

Combating Poverty in Egypt: The Role of Economic Growth and Social Spending

Osman M. Osman*

ملخص

سياسات مواجهة الفقر في مصر دور كل من زيادة الدخل والإنفاق الاجتماعي

منذ أن تزايد الاهتمام ، وبخاصة من قبل المنظمات الدولية ، بمشكلة الفقر ، تعددت المفاهيم المستخدمة وأساليب القياس . ولكن هذه جميعاً لفتت الانتباه إلى نوعية السياسات الواجبة الاتباع للتصدي ، سواء للحد منه ، أو القضاء عليه (!!) وتتراوح وجهات النظر بين التركيز على وسائل وأساليب زيادة الدخل (الفودي) - الارتفاع بمعدلات النمو الاقتصادي ، والاعتناء بتحسين نمط توزيع الدخل - وبيان أهمية الإنفاق الاجتماعي (العام) . وبينما تظهر الدراسات القياسية ارتباطاً قوياً بين الإنفاق العام وبين المؤشرات الاجتماعية فإن هذا لا يقلل من أهمية النمو الاقتصادي " على الأقل طالما أن زيادة الدخل يمكن أن تسهم في توفير موارد عامة أكبر للإنفاق الاجتماعي . ومن ناحية أخرى فإن العبرة ليست بمجرد زيادة الإنفاق الاجتماعي ، ولكن بمدى استفادة "الفقراء" وذوي الدخل المنخفض من هذا الإنفاق . ولاشك أن نتائج المسوح - بالعينة - للإنفاق العائلي يمكن استخدامها في تحليل أثر الإنفاق الاجتماعي على أحوال الفئات الاجتماعية المختلفة ، وهو ما استهدفته هذه الدراسة .

* مستشار معهد التخطيط القومي ، جمهورية مصر العربية .

Introduction

Development is often taken to mean rising income. A still common view equates development with growth in average income, though there has been a shift in emphasis since the 1970s to a focus on the distribution of incomes. Discussions of the "goals of development" now often emphasize the reduction of poverty, rather than raising average incomes per se. The role of social services - particularly basic health and education - has also received greater emphasis in the 1980s, although these services have been viewed mainly as instruments for raising the incomes of the poor. In all these approaches, income growth of one sort or another is what development is all about.

The challenge of development, in the broadest sense, is to improve the quality of life. A better quality of life calls for not only higher income, but it also involves much more. It encompasses, as ends in themselves, better education, higher standards of health and nutrition, less poverty, a cleaner environment, more equality of opportunity, greater individual freedom, and a richer cultural life.

Varieties of Poverty Conceptions

Poverty has been defined and measured in various ways. According to El-Issawy (1997) poverty is commonly defined in terms of some extraneously-determined level of income which if not attained by a person or a family, the latter is classified "poor". The critical level of income which acts as the line separating the poor from the non-poor in a given society has come to be known as the poverty line. It represents the amount of money which is deemed to be

necessary for procuring a bundle of goods and services that satisfies the basic needs of a person or a family in a given society at a particular point in time. This is referred to as the absolute poverty line. Alternatively, the critical level of income may be chosen as a given proportion (say one half or two thirds) of the nation-wide per capita or per family income. The poverty line thus obtained is said to be a *relative poverty line*. Owing to a number of well-known difficulties of collecting reliable data on incomes, poverty researchers tend to employ a second-best for income, namely consumption expenditure, for identifying poverty lines.

Other extraneous approaches to measuring the incidence of poverty and identifying the poor have been used in poverty studies, albeit less frequently than the income or expenditure approach. These alternative approaches have a common point of departure, namely the external observer's own characterization of poverty in terms of a number of salient features relating to the poor's material conditions of well-being, psychological traits, cultural dispositions, moral attitudes, etc. These features may include illiteracy, ignorance, under-education, high rates of dropping out from the educational system, ill-health, high mortality and birth rates, large family size, miserable housing conditions, lack of resourcefulness, laziness, helplessness, and powerlessness. The capability poverty measure (CPM) recently proposed by the 1996 UNDP Human Development Report may be considered as an application of these non-income approaches to poverty measurement. It measures the extent of poverty in a given country in terms of the lack of three human capabilities, namely the

capability to be well nourished and healthy, the capability to be educated and knowledgeable, and the capability for healthy reproduction. It should be noted, however, the **CPM** has been devised to complement, rather to substitute for income-based measures of poverty.

