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A Policy Paper in Contribution to the Research Project:

Social Protection in Egypt: Mitigating the Socio-Economic Effects of the COVID-19 Pandemic on Vulnerable Employment

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Abstract

This paper questions the degree to which social thinking is guiding social policy in Egypt. The apparent fluctuations in social spending coupled with the lack of clear purpose and benchmarks for social programs attest to a conceptual and political compromise whereby the social is at the mercy of non-social considerations. The evidence that supports our main contention is derived from an analysis that poses and answers two seminal questions: first, to what extent social policies are mainstreamed in the design of macroeconomic policies and integrated in economic and development cycles; second, to what extent the Ministry of Finance can sustain its social spending without adding further pressure on its budget. Our main findings show that social protection is still an afterthought added to macroeconomic policies. Second, with a limited fiscal space, Egypt has to work on the revenue side of the budget to generate additional room for more-comprehensive social spending (whether explicit, such as social protection programs, or implicit, such as education and health spending). Moreover, a bottom-up approach that involves different stakeholders and is based on comprehensive datasets will lead to more socially-desirable outcomes. The findings and observations made in this paper serve to guide a post-COVID-19 policy world, as social protection and spending are essential for a post-COVID social recovery, especially as the society and country come face to face with the consequences of limited social support amidst crises.

Keywords: Social protection, social policies, macroeconomic policies, Egypt.

1. Introduction

At the macroeconomic level, there is now widespread recognition of the need to integrate macroeconomic management and social policies. Indeed, macroeconomic management has focused for decades on price stability, controlling fiscal deficits, reducing the role of the state, and achieving high economic growth. Yet, social policies were not really mainstreamed in the design of macroeconomic policies, since the former were always "added-on" without being fully integrated in the latter (Elson & Cagatay, 2000). This is despite the prominence of social considerations to economic and social orders. The terrain on which social policies address social injustices and fractures are fields of profound political, economic and social disquietude. The crisis in work is accentuating the crises of social policy. The welfare and protective functions of market-based paid work are no longer assured. This is because technology, globalized production systems, terms of trade, and changing structures of opportunity and access to markets make work as an unreliable advancement and survival strategy for millions. Unemployment, underemployment, work instability, and low pay in work challenge markets and societies, and are issues that shape many political careers and debates. [4]

Whereas rights to protection from poverty and vulnerability are embedded in citizenship and its meaning, the recent policy and programmatic tools that are designed to restore this right are part of a global conversation. Marshall (1950) suggested that modern citizenship is the fruition of a democratization that spans three centuries. In the eighteenth century the principle of legal-civil rights were established; political rights emerged in the nineteenth century; and, as a preliminary culmination of the democratic ideal, we see the consolidation of social citizenship in the twentieth century. The welfare state, an intrinsic part of capitalism's post-war golden age, is an expression of this era of prosperity, equality and full employment. Although this may be an account of a European or western trajectory, the idea of a welfare state—or one in which the state protects its vulnerable citizens through social benefits, employment, subsidies, or public goods and services—is well established far beyond western borders. Many countries became self-proclaimed welfare states, not so much to give a label to their social policies as to foster national social integration (Esping Andersen 1996: 1-6).

Ideologically-driven policies and plans that prioritize efficient growth over balanced development tend to eclipse social considerations framing them as a drag on growth and on macroeconomic health. These approaches prefer markets as drivers of development and as effective fixes to poverty. Since the late 1990s, there has been a series of policy directions in Egypt that sought to enable the efficient operations of markets (with limited success) and to rationalize social spending to bring discipline to public finances. Both policy directions have had limited success. Markets have not been liberalized. Furthermore, weak revenues and large debt expenses following Egypt's 1991 Economic Reform and Structural Adjustment led to more fiscal pressures (Korayem, 1997); meanwhile, social welfare was not among the top priorities

[4] There is an erosion of the traditional fringe benefit package of corporate welfare. There are fewer jobs in industries that have developed welfare plans and more jobs concentrated in companies with little or no occupational benefits. In the case of Egypt these are the jobs of migrants and jobs in the black end informal economy. While the Scandinavians have managed the surplus of deindustrialized largely unskilled masses with retraining and job creation and the Americans with wage erosion the continental European nations have opted to subsidize their exit especially through early retirement. this has produced an insider-outsider divide with a small group of mainly male insiders enjoying high wages, expensive social rights and strong job security and a swelling population of outsiders depending either on the male bread-winner's pay or on welfare state transfers. (See Esping-Andersen 1996: p. 18-17).

of the government. In other words, social thinking was generally absent from the conception and implementation of economic policies. If this must generally be a policy priority, the current pandemic has shown that a paradigm shift is needed more than ever to achieve socially-desirable outcomes. In most countries, social protection tools swiftly followed health interventions as governments laid down their strategies to combat and control the disease and its implications.

The case of Egypt is worth examining, in particular with the current shock of COVID-19. While in November 2016 the Government of Egypt (GoE) concluded an agreement with the International Monetary Fund (IMF) and implemented a reform program that helped the economy improve its macroeconomic aggregates, these developments were not coupled by an improvement at the social level (Heintz, 2008). Indeed, in 2019, GDP growth rate reached 5.6%, inflation rate decreased to 9.4%, unemployment rate reached 7.9%, overall fiscal deficit 8%, and international reserves increased to reach USD 44 billion. Yet, poverty increased to reach 32.5% in 2018—up from 27.8% in 2015—and the middle class bore the cost of most of these reforms, leading to more inequality. With the COVID-19 shock, the government followed good health intervention practices by imposing social distancing rules and restrictions, but seemed to stumble when considering appropriate and effective social protection measures to face the consequences of economic slow-down and loss of livelihoods. The decrease in poverty noted by the last round of HIECS requires analysts to consider the ways in which policies impact people. The drop of 5 percentage points in overall poverty rates and the marked decrease in ultra-poverty means that some policies have delivered on social protection policies.

In March 2020, the GoE adopted several policies ranging from monetary (package of EGP 100 billion to support domestic industries and vulnerable sectors and postponement of tax payments) and financial measures (loans payments postponement and support to the Egyptian Stock Exchange). The Ministry of Social Solidarity (MoSS) continued to enroll families into the Karama and Takaful programs using the same proxy means testing formula albeit more generously so as to register more families. Meanwhile, the Ministry of Manpower proposed a temporary three-month cash transfer scheme for irregular workers using their governorate-based registries (Ramadan & Zaki, 2020). However, these policies, although proactive, were disjointed and insufficient. The effects of the COVID-19 crisis were profound and demanded broader initiative from government. According to a CAPMAS survey conducted in February/March 2020 to gauge the impact of the pandemic on household income, expenditure and consumption:

- *Almost a quarter of Egyptian households experienced food insecurity and 16% were exposed to at least one type of shock during the year 2017/18.*
- *Poor households were four times as likely to have experienced food insecurity and more than twice as likely to have experienced shocks compared to rich households.*
- *Job informality of household members increased the likelihood of shocks and food insecurity. Also, a higher disability rate was associated with higher food insecurity.*
- *Households mostly used consumption rationing—reduced spending on health, food or education—and social capital to cope with shocks or food insecurity.*
- *Social protection schemes need a stronger role in mitigating the vulnerability of poor households.*
- *Interlinked policy measures are needed to increase Egyptian households' resilience to shocks and prevent them from using stressful strategies that may harm their human capital and render them more vulnerable to shocks in the future.*

For the purposes of this paper, we highlight not only the tangential effects of interventions per se, but also stress the necessity of going beyond the figures of the 'economic' and into the intricacies of the 'social' to fully explore the dimensions of social protection, thus entirely capture the multidimensional phenomenal poverty. As it was highlighted by Tzannatos (2002), without proper social policy reforms in the MENA region, "the risk of becoming poor-either temporarily or permanently-will continue as a result of the unfinished economic agenda" (p.163). Within the literature, there is an emerging consensus on social protection "as an effective agenda for social policy in developing countries," particularly during times of crises, and generally in the face of structural adjustment, globalization, and economic downturns (Barrientos, 2005, p.112-3). In broad terms, social protection mechanisms prioritize the prevention of poverty and enable future-oriented attitudes towards risk among the poor and the vulnerable.

