

**SOCIAL SECURITY IN EGYPT
AN ANALYSIS AND AGENDA FOR POLICY
REFORM**

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Abstract

This paper analyses Egypt's social protection systems. It asks why poverty is so widespread and why – despite the country's numerous sophisticated social protection systems - social risks are a major contributing factor to poverty in Egypt. It concludes that reforms are due. The existing systems are well funded but comparatively inefficient and more to the benefit of the better-off than the poor. A strategy is proposed which builds, on the one hand, on reforming the existing public pension schemes and extending public social assistance spending and, on the other hand, on policy measures designed to make people more aware of social risks as well as on partnerships between NGOs, private insurance companies and the state aimed at offering micro-insurance to the poor.

Introduction

Poverty is Egypt's major social problem. More than a quarter of the population are poor in absolute terms. As in other countries, the spread of poverty in Egypt has many reasons. One of them is the high vulnerability of many households to social shocks. Many families have fallen into severe poverty only after social risks occurred. Typical social risk groups like women-headed households or the disabled, are over-represented among the poor, although the country has a whole range of highly developed protection systems.

'Social protection systems' are institutionalised mechanisms that help individuals to manage social risks or to cushion their impact once they occur. Here we will focus on social security systems. While in some countries this term refers to pension insurance only, our definition includes all social protection systems that are governed, administered, or at least initiated and monitored by the state: social insurance and public social transfer systems (social assistance and subsidies). But it excludes all other social protection systems: transfers between neighbours, friends and relatives, the welfare work of NGOs, community-based credit and insurance associations and voluntary market-based savings, credit and insurance contracts.

Here we will ask why Egypt's social protection systems are unable to prevent people from falling into poverty as a result of social shocks. But we will go beyond this analysis and finally focus on what the government should do to improve the social protection of its citizens and how its efforts can best be supported by the donors.

We note that the major problem facing Egypt's social protection systems is not a lack of resources but the inefficient allocation of these resources within the systems and the unequal distribution of benefits among the population, with their tendency to benefit the better-off more than to serve the poor and needy.

Comprehensive reforms are called for. We propose a multi-approach strategy: On the one hand, the existing social insurance and assistance schemes can be and must be reformed to make them more efficient and more egalitarian. On the other hand, people's public awareness about social risks has to be enhanced and new avenues have to be opened up to increase the overall coverage of public social protection systems. To this end, micro-insurance schemes should be taken into consideration; built up by partnerships between NGOs, commercial insurance companies and the state these schemes should focus on the largely unprotected informal sector workers.

Section one begins with an analysis of the causes and the profile of poverty in Egypt by showing that many Egyptians are poor because they were hit by social shocks. Section two looks into the goals and possible strategies of a state-led social protection

policy and serves as an analytical framework for the central sections three and four. Section three explains the strengths and weaknesses of the existing social protection systems and section four then answers the question of what policy-makers and donors can do to promote social security in Egypt.

1 The Problem of Poverty in Egypt

Poverty rates are comparatively high in Egypt. According to the most recent reliable study, which is based on an expenditure survey, more than 26 percent of the population were living below the absolute poverty line¹ in 1997. But poverty is not only widespread in income terms. According to the *Human Development Index*, Egypt's social development performance is twenty ranks behind the country's per capita income position (INP 1998: 17-19). The country has made much progress in education and health since the early 1960s, but the qualitative education level is still low and health indicators like infant mortality, qualitative malnutrition or the prevalence of infectious diseases are still higher than those in comparable countries.

Poverty rates are even rising. During the 1990s, the government carried out an ambitious stabilisation and structural adjustment program and succeeded in reducing the country's inflation rate, accelerating growth and reducing the government budget deficit to near balance. However, real wages stagnated, productivity decreased and the unemployment and poverty rates were even rising (Korayem, 1996).

As in other countries, poverty is the result of different factors. The *World Development Report 2000* notes that "poverty at the individual level is ... caused by a combination of low levels of assets, low returns on these assets, and high volatility in returns to these assets". This in fact holds true for Egypt, where a lack of physical, human and social assets is an important poverty factor. Generally, the country suffers from a lack of natural resources. Water scarcity, for example, limits the potential of utilising additional lands for agriculture and increases in the degradation of water, soil, air and cultural monuments makes the use of existing resources more and more difficult. Poor families are particularly lacking in physical assets. And the distribution of disposable physical assets (land tenure, productive assets, stocks, etc.) is very uneven. In agriculture, for example, 70 percent of the exploitable land is concentrated in the hands of 20 percent of the farmers (KfW, 1997).

¹ According to a study by Datt, Jolliffe and Sharma (1998), p. 15, which is based on the figures given by the *Egypt Integrated Household Survey*. It uses a poverty line which varies from one governorate to another and from rural to urban and metropolitan areas. For each region the line is defined as the total cost of a pre-defined basket of essential goods at individual local prices. The study may be considered the most elaborate and sound poverty survey of the late 1990s.

Similarly, Egypt suffers from a lack and uneven distribution of human assets (education, health). Almost half the population is illiterate. The quality of public education is in constant decline. Many parents feel obliged to send their school-age children to take private lessons from their teachers in the afternoon. Poor families, however, are unable to afford the charges. This aggravates the already ample gaps in the levels of education and income. Moreover, school enrollment rates are stagnating. Many poor families have stopped sending their children to school because they cannot afford to buy school books or school uniforms, and also because school prevents children from helping out at home or in the fields (Alonso-Gamo and El-Erian, 1996; Fergany, 1994, 1997; Hoekman, 1997; Nagi, 1998).

Finally, the poor also have fewer social assets (social ties, social rights, political influence) than the rich. The main reason is that the rich and the poor have few social contacts. This further aggravates the uneven welfare levels in a country where *wasta* (knowing the right people) is so important for finding employment or getting applications approved.

Low returns on assets and labour are another reason for the spread of poverty. Overall growth rates have recuperated during the structural adjustment, but the distribution of income has worsened because unemployment has increased and real wages have declined. The high growth rates of the 1990s were to a great extent windfall gains (proceeds from capital-intensive industries and non-productive economic sectors like oil or the Suez Canal and high inflows of development assistance). They were not based on increases in labour productivity or economies of scale. So they induced no capacity or spill-over effects and have only led to higher returns on capital. While for many decades Egypt's service income rate has remained relatively stable at about 40 percent, it sharply declined during the 1990s.

Finally, volatility in returns to assets is a third poverty factor. It results from widespread exposure to social risks like unemployment, illness or accident (need for medical and/or nursing home care), accidental work disability, longevity, death of a family's breadwinner, motherhood, land loss, harvest failure (due to drought or flooding) or livestock epidemics. When such risks occur, the household concerned suffers from a decline in income or rise in expenditure.

The poor are much more exposed to such 'social shocks' than the rich. First, they face higher risks because of their living conditions (bad hygienic environment, cold houses, unclean drinking water) and their dependency on labour income. Second, unlike the rich, they lack the savings necessary to cushion the impact of social shocks. Third, the better-off may suffer a decline in well-being due to social shocks, but the poor who live slightly above the poverty line are at risk of falling below it.

Social shocks play a key role in the determination of the spread of poverty in Egypt. They are not the only cause of poverty, but they are responsible for many Egyptian households falling into severe poverty. In most cases, the Egyptian poor were not destitute before they were hit by social shocks. Their income levels have - as a rule - have always been low and only slightly above the poverty line, but they have managed to survive. Then, however, a social shock has pushed them below destitution levels. The great majority of Egypt's poor are made up of typical risk groups such as women-headed households, orphans, elderly people, the work-disabled, families with a high number of children, landless peasants and underemployed informal sector workers.

Among these groups, women are the most vulnerable to social risks. Poverty is more often found among unmarried, divorced, widowed and abandoned women than in any other social group. More than a third of Egypt's women-headed households are living below the poverty-line (Assaad and Rouchdy 1999: 19ff.; Datt, Jolliffe and Sharma, 1998: 30ff.). The causes for the concentration of poverty among women are four-fold:

- Men are better paid than women are. Most women have no source of income of their own. They are housewives only or work as unpaid family workers in agriculture or in small family enterprises. Only 29 percent of all paid employees are women. Moreover, women account for only 12 percent of the trained employees and 10 percent of the executive employees.
- Women have lower pensions than men, because they draw lower salaries during their working life and thus pay lower contributions to social insurance. When working in family business, they are not registered with the National Social Insurance Organisation and are thus not entitled to their own insurance pension.
- Women face specific social risks against which they are not well protected. They may become widowed or divorced or be abandoned by their husbands. Survivors' pensions are low and abandoned women are not entitled to insurance benefits. When widowed, it is very difficult for elderly women to return to work and almost impossible to start out in employment for the first time, and so they are dependent on their families or on social assistance.
- Many widows have no pension, although, in theory, they are entitled to one. Fifty-five percent of all women do not hold an identity card, which is required to apply for a pension or social assistance, to withdraw savings from a bank account and to sue for land ownership.