The income-and non-income-based approaches to measuring poverty and identifying the poor briefly described above suffer from a serious defect: They spring from conceptualizations of poverty by researchers as external observers who ordinarily belong to the non-poor in the societies studied. Although extraneous concepts and measures of poverty may not necessarily lead to completely erroneous findings, they are essentially infected with the non-poor researcher's prior social judgements and professional biases whose distorting impact is difficult to gauge. In these circumstances, one should seek to check against such pitfalls and to enrich and complement those measures by collecting additional information which directly reflect the actual experiences of the poor and their own self-determined concepts and measures of poverty. The latter constitutes the crux of what has come to be known as the participatory poverty assessment (**PPA**) approach.

Participatory research, thus defined, is clearly highly consistent with the concept of human development, which assigns a large weight to participation, and considers it a principal means of empowering people and preparing them for the long and arduous process of development (El- Issawy, 1997).

Poverty, thus, is used in two different senses. In the first, which is common in development, it refers to the whole spectrum of deprivation and suffering; in the second, it has a narrow technical definition. Poverty is then defined as low income or often as low consumption, which is easier to measure. This meaning of income poverty is used to measure poverty lines, for comparing groups and regions, and often for assessing progress in development.

There are various reasons for the widespread acceptance and use of income poverty definition and measurement. Most important is the general assumption that the poorer people are, the more they are preoccupied with income and consumption.

Because we have two kinds of incomes (i.e. disposable private income and social income) and two kinds of poverty (private and public goods poverty), it would make sense to draw separate poverty lines with respect to primary incomes (or consumption) of families and their social incomes based on public goods that determine such basic quality of life indicators at literacy, infant mortality, and life expectancy.

Prevalence of Income Poverty

Scholarly argument about statistics will never end. The danger is that debate distracts us from seeing what needs to be done. Determining who the poor are requires specifying what is meant by poor and poverty. For this purpose, two questions have to be answered; first, what is the "standard of living" indicator to be used to measure welfare?. Second, how are the poor to be distinguished from

the non-poor?. In other words, defining poverty requires the selection of a welfare criterion to draw a line that divides the population into poor and non-poor. In setting an income-poverty line, it is generally understood that it should have the following three basic elements:

1. Consumption expenditure rather than disposable income is the most reliable indicator of a household's standard of living.
2. In measuring welfare, it is preferable to use the individual rather than the household.
3. The best indicator of a household standard of living is household per capita consumption expenditure.

We followed this procedure in estimating poverty lines in Egypt. Furthermore, urban areas have to be distinguished from rural areas to reflect differences in prices and consumption habits. Estimates are based on the results of the Households Income and Expenditure Surveys (HIECS) of 1995/96, and 1990/91 and the Households Budget Survey of 1981/82, conducted by the Central Agency for Public Mobilization and Statistics (CAPMAS). Poverty lines derived are at current prices. (Osman and El-Leithy, 1996). Income poverty lines are also estimated using the log linear regression relationship between income and expenditure of the households. The estimated poverty lines are presented in table (1).

On the basis of these poverty lines the poverty measures are estimated by following the methodology suggested by Foster, Greens and Thorbecke (Osman and El-Laithy, 1996). Measured by the headcount index, around 13.7 million Egyptians live below the poverty line. It is important to acknowledge the possible differences in

the cost of living between regions and provinces.

Table 1: Poverty Lines for 1995/96 (LE)

Poverty line basis	Per Household			Per individual		
	Egypt	Urban	Rural	Egypt	Urban	Rural
Food-Based poverty line	3148	3264	3123	594	702	512
Lower Income Poverty line	4318	4567	4128	881	1005	787
Upper Income poverty line	5898	6655	5319	1201	1409	1042
Lower Expenditure Poverty line	4168	4438	3963	814	968	696
Upper Expenditure Poverty line	5508	6082	5071	1098	1326	924

Source : INP, Egypt Human Development Report (EHDR) 1996, Cairo.

Rural-urban dichotomies have been addressed in all poverty measurements. Poverty prevalence (as measured by the percentage of population living below the poverty line) is slightly lower in urban areas than in rural areas (22.5% versus 23.3%). Among the poor, 7.4 percent of Egypt's population (about 4.4 million) lived below the core poverty line. The rural population below the core poverty line (ultra poor) was 7.1 percent versus 7.7 percent in urban areas. Also, using the upper poverty line shows that more than one-fourth of the Egyptians can be considered as moderately poor. Table 2 presents a poverty map as demarcated by different poverty lines.

Various perceptive estimates were derived from the PPA survey data regarding the proportion of poor people in Egypt. The intuitive estimates of the incidence of poverty exhibited considerable variations. According to the data collectors rating of tile households residential areas, only (18%-19%) of households were found to be poor, i.e., lived in poor residential areas. This is close to the estimates found from the households' own assessment: of their current living conditions, which gave a somewhat lower estimate at the nation-wide

level (16% against 18%), a considerably lower estimate for urban areas (13% against 18%), and identical estimates for rural areas (19%).

