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REFORMING EGYPT'S FOOD SUBSIDY SYSTEM: BALANCING SOCIAL PROTECTION AND FISCAL EFFICIENCY

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Executive Summary

Egypt's food-subsidy regime, one of the oldest in the Middle East, stands at the intersection of social protection, political stability, and fiscal sustainability. Over the past decade (2015–2025), successive governments have sought to reduce the relative fiscal weight of subsidies, driven by budget pressures, inflation, and external adjustment programmes. Among citizens, however, these measures are often perceived as a retreat from the state's historic social responsibilities, reinforcing concerns about affordability and food security.

Food subsidies remain a central pillar of Egypt's implicit social contract. Originating in the 1940s and expanded after the 1967 war, the ration-card and bread-subsidy systems today reach more than half of the population. While their contribution to social stability has been significant, the current in-kind model has become economically inefficient, weakly targeted, and increasingly ineffective in protecting real purchasing power amid high inflation and currency depreciation.

Government discourse has increasingly referred to a gradual transition from in-kind subsidies toward cash-based support. This paper critically examines that transition, moving beyond abstract debate to propose a fiscally credible, socially targeted, and digitally enabled reform model for Egypt's food-subsidy system. The analysis integrates macro-fiscal assessment, institutional evaluation, and social-welfare considerations, and is informed by comparative experience from the United States (SNAP), Brazil (Bolsa Família), India, Morocco, and Jordan.

The paper's central contribution is the design of a three-tier, income-linked cash transfer system covering 58.5% of the population, aligned with World Bank vulnerability benchmarks. The proposed system differentiates between very poor, poor, and vulnerable households, delivers benefits digitally through smart cards linked to bank accounts or mobile wallets, and indexes transfers to food inflation to preserve real value. Eligibility is anchored to household income thresholds linked to the statutory minimum wage, while coverage is capped at four persons per household to ensure fiscal predictability.

The proposed reform maintains total expenditure broadly within the current food-subsidy envelope (approximately EGP 160 billion annually). Structural savings from removing subsidised fuel to bread bakeries and replacing state-managed distribution points with private retailers generate fiscal space, providing the government with flexibility to enhance support during inflationary shocks, introduce targeted social incentives, or strengthen indexation mechanisms without increasing overall budgetary pressure.

The paper argues that subsidy reform should not be driven by fiscal arithmetic alone but by a coherent national strategy that restores food security, improves targeting, and rebuilds citizen trust. When properly sequenced, transparently communicated, and supported by robust digital infrastructure, a transition to income-tested cash support can reconcile fiscal sustainability with Egypt's enduring commitment to protecting poor and vulnerable households.

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1. Introduction

Although the COVID-19 pandemic accelerated global interest in cash-transfer programmes, Egypt's debate on monetary support long predates 2020. Since the early 2000s, policymakers and researchers have explored the feasibility of shifting from commodity subsidies to cash assistance. What was once an academic question has now become a fiscal and political imperative.

The pandemic served as a stress test for welfare systems worldwide. Between 2020 and 2022, 186 countries introduced or expanded 734 cash-transfer programmes, demonstrating their flexibility and administrative reach. The global shift provides Egypt with a wide set of comparative cases to draw upon [1]. Yet any local adaptation must respect Egypt's own socio-economic realities such as persistent inflation, a large informal labour market, and a rooted expectation that the state guarantees affordable bread and essential foodstuffs.

Two guiding assumptions underpin this paper:

1. **International relevance:** Global experience with cash transfers offers practical design templates that can inform Egypt's pathway.
2. **National specificity**: Subsidy reform in Egypt is not a purely economic matter but a component of the social contract between citizens and the state.

The paper adopts a balanced reform framework built around four priorities:

- Enhancing targeting accuracy to ensure that benefits reach genuine low-income households.
- Improving distribution efficiency through digital payment systems and market-linked pricing mechanisms.
- Preserving food-security outcomes by maintaining the affordability of key staples.
- Embedding fiscal responsibility by capping food-subsidy costs at sustainable levels that do not exceed global best-practice norms.

