

The Wealth and Income Gaps in Egypt play an important role in identifying the distribution and prevalence of poverty in the poorest villages in rural Upper Egypt. An integrated development model, along with policy reforms, must be implemented for the most vulnerable youth, women and children to reach a virtuous cycle of poverty alleviation.

# An Integrated Approach to Tackling the Wealth Gap in Egypt

Khalid El Ashmawy – Oct 2015

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Egypt Network for Integrated Development

**Policy Brief 030**

## A. Detailing Current Trends in the Wealth and Income Gaps in Egypt

Egypt has progressed in achieving MDG targets including halving of the population living below \$1.25 a day to achieve Goal 1 to eradicate extreme poverty and hunger.<sup>1</sup> However more must be done to minimize the persistent wealth and income gaps that are negatively impacting the economic and social wellbeing of Egyptians most vulnerable to poverty traps. It is a widely held belief that one of the major causes of the January 25, 2011 revolution was the rise of perceived inequality between the rich and poor in Egyptian society. The presence of inequality in Egypt will be investigated through observing the wealth and income gaps, and will present policy recommendations based on best practices in integrated development. Official government figures and World Bank data reveal a decline in the Gini coefficient in Egypt throughout the last decade, a key measure of income inequality, reaching 33.1 in 2009.<sup>2</sup> This measure is significantly lower than income inequality in the United States which exceeds 40 and is lower than other developing economies with a similar GDP per capita such as China and Guatemala.

Yet these figures do not tell a full story, as observing the variations in wealth and income within the Egyptian context, factoring in the urban-rural divide and differences between lower and Upper Egypt play an important role in capturing the full extent of poverty. For instance, the average per capita urban income is 67% higher than the average rural income, and among those included in the top 10<sup>th</sup> percentile, a staggering 81% live in urban areas.<sup>3</sup> Therefore, an urban citizen is 17 times more likely to be part of the top percentile in Egypt than a person living in rural areas. It must be noted, however, that despite the aforementioned income gaps between the urban and rural populations, the rural income gini is 26.4, more than ten points lower than the urban income gini of 37.5 (See Table 1 Below). This indicates that income and inequality in urban areas is far greater than that of rural regions. Another indicator that is attributed to the increase in perceived inequality among both rural and urban populations in the lead up to the January 2011 revolution is real per capita income, which decreased by 9.1% in urban areas between 2005 and 2009 and by 5.7% in rural areas during the same period.

**Table 1: Gini Coefficients in Urban and Rural Areas (Income Per Capita)<sup>4</sup>**

Region	2005	2009	Gini Point Change
Urban	37.5	36.3	-1.2
Rural	26.5	25.7	-0.8
All Egypt	34.6	33.0	-1.6
Cairo	40.5	39.7	-0.8

Despite observing similar trends in the case of Egypt, the income and wealth gap is regarded as “more geographical: it is between the four main Egyptian cities and the rest of the country, than

<sup>1</sup>Millennium Development Goals and Beyond 2015.<http://www.un.org/millenniumgoals/>

<sup>2</sup> Verme, Paolo, Chapter 3: Facts and Perceptions of Inequality, Inside Inequality in the Arab republic of Egypt, World Bank, 2014.

<sup>3</sup> Ibid, 41

<sup>4</sup> Table 2.9 in Verne, Paolo, Chapter 3, World Bank. (Statistics from HIECS 2005 and 2009).

properly urban-rural.”<sup>5</sup> Therefore, a closer look at geographic disparities in income and consumption, as well as poverty, are crucial in determining the root causes of Egypt’s persistent wealth gap and the regions most in need of policy interventions. This is especially the case considering that 941 of the 1000 poorest villages are located in Upper Egypt, and 50.7% of residents in rural Upper Egypt live below the poverty line.<sup>6</sup> In household consumption data obtained from 141 study villages that belong to the poorest 20% of all villages in the country, it was found that despite slightly higher inequality in these villages than total rural Egypt, people living in the study villages have a mean per capita annual consumption that is systematically 50% less than the corresponding level of consumption realized within all quintiles in Egypt.