In contrast higher estimates of the prevalence of poverty in Egypt were obtained when households were asked whether one label or other of poverty applied to them or to their neighbors. Overall, 24% respondents classified themselves as "poor" with 16% of urban households and 31% of rural households accepting the "poor" label. Much higher proportions of the poor in Egypt were obtained when the "poor" label was assigned by households to their neighbors; 43% overall, 30% urban and 55% rural.

It is interesting to see how these intuitive estimates compare with the formal estimates shown in table (2). At the national level, the intuitive estimates appear to be lower than the estimate derived from the PPA survey using an extraneously determined low income poverty line (36%). They are also much lower than the estimate based on the results of the 1995/96 HIECS. Comparison of the estimates for the sub-national level provide mixed results. The intuitive estimates for urban areas (24%, 25%) are close to the formal estimate based on the low-income poverty line, but they are much lower than the other two formal estimates (43% and 45%). The intuitive estimates for rural areas (36%, 40%) are higher than the formal estimates reported in table (2), using the lower poverty line, but lower than the estimates based on the upper line.

Table 2: Poverty Groups. 1995/96 (%)

	Egypt	Rural	Urban
Poor, of which (Ultra poor)	22.9 (7.4)	23.3 (7.1)	22.5 (7.7)
Moderately Poor	25.1	26.9	22.5
Non-Poor	52.0	49.8	55.0

Source : INP, EHDR 1996.

Other Aspects of Poverty; Capability and Human Poverty

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 aspects of life much broader than income, so poverty should be seen as having many dimensions. The **UNDP** 1996 Human Development Report introduced the capability poverty measure (**CPM**) as a multidimensional measure of Human deprivation, to complement income measures of poverty. The Report makes it clear that the **CPM** could also incorporate other variables which express basic, or minimally essential, human capabilities (**UNDP**, 1996).

Data from the Egypt Demographic and Health Survey (**EDHS**, 1995) allow us to estimate the **CPM** at the national and geographical levels. The capabilities are represented by:

- Proportion of children under five who are under weight.
- Proportion of births unattended by doctor and / or trained nurse / midwife, and.
- Proportion of female household population age six and over who

have no education or some primary education only.

An examination of the data in table 3 suggests that there is considerable chronic under nutrition among Egyptian children. Reflecting stunting, wasting or both, 12.5 percent of children under age five are underweight for their age. The proportion of malnourished children is higher in rural areas as compared to urban areas. Low weight for age is more common among children in rural Upper Egypt. Indicators of attendants assisting during delivery reflect a similar situation. Medically assisted delivery is more common for urban births, births to highly educated mothers, and women who work for cash, than for other births. Births to women in rural Upper Egypt are least likely to be assisted by medical personnel (23 percent), while births in urban Lower Egypt are most likely to be attended by a doctor or nurse/ midwife (75 percent). Though these health reproduction indicators are a cause and effect of poverty; they reflect at the same time the accessibility of health services and various facilities of prenatal care. Educational level of the female household population does not only reflect lack of capability, but also confirms the gap in educational attainment between males and females. The **DHS** data shows that (83 percent) of Egyptian males have attended school compared with only (65 percent) of females. Even among those who have gone to school, there is a gender-gap in the number of years of schooling; the mean years of schooling for men is 6.1 compared with 3.3 for women. Deprivation is strikingly high in rural areas especially in rural Upper Egypt, where the proportion of females with no education is as high as (60 percent). In rural Upper Egypt only 40

percent of women have ever attended school compared with 73 percent among males.

Table 3: Capability Poverty and Income Poverty in Egypt 1995 (%)

	Under weight	Unattended births	Female with no education	People who are capability poor	People who are income poor
Egypt	12.5	53.7	35.4	33.9	22.9
All Urban	9.9	32.1	20.8	20.9	22.5
All Rural	14.1	67.2	47.8	43.0	23.3
Urban Gov.	9.1	30.8	20.4	20.1	16.0
Lower Egypt	9.6	48.6	33.0	30.4	17.1
Urban	8.8	24.9	18.8	17.5	21.7
Rural	9.9	56.1	38.9	35.0	15.4
Upper Egypt	16.1	67.8	48.3	44.1	34.1
Urban	11.0	40.4	24.1	25.2	35.0
Rural	17.8	77.1	59.1	51.3	33.7

Source: INP, EHDR 1996.

Policies for the Reduction of Poverty

Today, there is an emerging consensus that the reduction and eventual elimination of poverty should be a major priority for the agenda of international development assistance. But there still remain many differing views on how poverty reduction should be pursued.