Subsequent sections examine the structure and evolution of Egypt's subsidy system, analyse the incentives and influence of key stakeholders, evaluate feasible policy alternatives, and draw lessons from relevant

international and regional experiences. The concluding recommendations present a set of actionable, evidence-based steps to help policymakers reconcile fiscal sustainability with the government's commitment to reducing poverty and protecting vulnerable households.

2. Background: Egypt's Food Subsidy System

Egypt's food subsidy system is both historic and politically sensitive, deeply woven into the country's economic governance and state–citizen relationship. The roots of state-subsidised food distribution date back over eight decades to the 1940s, when wartime scarcity prompted the introduction of the first national food-rationing system [2].

By 1967, following the Arab–Israeli war, the government established the General Authority for Supply Commodities (GASC) as the main procurement and distribution agency. Since then, GASC has remained responsible for ensuring the continuous provision of subsidised staples, principally bread, flour, rice, sugar, and cooking oil, to tens of millions of citizens.

Despite successive reforms, the structure of Egypt's food subsidy system has changed little: it continues to function as a large-scale public procurement and distribution mechanism, heavily centralised within the Ministry of Supply and Internal Trade
.

2.1 Structure and Fiscal Weight

The subsidy system operates primarily under "Chapter Four" of the national budget (Subsidies, Grants, and Social Benefits), which encompasses multiple forms of economic support. Within this structure, commodity subsidies represent one of the most significant components (60%). According to the Ministry of Planning and Economic Development, food-commodity subsidies accounted for 74.3% of all commodity-subsidy spending in FY 2022/23, followed by petroleum-product subsidies at 23.2% [3]. The detailed breakdown of food-commodity subsidies is presented in Table 1

Table 1. Breakdown of Food-Commodity Subsidies in Egypt (FY 2022/23)

Sub-Item	Expenditure (EGP million)	Percentage
Bread subsidy	48,917	54.4%
Milling-flour subsidy	2,646	2.9%
Bread-points subsidy	2,437	2.7%
Ration-card food subsidy	36,000	40%
Total	**90,000**	**100%**

Source: Ministry of Planning and Economic Development, Follow-up Report on Economic and Social Performance for FY 2022–2023, p. 220 [3].

Food subsidies thus remain the single largest economic support programme in Egypt. Benefiting more than 61 million citizens through around 24 million ration cards, equivalent to almost 55 percent of the population [4, 5].

Although the nominal budget for food subsidies has risen in Egyptian pounds to EGP 160 billion (ration goods and bread) in the fiscal budget of 2025/26 [6], its real value, adjusted for inflation and currency depreciation, has steadily declined. Between FY 2010/11 and FY 2024/25, the share of all subsidies and social benefits in total government expenditure fell from **30.6** percent to **16.4** percent, while its weight in GDP declined from **8.9** percent to **3.7** percent [7].

This reflects both the government's attitude towards fiscal consolidation and the influence of IMF-supported stabilisation programmes, which prioritise narrowing the budget deficit and subsidy efficiency.

2.2 Composition of Food Subsidies

Egypt's food-subsidy system consists of two main components:

1. **The Bread Subsidy (Baladi Bread Programme)**, guaranteeing a daily quota of subsidised loaves at a fixed price of 20 piastres each (0.2 EGP), despite production costs exceeding 1.25 EGP in 2024.
2. **The Commodity Ration Card System**, providing each registered citizen with a monthly allowance of **EGP 50** for the first four members of the family and half this amount for extra members. A digital credit on the card is used to purchase from a list of around 30 subsidised goods via licensed retailers.

The introduction of **smart cards** in 2014 marked a turning point, replacing paper vouchers and allowing beneficiaries to redeem entitlements electronically. Each family's card is linked to the national ID system, and purchases are recorded in real time through the Smart Services Company platform.

This digitalisation achieved administrative savings and curtailed duplication, but targeting accuracy remains weak: wealthier households continue to benefit alongside the poor, and exclusion errors persist for unregistered informal-sector families.

2.3 Historical Evolution

The evolution of Egypt's food-subsidy system can be summarised in four broad phases:

Table 2 Timeline of Egypt's subsidy reforms and fiscal share.