Table 2 below provides the aggregate data on the indicators of deprivation across geographic regions in Egypt, indicating through six factors the disparity in welfare. These factors include the consumption per capita which is 3285 Egyptian pounds (LE) in rural Upper Egypt compared to 5557 LE in Urban Lower Egypt. The first quintile (representing the poorest 20% of the population) consumes a disproportionately low share of 9.6% of total national consumption, whereas the fifth quintile (richest 20% of the population) consumes 39.6%.<sup>7</sup> A gini coefficient regression that was undertaken to identify the main causes of inequality between households has concluded that household characteristics have a greater weight than village characteristics. For instance, the proximity of a village to the nearest urban center is directly correlated with inequality in that it provides greater access to opportunities for employment and increased incomes, thereby widening the income gap.

Factors such as male or female headed households, the ratio of children under the age of 15 to the total size of the household, working in the government, educational attainment, and a lack of social protection among others all impact a household’s potential consumption. The level of educational attainment of the head of the household had a positive impact on household consumption, yet it is the single greatest contributor to inequality at 2.7% attribution, most notably if s/he attained a university degree. In rural Upper Egypt, illiteracy is the highest among the lowest social class, acting as another barrier for better employment prospects in the future. Inequality can thus be a strong indicator, whether positive or negative, of key trends in household income and consumption not just within the village, but among governorates and different regions that are most vulnerable to poverty traps.

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<sup>5</sup> Ibid, 53

<sup>6</sup> Ibid, 102

<sup>7</sup> UNICEF, Children in Egypt 2015, A Statistical Digest, Chapter 13, Monetary Poverty and Inequality.

**Table 2: Indicators of Deprivation Across Regions of Egypt.<sup>8</sup>**

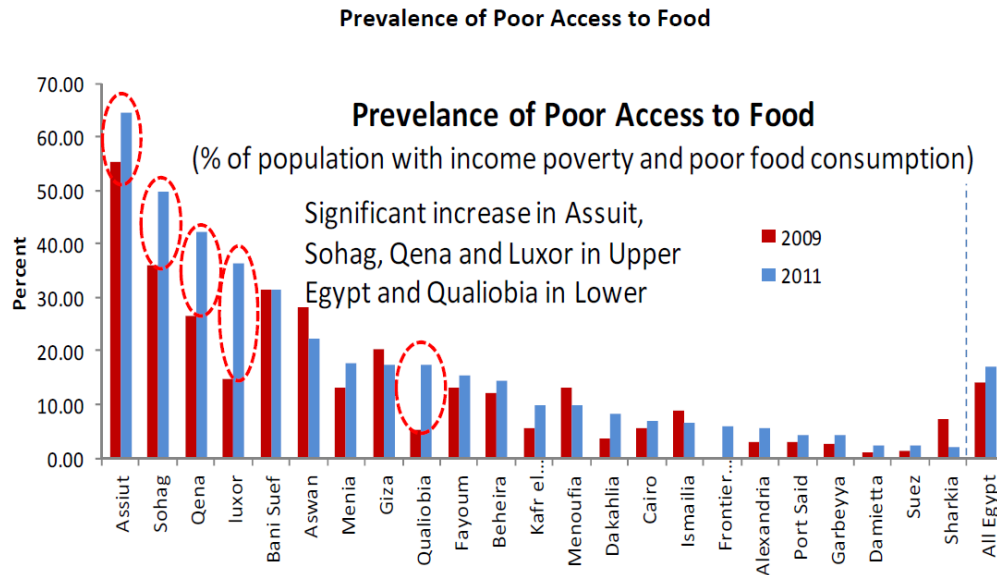
Region	Public Sewage Network	Indoor Toilet with Flush	Natural Floor Material	Poor & Near Poor	Consumption Per Capita (L.E)	Food Share in Income
Qena Governorate	5%	10%	40%	78%	3256	49%
Rural Upper Egypt	14%	15%	33%	75%	3285	48%
Rural Lower Egypt	33%	32%	5%	49%	4488	44%
Urban Upper Egypt	74%	59%	6%	50%	4699	38%
Urban Lower Egypt	88%	72%	1%	30%	5557	37%

