"Public Policy and Rural Poverty Alleviation in Egypt: What Went Wrong?"

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**Introduction:**

Egyptian government has been taken many initiatives in order to alleviate rural poverty. One of the major initiatives is establishing the Principal Bank for Development & Agricultural Credit (PBDAC) at the Ministry of Agriculture. The mandate of the bank is to provide credit for farmers in the rural areas across Egypt. Recently, the bank has extended its finance to off-farm activities and got under the supervision of the Central Bank of Egypt. Still, many farmers cannot pay back their loans and the government has to intervene many times to solve their problems. Another initiative by the government to alleviate rural poverty in Egypt is establishing the Local Development Fund (LDF) at the Ministry of Local Development. The mandate of the fund is to provide small loans for farmers in both on-farm and off-farm activities. In addition to that, the Egyptian government established what is called the Agency of Village Building & Development. The mandate of that agency is to provide capacity building and financial support for people in the rural areas across Egypt. Moreover, many donors funded programs were run by the Egyptian government in order to deal with or mitigate the impact of

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rural poverty. Shorouk and MISR Programs were the most important programs in this area. Moreover, the Social Development Fund (SDF) has extended its mandate to cover rural areas. It provides finance for on-farm and off-farm activities. It also intervenes through NGOs in rural areas in order to provide microfinance for farmers.

Thus, we expect that rural poverty in Egypt should be under control. However, the reality is not what we expected. So far, data shows that poverty indicators in rural areas are much higher than they are in urban areas in all regions in Egypt. According to the Human Development Report, 2013, published by the United Nations Development Program (UNDP): 22% of Egyptians are below income poverty line; the percentage of population who live on PPP $1.5 or less is 1.7%; the percentage of population who live in severe poverty is 1%; and the percentage of those who are vulnerable to poverty is 7.2% of the total population. These numbers did not change substantially from what they were in the Egypt Human Development Report in 2010. According to the latter report, the percentage of poor people in Egypt in 2008/2009 was 21.6% of the total population. In rural areas this percentage increased to 28.9% of the total population while in the urban areas the percentage of poor people was 11% of the population. The severity of poverty in Egypt differs among governorates. The percentage of poor people in the Upper Egypt governorates was the highest among all governorates of Egypt. The percentage of poor people to the total population in this group was 36.9%. This percentage was 43.7% and 21.3% for rural and urban areas, respectively. The situation in Lower Egypt governorates was better. The percentage of poor people in these governorates was 14.2% of the total population. This percentage was 16.7% and 7.3% in rural and urban areas, respectively. For border governorates, the percentage of poor people was 11.1% of the total population. This
percentage was 23.2% and 4.8% for the rural and urban areas, respectively. For urban governorates, the percentage of poor people was 6.9% of the total population, Massoud (2013).

We conclude from the above analysis that even though poverty is a major problem in Egypt, its severity differs among areas and governorates. Poverty is more severe in the rural areas and in the Upper Egypt governorates than it is in the urban areas and in the Lower Egypt governorates, Massoud (2013).

The question then should be: **What went wrong?** This paper aims to examine all the initiatives that implemented by the government of Egypt in the purpose of the alleviation of rural poverty across Egypt up until the economic reform program that the Egyptian government initiated in 2016. The purpose of doing that is to find out the major reasons of: **why these initiatives did not delivered the expected results from them?** This will have a great value added for the Egyptian government when it designs new initiatives for rural poverty alleviation. The reminder of the paper is organized as follows: section (1) presents the literature review. Section (2) provides analytical review for the major initiatives for the Egyptian government to alleviate rural poverty. Section (3) examines the impact of the government initiatives on rural poverty in Egypt. Section (4) draws out conclusion and policy recommendations.

