



**GROWTH, DISTRIBUTION AND POVERTY**  
**In EGYPT**  
**AN ASSESSMENT, 1990/91 – 2004/05**

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# OUTLINE

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- I. Introduction
- II. Key features of Egypt's growth
- III. Aggregate poverty trends
- IV. Sectoral pattern of growth, distribution and poverty
- V. Economic policies and pro-poor growth
- VI. Concluding remarks

# I. Introduction

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- A prime goal of development is to reduce poverty which could be achieved by enhancing growth and/or reducing inequality of distribution
- In this respect, it is helpful to investigate the relative importance of growth and inequality factors to achieve a balance between pro-poor and pro-growth interventions
- And to explain the observed growth in Egypt, 1990/91 – 2004/05 and link it to the evolution of poverty
- Three sub-periods are considered, which correspond to the time elapsed between successive Household Income, Expenditures and Consumption Surveys (HIECS)

# I. Introduction

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- Three levels of aggregation are considered: macroeconomic, sectoral and household
- Time series and cross-sectional data from Egyptian and international sources are used

## II. Key features of Egypt's growth

- The annual rate of real GDP growth averaged 4.2% over the period 1990/91 – 2004/05. It fluctuated between -0.5% in 1991/92 and 6.2% in 1997/98 with a standard deviation of 1.7%
- Standard neoclassical growth accounting presumes two potential sources of GDP growth: physical inputs and total factor productivity (TFP)
- Employment grew at an average annual rate of 2.6% with a small standard deviation of 0.5%

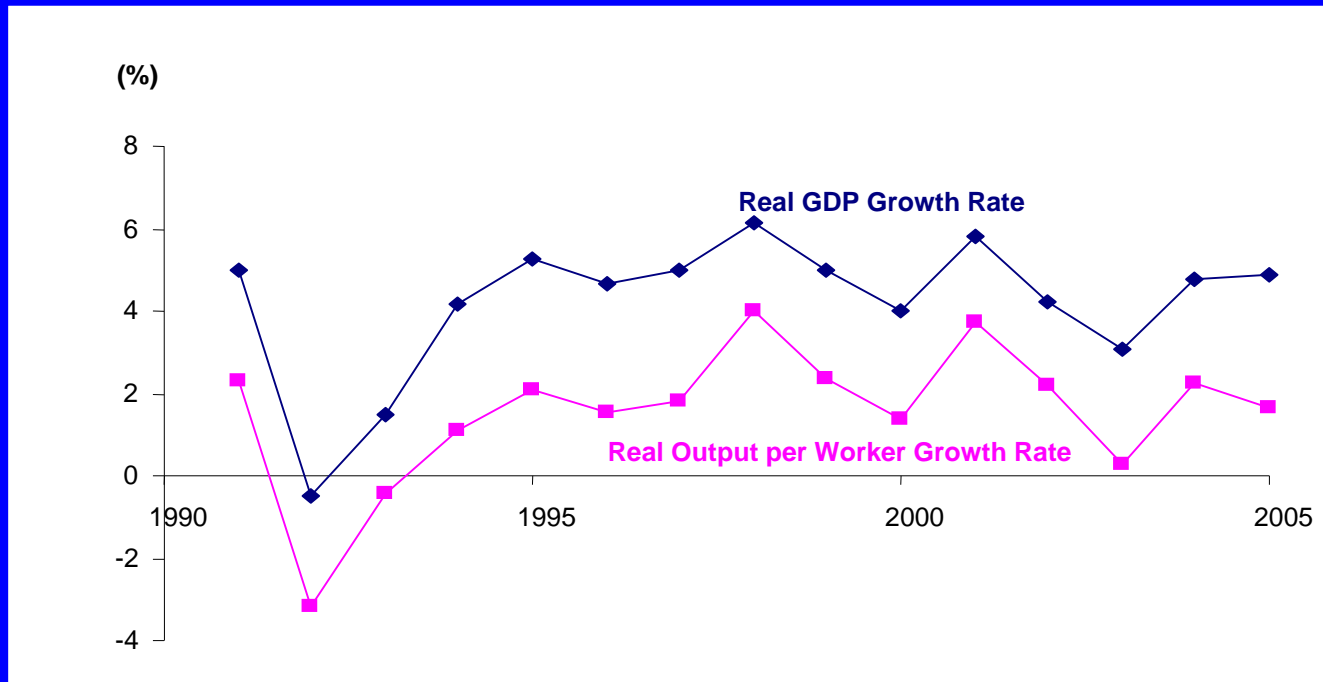
## II. Key features of Egypt's growth

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- Capital grew at an average annual rate of 6%, ranging from a minimum of 4.4% in 2002/03 to a maximum of 8.1% in 1997/98 with a standard deviation of 1.23%
- As a result of the stability of average employment growth, a significant covariability has been observed between
  - GDP and output per worker growth rates
  - Capital and capital-labor ratio growth rates

## II. Key features of Egypt's growth

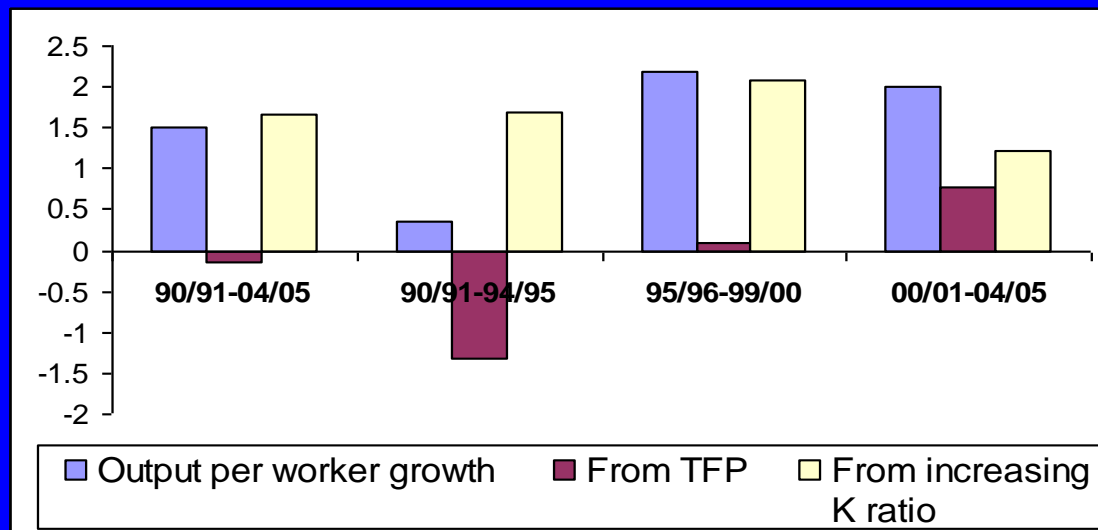
Real GDP and output per worker growth rates  
(1990/91 – 2004/05) (In percent)