During the 1990s, the World Development Report's approach to sustainable poverty reduction will be two-pronged consisting of broadly based economic growth, to generate efficient income-earning opportunities for the poor, and improved access to education, health care and other social services, so the poor can take advantage of these opportunities. In this thinking, income is the end, improved access to

education, health care and other social services are justified as means to that economic end. They are not justified as ends in themselves or as means to enhance capabilities or other human values. Social development in this interpretation is a means not an end, the end is economic development. (Robert Chambers, 1995)

The notion that per capita income growth, if sufficiently sustained, would automatically eliminate poverty is clearly wrong. Just as wrong as the notion that poverty can be reduced by some form of direct attack via the provision of basic needs goods to target groups, thus avoiding traditional trickle-down problems. The answer is to rely neither on growth percolating down to those below the poverty line nor on public sector provision alone to do the trick.

How Essential Is Growth To Poverty Reduction?

Poverty alleviation is not simply a "social" issue; it is essentially an economic one. The answer to poverty does not lie only in transfers to improve consumption nor solely in the improvement of social services, but primarily in strengthening the position of the poor as economic agents, preferably within an economic environment that provide the poor with incentives to tap their production potential. This is much more an issue of economic policy and productive resource allocation than it is of social policy and social expenditure. Poverty alleviation is no more, and no less, a social issue than overall development. (Donald Brown, 1995)

An important reason why the right kind of growth is necessary is that the provision of public goods, which are an essential part of

poverty and poverty reduction, requires resources paid out of growing incomes. This includes access to schools, health care, potable water, and so on, encompassing the monetary value of public spending or the access of the population to social services.

How then can we estimate the poverty impact of growth (or economic contraction)? In general, a useful inference could be drawn from estimating how much of the observed change in poverty could be attributed to change in redistribution of incomes, as distinct from growth in mean per capita expenditure.

The relative importance of growth and distribution changes to poverty measures was quantified for Egypt, using the conventional decomposition technique. The results of decomposing poverty changes into growth and redistribution components show that during 1990s, both (lack of) growth and redistribution factors count for the increase in urban poverty. In other words, while the decline in real per capita consumption tended to raise poverty, increased inequality worsened the situation. As in many international experiences, growth effects seem to outweigh distribution effects. However, when economic contraction, associated with stabilization and structural adjustment, is accompanied by deterioration of the redistribution component, opportunities to reduce poverty are missed. (Osman and El-Laithy, 1996)

In urban Egypt, while more than (85 percent) of the increase in poverty incidence can be explained by the decline of per capita expenditure, the headcount index would have been lower by 0.4

percentage points if favorable redistribution policies were pursued. The distributional changes had a significant impact on poverty in rural Egypt. In fact, if redistribution effects were neutralized the percentage of the rural poor would have been larger by 16 percentage points. This might be a clear indication of higher sensitivity of rural households to transfer systems, e.g. food and energy subsidies, agricultural products' subsidies and taxes. Thus, the observed changes in rural poverty are finally accounted for by the improvements in expenditure distribution, at least for the poorest of the poor. This is generally true for all poverty measures and for all the range of poverty lines. There are also favorable redistribution effects, which are greater than the adverse effect of the decline in the mean per capita expenditure, especially for low levels of poverty line.

The proponents of implementing drastic adjustment measures have argued that bearing some transitional (short run) social costs may be inevitable, and that the situation would have been much worse without adjustment. The Government of Egypt has maintained the view that it needs to adhere to a gradual and less harsh structural program. Under economic reform and structural adjustment program (1991 - 1997) (ERSAP), GDP growth rates were not as low as originally envisaged and hence real per capita consumption has not declined dramatically. Nevertheless, adverse social implications were apparent. Any counterfactual analysis might give higher poverty measurements if the recessionary impact of stabilization and structural program was stronger.

Undoubtedly, poverty reduction requires enhanced growth. Economic growth would enlarge opportunities of the poor to participate in the benefits of output increases. Nevertheless, the potential to reduce poverty depends on its responsiveness to changes in mean incomes, that is growth elasticities of poverty measurements. Empirical research has shown that the higher a country's growth elasticity is, the more sensitive are its poverty measures to the change in the mean income, holding distribution constant, and the lower is the actual rate of growth that would be needed to reduce the number of the poor. This implies that, with other factors remaining unchanged, higher growth elasticity will mean a greater potential for poverty reduction. (Jayarajah, et. al, 1996)

An attempt has been made, using data from various HIECS, to estimate elasticities of the headcount ratio and other poverty measures. The results indicated that poverty changes in Egypt are highly sensitive to economic growth. This means that poverty would decline at higher rates than economic growth rates provided that the growth process does not lead to an increase in income inequality. In fact, high growth elasticities can be attributed to the relatively low levels of inequality as was elaborated earlier. Moreover, policy interventions may lead to higher growth elasticities, if the main sources of this growth are the main activities of poor people, e.g. agriculture and small business.