**Key words:** Rural poverty alleviation, poverty alleviation, and microfinance.

1. **Literature Review**

Many studies examined the rural poverty, its determinants, and the strategies to deal with it. Some of these studies emphasized the importance of public infrastructure in the rural areas. Other studies highlighted the role of human capital in reducing poverty in the rural areas. Another group of studies give much attention to government
policies and institutional framework as the main elements in rural poverty reduction. The remainder of this section is allocated to shed lights on these studies.

ERF (2005) highlighted the poverty reduction strategies in three countries in North Africa: Egypt, Morocco, and Tunisia. The importance of this study comes from its inclusion of some institutional aspects such as: parliament, civil society, the role of law, and the level of decentralization in the process of fighting poverty in the three countries.

Ewang (2013) illustrated the key political economy issues that derive rural transformation in Africa. These five elements are: (1) Strategic leadership and a transformative coalition. The Author urges that strong and democratic leadership is very key element in tackling the rural development in Africa. In addition the states need to ensure that people have opportunities to acquire assets. (2) Transformative institutions. In this factor the study emphasized the role of reforming the laws that govern civil servants in a way that encourage them to acquire more training and capacity building. Also, the study emphasized the role of government in providing or enhancing rural financial services and strengthening the supply chain and product linkage. (3) Focused rural industrial policy. In order to achieve rural transformation, the African states need to promote rapid rural industrialization plan that will promote innovation, technological adoption, entrepreneurship, high value added, and employment-generating manufacturing. (4) Investment in research and development. Increasing the spending in agricultural R&D leads to increasing the on-farm incomes which reduces the rural poverty. (5) Enhanced social policy. African governments need to implement policies that focus on reducing income inequality and ensuring access to the basic social services such as: health and education.
Thapa, (2004) presented a strategy for rural poverty reduction in South Asia. The paper emphasized three elements of this strategy. (1) The development of less-favoured areas. (2) Enhancing women’s capabilities in order to promote social transformation and agricultural production. (3) Enhancing the capabilities of indigenous peoples and other marginalized groups. The paper concluded that in order to reduce rural poverty, the rural poor need legally secure access to productive assets; sustainable or regenerating resource management; and access to financial services.

Fan, et al. (2004) assessed the relative importance of various types of public investments on rural poverty reduction in Thailand. By using pooled time series (1977-2000) and cross section for regions, the study concluded that government investments on agriculture R&D, irrigation, rural education, and infrastructure have a strong impact on reducing rural poverty in Thailand. Moreover, the study found out that the government spending on agriculture R&D has the strongest impacts on reducing rural poverty followed by the spending on electricity and roads. According to this study spending in education has a positive impact on reducing poverty but it is much less than the impacts of the above factors. The positive impact of education on poverty reduction comes from its impact on agricultural productivity. Finally, the study found out that spending on irrigation has the smallest impact on poverty reduction among other factors.

De Janvry, et al. (2005) found that non-farm income can have a very influential impact in the rural poverty reduction. They used a detailed household’s survey data from Hubei province in China to simulate what would be the level income and poverty in the case of absence of non-farm income. Their findings proved that increasing farm income is not the only way to reduce poverty in the rural areas. In a matter of fact, their findings show that enhancing non-farm
income in the rural areas has a stronger impact on poverty reduction than the increase in the farm income. The policy implication of this paper is that in order to reduce rural poverty effectively, governments must adopt policies that diversify rural economies and increase the share of non-farm income in the rural areas.

UNCTAD (2009) emphasized the role of the state and the good governance in development in least developed countries. The report illustrated the importance of non-farm activities in fighting poverty and providing food security for the rural poor. Non-farm activities have linkages with other activities in the economy and play a vital role in reducing seasonal unemployment.

Castilho, Menéndez and Sztulman (2012) examine the impact of globalization on poverty across Brazilian states during 1987-2005. An interesting finding regarding Brazil’s integration into world markets is that poverty decreases with rising export exposure but it increases with import penetration.