Period	Key Characteristics	Policy Direction
1941–1970s	Wartime rationing and post-colonial expansion; universal access to basic goods	Social-contract consolidation
1980s–1990s	Partial liberalisation under IMF and World Bank structural-adjustment programmes	Price rationalisation; gradual targeting
2000s–2013	Administrative modernisation; rising fiscal pressure	Pilot projects for cash-transfer alternatives
2014–2025	Smart-card reform; discussions on monetary subsidy "cash transfer"	Digital efficiency; movement toward cash support

2.4 Economic and Social Context

The subsidy system operates in a complex environment marked by rapid inflation, currency volatility, and persistent poverty. Official poverty rates rose from 19.6 percent in 2004/05 to 29.7 percent in 2019/20, and independent studies estimate that they exceeded 35 percent in 2022/23 [8].

Yet, during this same period, the coverage of food subsidies fell from about 80 percent of the population in 2012 to 55 percent in 2024. This paradox, higher poverty but lower coverage, underscores the erosion of purchasing power and questions the validity of the current subsidy system.

Moreover, inflation has dramatically reduced the real value of benefits. The EGP 50 monthly credit per person, introduced in 2017 [9] when USD 1 = EGP 18, is worth barely USD 1 today, following successive currency devaluations. Consequently, the effective quantity of food obtainable under subsidy has declined despite nominal spending increases.

2.5 Towards Digital and Fiscal Reform

The government's ongoing transition to digital food-subsidy management demonstrates institutional learning but also reveals systemic challenges:

- Bureaucratic centralisation continues to impede responsiveness to citizens' appeals and complaints.
- Opaque data disclosure limits public accountability. The Ministry of Supply's monthly bulletins irregularly publish figures on active cards and beneficiaries.
- Policy inconsistency, for example, removal of 13.7 million beneficiaries in 2018–2019 without transparent criteria, has undermined trust [10].

These issues illustrate that technology alone cannot ensure reform success without transparent governance and a clearly communicated social-contract narrative.

2.6 Political Economy of Subsidy Reform

Historically, any attempt to alter food prices has provoked public unrest. The January 1977 "bread riots" remain a defining cautionary event,

reinforcing the perception that subsidy reduction is politically explosive. More recently, public reaction to sugar shortages in 2023–2024 and price spikes in edible oil revealed the political sensitivity surrounding the state's food-security commitments.

However, evidence from global and regional experience suggests that phased, well-targeted cash-transfer programmes can preserve social stability while achieving fiscal savings. Egypt's challenge is therefore not whether to reform, but how to sequence and communicate reform credibly.

2.7 Lessons from Current Structure

A review of the existing food-subsidy framework yields three key insights:

1. **Economic Inefficiency:** The system functions as a blanket consumption subsidy rather than a targeted safety net.
2. **Administrative Leakage:** Weak monitoring, outdated registers, and lack of cross-agency data sharing cause both inclusion and exclusion errors.
3. Fiscal Rigidity: The fixed pricing of bread and basic commodities, combined with a volatile exchange rate, exposes the budget to cost overruns during external shocks.

In short, Egypt's subsidy regime is historically justified but economically exhausted. Reform is unavoidable to provide a social net for the poor and vulnerable within a sustainable fiscal policy.

3. Stakeholder Perspectives and Government Objectives

Food-subsidy reform in Egypt involves a wide range of stakeholders, each with distinct and sometimes conflicting interests. While the government's policy narrative emphasises fiscal sustainability and efficient targeting, citizens perceive subsidies as a vital element of social protection. Understanding these perspectives is critical to designing reforms that are both economically rational and socially legitimate.

3.1 Government Objectives: Balancing Fiscal Pressure and Social Obligations

Over the past decade, successive Egyptian governments have treated subsidy rationalisation as a central component of fiscal consolidation. Official statements repeatedly frame the issue in economic rather than social terms, portraying subsidies as a budgetary burden rather than a redistributive tool

.

This language reflects a policy orientation that prioritises fiscal stability at the expense of the cost of alleviating poverty. The government's implicit objectives can be summarised as follows:

1. Reducing the budget deficit by reducing relative cost of subsidies and aligning domestic prices with global market levels.
2. Adopting IMF-supported reform, particularly regarding liberalising energy and commodity prices.
3. Reframing the state's role from universal provider of subsidies to viewing subsidies as a budget burden.