Orphans, as well, are disproportionately often poor. Although there are no reliable data, most observers agree that more and more orphans are living on the streets, applying

for social aid and forming criminal street gangs in metropolitan areas (IDA, 1999: A4).

Work-disabled persons are another social risk group. The handicapped and chronically ill are unable to engage in a remunerative occupation. Twenty-nine percent of the Sadat-pension recipients were handicapped in 1995 (Diwan and Walton, 1995: 75).

Poverty is also concentrated among families with a high number of children. The average household size is 5.4 persons for the non-poor, while it is 8.0 for the very poor. Poor households are not bigger because they have work-disabled or old-aged members to care for: The number of senior household members (more than sixty years of age) is 0.38 for poor households and it is 0.37 for the non-poor. But the number of children varies from 1.88 among the non-poor to 3.09 among the poor and 3.85 among the ultra-poor (Datt, Jolliffe and Sharma, 1998).

This does not mean that old age is not a serious social risk in Egypt, but it is much less so than widowhood, the orphanhood, disablement or a high number of children. Poverty is only slightly over-represented among those at age 60 or above. This is due to the fact that most old-aged people receive at least a basic insurance pension or financial assistance from their children. Still, 12 percent have no pension and receive no support from the state, their relatives, their neighbours or friends. Twenty percent of Egypt's seniors still have to work to survive (Azer and Afifi, 1992).

Unemployment seems not to be a serious social risk in Egypt. Only 27 percent of the country's registered unemployed live below the poverty line. But this holds true for open unemployment only. Before 1992, few Egyptians were dismissed once they had found a job, especially in the public and state sectors. Even today, 90 percent of the country's job seekers are entrants to the labour market. But things have changed and more and more public sector employees are laid-off as a result of privatisation and adjustment efforts. Moreover, the real poor cannot afford to not work at all. They have to accept any income-generating activity and are regarded as underemployed.

The underemployed and underpaid are over-represented among the poor. Only 12 percent of the labour force are officially unemployed, but four times more are underemployed or outside the labour force, because they have given up looking for work. A high 39 percent of these persons live below the poverty line, compared to 15 percent of those permanently employed.

Poverty is concentrated among these groups in Egypt, because the existing social security systems are unable to prevent certain social risks from initiating poverty. The

paper will show that these systems are inefficient and inequitable. An effective poverty eradication strategy has to be aware of this fact and it must:

- improve the opportunities of the poor by increasing their access to physical and human capital (better education, better and more efficient health care, security from loss of land ownership, redistribution of land and other productive assets),
- improve the possibilities of the poor by raising their rates of return to employment and assets (outward-oriented development of labour-intensive, productive economic branches) and
- improve the security of the poor by protecting them from the negative impacts of social shocks. What appears most important is action to reform the social security provisions for divorced women, surviving dependants, work-disabled persons and large families.

2. Framework: The Goals of State-Led Social Security Policies

Although individuals, should, in principle, themselves be responsible for insurance against social risks, governments are also called upon to take responsibility for their citizens' social protection when necessary. Often a household is unwilling or unable to take sufficient precautions and state intervention is required to restore the economy's allocative efficiency and distributive justice. However, the state's social security strategy must be efficient and just in and of itself.

Basically, individuals should provide for their own protection. Here one may distinguish between:

- prevention mechanisms, which reduce the probability of social shocks,
- mitigation mechanisms, which reduce *ex ante* the magnitude of their net impact and
- coping mechanisms, which relieve the impact *ex post*, once the shock has materialised.

In practice, however, people are insufficiently protected. They are either unable or unwilling to take precaution. The problem is that it is difficult for people to assess the nature, time of occurrence, probability and size of impact of one owns risks. Some people are unable to provide for social shocks, because they do not know the nature of their own risks. Others do but are hit before they have accumulated sufficient savings. People may also be unwilling to prevent social shocks, or to insure against them, because they underestimate the probability and the size of the shock impact. Others just do not care about tomorrow (myopic behaviour) and count on public social aid or the support of friends in an emergency (free-riding behaviour).

On the other hand, there may be a lack of adequate provision mechanisms. Insurance markets often fail because of information asymmetries. Insurers are unable to assess potential clients' risks and to determine risk-specific premium levels. At any price bad risks are adversely selected while low risks find the offer unattractive. Only the highest premium levels promise gains for the insurance company. Moreover, clients, once insured and knowing that their risks are covered, tend to become less cautious (moral hazard behaviour). Other insurance markets fail because risks are correlated. Droughts, for example, may hit the entire rural population of a country at one time. Insurance markets also fail when the demand for insurance contracts is small, because in this case risks cannot be sufficiently pooled. Finally, insurance markets fail when accumulated insurance funds cannot be invested due to capital market failures.

In these cases, markets are not efficient and the state has to intervene. It is forced to take action:

- to improve the efficiency of economic allocation processes to overcome the above-mentioned structural problems of private protection efforts and market-based insurance and
- to support those who cannot pay – due to low salaries and inadequate means of support - for their own protection and to better the social justice of income distribution.

The state does not have to administer social security systems itself, it is sufficient for it to support people's efforts to prevent social shocks, to provide for social shocks and to cope with social shocks. But the intervention strategy has to be efficient and equitable in and of itself. If it is not, the goals pursued cannot be reached.

In principle, state intervention can take three different approaches: First, it can support people's prevention efforts. It may raise their awareness about the impact and frequency of social risks, provide information about their nature and advice on how to reduce the probability of their occurrence (healthy way of living, prudent behaviour, etc.). This approach is much cheaper than the two others, although social shocks can never be completely prevented.

Second, the state can support people's mitigation mechanisms, which shift life-time income from the good times in life to the bad times (intertemporal redistribution): People accumulate savings or contribute to an insurance fund to be solvent in crisis. The state's task is to make insurance mandatory to overcome some of the market failure problems (free-riding and myopic behaviour, insufficient pooling of risks and adverse selection). Such a strategy is efficient because benefits are in the long-run

equivalent to contributions for everyone, but it cannot improve distributive justice, because it does not allow for transfers from the rich to the poor.

Third, the state can support people's strategies to cope with social risks. They may borrow money to cover unprecedented expenses or ask the rich to support them. The state might intervene to support those who have been hit by social shocks by levying taxes on others who were lucky enough to escape their risks. It usually acts through social assistance or subsidisation programmes. Such intertemporal redistribution improves social equality, but it often provokes inefficiencies. People evade contributions and taxes when they are higher than the expected benefits while others misuse the assistance programmes. Subsidies are particularly inefficient, because often the subsidised goods are wasted and consumed by the better-off as well as by the poor. Moreover, these programmes are inefficient due to high administrative and distribution costs.

In most cases, however, state intervention should pursue several approaches at the same time. Each of them has some advantages. There is a trade-off between the two mentioned goals of social security, efficiency and social justice. A compromise has to be found that reflects society's idea of justice. This usually requires state intervention to strengthen both people's mitigation and coping strategies.

3. Analysis of the Existing Social Security Systems

The major problem of Egypt's social security systems is not a lack of financial resources but their inefficient allocation and uneven distribution among different groups of the population.

Egypt's social security systems are not efficient. More than a fifth of GDP is spent on social protection altogether and the state-administered social security systems still accumulate 9.3 percent - a huge share in comparison to many other developing countries. Intertemporally redistributive social insurance contributions amount to only 2.7 percent of GDP, while the remaining 6.6 percent are interpersonal transfers between members of society: public social assistance and treasury subsidies to social insurance, public health and basic commodity goods.

Egypt's social security systems are not equitable, either. Most of the systems discriminate against the poor and benefit the urban upper and middle classes. While by law, every Egyptian is covered by social insurance, in practice only half the population is insured. Moreover, insurance benefits for the rich and the state elite are much more generous than are those for the poor. Similarly, the country's subsidisation policy benefits the middle class more than it supports the poor. 2.3 percent of GDP is spent on subsidies but less than 0.2 percent on social assistance.

Several private and community-based protection systems co-exist with the public social security schemes. But the former cannot compensate for the latter's deficits. More than half of the country's spending on social protection is ordinary savings, which shift life-time income to times of financial crisis but do not allow for the pooling of risks and for the compensation of those in crisis. The same holds true for informal savings and credit mechanisms: the *Gama'iyyât* help to cushion fluctuations in life-time income but provide no protection from the long-term impacts of social risks. Finally, the NGO social assistance and free health care programmes are very limited in scale and not always efficient (LaTowsky, 1997).

