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Manipulation of bread subsidy: Shift from in-kind to cash subsidy

Dr. Abdel-Tawab Barakat

The Egyptian Ministry of Supply has revealed its plan to remove subsidies on bread on a gradual basis by FY2022-2023, through shifting from the in-kind subsidy, where the citizen can buy 5 loaves of bread per day at a value of EGP 0.05 per loaf on ration cards, to [conditional cash subsidy](#) for subsidy-entitled categories only.

Minister of Supply Ali Moselhi in media statements on Saturday, 1 January said that there are two tracks to carry out this step: First, Shift to conditional cash subsidy, along with liberation of wheat and flour prices; second, application of a gradual raise in bread price along with identification of the most needy categories. Regarding the date of implementing this decision, Moselhi said: "Things will become clearer in March, in coincidence with development of the new budget for FY2022-2023.

The Minister of Supply justified conversion of the in-kind subsidy on bread to conditional cash subsidy by the claim that the Egyptian citizen does not appreciate the size of subsidy provided by the government to the loaf of bread, as its actual cost reached EGP 0.65, with a total of EGP 50 billion, that 70 million citizens benefit from. Moselhi also accused the Egyptian citizen of over-consuming bread and [misusing](#) it due to its low price.

The question is: Is the government serious about provision of subsidy to those that deserve it?! In fact, the loaf subsidy has been reduced in a roundabout way, with reducing the weight from 130g to 90g, by 30%. The subsidy on a loaf of bread was also reduced through limiting the number of subsidized loaves that a citizen can buy to on a daily basis only five loaves, in addition to arbitrary removal of millions of people entitled to receive subsidy, before Sisi reversed the measure under the pressure of demonstrators.

The current in-kind subsidy system in Egypt has been in place since the mid-20th century; however, in April 2014, Khaled Hanafi the Minister of Supply at the time announced that the ration of subsidized bread to citizens would be reduced to [five loaves per person](#) a day.

The proposed conditional cash subsidy means that the state would transfer a specific cash amount directly to the account of the head of the household in the ration card, at the value of the number of

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loaves to be determined by the government, at a maximum of 4 members of the household, as happens in disbursement of other components of the ration card.

Cash subsidy has been efficient and successful in achieving social justice and income distribution in most developed countries since the middle of the last century. Three decades ago, countries in Latin America, Brazil and Mexico, developed their cash subsidy system into "conditional" cash subsidy, according to which the state supports poor households with a cash amount in return for a number of conditions that a citizen is obliged to implement, most notably commitment to sending children to school on a regular basis and the vaccination of newborns. Then many countries followed Latin American countries in applying conditional cash subsidy in [Africa, Asia and Europe](#).

The developed subsidy system succeeded in treating household poverty through direct financial transfers, as well as addressing the poverty of new generations, by investment in human capital development through education and graduation of youth able to earn their living.

After success of the experience of the Latin American countries, a debate occurred in Egypt about the shift from in-kind subsidy for bread and food commodities to cash subsidy, where this debate is still going on about the disadvantages and advantages of in-kind and cash subsidies.

Advantages of in-kind subsidy

In poor countries that consume more than they produce and suffer from high levels of inflation, such as Egypt, in-kind subsidy is better than cash subsidy, as high inflation levels will devour a large part of the cash support and increase the suffering of the poor. Economic experiences in many countries have proven that switching to cash subsidy in a deteriorating economic environment perpetuates inflation and increases prices.

In 2005, the Egyptian Council of Ministers' Information and Decision Support Center conducted a study titled, The Economic Dimensions of Transition from In-kind Subsidies to Cash Subsidies for Bread. Although the study targeted setting the mechanisms, policies and requirements for the transition to cash support for bread and other food commodities, the study concluded that in-kind subsidy has [social benefits that should not be overlooked](#), as the study concluded that in-kind subsidy ensures the provision of bread and basic commodities at low prices to the poor, and contributes to Improving the level of nutrition for poor families and their children. However, the study recommended

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switching to cash support, given its economic feasibility, as it provides half the cost of in-kind support, and enables the expansion of the ration cards to include newborns and more newly married couples.

