



# Discussion Paper BRIEFS

Food Consumption and Nutrition Division of the International Food Policy Research Institute

*Discussion Paper 133*

## **Avoiding Chronic and Transitory Poverty: Evidence from Egypt, 1997-1999**

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In the developing world, and in Africa in particular, the study of income mobility and poverty dynamics has been stymied by a lack of data sets for which there are repeated observations of a given set of households. This paper is the first panel survey study of poverty dynamics in Egypt and of any country in North Africa. The analysis rests on a panel data set from eight governorates. Specifically the analysis uses data from 347 households that were first surveyed in early 1997 as a part of the national sample of 2,450 households (the Egypt Integrated Household Survey or EIHS), and that were surveyed again in early 1999. The paper decomposes poverty in Egypt over the 1997–1999 period into chronic and transitory poverty and then uses regression methods to identify the determinants of chronic and transitory poverty.

### ***What Are the Uses of This study?***

The study of the dynamics of poverty in an Egyptian context is important for a number of reasons. First, good macroeconomic performance over the past five years does not seem to have made a dent in Egypt's poverty rate, heightening the need to understand how households emerge from poverty. Second, the results could shape the debate that is taking place throughout North Africa on how to target food-price subsidies and other poverty interventions. Finally, the study illustrates the potential and limitations of panel studies.

### ***The Data***

This paper used data from a 1999 survey of 347 households that were first surveyed as a part of the EIHS in 1997. The households represent 19 primary sampling units (PSUs) drawn from seven of Egypt's 26 governorates in all regions (including urban and rural). The analysis indicated that the subsample was not dissimilar from the full sample of 2,450 households and that the failure to

interview 37 of the total 380 households in the 19 PSUs was not likely to do violence to subsequent analyses.

### ***Results***

As a sample, per capita consumption decreased for these 347 households. However, the decrease was not dramatic—from a mean LE 240 to LE 213 per capita per month, but it occurred at all points along the distribution. The reductions were relatively large for the Upper Rural and Metro regions. The fortunes of some households improved over the two-year period—22 climbed out of poverty, but more worsened (49 fell into poverty).

The most striking aspect of poverty for these households was the low mobility between consumption groups. In fact, 60 percent of the households did not move out of their three consumption groups (below the poverty line, between the poverty line and twice the poverty line, and above twice the poverty line). This is reflected in the high proportion—67 percent—of overall poverty that is chronic (average consumption over time is below the poverty line). Moreover, almost half of all poverty is persistent (that is, persistently below the poverty line or “always poor”).

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### ***Determinants of Total, Chronic, and Transitory Poverty***

Next, we attempted to identify the determinants of total, chronic, and transitory poverty using quantile regression. Despite the small sample size relative to the measured change in consumption that occurred over the two periods, we identified some factors that influence total, chronic, and transitory poverty. These include the average years of schooling of adult household members (which reduces both forms of poverty, but chronic poverty most strongly), the

value of land and livestock (but not for transitory poverty), the number of children under age 15 and household size (both of which increase total and chronic poverty), the location of residence (with urban households less likely to experience transitory poverty), and employment activity in manufacturing, community, and recreational and other nonfarm sectors (which reduces total and chronic poverty).

### **Discussion**

The predominantly chronic nature of poverty in our sample, and our ability to identify associated characteristics, highlights the need for the Egyptian government to improve the asset accumulation process for the poor. Unfortunately we could not distinguish between the different processes that deter accumulation (e.g., whether shocks undermine the accumulation process or no accumulation is taking place). The chronic nature of poverty also has implications for the targeting of antipoverty interventions such as oil and sugar subsidies. If most poverty were transitory, it would be more difficult to justify such a targeted approach, because the target would keep shifting. The nature of poverty as revealed in our sample of households therefore is consistent with an administrative approach to the targeting of antipoverty interventions.

Our analysis documents the extent of transitory poverty, but it does not explain well the determinants of this type of poverty. This is in line with other similar quantitative work. Our estimates would certainly have benefited from a larger sample size and more rounds of data, but we suspect that more *qualitative* work would have the largest payoff in

terms of identifying the trigger events that plunge people into or elevate them out of poverty. Nevertheless, the findings that urban households are less likely to experience transitory poverty, and that households that have older members or own cultivated land are more likely to experience it, have some implications for the design of insurance mechanisms in rural areas.

Finally, this analysis has demonstrated the possibilities opened up by a longitudinal data set. On the one hand, the paper has demonstrated the limitations of a small data set when the change in welfare has been small—not many of our explanatory variables do any explaining. On the other hand, even from this small data set, we can get an insight as to the structure of poverty and understand why some households have improved their welfare while others have not. The returns to introducing a longitudinal component to poverty data collection in Egypt and elsewhere in Africa would seem to be quite large.

**Keywords:** panel survey, consumption, chronic and transitory poverty, determinants of poverty components, Egypt

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