The mutual support networks are also eroding. According to traditional customs and social rules, relatives, friends and neighbours are supposed to support one another in case of a social crisis, and the well-off are expected to give some of their income as *zakât* to the needy. However, the total volume of such voluntary interpersonal transfers is in constant decline. Today, it is estimated, they amount to no more than 1.8 percent of GDP - including transfers from family members who are migrant workers abroad. Even transfers within the family are decreasing and have only limited effects. Most relatives of the needy are poor themselves².

Comprehensive reforms are necessary to improve the efficiency and equity of Egypt's social security systems. However, a comprehensive 'Health Sector Reform Project' is the only tangible ongoing reform project. Social insurance reforms and increases in public social assistance spending have until now been rejected by the government.

In the following sub-sections we will describe the legal provisions and performance of Egypt's social security schemes with an eye to developing the analytical base for a comprehensive reform agenda in Section 4. We start with the National Social Insurance System and continue with the public health care system, which are basic commodity subsidies for the social assistance schemes. We end with a glance at current trends in social security policies.

The Social Insurance System

Egypt's Social Insurance is a very elaborate social security system. Total receipts make up 5.3 percent of GDP. By law, every employed person has to enroll, and for a majority of workers the legal provisions are in fact comprehensive.

However, the system is not very effective; it has at least five deficits, which make it inefficient and inequitable. The system suffers from (1) its split into six different

social insurance schemes, with unequal legal benefit provisions, (2) the non-protection of serious risks, (3) its low actual coverage, (4) low benefit levels and (5) low internal returns to contributions:

Six different social insurance schemes: Considering legal benefit provision only, Egypt is a highly stratified society. To speak of an Egyptian social insurance system is not precise. In fact, there are six different social insurance schemes for different groups of the employed. Most of them are administered by the National Social Insurance Organisation (NSIO), but the coverage of risks insured and the generosity of the benefits granted varies greatly:

The first of these groups is made up of the permanent employees of the state, public and private sectors (some 50 percent of the labour force), who are required to enroll with the General Social Insurance Scheme. The scheme is principally financed by contributions from the employee (14 percent of basic and 11 percent of variable salary³) and the employer (26 percent of basic and 24 percent of variable salary). In theory, the scheme is based on intertemporal redistribution. In practice, however, things look a little different, as is shown below: The treasury has taken over the financing of parts of the benefits and tax-financed insurance benefits are interpersonal transfers.

The scheme's legal provisions are nearly comprehensive and include free health care, sickness and maternity pay, pension insurance and unemployment benefits, however, dependants are not insured. The employee is treated for free by a separate public health care system, which is financed by the NSIO and run by the National Health Insurance Organisation.. Moreover, the insured are granted sickness pay (75 percent of regular income), women receive maternity pay (75 percent of their regular income) for the duration of 50 days before and after delivery; and upon dismissal the insured person has the right to an unemployment benefit (60 percent of last salary for the duration of 28 weeks).

The pension insurance grants benefits to those aged 60 or more, to work-disabled persons and to the survivors of a deceased employee. The pension level depends on the insured person's last basic salary before retirement and the number of contribution years - with a provision for maximum and minimum pensions. A pensioner, after 30 years of contributions, for example, receives a pension, which equals 67 percent of his last basic wage. But the pension is not automatically adjusted for inflation. Yearly

² Due to limited space, this paper concentrates on public protection systems. For an analysis focused on informal and private social protection systems, see: Loewe, 2000.

³ See Table 1. The basic salary is all regular labour income up to LE 525 a month; the variable wage is made up of all regular labour income from LE 525 to LE 1025 and all one-time compensations (Brown and Formosa, 1999).

increments are decided upon by the government on an *ad hoc* basis and financed by the treasury (Table 2).

Old-age pensions are supplemented by a variable pension component, which is calculated as a share of the average monthly variable wage over the entire contributory period - times the number of contribution years. Here, the current value of the variable wage is increased by 2.5 percent a year, though this adjustment does not compensate for inflation losses, which peaked to 20 percent during the 1980s. Moreover, no inflation adjustment is provided for after retirement, so that the real value of the variable pension decreases over time (ILO, 1998).

The second group is made up of the members of some of the professional associations and employees of foreign and some large Egyptian companies, who may opt out of the general social insurance system. Professional unions and commercial companies may conclude preferential group insurance contracts with private insurers. The employees/association members are granted higher pensions and provided better medical treatment at contribution rates no higher than those of the general social insurance system.

The third group of the insured consists of Egyptian migrant workers abroad, employers and the formal sector self-employed. Two separate contributory pension insurance schemes have been built up for these groups, where contribution rates can be chosen within a certain interval. Enrollment is mandatory for employers and the self-employed, but optional for migrant workers. These schemes have a slightly better pension/contribution ratio than the general scheme, but neither provide health, maternity or unemployment benefits (INP, 1998).

However, some employers and high-ranking employees draw an income high enough to make additional provisions. They can afford to go to private hospitals and to conclude individual insure contracts with private companies, although premiums are very expensive. This fourth group of the insured enjoys higher pension entitlements and better medical treatment.

The fifth group consists of casual and informal sector workers. The entire working population not covered by any other social insurance scheme has to enroll with the Comprehensive Social Security System. Contributions are deducted by the purchase of an LE one stamp each month from one of the NSIO's local offices. The system provides for LE 63 per month flat rate old-age, invalidity and survivors pensions only. However, it is very advantageous for the insured since average benefits are ten times higher than contributions. 90 percent of the scheme's expenses are covered by cross-subsidisation and financed by the other social insurance schemes (ILO, 1998: 30).

The sixth and last group consists of the army and the top bureaucracy and enjoys the most generous insurance provisions. It is protected against all kinds of social risks by the Collective Social Security Systems, which are non-contributory and outside the NSIO's responsibility. They are administered by some of the ministries and financed through general taxes.

Non-insurance of serious risks: All of the schemes provide for pension benefits. But only 40 percent of the working population (the permanent employees) are insured against work-related injuries and diseases, and no more than 16 percent are entitled to unemployment benefits. Hardly anyone has private life insurance and no private unemployment insurance is offered.

Even worse, only 30 percent of the population have health insurance (some 25 percent are insured with the NHIO, another 5 percent with private insurance companies). The public health care system is open to all for free, but its quality is bad and those without health insurance opt to consult private or NGO clinics, if they can afford to do so.

Some serious risks are not covered at all. None of the schemes insures separation (with or without divorce). By law, a husband has to care for his wife, even when he divorces or abandons her. In practice, however, men usually fail to do so, and most women do not claim their rights or are unable to find their husbands once they have left. The need for nursing home care is not insured, either. Many of those who cannot care for themselves are looked after by their family, although a growing number are abandoned. The government runs some homes for the old and the handicapped, but places are scarce and most of them are expensive.

This, in fact, explains to some degree the overrepresentation of some groups of the population – like work-disabled persons, abandoned and divorced women - among the desperately poor.

Low actual coverage: In theory, the entire population is covered by one of the insurance schemes. In practice, however, only 53 percent actually enroll. The reasons for this are threefold:

First, many Egyptians do not want to enroll. Some do not see the necessity to insure for tomorrow's needs, but prefer to have their income for today's consumption. Others mistrust the insurance administration and believe that the effective insurance yield is too low.

Second, many employees are not informed about their right to enroll. Moreover, casual workers often cannot pay their contributions because there are no tax stamps

left at the NSIO offices (Rieger, 1996: 36). After retirement, potential beneficiaries, especially the poor, find it difficult to claim their rights, because they do not know where to apply, how to apply and how to fill in the application forms. Widows and orphans face another problem because they do not hold identity cards, which are required for application.

Third, the monitoring of the system is weak. Almost 100 percent of state and public sector employees are insured. But in the private sector, where the state does not deduct contributions itself, only 62 percent of the employed pay contributions. The NSIO is unable to supervise private employers in registering their employees and properly deducting their contributions. Some workers are ignorant of the fact that their employer does not pay insurance premiums for them. Others reach agreement with their employers on non-registration as a means to save both sides the monetary contributions.

Low benefit levels: Contribution rates and replacement ratios are high when compared to those of other middle-income countries. In 1995, average pensions were equivalent to 147 percent of private sector employee's nominal life-time taxable salaries (102 percent for state employees).