## II. Key features of Egypt's growth

- Sources of output per worker growth are: the capital labor ratio reflecting increasing capital intensity, and total factor productivity

### Sources of output per worker growth





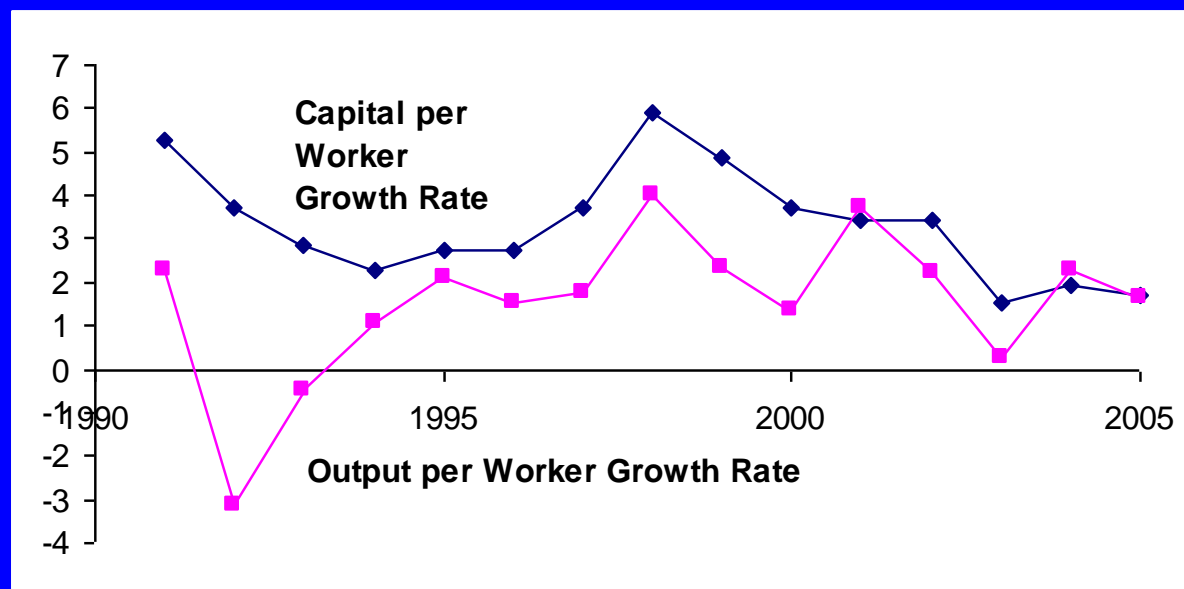
## II. Key features of Egypt's growth

- Output per worker growth has been modest over the whole period (1.5% annually)
- It declined to a low 0.37% during the first five years of stabilization effort driven by a sharp reduction in TFP associated with a moderate capital intensity
- It tended to increase in 1995/96-1999/00, driven by increased investments and higher capital intensity, accompanied by a marginal increase in TFP
- It modestly declined again by the last sub-period constrained by declining capital intensity as a result of a slowdown in investment and recessionary pressures persisting till 2003/04 but supported by increased TFP

## II. Key features of Egypt's growth

- A considerable correlation between output per worker and capital intensity growth has been observed

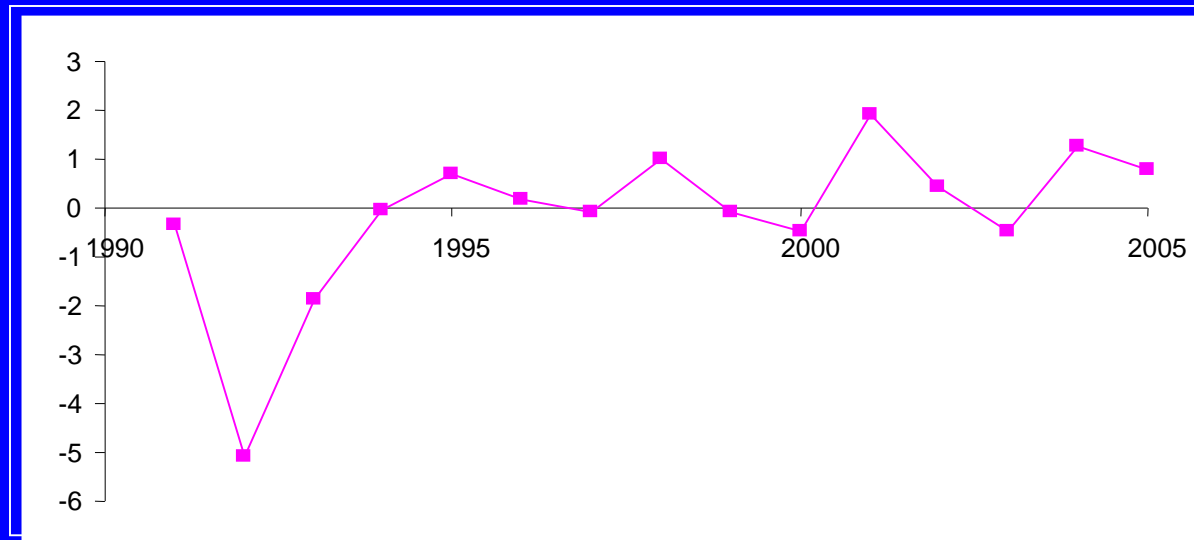
Output per worker and capital per worker growth rates  
(In percent)



## II. Key features of Egypt's growth

- TFP has been fluctuating during the period 1990/91 – 2004/05 but has tended to rise moderately towards the end of the period, showing an increased contribution to output per worker annual growth

TFP growth rates (In percent)