Against this background, several questions are worth investigating: First, to what extent social policies are mainstreamed in the design of macroeconomic policies and integrated in economic and development cycles; second, to what extent the Ministry of Finance can sustain its social spending without adding further pressure on its budget. To answer these questions, this study will rely on descriptive (desk-based research) and quantitative (statistical analysis of the government's budget) approaches. Our main findings show that social protection is still an afterthought added to macroeconomic policies. Second, with a limited fiscal space, Egypt has to work on the revenue side of the budget to generate additional room for more-comprehensive social spending (whether explicit, such as social protection programs, or implicit, such as education and health spending). The discussion on spending brings to light the re-distributive dimension, which will be addressed later in the paper. Moreover, a bottom-up approach that involves different stakeholders and is based on comprehensive datasets will lead to more socially-desirable outcomes.

The rest of the paper is organized as follows: Section 2 presents the theoretical framework of social protection from micro and macro perspective, while Section 3 analyzes social protection in the Egyptian case at both the microeconomic and the macroeconomic levels. Then, Section 4 provides an overview of the efficiency gains associated with better re-allocation of resources. Afterwards, Section 5 shows the extent to which the government can sustain its spending on social protection by providing a higher fiscal space. Finally, Section 6 concludes and provides several policy recommendations.

2. Theoretical Framework of Social Protection

Social protection refers to the ways in which (vulnerable) citizens are protected from present and future poverty and the adverse socioeconomic effects thereof. UNICEF defines it as "the range of policies and programs needed to reduce the lifelong consequences of poverty and exclusion.[5]" In a similar vein, the Food and Agriculture Organization (FAO) speaks of "a set of interventions whose objective is to reduce social and economic risk and vulnerability, and to alleviate extreme poverty and deprivation.[6]" Meanwhile, the International Labor Organization (ILO) stresses "health care and income security, particularly in cases of old age, unemployment, sickness, invalidity, work injury, maternity or loss of a main income earner.[7]"

[5] https://www.unicef.org/social-policy/social-protection
[6] http://www.fao.org/social-protection/overview/whatissp/en/
[7] https://www.ilo.org/global/topics/social-security/lang--en/index.htm

Generally, these definitions focus more on the microeconomic dimensions of social protection as they address individual vulnerabilities. This is why social policies are not embedded in the conception of macroeconomic policies—and of course vice versa. In other terms, while social policies have always been managed and implemented at the microeconomic level, macroeconomic management has traditionally focused on stabilizing prices, controlling fiscal deficits, reducing the role of the state and achieving high economic growth in developing countries in general (Balakrishnan et al. 2016 and Zaki, 2020). Hence the added value of this paper as an attempt to address the fiscal viability of the needed social protection measures, thus going beyond the normative 'what should be done' trajectories.

Despite the widespread recognition to integrate social policies and macroeconomics (Elson, 2000), there continues to be a tendency to interpret this as designing 'sound' macroeconomic policies that stabilize price levels, reduce the role of the state, and focus on market-based criteria, and then add policies that achieve socially-desirable outcomes like reducing poverty. Instead of considering social policies an afterthought to macroeconomics, what Elson (2000) calls a *"transformatory approach"* invites a rethinking of macroeconomics such that all its policies are enacted within a certain set of distributive relations and institutional structures; and that all macroeconomic policies entail a variety of social outcomes which need to be made explicit" (p.1348). This takes seriously goals that include justice, equity, social inclusion, development of human capabilities, and freedom from poverty and discrimination and judges the 'soundness' of macroeconomic policies in these terms. Nevertheless, idealism aside, social spending that is effective and sufficient can itself be a lever for development and growth. Social protection for example is not only a moral obligation that is mandated by the Egyptian constitution; it is also a tool to fix anomalies and pathologies of labor markets whereby irregularity, poor pay, and scarcity of decent and dignified work are prevalent.

It is important to note that social protection systems are not substitutes for macroeconomic policies; they are in fact complimentary policies that optimize the ways economies function. Neither are they solely capable of fairly distributing income and earnings; they can only do so much. Other policies, like decent minimum wages for example, must play their parts. On a regional level, social protection is not a solution for rapid structural change: although it may partially absorb the negative consequences thereof (Beattie, 2000 p.134), temporary social safety schemes cannot address "lost decades for development" (Elson, 2000, p.1353).

Moreover, social protection is also directly and indirectly linked to macroeconomic policies. Directly, it is affected by labor policy and fiscal policy. First, as long as there is weak demand for labor, many people will be forced to have unprotected work in the informal sector; however, if demand for labor increases, fewer workers shall resort to the informal economy and its poor conditions. As such, among the relevant policy interventions is a macroeconomic design to achieve an economic growth that creates jobs to have more-balanced labor market (Beattie, 2000, p.133-4). At the fiscal level, the availability of public funds (that depend on tax policy) will help the government spend more on social programs, sustain this spending and hence protect vulnerable people (Bastagli, 2015). Indirectly, social policies are affected by trade, tax and monetary policies.

First, the relationship between exports and informal employment is not straightforward. While in some cases export orientation might push for more informalization and/or less labor demand if goods are more capital intensive, in other cases, an economy that promotes exports will encourage firms to produce more, expand, and hire more productive (and hence formal) workers (Ben Salem &

Zaki, 2019). This will reduce informality and thus help more workers benefit from social protection. Second, a more incentivizing tax policy that encourages firm to enter into the formal sector and that reduces tax evasion will increase tax receipts and hence will give the government the ability to spend more on social protection programs (Bastagli, 2015). Third, a more inclusive monetary policy that does not focus only on price stability but also on boosting access to finance for small and medium firms (SMEs) (El-Said et al, 2015) will help them formalize, contribute to the government budget and hence increase its fiscal space to spend on social programs.

Another integral aspect of the soundness of just macroeconomic policies is gender. Since achieving positive growth depends on enhancing human capabilities in general, and of poor women in particular (who are disadvantaged in multiplied ways), 'sound' macroeconomic policies must fundamentally address social justice (Elson, 2000, p.1353). In this regard, we diverge from the views of the IMF and World Bank, which speak of social *impacts* and not social *contents* of macroeconomic policies. Instead of investigating underlying imbalances of social power, the IMF/WB approach only considers the effects of policies on GDP, GNP, etc. with the immediate target being growth and the immediate indicators being numerical (Elson, 2000, p.1352). Rather, we are interested in questioning the underpinning socio-political imbalances of macroeconomic policies.