These fiscally focused aims risk alienating lower-income citizens, if not paired with fundamental economic reforms and compensatory safety nets.

The pattern of policy announcements reveals a communication asymmetry: increases in nominal subsidy allocations are frequently highlighted in public discourse, while real-term reductions or changes in beneficiary coverage receive far less attention. As a result, public perception of reform tends to focus on loss rather than efficiency gains.

Furthermore, despite repeated statements about a future transition to cash transfers, no comprehensive strategy has yet been published. The absence of a clearly communicated roadmap has limited public trust and created uncertainty among citizens and retailers alike.

3.2 Citizens as Principal Stakeholders

The ration-card system represents continuity with the state's historical promise of affordable access to food since the 1940s. However, the structure of current benefits increasingly fails to meet the needs of those who are economically poor or vulnerable.

Public support for food subsidies remains extremely high. According to Arab Barometer's 2021–2022 nationally representative survey, more than 80 percent of Egyptians believe that the state should continue subsidising essential food commodities, a view shared across income groups [11].

The government's earlier attempt (2018–2019) to exclude 13.7 million people from the food-subsidy lists, based on opaque criteria, deepened distrust. Many affected families perceived the measure as arbitrary.

Restoring transparency in eligibility criteria is therefore critical before any move toward full monetisation.

3.3 Citizens as Autonomous Agents, Not Passive Beneficiaries

A recurring weakness of Egypt's subsidy administration is the absence of participatory feedback mechanisms. The public in general and beneficiaries in particular are treated as recipients rather than influencers of policy design. Government programmes should be narrowly and clearly defined, with individuals exercising choice and responsibility in addressing their needs.

Two reforms could strengthen individual autonomy and reduce the scope for arbitrary state decisions:

1. **Transparent Public Data Disclosure:**

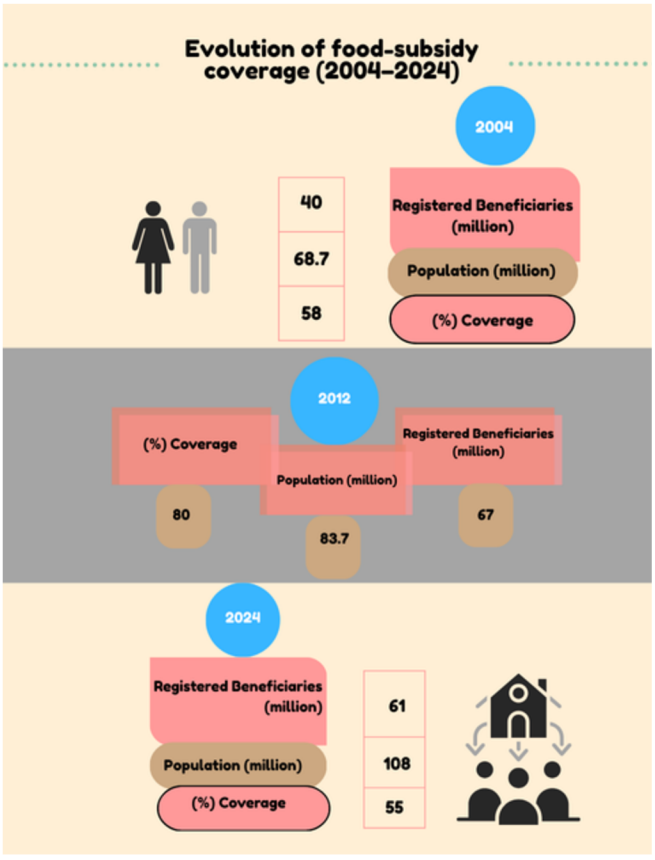
Regular publication of beneficiary statistics would allow independent citizens, researchers, and civil-society actors to scrutinise the system. Greater transparency enables individuals to hold public institutions accountable.

2. **Individual Rights to Appeal and Redress:**

A clear, digital grievance mechanism, linked to the national ID system, would allow citizens to challenge errors, exclusions, or administrative decisions directly. Such mechanisms protect personal rights, reduce bureaucratic discretion, enhance legitimacy and create pressure for administrative accountability.

