/02/26/the-tamween-food-subsidy-system-in-egypt/>

<sup>9</sup> Randriamamonjy, J. Forthcoming IFPRI MENA Working Paper.

<sup>10</sup> Alderman, H.; and R. Yemtsov. *Arab FNS Blog*, IFPRI. Cash it out? Why food-based programs exist, and how to improve them." <https://egyptssp.ifpri.info/2017/10/05/cash-it-out-why-food-based-programs-exist-and-how-to-improve-them/>; <https://www.ifpri.org/blog/book-launch-food-vouchers-or-cash-transfers-%E2%80%93-debate-over-social-protection>

teller machines (ATMs), while Tamween mostly functions using smart-cards. However, the two systems are not yet well integrated. In addition, there may be room for the Tamween program to learn from the experience and data collected by MoSS under the Takaful and Karama program, particularly regarding targeting. In addition, sharing and unifying the Takaful and Karama and Tamween databases would prevent duplication of many of the costs related to monitoring and targeting for these social protection programs.

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