Because, both, the changes of mean income and income inequality may affect poverty, it is important to address the issue in

relation to the trade off between income growth and income inequality. Using the previously estimated poverty lines we have simulated the future poverty impact of growth. Different targeted growth rates of real per capita consumption are used to estimate the potential poverty reduction. The Government of Egypt is planning to stimulate post adjustment annual growth of output to (7-8 percent). Given the constant share of private consumption in **GDP** and population growth rates of about (2 percent), per capita consumption will increase annually by (5 percent). Sustaining this ambitious growth target over the next five years (the Fourth Five-Year Plan) would decrease the incidence of poverty to 24 and 20 percent (from 45 and 50 percent, see table 4) in urban and rural areas respectively. In fact, concern with the poverty problem should focus on those who are living below the basic needs (lower) poverty line. As it has been noticed earlier, growth elasticities are higher for the estimated lower poverty line. This means that economic growth will be more beneficial to the poorest people. Accordingly, the targeted 5 percent annual growth of per capita expenditure will reduce headcount index of the Urban poor by the year 2002, to 6.7 percent. Two thirds of the rural poor will escape their basic- requirements of poverty thus bringing down the proportion of the rural poor to 2.7 percent.

The effect of changes in inequality has also been examined. With zero economic growth, a decline of Gini index by 1 percent will cause the proportion of poor to decrease by 2.2 percent in urban areas and 1.7 percent in rural areas. The impact of reduction in poverty is even greater for the poverty gap and severity of poverty measures. Poverty

measures, are relatively more sensitive to changes in inequality than changes in the mean income when using lower poverty lines. This suggests that the poorest of the poor are more affected by changes in income inequality than by changes in mean income.

Assuming that the mean income will decline, at the same rate which had prevailed during the period 1990/91-1995/96, the proportion of the poor will increase by 4.6 percentage points by the year 2002. A reduction in the Gini index at the same rate causes a decrease in the incidence of poverty of 0.5 percentage points. As a result, if both factors affect poverty changes at the same rates that prevailed in the last few years, the proportion of the poor will increase by 4.3 percentage points in urban areas, while the incidence of poverty in rural areas will decline by 3.5 percentage points.

Investing in People, the Importance of Social Spending

Turning to non-income (human) poverty, we are dealing with public goods delivered by the government in such areas as education, health and potable water. Not only are resources drawn from the growth required for public expenditures of any kind, but the allocation of those public expenditures as between household, military and so on, on the one hand, and public goods on the other, is crucial. Moreover, within the various social income categories, the extent to which the consumption of the poor relative to that of the rich is favored is another critical component. Thus the volume of financial resources available for public goods to the poor depends very much on the revenue capability of government, on the proportion of these revenues

preserved for public goods allocation as well as on the extent to which people below the social poverty line are likely to benefit.

Clearly, overall resource availability, reflected in the growth of **GDP**, is necessary, if not sufficient, for social poverty reduction. For example, South Korea increased its investment per head in education by 1300 % and in health by 1800 % between 1975 and 1990 partly because its **GDP** grew by about 9% annually. How much of this went to people under the social poverty line also depends, however, on the allocation within the social sectors, there are the well-known examples of primary education relative to university education, preventive health relative to hospital expansion, and, generally, rural versus urban water supplies. Thus, even though health and educational expenditures add up to 17% of total government expenditure, we need to look at every component of the above relation to ensure maximum complementarity between **GDP** growth and social poverty reduction. (Gustav Ranis, 1995)

The way one conceptualizes the objectives of public action can greatly influence the nature of that action. The capabilities approach offers a new perspective on a range of policy issues. Among them is the relative importance of private incomes and public services in attaining some very basic human capabilities. The proposition that incomes matter is not disputed in the literature; nor is it contentious that other things matter besides incomes. However, there is considerable room for debate over the extent to which private incomes matter relative to public services, and about the reasons why incomes matter.

Advocates of the human development approach tend to attach a higher weight to supplying public services relative to expanding private incomes- as instruments of public action- than do proponents of an income-centered view of the objective of development. Since the World Development Report of the World Bank views the reduction of poverty as a fundamental objective of development, a high weight is attached to economic growth, though an important role is also seen for certain public services. The UNDP Human Development Reports take a rather different view, which regards public provisioning of social services a leading instrument for human development. In fact, it all depends on the relationship between economic growth and human development. If only a weak link existed between income poverty and capabilities, then the human development approach would clearly imply less emphasis on private incomes, except insofar as growth facilitates the financing of public support.