However, many pensions are far below the poverty line for many Egyptian households. The average state employee receives LE 4272 per annum, but the medium private sector employee is entitled to only LE 1716 per annum (1998: 55). Three factors explain this discrepancy:

First, the rate of return to contributions is low in all of the schemes except for the comprehensive system (see above). Real pension levels are low because the pension formula does not provide for automatic pension adjustments for inflation. As to basic pensions, increments are decided on by government decree. They averaged only 10 percent a year (Table 2), while inflation peaked at 20 percent during the 1980s. As to variable pensions, they are not adjusted at all. Moreover, they are computed by using life-long variable wages adjusted at only two percent a year (not by using the workers' last salaries).

Second, contribution payments are low in absolute terms. Contribution rates are a share of taxable income, but average salaries are low. Moreover, the income threshold is even lower (LE 1025), so that large parts of the incomes of higher-income groups are not included in the computing basis: In 1997, average monthly contributions were LE108 for a government employee and LE117 for a private sector worker (Table 4).

Third, actual contribution rates are far below those stipulated by law. According to legal provisions, the combined employer and employee contributions make up about

32-33 percent of covered earnings. However, the NSIO's annual reports imply that aggregate contributions represent just 17 percent of taxable wages (IBRD, 1993: II/ 107). There is no explanation for this except that often non-payment of contributions is not severely sanctioned.

Moreover, underreporting of wages and salaries is common. Most employees have doubts as to the social insurance's returns to contributions and have a common interest with their employers in understating their salaries as a means of lowering contribution levels. Moreover, some manipulate employee income structures in a way that large parts of incomes are exempted from contributions. From these only contributions to supplementary occupational pension schemes are deducted.

Average pensions are particularly low for surviving family members and the work-disabled. When an earner is injured or dies at young age, accumulated contributions are low, so that pension entitlements are insufficient for the family to survive. Low survivor and invalidity pensions are a reason for poverty-concentration among women-headed households and households without a male earner.

Low returns to contributions: The NSIO's cash flow balance posts a surplus amounting to 2.5 percent of GDP. Total receipts are two times higher than aggregate expenses. This ratio is far higher than necessary for even a funded social insurance system. The general social insurance system in particular seems to be over-funded (IBRD, 1993: I/ 4; III/ 51).

Nevertheless, its long-term financial sustainability is in question. While overall expenses have been stable since 1985, contributions have been decreasing over the whole time span. In 1997, they made up 37 percent of total receipts and 102 percent of aggregate expenditures only. Another 42 percent of the NSIO's receipts are returns on invested funds. Twenty-one percent of receipts and 63 percent of expenditures are government subsidies paid to cover the follow-up costs of pension increments (decided upon by government decree). According to an ILO (1998: 40) prognosis, the NSIO will be short of cash income by 2008!

Four major causes are responsible for the dangerous development in the NSIO's financial status: The first cause is the frequent misuse of the schemes' provisions. The complex and inconsistent legal regulations make it easy for employers and employees to manipulate income declarations to their own benefit. They mutually agree to underreport salaries during most of the employee's working life to lower contributions, while overstating salaries during the last two contribution years, upon which basic pensions are calculated. Moreover, many pensioners receive benefits under the provisions of the comprehensive insurance system, although they fall under

the criteria of one of the other schemes. This is a problem in that the comprehensive system is not self-financing. Retirees are eligible for a pension if they have contributed just LE1 a month for a minimum of 120 times during their life. Even a one-time payment of LE120 after retirement is accepted in lieu, provided it has already been paid after two monthly pensions.

The second cause consists of some overgenerous qualifying conditions. Early retirement pensions are granted without any sound actuarial reduction in respect of normal pensions. In some cases pensions are even granted when beneficiaries have never paid contributions (ILO, 1998: 26). There are special concessions for privileged groups as well: the cross-subsidisation of the generous comprehensive scheme by other schemes and the tax-financed non-contributory 'comprehensive schemes' for the army and the top bureaucracy.

A third cause of the NSIO's financial problems is the system's rising dependency ratio. The ratio of pensioners to contributors is 37:100, while in the over-all population the ratio of people aged 60 years or more to working age people (15 to 60 years) stands at 14:100. This is due to (i) the high share of survivors and work-disabled persons among pensioners (who account for nine out of 37 pensioners, (Table 3) (ii) the growing number of early retirees and (iii) rising unemployment rates and the growing average age of labour market entrants.

The fourth and most important cause is the NSIO's unsound investment policy. A third of the NSIO's reserves are claims against the treasury resulting from pension adjustments. But these state transfers have never been disbursed because contribution collections have always exceeded expenditures. The promised subsidies are entered in the books only - as government liabilities.

The remaining two-thirds of the assets represent the NSIO's funds. The NSIO is not allowed to invest more than one percent of insurance funds at a competitive interest rate in the capital market and is obliged by law to transfer current surpluses to the National Investment Bank (NIB). Deposits that go back to 1992 or earlier yield no more than 5-6 percent a year. Due to high inflation rates, the real rate of return was markedly negative (-12 percent) during the 1980s. New investments bear interest of 11 percent, but the old assets still represent 43 percent of total assets (ILO, 1998: 26).

Social insurance contributions in Egypt have to be seen as a tax used to finance government investments. The NSIO's funds represent 68 percent of the deposits of the NIB, which was founded to provide credit to the central and regional governments, public sector institutions and public enterprises. Of course these public

entities do not have to pay free-market interest rates. The NIB's lending rates have been negative in real terms, as have its depository rates.

Moreover, the NSIO's funds exist on paper only (IBRD, 1993: II/ 104ff.). They are invested in infrastructure projects, which bear no yield and cannot be sold when needed. When in 2008 current expenditures exceed contribution receipts, the NSIO will face a financing gap (ILO 1998: 26). Pensions can only be paid out if the state settles its liabilities or if the NIB pays out the NSIO's interest instead of reinvesting the capital yields. In both cases, the state will have to raise taxes to settle the claims. This is inefficient and has negative impacts on income distribution as well. Social insurance benefits 53 percent of Egyptians only, while taxes have to be paid by the entire population.

The Health Sector

The major problem of Egypt's health sector is not its lack of resources but the sector's fragmentation into five different health care systems, a source of inefficiencies and social imbalances. This segmentation is inefficient, because the systems are badly coordinated. Some regions are under-supplied, while there is a duplication of specific services offered in others, especially in metropolitan areas. Moreover, preventative and primary health care have been neglected in the past – to the benefit of high-tech equipment in tertiary health care facilities.

The segmentation is unjust and further aggravates prevailing social imbalances, because each of the five systems is accessible to a certain group of the population only: (1) The bourgeois upper class can afford to pay private hospital charges or to insure with private sector companies. (2) The top bureaucracy and the army enjoy first-class treatment in exclusive hospitals run by some of the ministries and financed through tax revenues. (3) Parts of the upper urban middle class are insured with the Curative Care Organisations of Cairo and Alexandria, which run their own high quality health clinics. (4) Members of the General Social Insurance Scheme are treated for free by the NHIO's health care system. It is mainly financed by health insurance contributions but the state has to add a yearly rising subsidy, which amounted to 0.5 percent of GDP in 1995. (5) The poor have no choice but to make use of the public health care system, which is run by the ministry of health and financed by the treasury.

Today, the public health care system is in a desperate state. It is a very dense infrastructure network of health care facilities; but these are operating on their capital. Ninety-eight percent of Egyptians live within a radius of no more than two kilometers from the next health station. The system was built up during the 1950s and 60s to

offer basic free health treatment to society's middle and lower classes, however, funding declined from five percent of GDP to one percent during the 1990s. Still, new facilities are being built with the support of foreign donors, although the equipment needed cannot be bought. Moreover, necessary reinvestments and the maintenance of older facilities are being neglected. Most rural health centers are dirty, lack some of the, even, most basic equipment, and the existing equipment is obsolete. Finally, the sector is overstaffed with physicians but lacks nurses and therapists. Most of the personnel is badly trained and paid. Physicians are unmotivated and said to claim extra-payments for every service offered. (Chiffolleau, 1993; INP, 1998; Khallaf, 1990; El-Adawi, 1993).

Those who can afford to do so, pay for referrals to private doctors or NGO clinics. So today 56 percent of total health care spending is paid for by households and not refunded by the state or the NSIO. Egyptians spend 3.7 percent of GDP on health (INP, 1998), although the state's contribution declined to 1.5 percent in 1995. This is inefficient, since unanticipated health care expenditures are not pooled over the population; people have to accumulate huge savings to be solvent in case of an illness. It is unjust, because the poor are unable to save and have to be content with the public system.