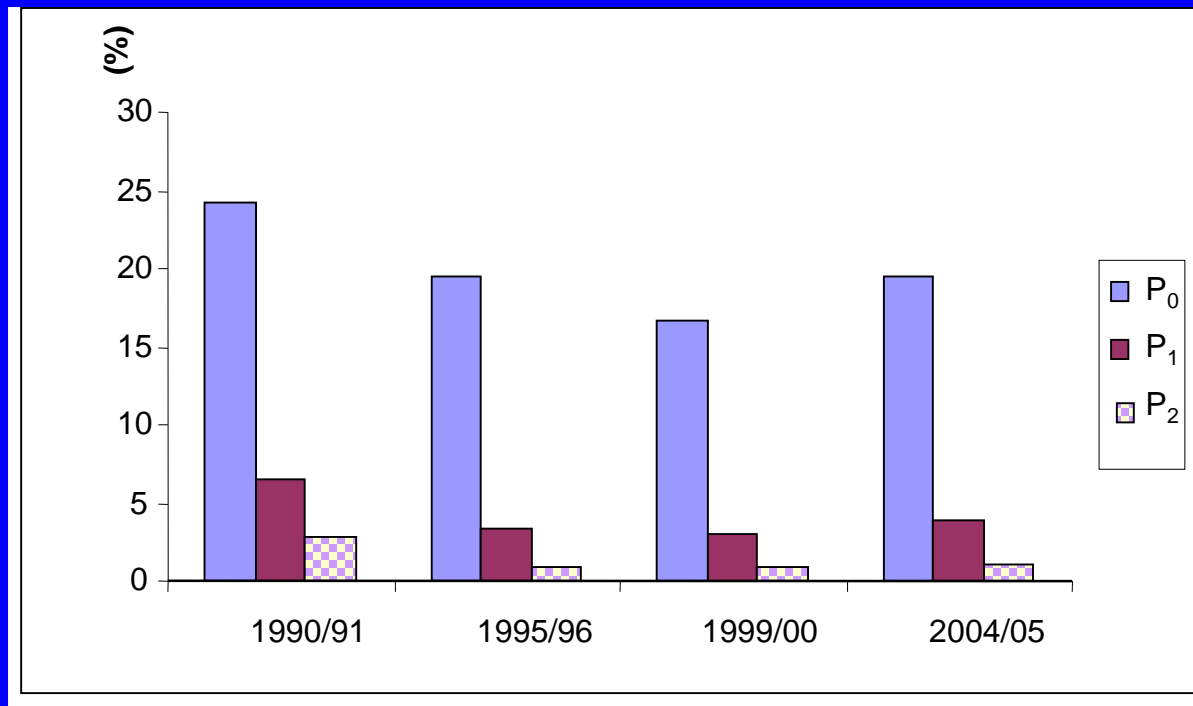
# III. Aggregate poverty trends

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- Poverty measures from the last three surveys indicate a significant decline in all poverty measures compared to the initial year 1990/91
- Poverty measures are higher in 2004/05 compared to 1999/00 and 1995/96, regardless of poverty measures chosen
- The difference between 2004/05 and 1995/96 might not be significant

# III. Aggregate poverty trends

## Aggregate Poverty Measures (1990/91 – 2004/05)

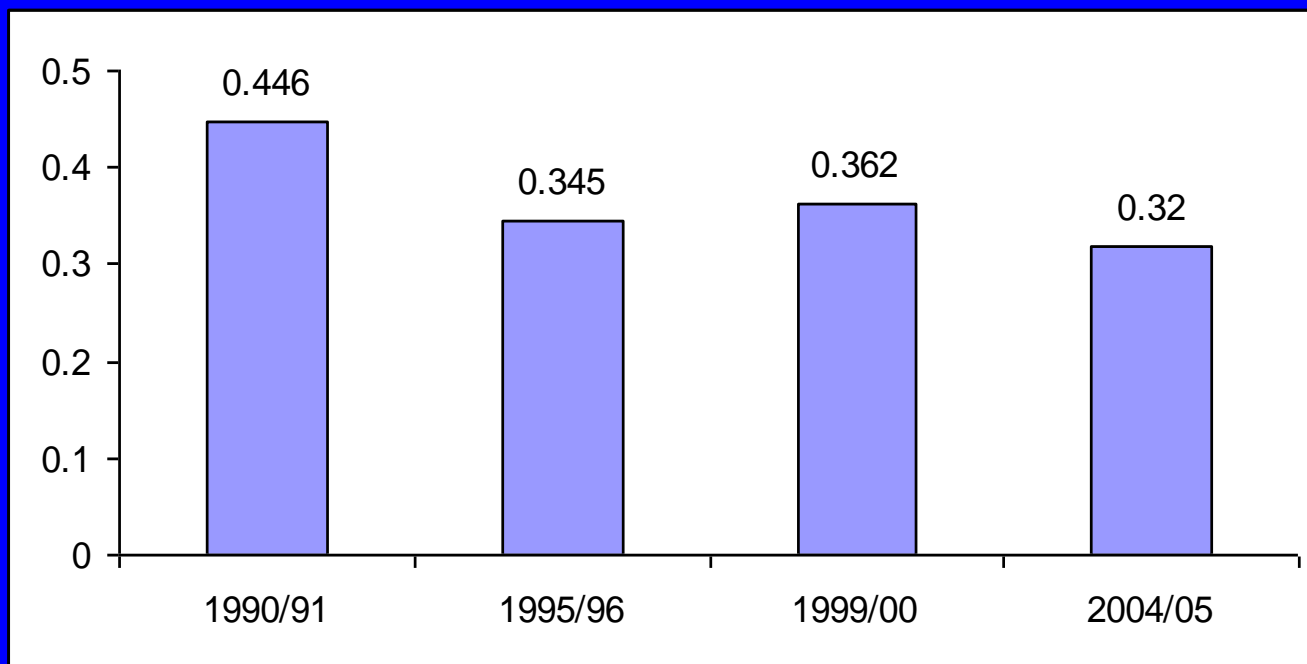


### III. Aggregate poverty trends

- Expenditure distribution has generally improved from 1990/91 to 2004/05 as the Gini coefficient declined from 0.45 to 0.32
- The improvement was not uniform:
  - Distribution improved significantly between 1990/91 and 1995/96
  - It deteriorated slightly in 1999/00 and
  - Improved again by 2004/05 to the level of 1995/96