The empirical observation that a correlation may exist between higher average income of a country and better social indicators implies that economic growth should be at center stage in discussions of how to promote human development. However, an attempted explanation of this correlation suggests that the importance of growth lies in the way that its benefits are distributed between people, and the extent to which growth supports public social services. This conclusion has an important policy implication: if social expenditures and the reduction in income poverty are the main forces driving human development, rather than economic growth per se, then policy intervention can play a role in promoting human development

independently of the promotion of aggregate affluence.

Vast progress has been achieved in human welfare - the ultimate goal of development. This advance has usually taken place hand in hand with economic growth. Even where growth lagged, however, the quality of life improved. Governments have played a leading role. Public spending on classrooms and text books, safe drinking water and sanitation, nutrition and immunization programs have been critical. But the demands of the future require better targeting, new and more efficient methods of delivery, fewer regressive subsidies, and closer partnership with the private sector in the provision of certain services.

Household Spending on Social Services

Public social services in Egypt are provided either free of charge (only nominal fees are paid by school or university students) or at a very high subsidy (partial cost recovery system has been recently applied in public health institutions). Nevertheless as a consequence to various supply and demand factors, household's spending on social services is enormously high. It is also continuously increasing. In fact, increasing costs of services, especially of education, have become detrimental to the poor's accessibility to public services; while poor household members are not sharing the public educational expansion, the better-off might be crowding- out them.

Data of private spending on education and health are obtained from various **HIECSs** as well as the special surveys undertaken for such a specific purpose (**EHDR**, 1997/98). These data show that real

per capita expenditure on education actually increased by almost 75% for the poor and 33% for the non-poor. This reflects two considerations: the first is the importance attached to education by poor households. Most of the heads of poor households see education as the main escape gate out of poverty. The respondents' answers in the survey reveal that in 70 percent of cases, education is considered a venue for better future for their children. The second consideration is the impact of rising costs of education on the out-of-pocket expenditure patterns of the poor. The findings of the survey show the value and distribution of education expenditures for different income groups. In 1997/1998 average per student expenditure on education was LE 561, i.e. US\$ 170, (LE.1007 in urban and LE 285 in rural areas). In urban areas, per student expenditure for the rich was seven times the value for the poor, compared to 3.8 times as high as for the middle class.

The poor households are bearing a heavier burden of education costs. In fact, this weakens their position in competing for purchasing quality education services. A poor household has to allocate higher percentage of its annual expenditure to the family members in the pre-university level than middle or rich families do. However, rich households are allocating nearly 55% of the education expenditure to their students in the university level. Thus, data in table 4 shows that the distribution of households expenditure on education is severely skewed toward rich families, who spend 46% of the pre-university expenditure, and 62% of the university expenditure. The poor's expenditure shares are as small as approximately 12 and 2%

respectively. This low share is a reflection of both low university enrolment ratios among the poor household members, and the small per student expenses.

In terms of expenditure shares, the most prominent expenditure item for both urban and rural households is private tutoring, for the poor and the non-poor alike. This share increases with increasing income levels. The results of the survey show that per student expenditure of the rich on private tutoring was almost six times the expenditure for the poor. Most of the respondents explained the increasing share of private tutoring by the poor quality of education and the unsatisfactory teaching process in schools. It is, however, indicative of the households' willingness to pay for better quality education. Apparently, such unregulated "privatization" of the education process denies the poor access to presumably good quality education imparted through private lesson. It has been found that almost half of the enrolled poor students were taking private lessons, compared with more than 60% of the rich students. The percentage of the rich students receiving private tutoring is higher in all educational levels than that for the poor.

Table 4 Household's Out of Pocket Expenditure on Education, 1997/98

	Pre- University		University	
	As part of total HR expenditure	Percentage share %	As part of total HR expenditure	Percentage Share %
Poor	0.336	11.6	0.029	1.6
Middle	1.225	42.4	0.659	35.4
Rich	1.329	46.0	1.122	62.0
Total	2.890	100.0	1.810	100.0

Source: The author's calculations, using the data from the Social Spending Household Survey (SSHS), conducted for EHDR 1997/98 by the National Center of Social Research.

Evidence suggests that increasing costs of education have thus exerted a toll on the affordability of education for the poor. Significant resources are being diverted out of the formal education system. The unit cost per student for government expenditure in education (public schools only) was LE 570. This was matched by LE 561 in private household expenditure (includes public and private schools). That is, about 50% of the total education expenditure is provided from out-of-pocket sources.