Consumer Goods Subsidies

Egypt takes several different approaches to fighting poverty through interpersonal redistribution. These approaches group together direct and indirect income transfers. The first raise the nominal income of the poor by granting social assistance, but also through subsidised credit and wages and job creation in the public sector, where overstaffing is common, while the latter raise the real income of the poor only by reducing the prices of basic goods, on which the poor are supposed to spend a higher share of their income.

The efficiency and income effects of these interpersonal redistribution strategies vary (Table 6). Indirect income transfers are less efficient and fair than direct transfers, since precise targeting is more difficult. Usually, the better-off benefit from subsidised goods along with the poor, while some of the poor do not benefit, since they do not demand the subsidised goods.

Moreover, allocation and distribution effects diverge between the provision of cheap housing and consumption goods and the subsidies on human capital investment. Subsidisation of public education and health care is an efficient means to fight poverty and reduce income inequalities. It benefits all of the poor (F-efficiency) and public health care spending benefits only the poor (E-efficiency).

Here we are focusing on consumer goods subsidies, which are far less efficient than the subsidisation of human capital spending. More than 13 percent of GDP was spent on a whole range of consumer goods before the 1990s structural adjustment and stabilisation programmes; however, this figure has been cut back to 2.3 percent since then.

In the past, food subsidies have been very inefficient. Cheap food being available from specialised shops (*tamawîn*) in every little village, the subsidies did benefit all of the poor. This could be the reason for Egypt's low quantitative malnutrition rates (INP, 1998: 95ff.; Singerman, 1995: 165ff.). However, the better-off profited from it as well. For some years subsidised food was rationed but in 1981, for example, 91 percent of all families held rationing cards.

Today, although less money is lost to the rich, efficiency losses continue to be high. Most subsidies were discontinued in 1992; only sugar, tea, cooking oil and the basic '*baladi*' bread are still subsidised. But administration costs are still high and deceit in the administration and in the bakeries is reported. Moreover, inefficiency results from the waste of subsidised food as well as from the substitution of non-subsidised commodities by the cheaper subsidised goods (e.g. misuse for cattle-feeding). To channel LE1 to the poor, the state spends LE3 on bread subsidies, LE10 on sugar subsidies or LE33 on cooking oil subsidies (*idem*).

Inefficiency losses are even higher for the subsidisation of piped water and electricity, petrol and gas. The rich profit much more from these expenditures than the needy, since most of the poor are not connected to the water and electricity systems and none of them have cars or oil ovens (Ben-Nefissa, 1991; Cornia and Stewart, 1995).

Social Assistance Programmes

Egypt's direct income transfer programmes are well targeted and efficient but too small in scale and scope to have any substantial effects on poverty levels. Per capita transfers are low, and 80 percent of the needy receive no assistance at all. Limited financial means is the major reason with aggregate spending representing no more than 0.15 percent of GDP and it bridges only three percent of the poverty gap (IBRD, 1991). Moreover, many poor Egyptians do not fall under the eligibility criteria of any of the programmes. Others are not informed about the programmes or unable to fill in the application forms.

Another problem is that the public 'welfare sector' is split up into several programmes that are under the administration of three different public institutions. The Ministry of Insurance and Social Affairs (MISA) runs the larger of these programmes as well as some very small ones. Widows, orphans, divorced women, invalids and aged people

may apply for social assistance from one of the MISA's local offices, but the unemployed and underemployed may not. The programme's targeting appears to be very efficient with eligibility assessed through means testing, but per capita social transfers are low. In 1995 they averaged 36 percent of the poverty line and ranged between LE132 and 444 per household per year (Assaad and Rouchdy, 1999; Azer, 1995: 114; ILO, 1998: 29)

The second programme consists in the Ministry of *Awqâf*'s activities. In 1991 it spent LE5 million on social assistance and social credits. But 80 percent of these were for the employees of the ministry themselves (Wippel, 1996: 191).

The third programme is run by the Nasser Social Bank (NSB), which is primarily financed by the *zakât* of public enterprises. The bank's major task is to finance public social infrastructure projects (such as hospitals, ambulances, education centres). In addition, it spends LE160 million on its social aid and credit programme, in which it co-operates with local *zakât*-committees. These committees collect *zakât* from local donors and transfer the funds to the NSB. On request the funds are returned to the committees to support a *Hajj*, grant a student's stipend, pay assistance to the unemployed or aged poor persons, support divorced women in claiming their legal rights from their husbands or finance a wedding. The programme is very efficient, because the *zakât* committees know very well who needs assistance in their neighbourhood.

Some reports mention a fourth social assistance programme – the Mubarak Programme for Social Integration, which was launched in 1996 to support orphans, widows and divorced women. However, statistical data available on beneficiaries and transfers granted, double-count the respective figures of other assistance programmes. Shortly after its proclamation, the programme was frozen for lack of funds. More recently, it was supposed to be revived in the summer of 2000 (Kheir-el-Din, 1998: 12; Wippel, 1996: 194f.; INP, 2000: 9).

Current Trends

The president periodically states that Egypt's 'successful economic reforms' have to be followed by social reforms. The government had committed itself to fight poverty and social exclusion at the 1995 World Summit for Social Development in Copenhagen (MFA, 1995). At the 2000 follow-up summit, rosy pictures were painted of the government's social policy achievements since the 1995 summit (INP, 2000).

However, a World Bank-financed comprehensive health sector reform is the only tangible on-going reform project in the field of social protection. It was launched in 1999 under the auspices of the ministry of health and is supposed to decentralise and

reorganise the National Health Insurance Organisation (NHIO), improve the NHIO's financial sustainability, restructure the public health delivery system, improve health service quality, shift fund allocation to basic health care, establish more competition between health care providers and increase health insurance coverage (IDA, 1998).

Subsidies were cut during the 1990s, while social assistance spending was not increased and reforms of other social security systems have only been announced. Between 1997 and 1999, the Ministry of Social Affairs and Insurance (MISA) named several commissions to work out a plan to reform Egypt's social policy instruments and the related public institutions (including the MISA itself)⁴. At the same time, the MISA planned to reform Egypt's pension insurance schemes and social aid programmes. The ILO was asked in 1997 to analyse the existing social security systems and to make reform proposals. But until today the ILO's final report has been ignored. Similarly, other donors have worked out reform proposals and offered support for social security reforms. Most of them agree that Egypt's government is not sufficiently committed to social protection and is reluctant to see foreign donors involved in this task (Loewe, 2000).

In May 1999, a high-level conference was held to look into social development in Egypt. For the first time, the term 'poverty' was used by presidential representatives, acknowledging that poverty is in fact a problem in Egypt. However, no substantial conclusions for action were drawn from the discussions. The same holds true for another UNDP-financed 'national conference' held in October 1999 under the chairmanship of the president himself.

In 1991, a Social Fund for Development was established to cushion the negative short-term social effects of Egypt's structural adjustment programme. Often it is referred to as a 'social safety net' (Dau and El-Amach, 1997), i.e. it is claimed that it is just another social protection system. Quite apart from the fund's success and/or failure, it has to be recognised that its public-works and micro-credit-programmes are not social protection systems:

The problem of spreading risks and coping with risks cannot be solved through targeted social programs or income generating activities. While these programs improve the general situation of the poor by investing in social infrastructure or in the capacity of income generation, they do not address (1) the problem of vulnerability... and (2) the impact of individual risks... (Freiberg-Straub, 1999: 1)

⁴ One was chaired by general Ahmed Nada, the other by the Center for Social and Criminological Research

4. Agenda for Future Reform

Reform of Egypt's social security policy is due. If the country wants to tackle its poverty problem, policies will have to go beyond statements of intent. The existing social security systems are unable to improve either economic efficiency or income distribution patterns, because they themselves are inefficient and inequitable.

Here we will discuss what reforms (i) with lowest possible levels of costs and efforts, may have the highest possible impact on improving (ii) the efficiency of the existing social security systems and (iii) the secondary distribution patterns in Egypt and (iv) benefit the highest possible share of the population, and especially the poor, needy and currently non-insured. Moreover, we ask what different actors can do to carry out the required reforms.

We propose a four-component reform strategy, which will be discussed in detail below. Apart from the ongoing health sector reform, such a strategy would include:

- amendments to the existing pension insurance schemes,
- an increase in social assistance spending,
- public awareness and information campaigns and
- micro-insurance projects.