The funny thing is that despite the recommendation to switch to cash subsidy, the study warned against activating its recommendation, adding that the cash support would quadruple the price of a loaf of bread, where the price may reach EGP 0.20, which makes the decision fraught with serious social and security repercussions that should be carefully evaluated in order to avoid disturbances that may affect political stability in the country. Accordingly, the regime reversed the shift to cash subsidy.

After the global food crisis in 2008, the World Food Programme (WFP) revealed that the bread and food subsidy system in Egypt enabled 9% of Egyptians to survive above the poverty line. The WFP stated that without subsidizing food, especially bread, the [poverty rate](#) in Egypt would have risen to 30%, compared to 20% before the crisis.

Despite these benefits, the in-kind subsidy has disadvantages that cannot be ignored either, as it reaches the rich (unworthy of subsidy) as well as the poor. In addition, the cost of delivering in-kind subsidy to those entitled is high, amounting to approximately 30% of the value of food commodities and subsidized bread, in the form of salaries for the staff monitoring the distribution of bread and supply commodities affiliated to the [ministries of Supply, Interior and Justice](#).

There is also clear financial corruption surrounding the in-kind subsidy system, whereby certain suppliers are contracted in exchange for commissions that go to officials. Also, the quality of bread and food commodities provided to citizens through the ration card system is poor, and the quantity is insufficient; and in many cases, supply commodities are smuggled and sold in free market.

Advantages of cash subsidy

First: The subsidy reaches those who are entitled to of limited income people and those without income at all, not allowing subsidy to reach the able, an advantage that is not available in in-kind subsidy, as the subsidized commodity may also go to the rich, who cling to the ration card, while many poor families and newlyweds [have been denied access to ration cards since 1989](#).

Second: The low cost of delivering cash subsidy to vulnerable categories, through direct bank transfers to the citizen's smart card account, and thus the cash subsidy can be increased in favor of the citizen at the same value of the cost of delivering in-kind subsidy.

Third: The ease of estimating the value of cash subsidy with a fixed number in the state's general budget, while it is difficult to predict the value of in-kind subsidy until the end of the fiscal year, given the fact that its value changes according to the change in wheat prices in global markets as well as the price of fuel, diesel and natural gas used in the operation of bakeries, whose cost changes according to oil prices in the global market as well.

Disadvantages of cash subsidy

First: Commodity prices have risen to a degree that is too high that the poor cannot purchase, especially in countries that import their food, such as Egypt which imports 60% of its food, a value of \$15 billion on an annual basis. The study of the Information and Decision Support Center in 2005 cited a report by the World Bank as highlighting the expected economic effects resulting from application of in-kind subsidy, most notably the [price rise and inflation](#).

In recent years, there have been several increases in the prices of food commodities resulting from the shift from the in-kind subsidy to cash subsidy, where the rice price increased from EGP 1.5 per kilogram to EGP 9, sugar price from EGP 1.25 per kilo to EGP 10.5, and edible oil prices from EGP 3 to EGP 18 per liter, then EGP 25.

Second: Erosion of the value of cash subsidy in light of the global price hikes of food commodities and the continuous decline in the purchasing power of the Egyptian pound. With reliance on importing wheat from abroad in dollars, it is expected that the implementation of the cash subsidy system would increase the prices of bread to historic levels, and accordingly the money amounts allocated for subsidizing bread would be unable to provide for the proper quantity needed by a citizen, and accordingly affect the stability of families that only [rely on bread for survival](#).

The index of the UN Food and Agriculture Organization (FAO) had revealed that the prices of wheat and essential commodities would increase by 33% in 2020, expecting continuation of that increase due to the impact of global food production resulting from the climate changes and the increase in fertilizer and fuel prices.

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It is established that when commodity prices increase, the value of subsidy is not accordingly increased to compensate for inflation. In the early 2022, the Ministry of Supply raised the price of sugar to EGP 10.5 per kilo, by 23.5%, and increased the price of edible oil from EGP 17.5 per liter to EGP 25 , by 42%. Consequently, the individual gets a one-liter bottle of edible oil at EGP 25 and two kilos of sugar, for a total of EGP 21. Therefore, the actual subsidy will not exceed EGP 4, where the citizen cannot buy any additional goods, and accordingly prompted to buy vinegar, salt or [biscuits](#).