The situation of health is not as unambiguous as in education. Households spending on health absorb around 3% of the household total budget (a little less than half of the educational share). The percentage share of health expenditure by a rich household is more than double that of a poor household. The most important expenditure item for all population group is medicine. More than one half of the poor household expenditure on health is spent on medicine, while its average share is less than 40% of the rich households spending on health. The second largest expenditure item for rich households is the cost of surgical operations and birth giving. For poor households, the fees of the physician represent the second largest expenditure item.

Public Social Spending

Public policy is critical both in reducing poverty, as measured by income, and in improving social indicators. Policy affects incomes indirectly, through the rate and pattern of economic growth. It has a more direct effect on social indicators, mainly through the government's expenditure program. The countries that have succeeded

in providing primary education and health care to the poor are those that have made adequate provision for the purpose in their budgets. In 1985 spending on primary education as a percentage of **GNP** was more than four times higher in Botswana; where the enrolment rate was 99%, than in Haiti, where it was only 55 %.

But increased government spending is not always the answer to improving the well-being of people. Better allocation of expenditure within the sector and more efficient use of funds are often more important. And the proper economic role of government is larger than merely standing in for markets if they fail to work well.

Examination of the structure of government expenditure aims to determine how the share of health and education has fared to other sectors, with a view to assessing the fiscal priority accorded to social spending in the context of the other pressures and priorities on government spending.

In spite of the increase in debt servicing, the Government of Egypt has been able to increase the share of public expenditure, going to the social sectors, subsidies and social assistance. Social spending as a percentage of total government expenditure increased from an average of 19% between 1987-93 to 25% over 1994-97. Notwithstanding the rising trend of social spending shares in government budget, the social spending share in **GDP** has remained nearly constant at 8.8%. However, excluding subsidy allowances, the share of social sectors (health & education) in **GDP** rose by one percentage point (from 6 to 7%). While the decline of subsidy's share

in **GDP** and in government budget has been claimed to hurt the poor, there might be some evidence that it is targeting that matters, and not the magnitude of subsidy allocations. In fact further resources reallocation to direct expenditures on social sectors could have larger positive impact on the people's well being, than the open-ended and non-targeted transfers in the budget.

Health and education expenditures as a percentage of total government expenditure increased from an average of 13% over the pre-adjustment and during the adjustment years to more than one-fifth over the past 3 years (1995-1997). Health expenditure's share increased slightly from 3.6 to 4.5% between the two periods. However, the increase in education expenditure was much greater. Education expenditure as a percentage of government expenditure increased from an average of 9% between 1990-1993 to 16% in 1996/97.

The priority accorded to education can also be shown by the increasing trend of education expenditure as a percentage of the allocable recurrent expenditure. Recurrent expenditure on education as a share of the government's recurrent expenditure (excluding debt servicing) is relatively high (18% in 1990/91) and has steadily increased to 23% in 1996/97. The budget shares of social services have increased during and after the adjustment years in Egypt. This increase might indicate that human development is among the government's top priority. Budgetary allocations to health and education have steeply increased, in spite of a significant decrease in

the government expenditure ratio. This commitment to human development is demonstrated by a decision to increase budgetary allocations to the social sectors, especially education.

Who Benefits from the Public Social Expenditures?

How much impact public spending has on different population groups depends on how far this spending helps enlarging the poor's opportunities. Indeed, it should be the objective of public spending to reach the poor and enhance their capabilities. However, assessing the social impact of public expenditures require detailed household level data on the access to and use of public services by different income groups. The purpose of the SSHS conducted specially for Egypt Human Development Report (EHDR) is to make such data available.

The findings of this survey provide useful information about the beneficiaries of social expenditure. Overall, education expenditures tend to be biased in favor of the rich. Table 5 shows that the poor's share in public expenditure on education is less than their percentage share in total population. The rich, on the other side, are benefiting from a larger share of public education expenditure.

Table 5: Percentage Share of Income Groups in Public Expenditure on Education 1997/98, (%)

	Pre- University	Higher Education	Total
Poor	31.0	10.0	23.7
Middle	50.0	36.3	45.2
Rich	19.0	53.7	31.2
Total	100.0	100.0	100.0
Government expenditure As % of GDP*	3.25	1.75	5.0

Source: The author's calculations, using data from the SSHS

* Calculated on data from the national income accounts and the final accounts of the Government budget.

Distinction between different education levels is more revealing. Public expenditure on basic and secondary education is to some extent equally distributed among different income groups. Nearly, 31% of the benefits in pre-university education go to the poor, while the rich capture 19%. Like in many developing countries, the pattern is reversed in higher education. Fifty-four percent of the benefits of tertiary expenditure go to the rich group, 36% to the middle, and only 10% go to the poor.