Moreover, an additional common theme has to do with the lack of efficient communication between governmental and charitable bodies leading to the proper documentation of beneficiaries and actual benefits received. This, ideally, would allow for coordination among social programs and hence equitable distribution of social protection benefits. Practically speaking, however, there is much overlap due to poor coordination in addition to poor infrastructure and program administration. The latter is yet another common gap in social protection, where bureaucratic structures and complex administration levels usually mean rarely updated eligibility lists, scarce information on the determinants and characteristics of poverty, general eligibility criteria, and ill-defined entitlement benefits. Furthermore, screening processes often bypass the newly poor and missing middle (Tzannatos, 2002, p.153-55). Finally, it is important to note that "welfare is effective in reaching its goals if, and only if, citizens believe that the system is fair" (Sholkamy, 2018a, p.11). Under this light, social protection in many regions "is 'frozen' in a past socio-economic order that no longer obtains, rendering it incapable of responding adequately to new risks and needs. The endogenous problems of the welfare state lie in the growing discrepancy between existing programme design and social demands." (Sholkamy, 2018a, p.2).

Yet, there are two general deficiencies of conditional cash transfers programs: 1) paying people to induce actions that they were already going to do, and 2) offering cash transfers that are too low or too high to the threshold needed to prompt the required action. In the case of the Egyptian welfare system, Selwaness and Messkoub (2019) investigated how it potentially suffers from the two problems together. Firstly, it does not incentivize poor families to invest in their social capital, and second, the nominal value of the cash transfer does not adjust automatically with inflation on an annual basis, which may not reflect the cost of living.[8] Hence, the value of the cash transfer should be linked to a consumer price index, and thus be adjusted accordingly. Over and above, there is an efficiency loss due to the inter-ministerial lack of coordination over key strategic aspects in social

[8] Maait & Demarco (2012) and ILO (2017).

protection, as expressed by Mai Farid, Assistant Minister of Finance and Executive Director of the Economic Justice Unit, in a private interview: *"There are a lot of problems and fragmentation that I witnessed firsthand; it isn't a financial problem at all but essentially there isn't much awareness and programs target sectors that shouldn't be the primary targets…There is also the problem of inter-ministerial coordination and even consensus on the meaning of social protection as a concept. Thus, there isn't coordination in terms of general goals."* Two more steps to improve the efficiency of CCTs are enforcing the social insurance law, which would improve the overall administration of the social insurance system. The second is pushing toward a more computerized and digitized insurance system to minimize type I and II errors.

In a nutshell, as argued by Beattie (2000), *"if policy-makers define the problem too narrowly, their chances of finding feasible solutions may be greatly reduced"* (p.133). Hence the importance of contextualizing social protection policies in wider economic, social, and political contexts, as the regionally-unique socioeconomic characteristics shape the nature of a region's vulnerabilities, shock response potential, and social policy scope (Tzannatos, 2002, p.121).

3. Overview of Social Protection in Egypt: A Macro-Micro Approach

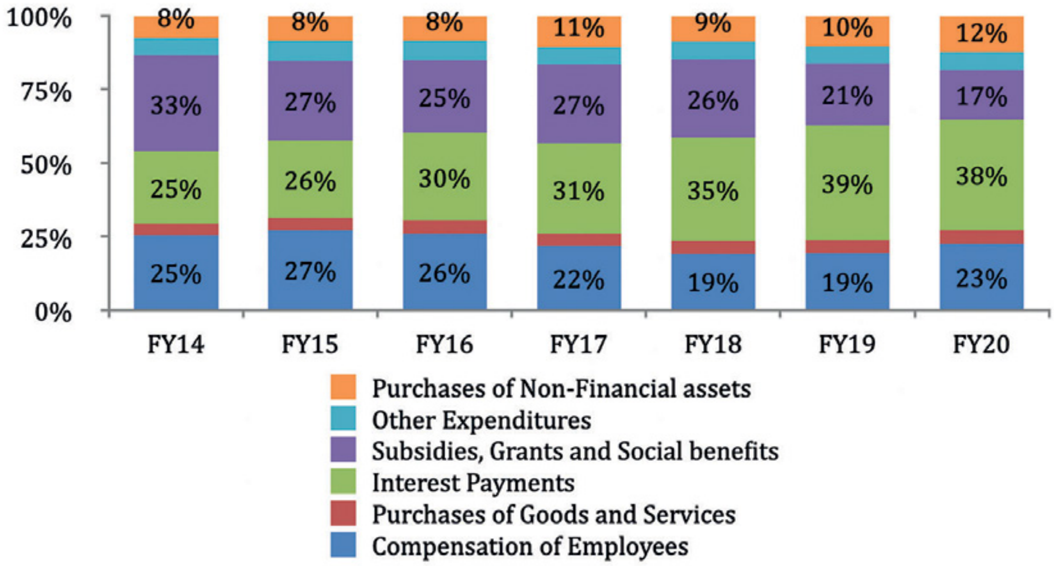
While the literature on social protection in Egypt is quite dense, the cultural, social, and historical dimensions of social policy dynamics are relatively missing, along with the "understanding of the 'social state'" and its service provision. While "dysfunctional and browbeaten," it is nevertheless integral to understanding both the social and the economic. As such, the gap constituted by the absence of the state's role in providing services - including social protection services - is problematic to the proper understanding of both society and the economy (Sholkamy, 2018a, p.2). Additionally, Levasseur et. al (2018) remind scholars of the importance of critically approaching policies, investigating the taken-for-granted assumptions on which they rest, and exploring the silent and the unchallenged to understand "how policies create and sustain power relations and group subjectivities" (p.5-6). We keep these points in mind as we proceed with contextualizing social protection at the micro and macro levels.

3. 1. The Macroeconomics of Social Protection in Egypt

Since social protection is a component of the government's budget, it is important to first examine how the government allocates its spending. In general, we can distinguish between current (or non-productive) and productive spending (Figure 1). Kneller et al. (1999) and Chu et al. (2020) showed that while 'productive' government spending makes the economy more productive (with a higher investment in physical and human capital) and hence has a direct impact on growth, 'non-productive' expenditure affects citizens' welfare (through subsidies, wages and compensation of employees and government purchases) and is likely to have a zero or negative impact on growth since it is immediately spent and consumed in the short term. In Egypt, current spending represents on average 84% of the government's expenditure. It includes compensation of employees, interest payments, purchases of goods and services and subsidies and social benefits. Productive spending (including spending on education, health and infrastructure) represents 16%. Clearly, from a development perspective, this allocation shows to what extent public spending is targeted towards short term since the advancement of human capital is significantly associated to poverty reduction

(Ravallion and Chen 1997 and Sen 1999). Consequently, economic growth remained volatile, non-inclusive and did not increase significantly in the long term. Yet, it is interesting to note that the share of non-productive spending decreased from 87% in FY14 to 82% in FY20 thanks to a significant decline in oil subsidies.

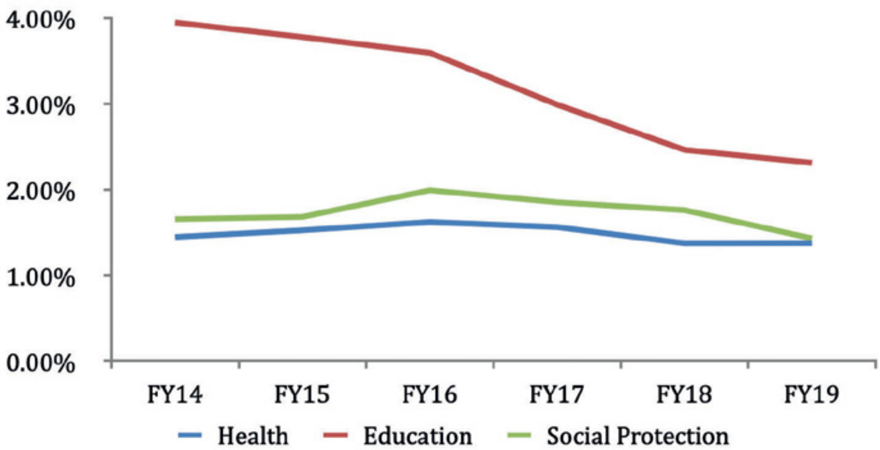
Figure 1: Structure of Public Spending (%)



Source: Authors' calculations using the Monthly Bulletin, Ministry of Finance.