In a related study, Kis-Katosa and Sparrowb (2015) study the effects of trade liberalization on poverty levels in 259 Indonesian districts during 1993-2002 by investigating employment effects of a tariff reduction schedule. They distinguish between tariffs for output markets and for intermediate inputs. Their finding suggests that districts with a greater sector exposure to input tariff liberalization had a larger poverty reduction. An important implication of their findings is that increasing firm competitiveness is an important factor to reduce poverty.

Imai, Gaihab and Thapac (2015) examine the impact of rural non-farm employment on poverty reducing effect in Vietnam and India. They find that there was significant increase in per capita consumption expenditure due to access to the rural non-farm employment in both Vietnam and India. An important implication of their finding is that
diversification of household activities into non-farm sector would reduce vulnerability to poverty. Further analysis shows that skilled people with sales, professionals, and clerks experience more poverty reduction than for unskilled individuals in both countries, implying the importance of human capital and education in reducing vulnerability to rural poverty.

Moreover, other recent empirical evidence also shows that (1) rural poverty is persistent (You, 2014; Thomas and Gaspart, 2015), (2) there has been slow progress in reducing rural poverty (Alkire and Sethm 2015), and (3) poor tends to stay poor due to poverty trap (Naschold; 2012). The causes of that can be summarized as follows:

1- The high transaction costs, the costs associated with information, negotiation, monitoring, coordination, and contract enforcement, faced by the farmers in production and trade. This is due to access problems caused by weak infrastructure, poor organization, and adverse power local relations.

2- The high risk facing the farmers of breaking out of traditional patterns of production. Farmers have accumulated high stock of knowledge about the traditional crops in terms of the production process and the marketing of such products. In contrast, small farmers do not have enough knowledge regarding the production process and the marketing of high-value products. Farrington, et al. (2002)

3- The low stock of human capital in the rural areas which reduces the ability of adapting new technology and methods of productions. All education and health indicators are lower in rural areas than in urban areas, Imai, et al. (2015).

4- The complexity of the labor dynamics within farm-family households and seasonal unemployment. In small farms, usually, family members provide labor in a collective way (Farrington, et al.(2002).
5- Farmers ability to access to finance is limited. Small farmers do not have enough assets to use as a collateral in order to get loans to use for on-farm an off-farm activities. This leads to put a strong constraint on farmers to engage in off-farm activities which is proved to be very important in reducing rural poverty.

All these reasons cause a decline in productivity of output in rural areas and slower recovery, Dzanku, et al. (2015).

2. The major government’s initiatives to deal with rural poverty in Egypt.

This section is allocated to shed lights on the most important government’s initiatives that target poverty alleviation before the 2016 economic reform. These initiatives are: (1) the PBDAC in the Ministry of Agriculture and LDF at the ministry of local development. (2) SDF.

First, the Principal Bank of Development & Agricultural Credit:

According to the bank website, the bank was established in 1930 aftermath the great depression under the name of the Egyptian Bank for Agricultural Credit. The purpose of the bank was to protect the Egyptian farmers from the foreign banks that used to provide loans for them at a very high rates. In 1976 the law no. 117 was issued and changed the name of the bank to be the Principal Bank of Development & Agricultural Credit. Over the years, the bank mandate and operations have extended to provide credit for on-farm and off-farm activities across Egypt through its 1210 branches that cover most of the Egyptian rural areas. The bank also extended its operations to cover the urban areas as well. Moreover, the bank entered the market of Islamic Finance through providing its clients by Islamic Finance tools. After the registration under the supervision of the Central Bank of Egypt, the bank has been moving toward being a commercial bank.
The following figure shows the allocation of loans provided by PBDAC during the fiscal year 2013/2014 according to their maturity. According to this figure, only 6% of the loans that PBDAC provides are classified as long-term loans. While the short-term loans is accumulated for 61% of the total credit during the year under examination. This is an indicator that PBDAC prefers providing shorter term loans over longer term loans. This may help in solving some liquidity problems for the farmers, but it is not supporting capital accumulation in rural areas in which the most of poor live.