Amendments to social insurance provisions are on the top of the agenda. People's mitigation efforts to cope with social risks should be strengthened to improve allocative efficiency. They are based on intertemporal redistribution and make the insured self-reliant on their own provision. However, proposals concentrate on pensions because (i) a health sector reform is already underway (including the reorganisation of health insurance and extension of coverage) and (ii) unemployment benefits should not be modified at the time being. Some local academics are calling for an increase in unemployment insurance coverage and benefits. But the provision of finance for additional benefits is impossible at current contribution rates. Egypt's high unemployment is a long-term problem, which should be approached at its structural causes and mitigated by labour market policies, instead of providing higher and more benefits to the unemployed.

The reform strategy should also include increments in social assistance spending. Social security systems cannot build on mitigation strategies only. Although these are efficient, they are unable to enhance social justice. Interpersonal re-distribution is required to pool social risks across the whole of society. Social insurance always leaves out some individuals, who have small incomes and are unable to pay insurance contributions or to save money for social shocks.

Public awareness and information campaigns are on the agenda as well. They are intended to raise public awareness about social risks, to improve general knowledge about the existing protection systems and to support the poor and illiterate in pursuit of their legal rights.

Micro-insurance projects are not simply added to the list. They are crucial to allow all groups of the population to benefit from the reforms. Some groups – namely informal sector workers – are difficult for social insurance reforms to reach, and new solutions have to be found to improve their social protection. Most formal sector workers have a stable income and can afford to contribute regularly to social insurance. Moreover, they have a long-term planning horizon and their contribution payments are well monitored by the NSIO. But informal sector workers are not insured, in practice. They have no regular income and live on a day-to-day basis; and the NSIO has difficulties in checking on their enrollment.

Basically, there are three ways to promote social protection among informal sector workers: (i) to reform and extend the coverage of formal social insurance schemes, (ii) to increase social assistance budgets or (iii) to build up specially designed insurance schemes. In practice, however, Egypt cannot afford to finance the entire social protection of more than half its population through taxes and transfers. On the other hand, administrations all over the world find it difficult to apply social security legislation to the informal sector 'without reducing its capacity to create jobs and/or drive it further underground' (van Ginneken, 2000).

In what follows, we will discuss in detail the above four reform components : first the modifications of the existing social insurance and assistance schemes, then public awareness campaigns and micro-insurance projects. We will distinguish between medium and long-term reform measures and specify responsibilities of involved and potential actors.

Pension Insurance Reform

Proposals for pension reform should distinguish between measures to be taken over the short- and medium-term planning horizon. The existing schemes are inefficient and unfair. But they are elaborate systems and minor short-term modifications can do a lot to reduce current shortcomings and make them powerful protection mechanisms without incurring any major costs. In the longer run, however, more comprehensive reforms are needed to guarantee their long-term sustainability.

As far as immediate reforms are concerned, we propose a five-step strategy which addresses the system's five major deficiencies, named in Section two: (1) the NSIO's unsound investment policy, (2) the lack of an automatic adjustment of pensions for

inflation, (3) negative elements of subsidisation, (4) the NSIO's inefficient administration and (5) the non-protection of certain risks and non-coverage of some social groups.

(1) *Revision of the NSIO's Investment Strategy.* The social insurance's low rate of return to contributions for contributors is mainly due to low yields of return on invested insurance funds. To promote the NSIO's capital income, low inflation rates and a more efficient investment policy are crucial:

- The government must guarantee durable monetary stability to safeguard the real value of the NSIO's funds.
- The government should permit the NSIO to decide itself on fund investments. Then, the NSIO should build up an independent board of investment, carefully work out a high-yield, low-risk portfolio investment strategy and invest all future surpluses at competitive rates of interest in the free capital market. Foreign donors could provide advice and technical support to the NSIO in its efforts; the World Bank has already offered its assistance (IBRD, 1997).
- The NIB is called on to check the prospects of making funds solvent to repay its liabilities to the NSIO. If there are none, the NSIO should at least be granted higher interest on its deposits with the NIB. Additional costs have to be born by the treasury, as the NIB lends exclusively to public institutions. On the other hand, treasury subsidies will be reduced once the pension formula has been modified (see below).
- The government must reform capital markets in order to make it possible to invest social insurance funds in the free market and to develop the private insurance industry. Reforms of the regulatory framework are already underway with the support of the World Bank.

(2) *Modification of the Pension Formula.* The way in which pensions are computed in the social insurance schemes is the source of many shortcomings. The formula should be simplified to reduce potentials for manipulation and misuse. Moreover, inflation must be taken into account. The government should accept the offers of foreign donors (ILO, World Bank) to provide support in calculating a new pension formula which follows sound actuarial principles.

- The income threshold must be abandoned with a view to making all labour income taxable. With a higher basis of calculation, contributions rise in absolute terms. Then contribution rates can be reduced by some percentage points, to allow for today's benefit levels. This is important to provide more incentives to enroll and to reduce tax evasion.

- The differentiation between basic and variable salary components should be overcome and pensions should be computed according to one single formula.
- The treatment of inflation should be integrated into the formula. Before retirement, pension entitlements should be based on average career earnings, and be indexed to wage inflation. The same applies for the increase of pensions after retirement and for minimum pension provisions.

(3) *Rationalisation of Subsidies.* The treasury should reduce its subsidisation of insurance benefits and concentrate on redistribution elements. On the one hand, some overgenerous benefit conditions should be tightened up:

- The financing of the costs of pension increments has to be stopped with the help of the new rent formula, pensions have to be calculated in such a way that contributions can finance all benefits.
- The 'collective social security systems' must become contributory. Today they are financed by the treasury, although they only benefit some already privileged population groups.
- Early retirement pensions have to be reduced according to sound actuarial principles. Today entitlements are lower than those of normal pensioners, but higher than the equivalent to accumulated contributions. So early pensioners are cross-subsidised by others.

On the other hand, the state should take on responsibility for some deficient insurance components with redistributive elements. But it has to make such transfers more transparent and integrate them formally into the state budget - as an instrument of poverty eradication:

- The treasury should subsidise minimum pension provisions. These could even be raised to support insured persons with low average career earnings.
- The treasury should directly finance the Comprehensive Social Insurance System. Today it is financed by other insurance schemes, although such cross-subsidisation contradicts the principle of equivalence (of contributions and benefits) and is a disincentive for workers to enroll with the General Social Insurance Scheme.

(4) *Administrative Reforms.* The NSIO should reform its administration to streamline application processes, make procedures more efficient and transparent for the insured, improve its customer orientation and make enrollment more user-friendly and attractive. Foreign donors could support the NSIO's efforts in:

- training employees,

- fighting corruption,
- enhancing the monitoring of compliance and contribution deduction,
- tightening up possible sanctions and
- improving its information systems.

(5) *Alignment of Benefit Provisions.* Efforts have to be made to improve the protection of specific risk groups and insure additional social risks:

- The health component of the general insurance scheme should extend its protection to the dependants of insured persons. Moreover, the ongoing health sector reform must make health insurance mandatory for all groups of the working population and their dependants.
- A special insurance should be taken into consideration to grant pensions in cases of divorce or abandonment. Divorced and abandoned women are Egypt's major risk group today.

The medium-to-long-term reforms should be more comprehensive. They should complete short-term reform approaches and consider a more general rebuilding of social insurance:

- The provisions and qualifying conditions of the six different insurance schemes should be brought into line to overcome the discriminatory divergence in the treatment of different groups of the employed. The schemes need not be unified, but all groups (the high-ranking officials and military persons just as employers, seasonal workers and the self-employed) should be treated as permanent workers according to the legislation of the General Social Insurance Scheme. This reform measure might be impossible in the short-run, as it is difficult to check on these groups' enrollment and contribution payments.
- A nursing home insurance might be introduced to reduce the dependence of the old and handicapped on their families.
- Rebuilding should focus on bringing in the private sector. A three-pillar insurance system should emerge in which the existing public social insurance system is supplemented by a second mandatory tier. Here the government could make use of the widespread occupational and professional pension schemes, transforming them into competing private defined-benefit funds, focusing on the income replacement needs of middle and higher income earners. Such transformation would free the public insurance system from some of its responsibilities and enable it to concentrate on (i) providing basic protection for all of the population by shifting income intertemporally from working life to old-age and (ii) fighting poverty through minimum pension provisions (by redistributing income

interpersonally to those most in need. Voluntary additional insurance would be a third tier.

The reason behind this is governance. Only multi-tier insurance systems can balance out the different risks of private and public insurance providers: The NSIO suffers from all the weaknesses associated with public sector institutions: First, it is not really autonomous in developing social insurance schemes and investing accrued funds. Second, it does not compete with other providers. There is no need for the NSIO to achieve high rates of return on funds. Third, the NSIO's administrative and monitoring efficiency and customer orientation are weak. Private insurance funds, on the other hand, bear their own risks: investment in risky assets, concentration of investments, danger of fraud, deceit of customers, etc. Before a second insurance tier is introduced, the monitoring of private providers must be improved: competition must be guaranteed, the market opened for new entrants, investment strategies put under risk diversion regulation, reporting procedures reformed and the flow of market information facilitated.