Despite the decrease in current or non-productive spending, the increase in productive spending was mainly driven by a surge in public investments (concentrated in infrastructure and the construction sector) that did not really improve the citizens' human capital. Indeed, as it is shown in Figure 2, education spending decreased from 4% of GDP in FY14 to 2.3% in FY19 and health expenditure remained almost stable (around 1.4% of GDP over the same period). Furthermore, for the sake of comparison between the different types of spending that are likely to have an effect at the social level, Figure 2 shows that spending on social protection decreased slightly from 1.7% to 1.4% of GDP. Hence, social spending (that includes health, education and social spending) decreased between FY14 and FY19 from 7% to 5.1% of GDP.

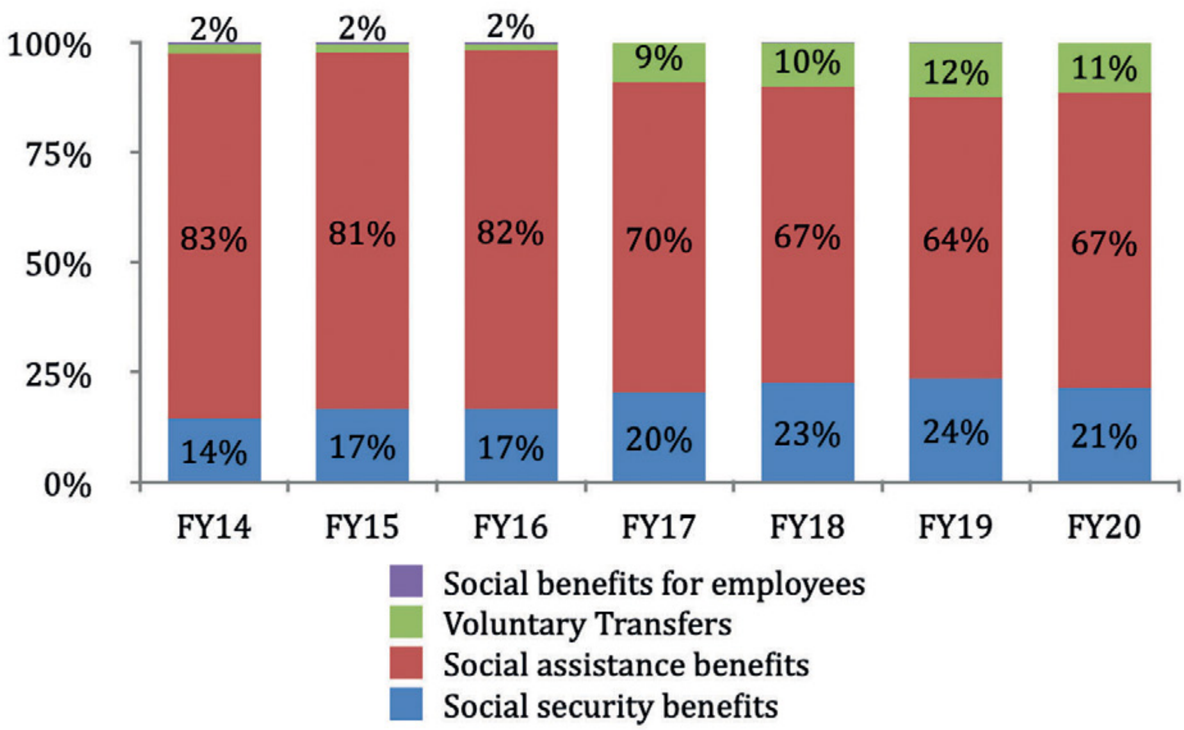
Figure 2: Social Spending (% GDP)



Source: Authors' calculations using the Monthly Bulletin, Ministry of Finance.

A more detailed look at the structure of the different components of social protection shows that the share of social assistance benefits, while the largest share, decreased from 83% of the total spending on social protection in FY14 to 67% in FY20. Social security benefits increased over the same period from 14% to 21% of the total spending on social protection (see Figure 3). Loewe (2014) attributes the failure of social protection programs in Egypt to address their intended goals to the inefficient allocation of resources within these systems because of their tendency to compensate the well off, instead of helping the indigent and needy.

Figure 3: Components of Social Protection (%)



Source: Authors' calculations using the Monthly Bulletin, Ministry of Finance.

To sum-up, the current structure of public spending does not lead to an efficient socially desired outcome because of the declining trend in social spending and the increase in productive spending due to an increase in public spending on infrastructure. In the light of the current pandemic, this structure raises several concerns regarding the agility and resilience of the Egyptian economy at the social level, namely for the most vulnerable. Thus, after presenting the general macroeconomic traits of social expenditure, the next section examines some specific programs that were implemented in Egypt from a microeconomic perspective. The discussion focuses on the role of the state as a social protection agent. This focus should not eclipse or diminish the important role played by civil society and philanthropic agents. On the contrary, the moral guidance and precedent set by civil society in the battle against vulnerability and in the support of the vulnerable is an important one in Egypt (see Vannetzel, 2017). However, in terms of scale and scope, the role of the state is significantly more important (see Sholkamy (2012) on Ain-el-Sira). Moreover, the social protection that is owed to citizens by the state is a right and an entitlement and therefore should be differentiated from other forms and agents of welfare.

3. 2. The Microeconomics of Social Protection in Egypt

Egypt followed the Latin American lead on CCTs, despite having lower inequality and a much more constricted budget for social spending than Brazil or Mexico (Kurdi et. al, 2018, p.138). The shift from in-kind subsidies to cash transfers was not a quick policy decision. Years of scholarship and of bilateral and multilateral partner/donor advice pointed to the inefficiencies of the old system of subsidizing bread, food, energy, and pensions. The social pension system was also in dire need of revisions as it had failed to stem the rising tide of poverty and still relied on antiquated targeting and registration procedures (Sholkamy, 2012). The Mexican cash distribution programs presented an attractive alternative to Egypt's welfare practices for three reasons:

- *Promises of **efficiency**, as the Progresa/Opportunidades program (now called Prospera) relies on strict targeting protocols*
- *Promises of **effectiveness** and popularity, as cash transfers are a simple and immediately effective antidotes to misery*
- *Promises of **evidence**, as these programs are on contingent on extensive data creation and production*

Egypt adopted a package of interventions to save from in-kind subsidies mainly through a regimen of energy re-pricing and better targeting and to then increase social spending by adopting a large cash transfers program that aimed to provide a monthly transfer to 3 million families. This package enabled the state to seek IMF support as these existing programs were begun before the IMF package and showed good intention and clarity of vision (according to the IMF). However, the structural problems that plague the economy persisted and continued to create demand for protection and for multiple forms of social security. The problem, this paper contends is not a problem of generous social provisions but of inappropriate and ineffective macroeconomic decisions.