3.4 Quantitative Snapshot of Beneficiaries

Despite the importance of accurate data, official figures on subsidy coverage remain inconsistent across government sources. Based on triangulated data from various sources Supply and CAPMAS, [12] the following trends emerge:



While Egypt's population increased by nearly 40 million between 2004 and 2024, the percentage of coverage among the population has dropped. The resulting drop in coverage occurred during a period of rising poverty and food-price inflation, suggesting that ration-card has not served the primary reason of subsidies which is to protect the poor and vulnerable.

This contraction, coupled with low purchasing power, signals a progressive erosion of the subsidy's real welfare value.

3.5 Data Transparency and Policy Credibility

Transparency is a precondition for market-oriented reform. Public access to accurate, regularly updated data on the subsidy system would enable evidence-based policymaking and limit speculation. However, many government bulletins omit critical indicators such as the number of active ration cards, total monthly expenditure, or distribution across governorates.

This opacity has broader implications: it prevents independent assessment of whether fiscal savings from subsidy rationalisation are actually re-allocated to productive social-investment programmes.

Introducing open-data dashboards, similar to those used in India's Public Distribution System portal [13], would allow tracking of performance indicators and strengthen accountability.

3.6 Political Sensitivity and Social Stability

Food-price shocks remain among the most politically charged issues in Egypt. The memory of the 1977 Bread Riots, triggered by a proposed reduction in subsidies, continues to shape policymaking [14]. It has led to enduring caution in Egyptian economic policy.

International experience demonstrates that even fiscally conservative governments must sequence subsidy reforms carefully to avoid social unrest. A phased approach, paired with well-communicated compensation mechanisms, tends to maintain stability while aligning with long-term fiscal goals.

For Egypt, this means coupling targeted cash transfers with transparent communication about their design, coverage, and inflation adjustment. Without such clarity, even technically sound reforms may face social resistance.

3.7 Interim Observations

A synthesis of stakeholder analysis yields several implications for reform:

- **Fiscal and social objectives must converge.** Subsidy rationalisation cannot be sustained without a credible social-protection layer.
- **Citizenship trust is central**. Vague criteria for exclusion, exclusion errors and weak communication erode legitimacy.
- **Digitalisation is essential but** technology should be combined with governance reform and feedback mechanisms.
- **The political economy of reform** requires sequencing, transparency, and protection for low-income groups to pre-empt backlash.

Ultimately, food-subsidy reform is not about expanding state control, but about ensuring that assistance is targeted to the poorest while empowering individuals with the freedom to make their own spending choices. By shifting toward cash-based support, citizens become economic agents rather than passive recipients, and the state's role is limited to protecting the most vulnerable.

4. Evaluating the Current Policy and Exploring Alternatives

Reforming Egypt's food-subsidy regime requires first recognising the structural weaknesses of the existing system. Despite its historic role in social protection, the programme now exhibits fiscal inefficiency, administrative leakage, and declining real benefits to citizens. This section reviews these challenges and presents potential reform pathways, drawing on quantitative data and international evidence.

4.1 Major Structural Challenges

A. Bureaucratic and Institutional Complexity

The food-subsidy system is administered through a multi-layered bureaucracy comprising the Ministry of Supply and Internal Trade, the General Authority for Supply Commodities (GASC), governorate-level supply directorates, and thousands of licensed ration retailers.

Such complexity fosters overlap, delays, and corruption risk. Former Minister Gouda Abd El-Khaleq [15] described the process as "administratively suffocating," where even minor beneficiary adjustments required ministerial approval. Although partial decentralisation began in 2011, Egypt's subsidy governance remains highly centralised [16].

B. Weak Targeting and Coverage Errors

Because eligibility criteria have not been periodically updated, the system still includes households above the poverty threshold while excluding many informal-sector workers [17]. In 2018–2019, the Ministry of Supply removed approximately 13.7 million names from ration cards, citing duplication and ineligibility, but no public methodology was released [18][10].