Increase in Public Social Assistance Spending

Public spending on social assistance has to be increased, although this is a difficult task for a middle-income country like Egypt: Closing the entire poverty gap would require a social assistance budget of LE1600 million (INP, 1998: 127; IBRD, 1991: 145). Strategies have to be developed to use all available resources in the best possible way:

First, the government could further reduce subsidy costs and use the funds saved to extend social assistance spending. Subsidies on petrol, electricity and fuel oil can be abolished without any negative social impacts, since they benefit only the better-off. The subsidies on bread, on the other hand, have a positive impact on secondary income distribution. It should be continued as long as social assistance programmes do not reach the greater majority of the poor and per capita transfers do not exceed today's levels.

Second, the various assistance programmes must better co-ordinate and improve their targeting. Measures have to be taken to prevent individuals from drawing social assistance from different sources or from claiming assistance when they are entitled an insurance pension. One way is to integrate electronic data process systems. The NSIO is already building up a computer-based customer database. From now on, it is to record all households and file them by their ID number. Then the NSIO could give access to its database to all other institutions in the social sector – namely to all social assistance providers - to enable social workers to record social assistance approved and to look into all benefits granted by other institutions.

Third, the duplication of administrative mechanisms has to be rationalised: (i) The Ministry of *Awqâf* can close its social aid programme, as it benefits only its own employees. (ii) The MISA should reconsider the duplication of its own and the NSIO's local offices and the MISA could also consider copying the NSB's successful experiment in cooperating with local *zakât*-committees. It might initiate cooperation with local NGOs, which need no means tests to assess claimants needs. They are in constant contact with the poor from their neighbourhoods and know how much assistance and what kind of assistance the people concerned need.

Public Awareness and Information Campaigns

While many Egyptians are informed about the existing social insurance and assistance schemes, others are not aware of social risks and have no interest in enrolling with the NSIO. These problems are major factors in the insufficient social protection of many Egyptians.

A first step to address these problems is to launch information campaigns in order to (i) make the population aware of social risks and the necessity to insure against them, (ii) inform people about their legal rights and the way the existing social systems function and (iii) make legal qualifying conditions and administrative application procedures better known:

- The NSIO could distribute information brochures.
- The government can collaborate with television and radio stations and popular magazines in designing information reports and advertisements for insurance enrollment.
- Cultural and training centres, schools and NGOs should hold information seminars. Here, women should be addressed first and women's empowerment should play a central role. They should, for example, be reminded to apply for an identity card.

A second step is to directly support the insured and the applicants for social assistance in applying for benefits and claiming their rights. Such support is best provided by NGOs because people trust them more than public institutions. Foreign NGOs with relevant experience in these tasks could provide the necessary training of local NGO workers in:

- informing clients about their rights,
- accompanying applicants as they go through the administrative procedures,
- assisting the illiterate in filling in the application forms,
- providing legal advice and

- representing claimants in court. In Jordan, for example, one NGO has contracts with some attorneys to be at the free disposal of poor people in case of a trial.

Micro-Insurance Projects

Egypt should not only focus on state-administered social security but establish new methods by integrating market-based and mutual community-based protection mechanisms under the overall coordinating auspices of the government. Such a broad network would offer different strategies to handle social risks for all groups of society. This would focus the efforts of different actors and bridge the gap between the mutual support mechanisms, which are based on traditional customs and the modern market-based and state-administered approaches.

Among the country's social groups, informal sector workers are the least well protected. Some groups are still ruled by traditional values. Mostly living in rural areas, they support each other in social crisis. Others, like the majority of formal sector employees, contribute to the national social insurance systems or hold private insurance contracts. But some groups – especially the informal sector workers - fall in-between. Most of them live in towns, where the traditional social relations have become weak and reciprocal support among neighbours is no longer considered a value, as such. But at the same time they have no formal employment and are not registered with the NSIO.

These urban poor find it difficult to obtain insurance, even when they want to. It is not true that the poor cannot afford to save at all and pay insurance premiums. Some would, but private insurance is too expensive for them. Commercial companies do not offer low-premium, low-benefit insurance contracts that the poor would demand. The reasons are two-fold:

First, insurance providers face higher information problems when dealing with the poor: It is much more difficult for any insurance company to get the required information about the risk category of a poor person living in a squatter area, than it is for a formal sector worker, registered with all administrative offices. Therefore, the insurer does not know whether or not the poor person is insuring themselves only after the damage (the illness or invalidity) has already occurred (adverse selection problem). Moreover, the poor are more likely to be hit by social shocks (because of their difficult and hazardous living conditions) and they are more likely to behave carelessly when they know that they are insured against possible risks (moral hazard problem).

Second, fixed per capita costs do not allow for small-premium insurance contracts. The insurer has to market and conclude the contracts, distribute information, collect

the premiums, verify insurance claims and pay out benefits. All these administrative and transaction costs do not depend on the amount insured. If the amounts insured are low, costs may even exceed contributions collected, and thus the insurance company will incur losses.

Some NGOs in Egypt have already tried to fill the gap on a small scale. They offer insurance contracts to their clients. They are in constant contact with their poor clients, know their individual risks and face no information problems. Moreover, their members work on a voluntary or low-wage basis, and therefore transaction costs are very low.

Nevertheless, these NGOs have failed. They were unable to calculate the contribution-benefit ratio according to sustainable actuarial principles, to invest accumulated funds in a sound way and to sufficiently pool the risks among a high number of contributors. The NGOs' micro-insurance schemes went bankrupt because benefit-contribution ratios were too high, because the invested funds bore insufficient yields or because bad risks coincided with a hazard. In the end, the target group felt mistrust in NGOs without experience in financial affairs.

Here, we propose building up micro-insurance projects in Egypt which combine the advantages of NGOs or cooperatives and commercial providers. NGOs or cooperatives would build up low-contribution, low-benefit insurance systems in co-operation with established insurance companies. The idea is not new but has been successfully tried in other countries before. The project of India's Self Employed Women's Association (SEWA) might be the most successful example. SEWA offers (in co-operation with a public company) insurance contracts to its female members at the very low contribution level of US\$10 a year (Hauck, 1999). Many risks are covered, but benefits are limited to:

- US\$26 per year for medical treatment and US\$ 8 for delivery,
- US\$75 for the damage of a housing unit or work equipment through floods or fire,
- US\$250 for the accidental death or work-disability of the woman member's husband (US\$ 75 in case of natural death) and
- US\$850 for the woman member's own accidental death or work disability (US\$ 150 in case of natural death)⁵.

The functions of the NGO or cooperative in such cooperations are to (i) build awareness for risk prevention and mitigation, (ii) market the insurance project, (iii)

⁵ This last component was introduced only to make the women's enrolment acceptable to their husbands.

monitor and handle claims and (iv) pay out benefits. Meanwhile, the insurance company's tasks are to (i) calculate premium and benefit levels and (ii) to reinsure the NGO/cooperative so that the latter bears no more than limited financial risks.

But the functioning of NGO-private insurance approaches is linked to three conditions:

1. The NGOs must be capable of collecting contributions and providing benefits.
2. The NGO must be stable, well known and active in a large area.
3. The potential insured persons must trust the NGO and its re-insurance partner.

In Egypt, the first condition is not a given for all NGOs. Few of the country's NGOs have experience in financial affairs and this experience is limited to small credit schemes. However, foreign donors can help to bridge this gap, by: (i) imparting the required actuarial know-how needed to calculate the contributions and benefits, (ii) assisting in formulating the contracts and establishing a detailed reporting system, (iii) training the NGO social workers, (iv) bringing interested NGOs into contact with interested insurance companies and (v) financing the starting costs. The German aid organization, GTZ, has gathered much experience in this field with SEWA (Freiberg-Straub, 1999). Cooperatives should be taken into consideration as well.

The second and third conditions are interlinked. The target group's confidence increases when the NGO is considered stable and when the project starts up successfully. However, few NGOs in Egypt are - at a given time - stable enough and well-known in more than one town. None of the country's independent NGOs are active in a large region, as SEWA is. There is a way to solve the problem: A network of regional NGOs could be established to take the place of the one big NGO. In negotiations, one of the NGOs would have to speak on behalf of the others, but all would directly cooperate with the commercial reinsurer. The weakness of this solution consists in its additional coordination costs. Its strength is that small NGOs usually have more intensive contact to their clients.