Macroeconomic and trade policies shaped labor market characteristics in Egypt (and the MENA region more generally) so much that they are now arguably "out of tune with economic reality" (Tzannatos, 2002, p.124). To demonstrate, there is a relative shift from high paying to low-paying jobs with the corresponding increase in informalization, thus reducing household incomes. Such incomes are further reduced by the declining informal sector wages, in addition to rising unemployment among the elderly and less-certificate-holders, which makes non-poor households suddenly find themselves below the poverty line (Tzannatos, 2002, p.124-5). This reality might justify the ambitious protection schemes, but it is important to remember that the first few years of adjustment to "ambitious reform packages" are usually associated with negative impacts that require functioning social safety nets to absorb them (Kurdi et. al, 2018, p.138).

In 2014, Egypt launched "Takaful" and "Karama," a pair of targeted cash transfer schemes. Literally translated as 'solidarity,' "Takaful" is a family income-support scheme, providing a monthly cash transfer of 450 pounds a month with an increment per child in school with a maximum of three children. On average, enrolled families receive 900 pounds a month. The cash is given to women in the family and is supposedly conditioned on children's school attendance and health clinic visits. However, these conditions have not been implemented to date. The "Karama" (or Dignity) program is for individuals who cannot work due to age (above 65 years) or disability. Children with severe disability are also eligible for the Karama program, and the transfers go to their care-providers and/or families. The Karama amount is smaller as beneficiaries only get the basic amount without increments.

The programs were launched in the poorest 19 districts in Upper Egypt, where geographically-speaking, Egypt's poorest localities are (Roushdy & Assaad, 2008, p.5). The two programs were launched in 2014 and by 2015 were supported by a 400 million dollar loan from the World Bank to the government of Egypt. Due to this budget support, the government was able to quickly expand coverage and speed up registration beyond the original plans in terms of geographical coverage and number of beneficiaries (1.95 million households as opposed to the projected 1.5 million).

What to give to whom and finding the poor are the major challenges facing efficient, effective, and credible social protection systems. There is strong resistance in all circles to the idea of universality. Universal benefits strain the public purse and overcompensate those not in need while depriving those who are. Egypt had, for decades, used categorical targeting as a policy for making protective provisions. Rather than using a statistical regression for defining poverty rates, the system relied on culturally accepted categories of deserving persons that is somewhat informed by Quranic principles. The poor are the orphans, widows, abandoned women, elderly without care provider and single women over the age of 50 years and the destitute. Over the years, new categories were added such as female-headed households and lowest paid auxiliary workers in public employment.

In 2004, Egypt's Ministry of Social Solidarity began to investigate the advantages of using statistical methods to identify the poor. This direction was greatly encouraged by international advisers and donors. More importantly, it was enabled by the collected and credible data gathered systematically and according to best practices by CAPMAS. The proxy-means testing (PMT) formula for targeting the Karama and Takaful programs was developed at the Ministry of Finance with World Bank funding and implemented for the first time in 2014.

The programs relied on digital enrollment using computer tablets and eclipsed the role of the frontline social worker in estimating and approving applicant eligibility deferring to the 'findings of the formula' computed by the financial and data manager, a subcontractor to the ministry. The cut-off points that distinguish eligible from non-eligible families are decided at the central level and on the basis of statistical approximations of poverty. The programs are also designed to circumvent the role of social worker as cash provider, since beneficiaries are paid via bankcards that are issued centrally by the subcontractor and collected by the beneficiaries at the local post offices. Finally, these programs crosscheck enrollment data with other national data sets such as social insurance, school enrollment, and card and land ownership to limit fraudulent claims and subvert clientelist relations at the local level. These features may have instigated a reaction on the part of social workers and administrators. Bureaucratic resistance was not the only challenge; political anger was another formidable problem.

Social protection and pensions have been historically awarded by fiat as politicians, ministers and parliamentarians wield their power allocations to gain political capital among voters and constituencies (Sholkamy, 2018b). This elite resistance precipitated opposition and frustration that were further encouraged by implementation problems and compounded by the fact that the proxy-means-testing mechanism has a number of downsides. It is based on a list of basic household information, including household structure, education levels, durable goods, etc.) that are indexed. Despite having lower leakage potential than other targeting mechanisms, it requires much higher administrative costs and expensive updates on a regular basis. Also, there is considerable moral hazard as families might manipulate the system to qualify for support. In the face of proxy-means testing, families are potentially incentivized to either change their behaviors or misrepresent information about themselves and their living standards (Roushdy & Assad, 2008, p.7-8). This approach takes for granted the fact that the bases of eligibility are too outdated to reflect the contemporary needs and hardships. It also neglects the magnitude of corruption in a system in which it is easy to support false claims and bypasses the fact that the amounts offered are too small (Sholkamy, 2018a, p.7). This reality reminds us that "targeted spending in Egypt is not well-targeted at all" (Sholkamy, 2018a, p.7).

Something must also be said about the implications of providing transfers to women on the gendered housework/care-work roles. Almost 90% of the Takaful payments are given to mothers; hence the advertisement of Takaful as a "pro-women program." This, however, is made on the assumption that women tend to 'make better use' of the money; that is, direct it towards their children (Tammam, 2019, p.6). Of course, the upside is circumventing the traditional male-breadwinner model by giving cash to women (Sholkamy, 2017, p.4), but this might just reinforce the gendered expectations of women as providers of housework responsibilities. Increasing women's unpaid care-work (through cementing the idea that it is their responsibility to care for their children, for example), reduces the time available for paid work, leisure, and rest, which has macroeconomic implications (Abdo, 2019, p.3). As such, concerns in critical gender studies have been raised regarding whether a cash transfer "simply reinforces traditional motherhood roles while failing to encourage fathers to take on more parental and household responsibilities" (Levasseur et al, 2018, p.5).

On a broader level, this might reproduce a maternalist approach to society by identifying women as primary caregivers and villainizing, or rewarding, them accordingly. There is also a class-angle to this discussion, as maternal subjectivity is based upon the class-based imagination of 'good mothers,' which idealizes certain practices and rearing trends. Doing so means that children' education and healthcare expectations are actually predetermined, which limits the decision-making spectrum of mothers (Levasseur et al, 2018, p.7).

Finally, it is important to note that Helmy and Roushdy (2019) report how 31% of households that received Takaful or Karama conditional and unconditional cash transfers were exposed to shocks in the preceding year, compared to 15% among those households who do not get such transfers. This potentially speaks to the targeting of the programs in positive light, since those who do not receive the transfers might not be as poor and hence not as prone to shocks. Helmy and Roushdy also observe that the highest rate of food insecurity was observed among Takaful and Karama beneficiaries (53%) and those receiving social assistance (45%), while lowest rates were observed among households which had access to social insurance (21%), pension (23%) or health insurance benefits (25%).

According to a World Bank analysis, poverty in Egypt would have increased by 12% had there not been a cash transfers program. The cash transfer program and the bread subsidy and food ration cards are effective, essential and large social protection schemes. No matter what disappointments may be noted by observers, these programs are serving millions while overcoming formidable implementation challenges while enduring elite opposition.

The absence is one of strategy, accountability, and vision. The state's vision for social protection is debatably problematic, as further demonstrated by the COVID-19 pandemic. The programs in place could not respond to the crisis. The economic cost of the pandemic borne by millions went unheeded. Foregone school meals were not delivered to children at home, nor were families compensated for their losses. The social protection programs in Egypt do not have the flexibility or leadership that enables responses to emergent crises. Karama and Takaful have a huge database that was not used to reach the newly poor and deprived. The scheme for irregular works was based on old registries or on appeal calls made to cabinet hotlines. The food ration system was the only one that could quickly react by increasing amounts of cash that could be used as points for food per family. The registry of users is slowly becoming a frame for policymaking and provisions. These shifts do take time. However, there remains an opaqueness concerning how unified registry data is interpreted. What are the grounds upon which entitlements are determined?