Figure 1: Value of loans during the fiscal year 2013/2014 according to maturity (in Million L.E)

Regarding the geographical distribution of the loans that PBDAC provides, table (1) shows that the Upper Egypt region which has the highest percentage of the poor in Egypt receives only 18% of the short-term loans that PBDAC provides. However, the share of that
region increases as the maturity of the loans increases. It receives 33% and 41% of the medium-term and long-term loans that PBDAC provides, respectively.

**Table 1. the geographical distribution of PBDAC credit among region in the fiscal year 2013/2014.**

<table>
<thead>
<tr>
<th>Region</th>
<th>Short –term loans</th>
<th>Medium-term loans</th>
<th>Long-term loans</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value (Millions L.E)</td>
<td>%</td>
<td>Value (Millions L.E)</td>
</tr>
<tr>
<td>Upper Egypt</td>
<td>999</td>
<td>18.3</td>
<td>986</td>
</tr>
<tr>
<td>Other regions</td>
<td>4448</td>
<td>81.7</td>
<td>2012</td>
</tr>
<tr>
<td>Total</td>
<td>5447</td>
<td>100</td>
<td>2998</td>
</tr>
</tbody>
</table>

While table (1) presents the share of the Upper Egypt region of the credit provided by PBDAC, table (2) shows the distribution of this share among the region's governorates. According to this table, Menya receives the largest share of the credit. It receives 39.7% and 51.4% of the regions short-term and long-term credit, respectively. This table also shows that Assiut receives the smallest share of the credits. It receives only 0.1% of the short-term and medium-term credits and it does not receive any long-term credits. Moreover, the table shows that PBDAC does not provide any long-term credit for the governorates of Fayoum, Assiut, Qena and Aswan. Regarding the medium-term loans, Qena and Fayoum receive 33.6% and 22.8%, respectively.
Table 2. The distribution of PBDAC credit among the governorates of Upper Egypt region in the fiscal year 2013/2014.

<table>
<thead>
<tr>
<th>Region</th>
<th>Short loans</th>
<th>Medium-term loans</th>
<th>Long-term loans</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>%</td>
<td>Value</td>
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<tr>
<td></td>
<td>(Millions L.E)</td>
<td></td>
<td>(Millions L.E)</td>
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<tr>
<td>Beni Suef</td>
<td>253</td>
<td>25.3</td>
<td>48</td>
</tr>
<tr>
<td></td>
<td>44.7</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Fayoum</td>
<td>126</td>
<td>12.6</td>
<td>225</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Menya</td>
<td>397</td>
<td>39.7</td>
<td>97.7</td>
</tr>
<tr>
<td></td>
<td>115.2</td>
<td>51.4</td>
<td></td>
</tr>
<tr>
<td>Assiut</td>
<td>1.5</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Sohag</td>
<td>128.5</td>
<td>12.9</td>
<td>172</td>
</tr>
<tr>
<td></td>
<td>64.1</td>
<td>28.4</td>
<td></td>
</tr>
<tr>
<td>Qena</td>
<td>86</td>
<td>8.6</td>
<td>331</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Aswan</td>
<td>7.5</td>
<td>0.8</td>
<td>112</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Upper Egypt (Total)</td>
<td>999</td>
<td>100</td>
<td>986</td>
</tr>
<tr>
<td></td>
<td>224</td>
<td>100</td>
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</tbody>
</table>

Second, the Social Development Fund:

According to its website, the SDF was established in 1991 in order to reduce unemployment and to alleviate poverty. Even though poverty alleviation is one of its main goals, SDF does not include farmers as one of targeted groups which are: educated youth; people who have experience to start and run a business; small businesses’ owners who are willing to extend their businesses; people who have special needs and marginalized groups. However, analyzing SDF experience and operations in the rural areas is still very useful in dealing with the issue of rural poverty for many reasons. (1) SDF work in rural areas through NGOs that placed in the targeted areas. (2) SDF is the only credit provider in Egypt that provides capacity building and marketing support as a package with the financial loans. (3) SDF staff is exposed to other international experience in the area of financial, marketing, and capacity building.
Third, the Local Development Fund:

The LDF was established at the Ministry of Local Development to provide finance to farmers in order to alleviate rural poverty and enhance the local economies in the rural areas. The fund started by working on on-farm activities and recently, it extended its work to off-farm activities as well. According to the LDF data during the period from January 1, 2010 to December 31, 2014, it had provided finance for 35,170 projects. The total credit allocated for these projects accumulated to more than 126 million Egyptian pounds.