It is important to move beyond observations of inequality in income and consumption. Various methods of identifying poverty and the regions in which it is concentrated are crucial in implementing effective policy reforms. One such indicator is structural poverty, which is concentrated in Upper Egypt. Among the factors that contribute to structural poverty are the lack of adequate public infrastructure, low investment in human capital, the absence of pro-poor program-based fiscal policy, and private capital accumulation. These key factors collectively lead to deterioration in Egypt's living standards. The prevalence of poverty in rural Upper Egypt is compounded by the fact that the region accounts for 41% of births despite containing 25% of the country's population. The large number of rural births reflects the high positive correlation between fertility rates and the multiple indicators of poverty, a level far greater compared to urban Upper Egypt.<sup>9</sup> High fertility negatively impacts household income and welfare. When observing key variables that lead to poverty in the household, the multi-dimensional poverty index is utilized to assess poverty through identifying multiple deprivations in health (nutrition and child mortality), education (child enrolment and years of schooling), and living standards (measure of household assets), access to hard flooring, water, electricity, cooking fuel, and toilet availability. The highest prevalence of multi-dimensional poverty is also in Upper Egypt, where 88% of the population is chronically food insecure. Rural Upper Egypt is the region with greatest food insecurity, and the situation has exacerbated between 2009 and 2011 as shown in Figure 1 below. Income poverty and poor food consumption both increased mainly in Upper Egypt governorates with a greater share than all of Egypt during the same period.

<sup>8</sup> Household Income, Expenditure and Consumption Survey (HIECS) 2010-2011, CAPMAS

<sup>9</sup> Maged Osman, Information and Decision Support Center – IDSC, (2008).

**Figure 1: Prevalence of Poor Access to Food**<sup>10</sup>



### **B. Implications of the Wealth and Income Gaps on the most Vulnerable Segments of Society (Youth, Women and Children)**

The wealth and income gaps reveal a striking disparity in welfare and quality of life between individuals living in urban Lower Egypt to those in rural villages of Upper Egypt. The gap also reveals challenges faced by Egypt's youth whose calls for social justice and greater work opportunities are widely documented as the main drivers of the January 25, 2011 revolution. The student and non-student labor force participation rates remain largely unchanged in the period between 2009 and 2014 according to the Survey of Young People in Egypt (SYPE) carried out in 2014.<sup>11</sup> Table 3 below presents the labor force participation rates by wealth quintile and gender following a survey of 7,779 respondents in 2009 and 6019 respondents in 2014, revealing a noticeable decline in male participation rates from 89.4% to 79.9% in the 5 year period, and a slight decline across the board. Interestingly, however, women's participation in the labor market had noticeably increased, particularly in rural Upper Egypt. The female participation rate (aged 15-29) was strikingly low at 7.1% in the year 2009, and almost doubled to reach 13.5% in 2014. Youth remain unemployed for longer periods of time primarily due to unavailability of appropriate job opportunities. The overall employment rate for youth aged 15-29 declined from 32.2% in 2009 to 31.7% in 2014. This stagnation in the labor market due to the economic downturn following the January 25, 2011 revolution has had negative impacts on youth wellbeing and has exacerbated child poverty.

<sup>10</sup> Figure10 in CAPMAS and World Food Program (May 2013), Heba Elaithy and Dina Armanios

<sup>11</sup> Survey of Young People in Egypt, 2014.