The gap is a strategic and policy-making gap that has persisted and that has maintained the either/or mentality among policy makers, whereby social protection allocations are considered a drain on the budget rather than a gain for the country. Perhaps resounding success stories in the field of social protection are few and are invariable contested but there are some examples of middle income countries like Egypt whereby the institutional arrangements that support social protection have been given autonomy and the fiscal space to become effective as is the case of Chile, Brazil, and some states in India such as Kerala.

4. Efficiency Gains

This section focuses primarily on cash transfer programs, due to the paper's focus on Takaful and Karama social spending in particular. Conditional cash transfer (CCT) programs are increasingly popular across developing countries--to the extent that the President of the Center for Global Development, Nancy Birdsall, once stated that, "I think these programs are as close as you can come to a magic bullet in development.[9]" That said, many poverty reduction programs followed this path like Progresa in Mexico, Bolsa Escola and Bolsa Família in Brazil, Red de Protección Social in Nicaragua, Programa de Asistencia Familiar in Honduras, the Program of Advancement through Health and Education in Jamaica, Food-for-Education in Bangladesh, and Subsidio Unico Familiar in Chile (Ravallion & Wodon, 2000; Skoufias, 2000; Morley & Coady, 2003; Rawlings & Rubio, 2005).

The core thought of CCT is to give some cash to poor parents, subject to a specific set of conditions, usually sending children to schools and performing health checks. The idea is that families are not just recipients of aid, but carry a responsibility for their own development, becoming partners in the development process. Although CCT programs are controversial in some respects, they have proven successful in achieving poverty alleviation goals, and since the 1980s, have been applied in dozens of countries around the world (Sholkamy, 2018a, p.5). The rationale behind CCTs is to incentivize subjects to alter their behavior in a way that matches the social optimum, through the correction of market failures that are associated with non-internalized positive externalities. This is done by conditioning cash transfer on specific actions on the part of subjects. In other words, CCTs are meant to create a price effect by incentivizing subjects to increase their supply of these actions. The reason is that the market income effect, by itself, is not sufficient in creating any behavioral change regarding investing in human capital.[10]

Generally speaking, the aim of CCT programs is twofold: 1) short-term poverty reduction through cash transfers, and 2) long-term poverty reduction through human capital investment.

[9] New York Times interview, January 2004 ,3.
[10] See Bourguignon, Ferreira, and Leite (2002).

To meet these two objectives, Devereux (2016) poses two challenges, which are common to all targeting programs. The first is the efficiency challenge: what is the percentage of the non-eligible who receive cash transfers? The second is the social justice challenge: what is the percentage of the eligible who do not receive cash transfers? These are commonly known as type I (error of inclusion) and type II errors (error of exclusion), respectively. The dilemma is that reducing one error increases the probability of the other error. When investigating the Progresa program, de Janvry and Sadoulet (2006) found that the CCT paradigm generated 29-44% efficiency gains (over other programs) without increasing inequality among the poor. Other studies showed that the Progresa program improved school enrollment rates at all grades (Behrman, Sengupta & Todd, 2001; de Janvry, Finan, & Sadoulet, 2001; Schultz, 2004).

Against this backdrop, it is important to analyze how the government can sustain financing its social program, especially in a context where it tries to reduce its fiscal deficit and consolidate its fiscal stances. Thus, the next section analyzes the government's fiscal space and the sustainability of social protection programs.

5. Sustainability of Social Policies and Generation of Fiscal Space

5. 1. Fiscal Space and Social Programs

The notion of fiscal space is quite new, although the concept itself has been used in designing fiscal policies for a long time. For example, policymakers in emerging countries face the constant challenge of financing their attempts. Finding the means of maneuvering fiscal policy is hence labeled as "fiscal space generation." To be more specific, Heller (2005) defines fiscal space as a budgetary room that can be used by the government to fulfill a specific objective without jeopardizing the stability of the economy or its financial position. Meanwhile, Roy and Heuty (2005) propose another definition that focuses on the effectiveness of domestic resource mobilization to improve policy actions. Alternatively, Ghosh et al. (2013) suggest defining fiscal space as the gap between the current debt level and debt boundary (i.e. the debt threshold beyond which it would be unsustainable). Indeed, debt sustainability refers to the situation where the government is able to meet all its current and future payment obligations without exceptional financial assistance or going into default.

There are multiple ways to create a fiscal space; these can be broadly divided into four channels. The first resort is to increase tax revenues, which can be done by enhancing the process of tax administration, enlarging the tax base, and rationalizing the new rates.[11] The second channel, as suggested by Heller (2005), is through reprioritizing expenditure by cutting back spending on low-priority venues. The third option for increasing fiscal space is through sustainable external grants and loans, although it might be argued that such grants might disincentivize resource mobilization by creating a form of dependency on rent-seeking behavior.[12] The final channel is boosting efficiency, which can be achieved by limiting corruption, promoting governance, reducing bureaucratic costs, among other developmental endeavors. Nevertheless, Heller (2005) emphasizes that while attempting to enlarge fiscal space, policymakers should not compromise the macroeconomic or

[11] See (IMF, 2015), for instance.
[12] Gupta et al (2004).

fiscal stability of the economy in toto. In short, the government has to warrant that short and long-term expenditures could be financed from projected revenues. In the Egyptian case, tax policy experienced several reforms since 2016 with the implementation of the Value-Added Tax (VAT) and its rate increasing from 13 to 14 percent, higher excises, and the new stamp duty on stock market transactions

Due to limited fiscal space, many governments have been resistant to expanding their social protection programs. The main problem with these programs is not their budgetary burden; rather, it is the fact that they are competing with other governmental priorities. However, since these priorities vary from time to time, it makes it difficult to fixate social protection programs among the government priorities at all times. Elson (2000) illustrates how spending corresponds to governmental political priorities, by pointing out that "most governments deem military spending to be much more important than social assistance," with transfer beneficiaries being a minority that lacks power and capital (p.144).

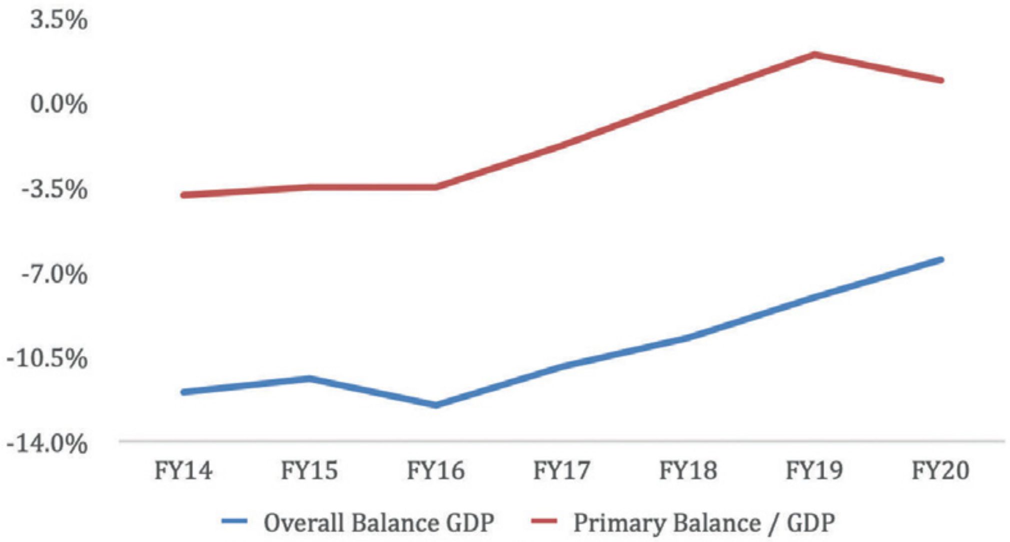
Other problems include the continuous drop in government revenues due to increasing globalization (because of reduced tariffs and lower capital tax, for instance). Tzannatos (2002) notes that these problems caused many households in rural and urban areas across the world to live a precarious life on subsistence levels with no access to additional resources.