One might object that Egypt already has a comprehensive social insurance scheme, which is responsible (among other things) for the social protection of informal sector workers. One might argue that this system is very lucrative for the insured, as a payment of only LE120 qualifies the insured for a life-long pension of LE 63 per month. One might even ask why the poor should opt for a contributory micro-insurance system with low benefits instead.

We do not see that as a contradiction: First, the micro-insurance could insure currently non-covered risks (health, work injuries, widowhood, etc.). Second, the comprehensive scheme's benefits are below the poverty line and households might

want additional pension insurance. Third, the possibility of a future linking of the NGO-private micro-insurance project to the public pension insurance should be taken into consideration: Egypt's Comprehensive Social Insurance System is a hybrid between a social insurance and a social assistance programme. Contributions are collected, but they are too low to finance the benefits.

In Egypt, informal sector workers could be given the choice of enrolling either in the NGOs' scheme or in the public scheme, both of them being subsidised by the treasury. This would bring the state into the partnership between NGOs and commercial insurers. If the government wishes to redistribute to the poor it could do so by supporting the micro-insurance projects as well. If it is prepared to allow NGOs to become active in financial affairs and willing to cooperate, the government could simply subsidise micro-insurance projects run by NGOs. The Indian government did nothing exactly that when it decided to take over US\$3 of the US\$10 premium paid by SEWA members. Such an approach has more than one advantage.

Organizations such as NGOs and co-operatives have a good understanding of the particular needs and priorities of their client groups... . In the social field NGO action integrates the traditional social security measures with complimentary measures in the field of (primary) health care, child care, housing and targeted social action. In the economic field, more security can be achieved through self-help and self-employment. (van Ginneken, 1990)

However, Egypt's NGOs and cooperatives might not be flexible, stable and reliant enough for the micro-insurance approach of social security and many more problems might exist. So, further research is required in this field. But a final answer will not be found unless the approach is not experimented with – in an area-based scheme at least.

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Table 1: Contribution Rates of the General Social Insurance Scheme

(% of Gross Salary)	Employee	Employer	State ^a	Total
Old-age, invalidity, survivors benefits	10 / 10 / 10	15 / 15 / 15	1 / 1 / 1	26 / 26 / 26
Work injury benefits	0	3 / 2 / 1 ^b	0	3 / 2 / 1
Health and maternity benefits	1 / 1 / 1	4 / 3 / 3 ^c	0	5 / 4 / 4
Unemployment benefits	0	2 / 2 / 0	0	2 / 2 / 0
End of service remuneration ^d	(3 / 3 / 3)	(2 / 2 / 2)	0	(5 / 5 / 5)
Total for basic salary (LE 0-525)	14 / 14 / 14	26 / 24 / 21	1 / 1 / 1	41 / 39 / 36
Total for variable salary (LE 525-1025)	11 / 11 / 11	24 / 22 / 19	1 / 1 / 1	36 / 37 / 34

Notes: a. The state covers all deficits of the system; b. private sector enterprises with a minimum of 500 employees may reduce their contribution by one point, when they take over the care for the medical treatment of work-injuries themselves; c. private sector enterprises with a minimum of 500 employees may reduce their contribution by two points, when they take over to pay the sickness benefit to their employees in case of any illness; d. to be paid on basic salary only.

Source: IBRD (1997), p. III/ 53; ^cAbd-al-Malik (1998), p. 609 f., 613 f., 620

**Table 2: Nominal Discretionary Increments in the Basic Pension Level after Retirement
1980 – 1998**

Year	'81	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98
Increment (%)	10	-	-	5	5	0	20	15	15	15	15	20	10	10	10	10	10	10
Level (1980=100)	10	10	10	16	22	22	46	68	93	122	156	187	137	171	188	149	194	143

Source: IBRD (1993), p. III/ 200; ILO (1998), p. 21

Table 3: Coverage, Contribution Level, Benefit Level and Dependency Ratio of the Public Social Insurance Schemes (1997)

Law	No. 79 (1975)			No. 108 (1976)	No. 50 (1978)	No. 112 (1980)
	Permanent Employees in the			Employers and Self-Employed	Egyptians Abroad	Casual Employed
Covered Population Group	State Administration	Public Sector	Private Sector			
Number (1000)		3781	1260	4190	79	5834
Actual contributors (1000)		3781	1260	1762	14	767
Actual coverage ¹		100.0	100.0	42.0	69.0	13.0
Average contribution (LE p.a.)		108	117	117	147	9
Average taxable income (LE p.a.)		4164	3664	2148	792	1896
Average number of contribution years		?	17.9	7.2	10.0	8.0
Avg. no. of old-age pensioners (1000)		386	318	136	140	1
Old-age dependency ratio ¹		10.0	25.0	8.0	12.0	5.0
Average old-age pension (LE p.a.)		4272	3900	1716	756	2028
Average replacement ratio (Old-age pension/ last gross salary) ¹		103.0	107.0	80.0	95.0	107.0
Ratio of benefits on contributions ¹		55.0	43.0	23.0	95.0	107.0
PAYG cost rate ¹		17.0	39.0	5.0	15.0	5.0

Note: ¹: percentage

Source: ILO (1998), tab. A.5; IBRD (1997), p. III/ 50 ff.

Table 4: Legal and Actual Coverage of the Public Social Insurance Schemes (1997)

	Covered Population by Law (1000)	% Share on Working Population	Number of Contributors (1000)	% Actual Coverage	Contribution Rates	Benefit provisions			
						Pensions	Work Injury	Health	Unemployment
Permanent employees in State administration	3781	23	3781	100	35 (b) / 30 (v)	X	X	X	-
Permanent employees in public sector	1260	8	1260	100	36 (b) / 31 (v)	X	X	X	X
Permanent employees in private sector	4196	28	1763	42	40 (b) / 35 (v)	X	X	some	X
Employers and self- employed	1716	10	1184	69	15	X	-	-	-
Egyptians abroad	79	1	14	18	22.5	X	-	-	-
Casual employed	5834	35	758	13	LE 1 per mo.	X	-	-	-
Total	16860	102	8760	53		53 %	40	37^a%	16

Notes: a. Private health insurance included: 42 %. Dependants not covered. As a share on the total population, the health insurance coverage is about 27 % (private health insurance included) and 30 % (private health insurance excluded); b = on basic salary; v = on variable salary

Source: ILO (1998), p. 25 f., tab. A.12

Table 5: Social Insurance Aggregate Income, Dispende and Reserves on GDP (1985–95)

(%)	Contributions	Benefits	State Subsidies	Current Excess	Reserves
1985/86	5.1	2.5	1.2	5.8	38.2
1986/87	4.4	2.3	1.0	5.1	36.6
1987/88	4.3	2.3	0.9	5.6	36.2
1988/89	4.0	2.2	1.0	4.8	33.9
1989/90	3.6	2.0	0.9	4.6	31.7
1990/91	3.5	2.1	1.0	4.5	31.9
1991/92	3.1	2.1	1.1	3.6	29.0
1992/93	3.3	2.2	1.3	4.5	30.2
1993/94	3.5	2.5	1.5	5.4	32.5
1994/95	3.5	2.5	1.5	5.3	33.1

Source: IBRD (1997), p. III/ 51

Table 6: Volume and Efficiency of Reported Subsidies and Social Transfers

Programme	% Share on GDP	E-Efficiency*	%	%	F-Efficiency*	Distribution Effects %	
			Share of Beneficiaries on Total Population	Share of beneficiaries on Poor Population		Share of Total Expenses for richest 21% of the Population	Share of Total Expenses for Poorest 50% of the Population
Food	5.10	medium	87 %	100	high	27	44
Electricity	2.35	low	(100) ^b	ca. 85 ^b	low	39	34
Water	4.90	low	(100) ^b	ca. 45 ^b	low	n.a.	n.a.
Oil and gas	7.30	very low	n.a.	n.a.	very low	70	n.a.
Education	4.90	medium	100	<100	very high	n.a.	n.a.
Public health	1.12	high	n.a.	n.a.	very high	n.a.	n.a.
Social assistance	0.15	very high	5	16	very high	0	100
Social insurance	4.90	medium	n.a.	n.a.	low	n.a.	n.a.
Total	30.72						

Notes: E-efficiency: Others than target-group do not profit from program (no money lost to non-target-groups); F-efficiency: Entire target group benefits from programme.

Source: Own calculations based on Weidnitzer (1998), Tab. 9; EIU Country Profile 1998-99; Harik (1992), p. 487f; El-Ghonemy (1998), Tab. 10.1; ILO (1998)