In fact, the benefits the poor receive accounts for a significant share of their income. The benefits of public spending on education, for the poor, represent around 14% of the poor household's income. Approximately, 85% of these benefits accrue to the poor households through basic and secondary school enrolment of their children. The problem, however, lies elsewhere. The rich are capturing a higher share of public expenditure on education. Their share is as high as 1.32 times the share of the poor, in spite of their smaller share in the population. Public expenditure bias in favor of the rich is strikingly big in higher education. The benefits the rich receive, in higher education, is more than five times the share of the poor.

Table 6: Shares of the Poor and Non-poor in Education spending* (percentage of GDP. 1997/98)

	Poor Households			Rich Households		
	Pre Univ.	Higher	Total	Pre Univ.	Higher	Total
From Public Exp.	1.008	0.175	1.183	0.618	0.940	1.558
Out-of Pocket	0.336	0.290	0.365	1.329	1.122	2.451
Total	1.344	0.204	1.548	1.947	2.062	4.007

Source: the author's calculations, using data from the SSHS.

* The middle-income group is not included.

Two factors may explain this bias. The first lies in intra-sectoral allocation of public expenditure on education. The pre-university education has earmarked an increasing share of public expenditure. This share rose from 60% in 1986/87 to about three-quarters in 1996/97. However, the number of students enrolled in pre-university level account for nearly 95% of the total number of students. The result is a much higher per-student cost in higher education. This cost is 17 times higher than per-unit cost at the pre-university level. While this might be comparatively a logical cost structure of the education system, it widens the enrolment gap between different income groups. Thus, the second reason behind the regressive impact of tertiary expenditure is related to the large discrepancy of enrolment ratios between different income groups. Enrolment rates disaggregated by income group indicate that, while in rich households 6 out of ten youngsters (age 17-22 years) are enrolled in university or high institutes, only 2 are enrolled from the poor. Although public universities are free in Egypt, high private costs, as presented above, and academic barriers associated with education are formidable for the poor. The second half of the vicious circle is closed through the increasing opportunity costs of education, primarily in the form of forgone income.

In health, public expenditures tend to be relatively more progressive. Various factors, including high cost, low quality and distantly located health facilities may limit the benefits for the low-income groups, especially in rural areas. The poor households also pay for health services even when they resort to governmental health care

organizations for inpatient as well as outpatient services. Government health facilities which provide the highest percentage of beds and outpatient services are extensively used by all income classes. The accessibility levels are, as expected, enjoyed most by the lowest income category, where 60 percent of the last visit were to government health facilities. However, 36 percent of the last visit of the high-income class were also to governmental facilities. These visits represent more than one-fourth of the total visits to government health facilities. Approximately, one-third of total last visit to government health facilities were made by poor household members.

Conclusion:

Discussions of the goals of development now often emphasize the reduction of poverty, rather than raising average incomes. However, both the meaning of development and poverty have undergone radical changes. Instead of addressing economic and social development, a rather different view of human development is being widely adhered to. Poverty, also, is no longer seen as an income-based concept. And underdevelopment is thus viewed as the lack of certain basic human capabilities, rather than lack of income per se.

Differentiation between income poverty and capability/human poverty has its implication for public policy. Private incomes and public spending on social services will have different roles to play.

The paper aimed to examine the definition, identification and scope of poverty in Egypt. While reference has been made to different estimates of poverty measurements, the paper tried to relate those

variations to differences in methodologies used and sources of data, including participatory appraisal surveys of people's perception of poverty. The paper mainly focused on examining the relationship between poverty, economic growth, and human development, and how this complex relationship should guide the formulation of a sound strategy for poverty eradication. The paper suggests that both income growth and public social spending are essential for poverty reduction. While, the importance of income emanates from the impact it has on public spending, the increase and allocation of those expenditures have to be proportionately shared by the poor.

References:

1. El-Issawy I, 1996, Poverty in Egypt, A Semi-Participatory Inquiry, Research Papers Series, INP, Egypt Human Development Report, Cairo.
2. El- Laithy H, and Osman M, 1996, Profile and Trend of Poverty and Economic Growth in Egypt, Research Papers Series, INP, Egypt Human Development Report, Cairo.
3. INP; 1996, 1997/98, Egypt Human Development Report, Cairo.
4. Janyarajah C, Branson W, and Sen B, 1996, Social Dimensions of Adjustment: World Bank experience 1980-1993, World Bank Operations Evaluation, a World Bank publication; Washington DC.
5. UNDP, 1996, 1997, Human Development Report, Oxford Univ. Press, New York.
6. The World Bank, 1990, 1997, World Development Report, Oxford Univ. Press, New York.
7. Chambers R, 1995.
8. Brown D, 1995.
9. Ranis, Gustav, 1995, comparative Development Experience, Yale University, (mimeo).