The IMF (2016) highlights two important considerations of fiscal space, namely financing (the extent to which the government can expect to have access to market funding at reasonable rates) and sustainability (the extent to which public debt and annual financing needs of the government remain sustainable). Against these considerations, we can identify three scenarios for the fiscal space. First, fiscal space is limited when no (or at most only marginal) fiscal loosening compared to the baseline level can be contemplated. In other words, it is difficult to increase public spending, as it will lead to deteriorated fiscal stances. Second, there is a moderate fiscal space when there are some concerns about financing and fiscal sustainability, but temporary fiscal measures can be implemented within certain limits. Indeed, the government, in this case, can incrementally increase its spending. Third, fiscal space is substantial when financing, fiscal sustainability and credibility considerations suggest no significant constraint to undertaking temporary fiscal measures. In this case, the government can re-allocate and/or increase its spending without a significant risk of deteriorated fiscal stances.

5. 1. The Case of Egypt

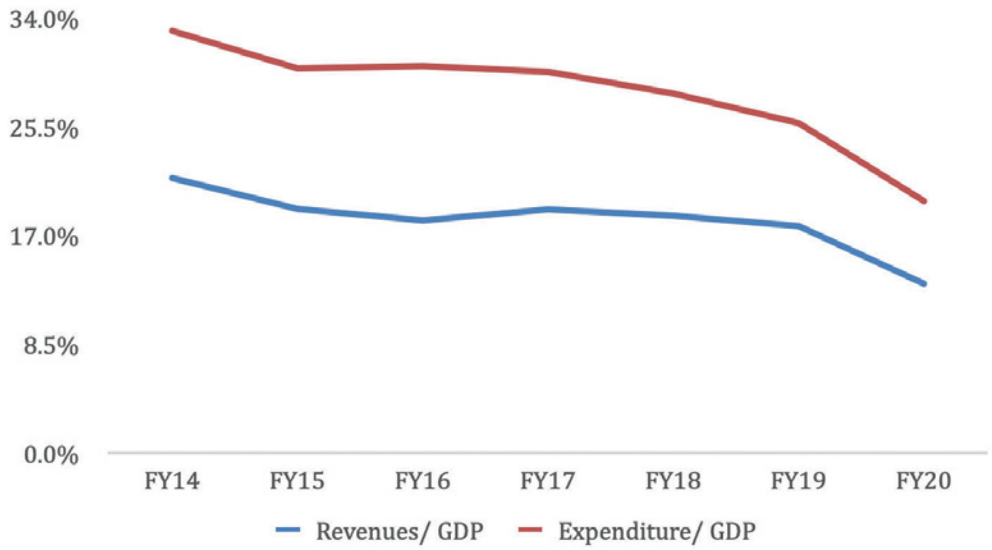
In order to analyze Egypt's fiscal space and sustainability of social programs, we have to examine the evolution of three main components: fiscal deficit; expenditure and receipts; and debt. Figure 4 shows that the governments managed to reduce its fiscal deficit from 12% in FY14 to 6.5% in FY20. This was particularly attributed to the significant decrease in oil subsidies with the implementation of the IMF program. Yet, it is important also to examine the evolution of the primary deficit/surplus since it calculates the difference between current spending and receipts without taking into consideration interest payments. Indeed, the government started to witness a primary surplus of 2% starting FY19 (see Figure 4). While this represents a positive sign and shows that the government is likely to generate some fiscal space, Figure 5 shows that this is chiefly due to a lower level of expenditure not a higher level of revenues. The former declined from 33% of GDP in FY14 to 19.7% in FY20. At the same time, revenues declined from 21.4% to 13.2% of GDP over the same period. This raises some concerns regarding the ability of Egypt to generate a real fiscal space to increase social protection expenditure in the short term and education and health expenditure in the long term in order to protect vulnerable people.

Figure 4: Overall and Primary Deficit (% GDP)



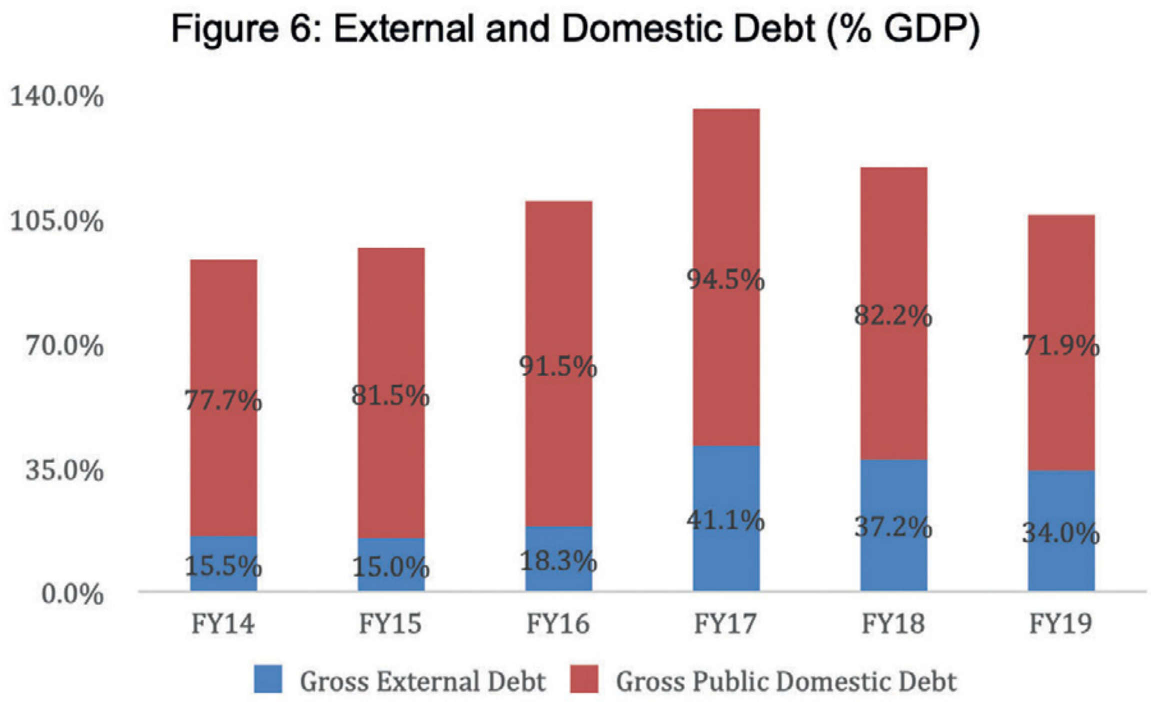
Source: The Monthly Bulletin, Ministry of Finance.