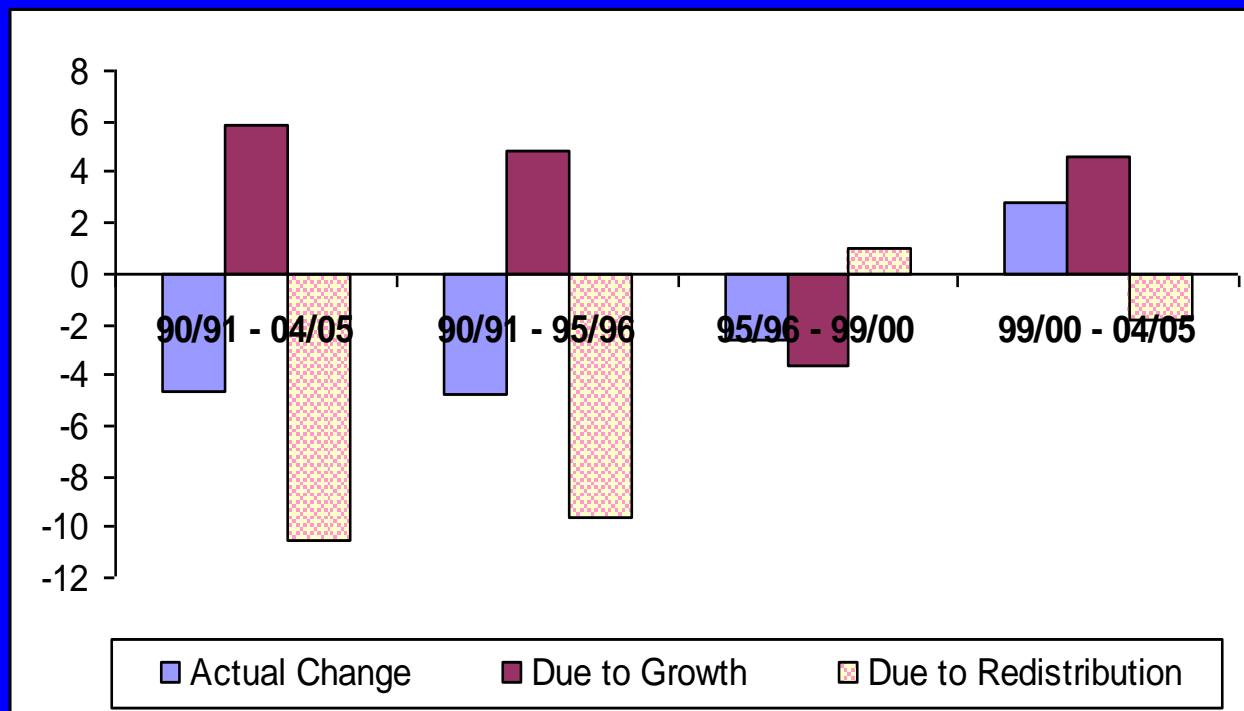
# III. Aggregate poverty trends

## Gini coefficient for various HIECS



# III. Aggregate poverty trends

Growth and redistribution effects on changes in poverty incidence (In percent)





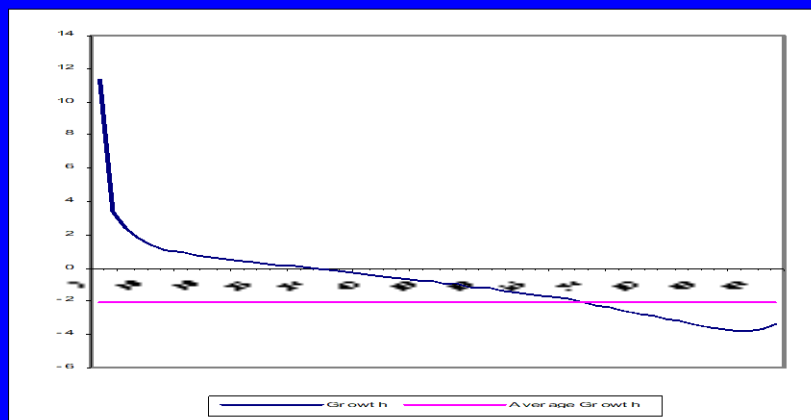
# III. Aggregate poverty trends

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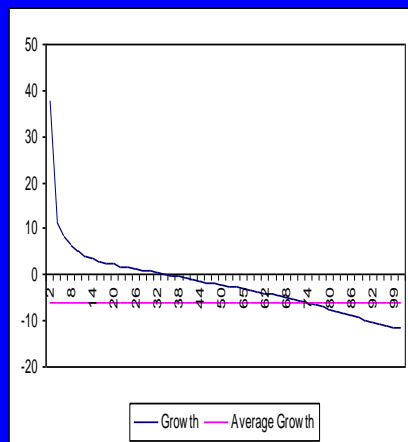
- An improvement in income distribution reflected by a decline in Gini coefficient is not necessarily associated with a decline in poverty incidence
- A more direct approach to assess the impact of growth on poverty incidence is to consider growth rates of per capita income or expenditure of various income or expenditure groups between various HIECS

# III. Aggregate poverty trends

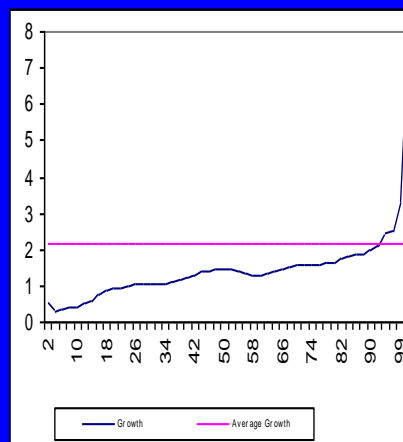
## Growth incidence curves for Egypt 1990/91 – 2004/05