The following figure shows the trend of credit through LDF through the period from 2010 to 2014. We notice from this figure that there is a decline in the total credit provided by LDF during 2012 and 2013. This can be attributed to the financial difficulties after 25th of January, 2011 revolution. However, during 2011 there was an increase in the total credit provided by LDF because the credits already were approved before 25th of January, 2011. We notice also, that during 2014 there was an increase in the credit magnitude. This can be attributed to the political stability after the presidential election and putting fighting rural poverty as one of the priorities for the government.
Figure 2: The total credit provided by LDF from 2010 to 2014 (in Egyptian pounds)

The data shows that LDF gives special attention to the least advantaged regions and groups. The fund allocated around 60% out of its total fund during the period from 2010 to 2014 to the Upper Egypt region which is classified as the poorest region in Egypt. Also, 58.2% of its credit allocated to women. Regarding the distribution of the credit among activities, the on-farm activities got around 108.7 million Egyptian pounds with a percentage of 86% of total credit while off-farm activities received only 17.6 million Egyptian pounds with a percentage of 14% only of the total credit during the period from 2010 to 2014. Regarding the credit distribution among on-farm activities, the animal production got 103.4 million Egyptian pounds with a percentage of 82% of the total credit and around 95.1% of the total credit provided to on-farm activities.

3. The Impact of the government initiatives on rural poverty in Egypt.

This section examines the impact of the major three initiatives: the PBDAC, the SDF, and the LDF. The author interviewed 350 people classified into three groups of stakeholders which are the loan’s officers and senior officials at loans providers, NGOs representatives, and beneficiaries. The interviews cover four governorates: Sohag, Assiut, Qena, and Fayoum which have the highest rural poverty rates among all governorates in Egypt. The following table summarizes the structure of the people that the author interviewed classified according to their governorates and their role on the finance process for business in the rural areas.
Governorates / Categories | Senior officials and loans' officers at loan's providers | NGO’s Representatives | Beneficiaries | Total
--- | --- | --- | --- | ---
Sohag | 9 | 30 | 90 | 129
Qena | 7 | 15 | 45 | 67
Assiut | 7 | 26 | 58 | 91
Fayoum | 5 | 18 | 40 | 63
Total | 28 | 89 | 233 | 350

The number of beneficiaries are allocated among the credit providers as follows according to the following table:

| Credit Provider | No. of beneficiaries | %
--- | --- | ---
PBDAC | 143 | 61.4
SDF | 65 | 27.9
LDF | 25 | 10.7
Total | 233 | 100

The outcomes of these interviews can be summarized as follows:

1- Regarding the institutional framework of credit provision for the poor in the rural areas, 27% of the senior officials at PBDAC, SDF, and LDF at the governorates level know the rules and procedures for credit approval in the other organizations and they believe that the rules and procedures differ among loans' providers. Moreover, all participants from NGO's stated that they have access for financing micro and small credits only through SDF among the three credit providers under examination. Moreover, 20% only of the representatives of credit providers and NGOs stated that they
have connections with local universities and research centers in terms of R&D activities.

2- All beneficiaries of PBDAC and LDF stated that they have not received any kind of capacity building or marketing support and these kind of services were not offered to them, while all beneficiaries of the SDF stated that they were introduced to the capacity building and marketing services that are provided by the SDF. However, only 8% and 15% of them stated that they benefited from the capacity building and marketing services of the SDF, respectively. Regarding the technical support, all beneficiaries stated that they received technical support in the form of how to start their businesses and how to manage them and some other forms of technical support. However, only 5% and 18% of the beneficiaries of LDF and PBDAC, respectively stated that the technical support that they received satisfied their need. While 87% of the SDF beneficiaries stated that the technical support they receive was very helpful to them and they were satisfied by it and meeting their need.