However, in the in-kind subsidy system that was in place before the 2013 coup, the individual received 2 kilos of sugar, 2 kilos of rice, and one and a half kilos of oil, which reveals to what degree the subsidy has eroded after shifting from in-kind to mixed in-kind/cash subsidy system, or the conditional subsidy system as the government prefers to call it.

Third: Likely bread crises and its disappearance from bakeries, and the return of incidents of people killed on bread queues that used to be in the pre-January revolution era, and frequent absence of supply commodities from markets in various governorates after shifting commodity subsidies from in-kind subsidy into cash subsidy.

Fourth: Leaving subsidy bereft of substance: Countries that provide conditional cash subsidy are interested in meeting the needs of the entire household by providing proper financial support, while the government requires children to go to school for education and review health vaccinations for continuing its support, where this process is called "conditional cash subsidy".

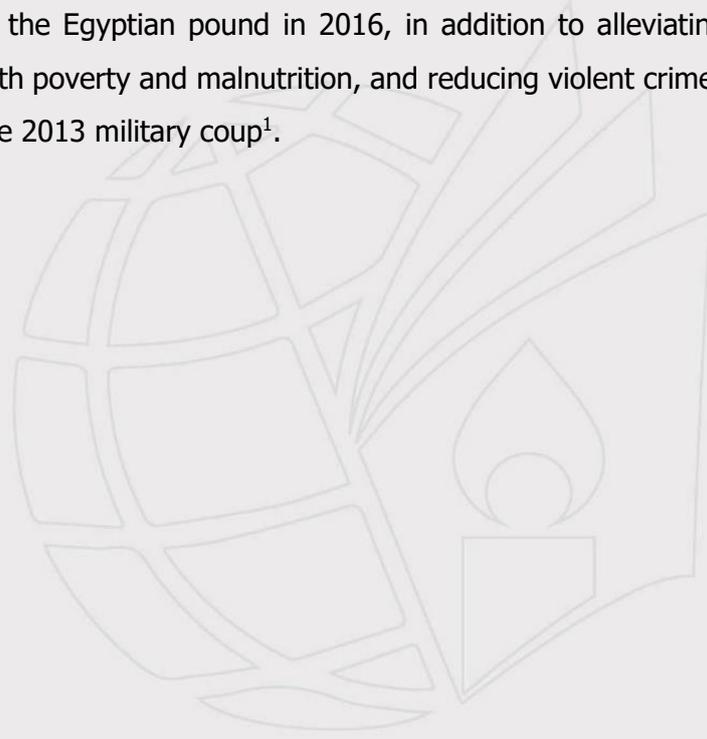
However, the "conditional cash subsidy" that the government of General al-Sisi applies in Egypt is different, where a sum of money is provided to a specific number of family members, not more than four, according to Sisi's statements, provided that the citizen would use part of the subsidy cash to buy non-essential goods, such as biscuits, salt, vinegar and matchboxes, most of which are produced by the army-owned Silo Foods Company that Sisi opened [in August 2021](#).

Also, the Ministry of Supply added pasta produced by the army-owned Silo Foods to the list of food commodities, at the expense of rice, which was removed from the list. It is known that pasta is produced from imported wheat, while rice is produced domestically, which means that the ministry is actually encouraging the importer to increase the profits of the army-owned company at the expense of the local product. Thus, the citizen finds himself [obliged to](#) buy the goods imposed by the Ministry

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of Supply even though he does not need them, such as biscuits, vinegar, salt, toilet soap, dish soap, chicken broth, sauce, halva and washing machine powder.

To sum up, despite its shortcomings, the bread's in-kind subsidy in Egypt remains the most effective way to remedy wrong economic policies, and to achieve part of the absent social justice, some equality in distribution of wealth, fairness to the rural population deprived of services, and alleviating the effects of unemployment, contributing to extending family stability and enhancing safety, social peace, safety and mental health for members of the Egyptian society, which was greatly affected after the floatation of the Egyptian pound in 2016, in addition to alleviating the costs of treating diseases associated with poverty and malnutrition, and reducing violent crimes, murder and burglary that increased after the 2013 military coup¹.



¹ The views expressed in this article are entirely those of the author's and do not necessarily reflect the views of the Egyptian Institute for Studies