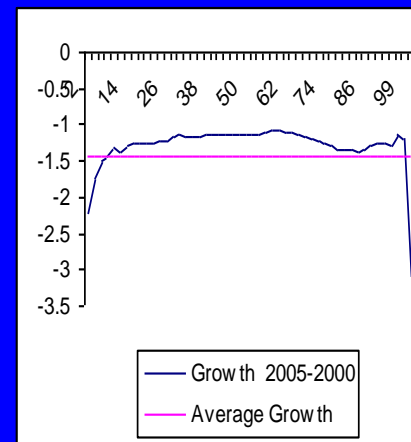
1990/91-1995/96



1995/96-1999/00



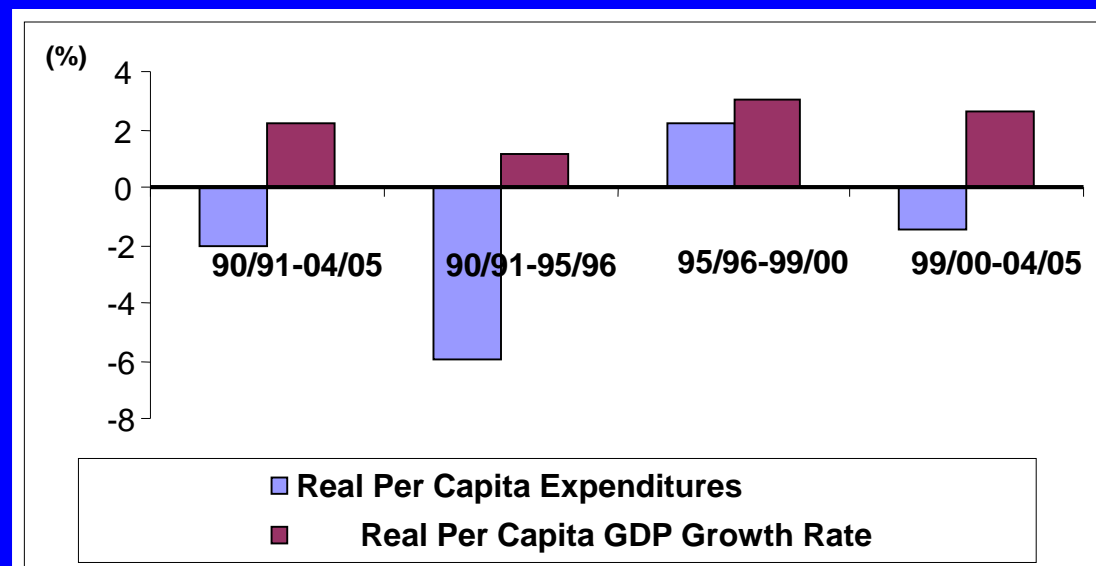
1999/00-2004/05



# III. Aggregate poverty trends

- The growth rate of GDP per capita is usually different from that of personal expenditure per capita.

Average annual growth rates of real per capita expenditures and GDP (1990/91 – 2004/05) (In percent)



# III. Aggregate poverty trends

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- These divergences reflect macroeconomic policies that affect the relative share of households compared to other claimants to GDP, principally businesses and the government

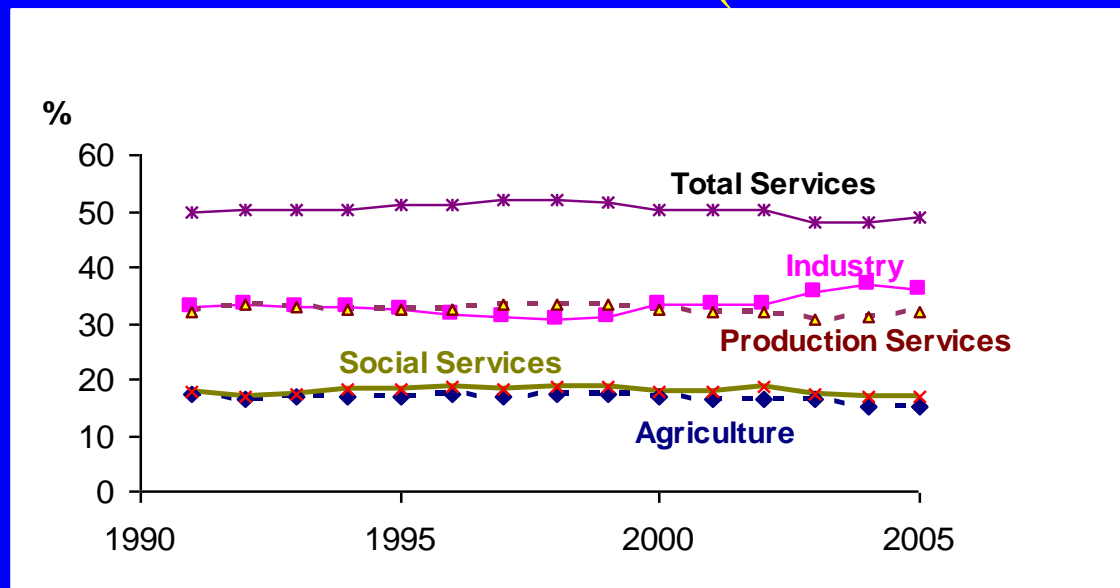
# IV. Sectoral Pattern of Growth, Distribution and Poverty

- Egypt's pattern of growth since the 1990s may be characterized as follows:
  - The Egyptian economy continued to be services-based, with a share of GDP exceeding 50% on average. Industry constituted 33% and agriculture 16% of GDP
  - Growth rate of value-added in agriculture was persistently lower (2.5%) than in industry (around 6%) and services (production services 4.1% and social services 3.3%)

# IV. Sectoral Pattern of Growth, Distribution and Poverty

- Despite diverging growth rates, the sectoral composition of GDP remained remarkably stable, although the share of industry and production services grew modestly to reach 36.1% and 32.2% of GDP in 2004/05, while that of agriculture and social services fell to 14.9% and 16.8% , respectively

Sectoral shares in real GDP (1990/91 – 2004/05)