From the above analysis we can conclude that the SDF is the only credit provider that provides a whole package of services for its beneficiaries. It provides technical support, capacity building, and marketing. This makes SDF is more effective in off-farm activities than both PBDAC and LDF. For on-farm activities, the three credit providers do not have any significant impacts.

3- Regarding the actual usage of the loans, 27% and 35% only of the LDF and PBDAC, respectively stated that they used the whole credit to finance their businesses and the remainder of them stated that they did not use the credit they got, totally or partially, in financing their businesses, rather they used to finance their other needs. However, this percentage increases for the SDF beneficiaries
to reach 64% and the remainder of the beneficiaries stated that they used part of the credit they got to finance other needs.

From the above analysis, we conclude that a large portion of the microfinance loans that are provided by the three credit providers just used to solve a liquidity problem. This applies as well on the grants and loans that NGOs get from the SDF and re-lend to the beneficiaries in rural areas. In most cases, loans are used to finance other activities, such as: purchasing electronic products, marriage, paying fees, building houses, and paying other loans.

4- Regarding the ability to pay back the loans without difficulty, 83%, 71%, and 41% of beneficiaries of LDF, PBDAC, and SDF, respectively, stated that they face difficulties in repaying back their loans.

From the above analysis, we conclude that a large portion of beneficiaries that get small and micro loans from the three credit providers face difficulties in repaying their loans. This is a major problem especially for the clients of the PBDAC.

5- Regarding how the loans that the beneficiaries got improve the quality of their life, 58%, 31%, and 18% of beneficiaries of LDF, PBDAC, and SDF stated that over the long run, their financial situation is getting worse off. This means that the impact of these two credit providers on rural poverty is negative.

4. Conclusion and policy recommendations.

We conclude from the previous section that the public policies towards rural poverty alleviation in Egypt have failed to reduce rural poverty. The main reasons for this failure can be summarized as follows:

1- There is no clear and unified strategy for rural poverty alleviation that all stakeholders from local administration, NGOs, and credit providers develop, implement, and monitor. What we have in
place is a number of initiatives implemented through different credit providers. Moreover, There are no effective monitoring plan for loans that are provided by the governmental credit providers.

2- Except for the Social Development Fund, rural credit providers limit their role in providing finance. They do not provide any other services such as marketing and capacity building. This can explain the high percentage of the unsuccessful businesses which leads to the small impact of the credit on the poverty reduction in the rural areas.

3- The R&D activities that local universities provide do not cover all aspects of on-farm activities and researchers, in most cases, are not connected with farms in rural areas. There are no research institutions that provide R&D services for off-farm activities in rural areas.

Finally, I recommend the following steps in order to make the public policies that are oriented towards rural poverty alleviation more effective.

1- The Egyptian government must develop a unified strategy for rural poverty alleviation under the supervision of the Agency of Village Building and Development. A steering committee for rural development has to be formed from representatives of SDF, PBDAC, LDF, and any other active partner.

2- Instead of financing farmers based on case by case, I recommend that the steering committee for rural development work with the information centers at the governorates and with the local universities to identify the most promising activities in every group of villages. The steering committee for rural development put together a plan for developing each of these activities in separate projects. Every project includes providing finance for
people who will have business under its umbrella. Other supporting services will be provided for businesses under the project umbrella. These services include marketing, capacity building, R&D, and training.

3- The members of the steering committee for rural development should take in their consideration that the international experiences in reducing rural poverty show that developing off-farm activities have the greatest impact on rural poverty reduction. Thus, when they identify the promising activities and sectors they should concentrate of off-farm activities.

5. References:


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