**Table 3: Non-student Labor Force Participation by Wealth Quintiles and Gender, 2009 and 2014**<sup>12</sup>

	2009		2014			
	Males	Females	Total	Males	Females	Total
<b>Wealth Quintile</b>						
Lowest	83.5	11.9	46.1	80.5	14	46.5
Second	88.4	13.6	49.9	77.8	16.3	48.5
Middle	87.8	16.8	53.8	81.6	14.5	47.3
Fourth	89.2	21	55.5	77.9	18.6	50.7
Highest	89.4	32.6	58.2	79.9	26.3	54.8
<b>Total</b>						
Percent	87.5	18.1	52.2	79.4	17.8	49.6

The wealth gap exacerbates child poverty, and prevents children from access to quality health services, good nutrition, and good education. The total number of children aged 0-17 living in monetary poverty in 2012/2013 has reached an alarming 16.7 million under the National Upper Poverty Line, and 9.2 million under the Lower Poverty Line. Table 4 below presents the distribution of child poverty across region, presenting how the concentration of poverty in rural Upper Egypt villages significantly impacts child welfare. The child poverty rate in Urban Upper Egypt is more than twice as large as the rate for Urban Lower Egypt at 29.2%, compared to 11.4%. The situation is striking for rural Upper Egypt, with more than half of the child population below the national lower poverty line (51.2%). There is a noticeable increase in child poverty across all regions, with the total rate increasing from 21% in 1999/2000 to 28.8% in 2012/2013. The poverty rate more than doubled between 1999/2000 and 2012/2013 in both Urban and Frontier Governorates. It is thus crucial for best practices identified below, to promote a holistic development model, and an upward push from poverty traps, to be scaled up and replicated.

**Table 4: Proportion of Children aged 0-17 under National Lower Poverty Line by Region**<sup>13</sup>

Region	1999/2000	2008/2009	2012/2013
<b>Urban Governorates</b>	6.7	7.9	17.9
<b>Lower Egypt</b>			
Urban Lower Egypt	7.7	7.5	11.4
Rural Lower Egypt	13.7	16.6	17.4
<b>Upper Egypt</b>			
Urban Upper Egypt	23.7	24	29.2
Rural Upper Egypt	38.7	45.1	51.2
<b>Frontier Governorates</b>	12	15.5	26.5
<b>Total Egypt</b>	21	23.8	28.8

<sup>12</sup> SYPE 2014, Pg 101.

<sup>13</sup> Table 13.08 in UNICEF, Children in Egypt 2015, A Statistical Digest, Chapter 13, Monetary Poverty and Inequality.

### **C. Best Practices in Integrated Development to Promote Inclusive Growth**

There is a need for a holistic and integrated approach to be scaled up in Egypt's national strategy in order to minimize the wealth gap and decrease poverty in the most vulnerable regions, particularly rural Upper Egypt. One best practice model adopted in six countries called the "Graduation Program" over a two year period has proven the effectiveness of an integrated package of developmental interventions to bridge the wealth gap, improve incomes and livelihoods, and sustainably lift the most vulnerable segments of society from a vicious poverty trap through sustainable income-generating activities.<sup>14</sup> The multifaceted "Graduation Program" targeted the poorest members in villages across India, Pakistan, Peru, Honduras, Ghana and Ethiopia. The set of interventions included a productive asset grant, training and support, life skills coaching, temporary cash consumption support, access to savings accounts and health services, along with routine visits by the partner NGOs, over the course of two years. The results have been highly positive, with 8 out of 10 key targets remaining statistically significant 36 months after the provision of the productive asset. It must be emphasized that the project did not measure the impact of each intervention separately, and it was the adoption of the integrated package of interventions that was credited for the increase in economic wellbeing, with the extra earnings exceeding the program costs in most cases.

In Egypt, a five year Program titled ENID/El Nidaa under UNDP auspices has adopted this same approach. ENID/El Nidaa has implemented a series of interventions through the provision of an asset transfer, skills upgrading and technical knowhow through trainings with master craftsmen to 35 villages in Qena Governorate. Beneficiaries receive financial support during the course of their training. The interventions, ranging from SMEs, agriculture and services, focus mainly on women and youth beneficiaries in rural Upper Egypt since they have been identified as the most vulnerable to persistent poverty traps. In order to promote positive change and long term outcomes on the ground, ENID/El Nidaa stresses the inclusion of the local Qena community, NGOs and Community Development Associations, and the local government and directorates. The participation of the local community will ensure long term positive outcomes beyond the program's lifespan. To date, a total of 2135 beneficiaries have been positively impacted by trainings, employment and income generation in 35 villages two years into the project's duration at the end of 2014.<sup>15</sup>

Promoting such activities on both the micro and macro levels through enhanced policy interventions on a national scale will ensure that an integrated package of interventions will be applied across Egypt's governorates and will be concentrated in the 1000 poorest villages where better livelihoods will be achieved through skill and technical upgrading, and the wealth and income gaps will decrease as more and more people enter a virtuous cycle of self sufficiency.