# IV. Sectoral Pattern of Growth, Distribution and Poverty

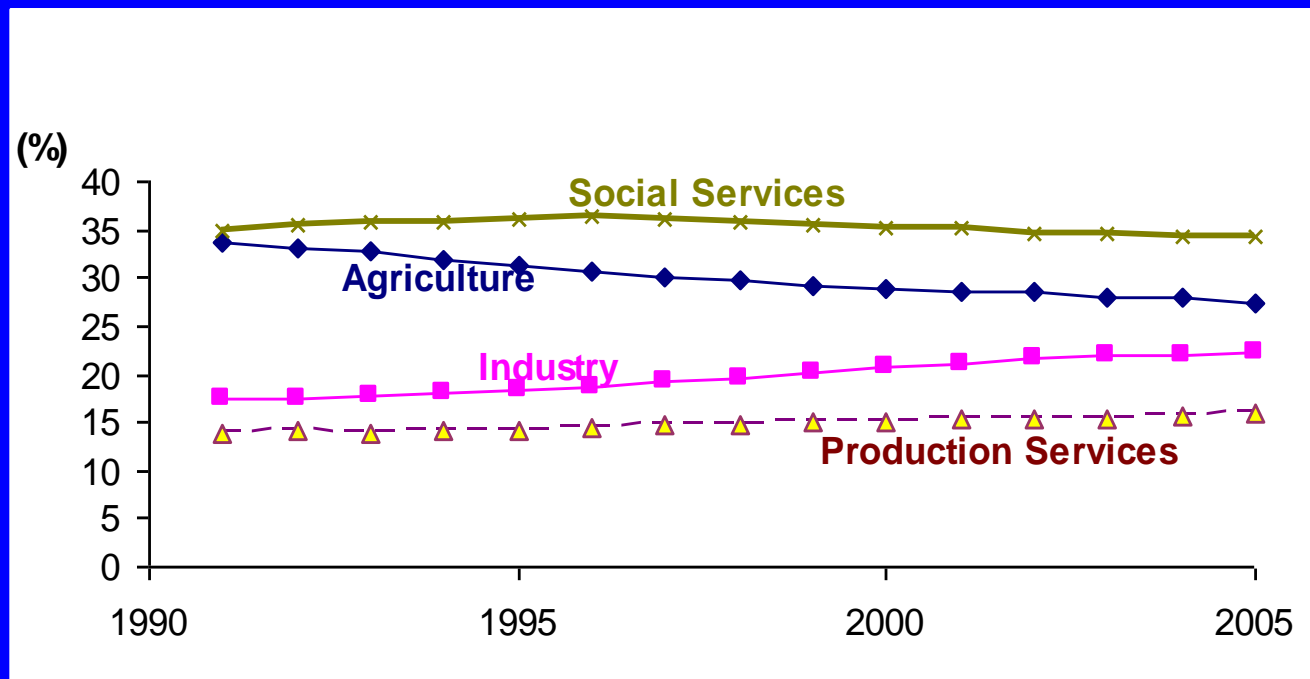
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- Changes in employment structure and in sectoral output per worker (as a proxy for labor productivity) can influence both determinants of change in poverty: the growth and distribution components.
- Labor shifts between sectors may raise overall output per worker because:
  - Labor may shift from less productive to more productive sectors
  - Output per worker within each sector increases because of technology and institutional innovations

# IV. Sectoral Pattern of Growth, Distribution and Poverty

- This pattern was weakly observed in Egypt

Employment shares (1990/91 – 2004/05)





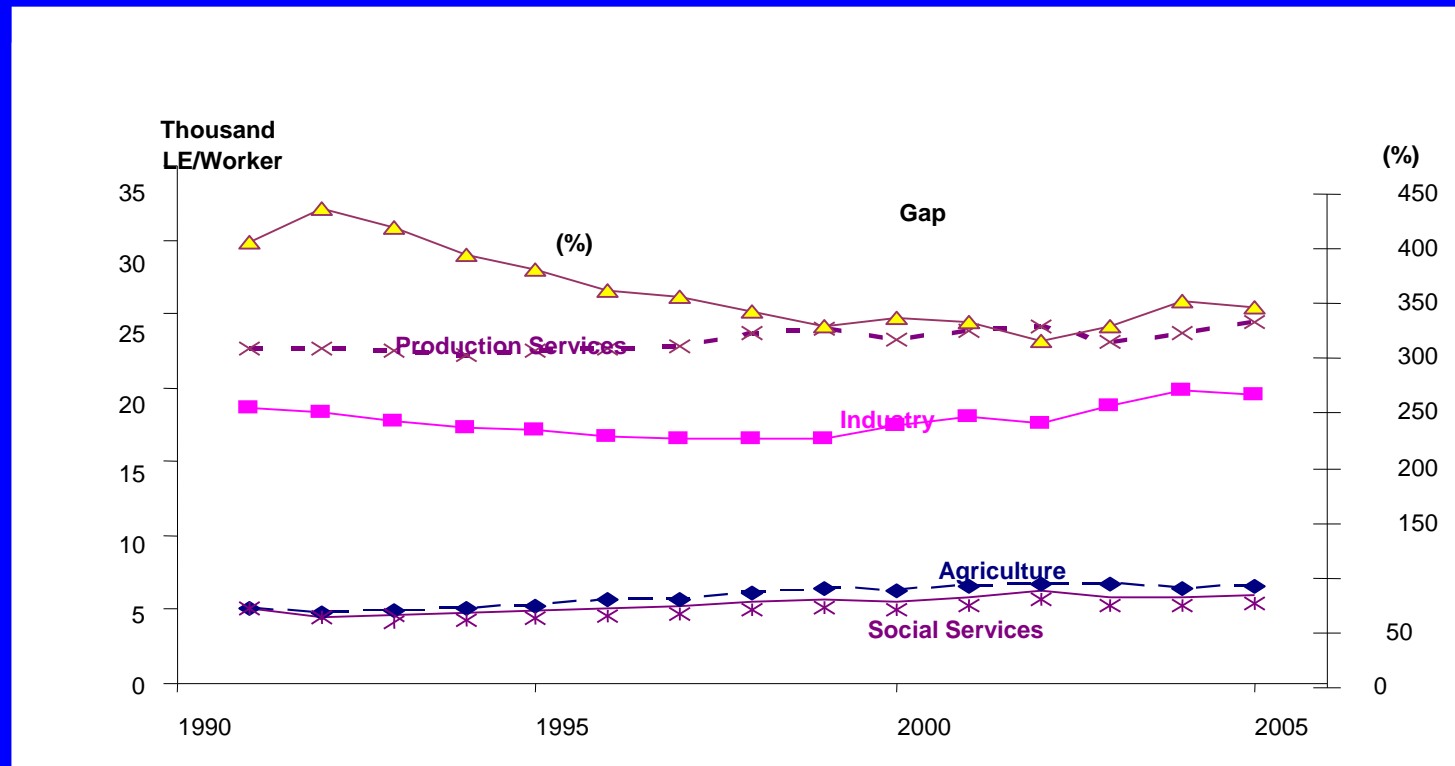
# IV. Sectoral Pattern of Growth, Distribution and Poverty

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- Employment shares declined slightly in agriculture and social services and modestly increased in industry and productive services
- Output per worker in industry and production services remained high and modestly increased while that in agriculture and social services remained low with a slightly rising trend
- Consequently, the output per worker gap remained persistently high although it tended to decline over time.