Figure 5: Government Expenditure and Revenue (% GDP)



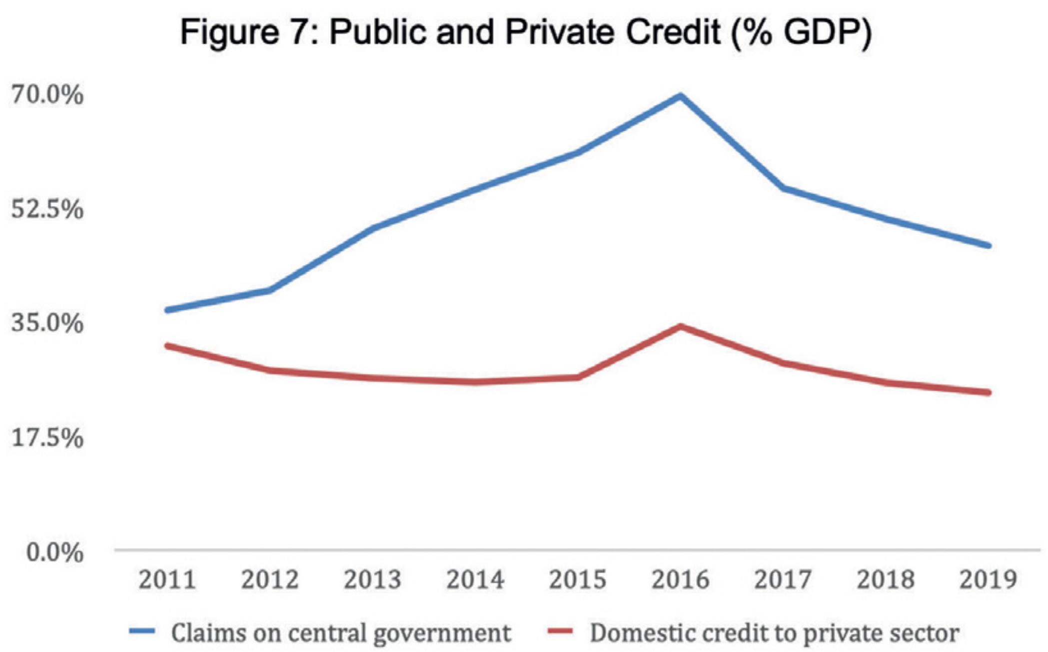
Source: The Monthly Bulletin, Ministry of Finance.

The picture becomes more problematic when the government's debt is taken into consideration. Both public domestic and external debt increased between FY14 and FY17 then started to decline to reach 72% and 34% of GDP respectively in FY19. Yet, despite this declining trend, the debt levels and its services remain high and put extra pressure on the ability of the government to generate a real fiscal space (see Figure 6).



Source: Authors' calculations using the Monthly Bulletin, Ministry of Finance.

This is confirmed by Figure 7 that depicts the evolution of credit to both the private sector and the government. Indeed, while claims on the central government declined from 69.3% in FY17 to 46.4% of GDP in FY19, domestic credit to private sector decreased 34% to 24% of GDP over the same period. These trends have two potential implications. On the one hand, the decrease in claims on central government point out the decline in future interest payments and hence less pressure on the government's budget. By contrast, the decline in credit to the private sector shows that less credit leads to less investment, and thus lower levels of job creation and economic growth. As it was mentioned before, this increases the likelihood of having more vulnerability since the informal sector can expand.



Source: Authors' calculations using the Central Bank of Egypt online dataset.

To sum-up, and based on the IMF (2018) criteria, it is clear that Egypt has a limited fiscal space because of the debt burden and the decline in government revenues. Moreover, there is no room for a looser fiscal policy stance, and any discretionary measures has to be budget neutral. In this case, more reforms are required to improve tax administration and hence collection. Moreover, from a social perspective, tax credits and an increased minimum personal income tax threshold will enhance tax relief at the lower income level. More generally, and in a longer term, the case is therefore made for a more transformative approach to both macroeconomic and social policies whereby welfare and human development are drivers of growth. This paper suggests recommendations that work towards this transformative shift.

6. Conclusion & Recommendations

This policy paper tries to identify the main measures to be implemented in order to have macroeconomic policies that are sensitive to social thinking and that are able to achieve socially desirable outcomes. Indeed, this research reflects on the degree to which social protection is leveraged to realize sound economic and development gains that realize social and economic rights and to what extend are these policies designed, implemented and monitored in dynamic and responsive ways that can adapt to crises and weather crises. Our main findings show that social protection is still an afterthought added to macroeconomic policies. Second, with a limited fiscal space, Egypt has to work on the revenue side of the budget to generate more room for a more comprehensive social spending (explicit such as social protection programs or implicit such as education and health spending).

Social policies are not developed in times of crisis. On the contrary, the great welfare regimes of the modern world were developed once crises had passed. The National Health in the UK was developed after the end of the Second World War. Worker's rights and security rights including the limitation of the working day and the protections of labor emerged after the great depression. Egypt needs a forward looking and strategically oriented approach to social reform that places resilience and human capability as key drivers of policy.

The programs and policies that address social rights and vulnerabilities are core elements of citizenship that now transcend the state itself as they are inscribed in an internationals slate of good practices. The state may not be able to afford these programs. It may be pursuing policies that are impoverishing its people or following dysfunctional or futile development trajectories. It may be part of the problem yet by adopting international best practices in the field of social policy this same state can seem to be finding a solution. The edifice of social protection in many countries is 'frozen' in a past socioeconomic order that no longer obtains, rendering it incapable of responding adequately to new risks and needs. However, this narrative on protection has not developed a sufficient engagement with the endogenous problems of the welfare state lie in the growing discrepancy between existing programme design and social demands.

The purpose of social thinking is to build resilience and enable people to absorb shocks and crises. Social thinking needs to be grounded, engaged and contextual to effectively realize this resilience and do so in a meaningful way that speaks to the local conditions and factors that challenge people and create stubborn needs. The COVID-19 pandemic revealed the disjointed and inadequate ability to respond to social vulnerability. It also made clear the importance of the existing social protection programs; particularly the food ration cards for the majority and the cash transfers for the very poor. The future demands a consultative, comprehensive and accountable approach to social spending that places protection at the heart of production and prioritizes well-being, health, and human rights.

From a policy perspective, several recommendations will improve the outcome of social policies from a macroeconomic perspective. First, because of the limited fiscal space Egypt has, more efforts have to be deployed in order to increase tax revenues. While it is difficult to conceive an increase in tax rates given the circumstances, tax administration (management, declaration, collection and allocation) has to improve. This will increase the efficiency of tax policy and raise tax revenues without further increases in tax rates.

Second, to have a more "on-the-ground" macroeconomic policy, a bottom-up approach where different stakeholders are involved will lead to more socially desirable outcomes. One of the interesting experiences in this regard is the Cairo Policy Lab that was implemented by Cairo University and the University of Bath. This Policy Lab provided a forum where different social policy issues are discussed with different stakeholders (Zaki, 2020). Indeed, it was a collaborative space for researchers, government officials, bureaucrats and civil society to deal with the complex social policy issues facing policymakers. The key message from this policy lab case in Egypt was that having a sustainable forum of discussion is crucial for a more effective policymaking process.

Third, in order to have more informed policies, it is indispensable to improve the availability of data in a more timely fashion, with a wider coverage and potentially additional variables. In this regard, the government can make use of the Unified National Registry. Finally yet importantly, re-prioritizing government spending is must to increase both current (social programs) and productive (education and health) social spending at the expense of spending on infrastructure.

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