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<sup>14</sup> Banerjee et al, "A Multifaceted Program Causes Lasting Progress for the Very Poor: Evidence from Six Countries, Development Economics, Science Mag, 15 May 2015 Vol 348.

<sup>15</sup> Prof. Heba Handoussa and Ms. Marina Iskandar, A Case Study of ENID's Activities at Mid Term. Dec 2014

#### **D. Policy Recommendations**

Egypt has a relatively low Wealth Gap, and in fact has the lowest inequality gini coefficient in comparison to other Arab nations. Yet a low Wealth Gap is not necessarily an indicator of a country whose population thrives on the equitable distribution of wealth, and a high growth economy that provides increased job opportunities and potential for higher incomes. In fact, there are certain conditions where a higher gini coefficient, and thus more inequality, represents a society that is experiencing high growth spurts and increased economic activity that may elevate all segments of society. Therefore, observing the Wealth Gap, though important in providing a full picture of Egypt's economic structure, is not sufficient in effectively tackling poverty. Poverty is a multi-faceted phenomenon, its manifestations are multiple and complex. Hence, at least at the grassroots level, the need for an integrated approach that addresses its many faces simultaneously rather than applying a "band aid" to one or two of its indicators.

This brief has displayed the particularly challenging circumstances facing youth, women and children in the poorest villages of rural Upper Egypt. Poverty has increased across the board, especially in rural regions. It is thus imperative for holistic and integrated policies to be designed to tackle the negative externalities from the economic downturn following the January 25, 2011 revolution. This could, in part, be better achieved through the following:

- Scaling up through both vertical and horizontal channels of best practices at the village and national levels. Policy reforms include revised asset transfer schemes, provision and facilitation of loans, and new bankruptcy laws to lower risk for entrepreneurial ventures.
- Laws in the Finance Sector should also be revised, including collateral, such that more people have access to loans and more means to start ventures. A noticeable change between 2009 and 2014 is the rise in entrepreneurship and independent ventures among youth due to a lack of favourable work opportunities.
- Promote integrated development models in the poorest villages in Egypt that provide a holistic package of interventions that include asset transfers, trainings, health and nutrition, and schooling in one package over time. Such a package of interventions has pushed many targeted beneficiaries and their families onto a virtuous cycle of poverty alleviation in Egypt and elsewhere, and increased income and consumption levels years after the intervention has been completed, ensuring – in India for example - the sustainability and value added of the project.
- Adoption of Saemaul Undong best practice of South Korea, where the development gap between urban cities and rural communities was bridged by broad-based national development from the village level to the national level through the promotion of good governance, capacity building, participatory approach, accountability, vertical integration and ownership. The key has been the selection of the "one village one product" model of production.
- Enhance trainings on the village levels through local youth centres in technical skills for entrepreneurial and market delivery in promising sectors. This will increase the capacities of youth and will better align them to work in higher value added sectors such as tourism, small-scale manufacturing industry, and services.
- Implement policy reforms to incentivize the shift in manufacturing industry to the South of Upper Egypt in order to increase income opportunities for local residents and create



various linkages. Greater focus on the Golden Triangle will play an important role in promoting the South as an industrial hub, one that can eventually play a central role in Egypt's export strategy. This will require major infrastructure investments and increased skills training in Upper Egypt governorates.

*The author of this Policy Brief is Khalid El Ashmawy, MA, Research Consultant, Egypt Network for Integrated Development.*