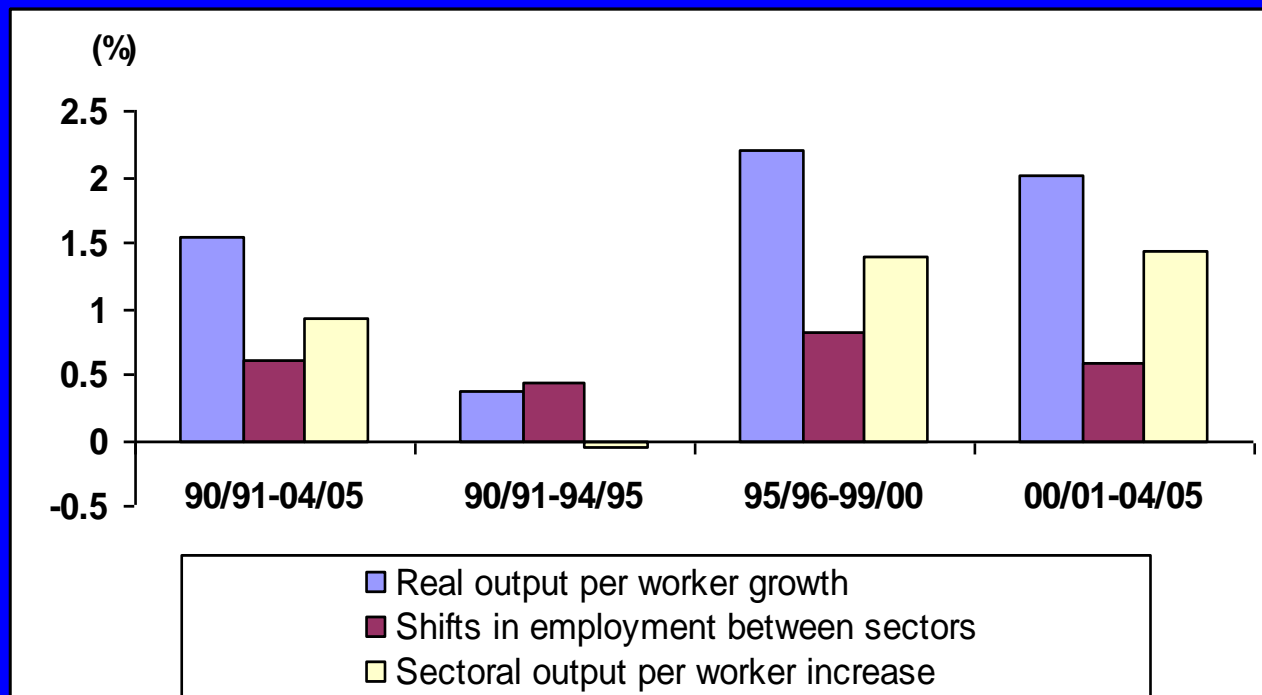
# IV. Sectoral Pattern of Growth, Distribution and Poverty

## Sectoral output per worker and output per worker gap



# IV. Sectoral Pattern of Growth, Distribution and Poverty

- Decomposing overall output per worker growth into labor shifts between sectors and output per worker growth within sectors, it appears that:



# IV. Sectoral Pattern of Growth, Distribution and Poverty

- Output per worker growth has been modest over the whole period hardly exceeding (1.5% annually)
- It tended to increase in the second sub-period to 2.2% annually from a low 0.37% during the first five years of stabilization effort
- It slightly declined to an average annual rate of 2.01% during the last sub-period dominated by recessionary pressures which were only overcome by 2004/05
- With the exception of the first years of stabilization effort (1990/91 – 1994/95), where shifts of labor between sectors dominated low growth of overall output per worker (116%), labor shifts explained between 30 and 40% of increase in overall output per worker, while sectoral increases in output per worker explained the remaining over the last two sub-periods

# IV. Sectoral Pattern of Growth, Distribution and Poverty

In sum:

- Structural changes in GDP have been modest
- The sectoral pattern of employment has not significantly evolved
- Output per worker within all sectors has marginally increased
- The two low output per worker sectors (agriculture and social services) continue to employ more than half the workers in Egypt
- Industry benefited from low prices of energy, electricity and utilities, yet it did not pay in terms of industrial growth promotion
- Development of the production services sector was not sufficiently stimulated
- It is necessary to focus the efforts to enhance output per worker in all sectors with an emphasis on labor intensive activities (agriculture and social services, as a prerequisite for growth promotion and poverty reduction)

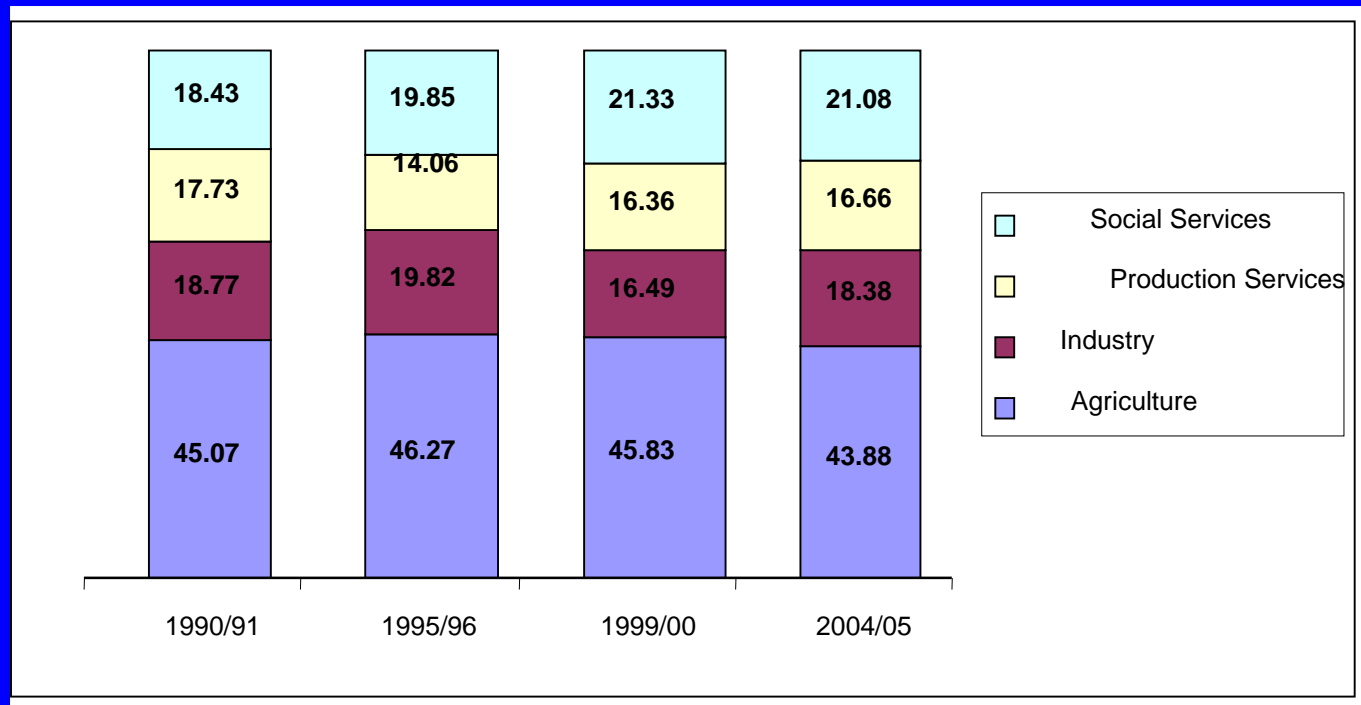
# IV. Sectoral Pattern of Growth, Distribution and Poverty

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- Poverty is persistently concentrated in agriculture exceeding agricultural share in overall employment
- In urban areas, poverty in some survey years exceeds the share of industry (1995/96) and of production services (1990/91) in employment
- Surprisingly, poverty in social services (dominated by government employment) is below the share of this sector in employment, reflecting secure and regular government salaries and opportunities for moonlighting, in spite of low output per worker

# IV. Sectoral Pattern of Growth, Distribution and Poverty

Percentage shares of the poor by economic activities of heads of households (1990/91 – 2004/05)



# V. Economic Policies and Pro-Poor Growth

- What are the policies and strategies that would lead to high and sustained GDP growth, more equitable distribution and a rapid reduction in poverty?
- In light of the experience of countries that succeeded in reducing poverty along with achieving high and sustained growth, a number of policy options have to be addressed



# V. Economic Policies and Pro-Poor Growth

- The choice of growth sectors.

It is necessary to emphasize growth of sectors which address underemployment of the poor, and provide them with sufficient remuneration this includes:

- Supporting the agricultural sector to increase its productivity and reduce poverty in rural areas
- Shifting employment from informal towards formal sector activities
- Improving investment and working conditions in micro and small enterprises

# V. Economic Policies and Pro-Poor Growth

- The role of government
  - Changes in tax and public expenditures structure are important to achieve poverty alleviation in the short run and to enhance growth and reduce poverty in the long run
  - Increasing budget deficit induce the government to reduce capital expenditures rather than recurrent expenditures (government wage bill and subsidies), which have a clear urban bias towards the middle class
  - A pro-poor strategy must focus on the special features of poverty in Egypt, which is concentrated in agriculture and in micro and small enterprises

# V. Economic Policies and Pro-Poor Growth

- Priority areas of interventions include:
  - \* Ensuring availability of critical inputs to micro and small enterprises
  - \* Reducing regulatory obstacles to starting, operating and dissolving small businesses
  - \* Increasing poverty-oriented investments in rural areas and supporting agricultural development
  - \* Supporting local governments to plan and implement priority local projects
  - \* Ensuring flexibility to involve NGOs, community organizations and private sector participation in such investments

# V. Economic Policies and Pro-Poor Growth

- Reallocation of government expenditure to improve supply of health and education services
- Improving targeting of such services to the poor
- Supporting mobilization of voluntary participation of civil society and the private sector in providing social services on a non-profit basis
- Targeting subsidies (through self-targeting and characteristics targeting) is essential as the current system of universal subsidy is inefficient, distortionary, fiscally unsustainable and constraining to long-term growth

# V. Economic Policies and Pro-Poor Growth

- Pro-poor growth and human capital
  - Human capital accumulation through education is an important factor in accounting for differences in growth and distribution across countries.
  - Priority areas of education reform, especially beneficial for the poor, include:
    - \* Combating illiteracy
    - \* Enhancing access and reducing costs of education for the poor
    - \* Improving the quality and relevance of basic and general education as well as technical education
    - \* Enhancing access of the poor to higher education.

# V. Economic Policies and Pro-Poor Growth

- Policy measures to reduce risk and income volatility
  - Developing social capital ensures securing benefits to the poor through their membership in social networks and other social structures
  - Microfinance institutions play an important role in helping reduce imperfections in the credit market
  - Developing, supporting and institutionalizing micro finance programs are important to ensure their sustainability

## VI. Concluding remarks

- The development policy of the government emphasizes the necessity of promoting investment and hence growth as a prerequisite for poverty reduction
- Growth alone has not been sufficient, as it was not reflected in improved income distribution, lower poverty and increased real per capita personal expenditure
- Successful countries in achieving and sustaining economic growth have also been successful in reducing poverty. When growth is associated with improved income distribution, the reduction in poverty is faster

# VI. Concluding remarks

- Policies that enhance equity should be designed to benefit growth as well. They should aim to build assets for the poor and support demand for these assets through:
  - Improving provision and targeting of social services
  - Expansion of education, which, helps in building assets for the poor
  - Supporting agricultural development and raising relative prices of agricultural commodities
  - Raising wages of unskilled workers in both urban and rural areas through enhancing their productivity and hence increasing demand for their labor



# VI. Concluding remarks

- Providing transfers to reduce risks to the poor
- Creating an environment conducive to growth
- Applying microeconomic measures aimed at increasing market access to the poor and improving the functioning of such markets
- Applying macroeconomic policies aimed at ensuring stability and improving benefit distribution through progressive taxation and better targeted expenditure allocation
- Improving institutions, empowering the poor and providing good governance