C. Erosion of Real Benefit Value

Inflation and repeated currency devaluations have severely eroded the real value of the fixed EGP 50 monthly food allowance. When introduced in 2017, at an exchange rate of USD 1 ≈ EGP 18, the allowance was equivalent to about USD 2.8 per person per month. By mid-2025, with the exchange rate approaching USD 1 ≈ EGP 50, its nominal dollar value has fallen to roughly USD 1.

The domestic purchasing power of the allowance has collapsed even more sharply. As shown in Figure 1, when deflated by the consumer-price index for food and non-alcoholic beverages, the real value of the EGP 50 credit declines to just EGP 17.17 in 2024. In effect, a benefit that was originally intended to support basic consumption now covers only a fraction of the same food basket.

This illustrates the fundamental weakness of fixed nominal subsidies in an inflationary environment: without indexation or adjustment, their effectiveness deteriorates automatically, leaving beneficiaries less protected.

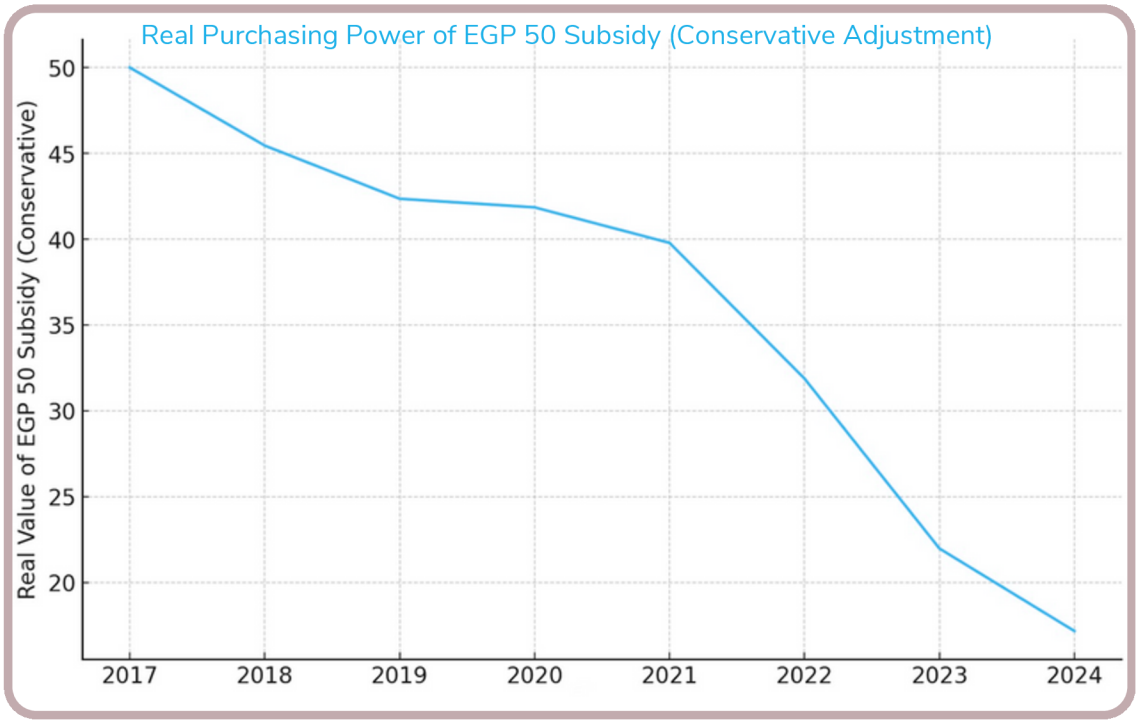


Figure 1 Real Purchasing Power Decline

D. Erosion of Physical Entitlements and Product Shrinkage (2012–2025)

Inflation has eroded not only the purchasing power of the fixed EGP 50 monthly credit, but also the physical quantities of subsidised commodities provided through the ration-card system. As shown in Table 4, entitlements per beneficiary have fallen by roughly 47% for oil, 50% for sugar, 50% for rice, and 20% for tea between 2012 and 2025.

These reductions reflect three structural pressures documented across official and academic sources:

1. Rising import costs and currency depreciation, which sharply increased the fiscal cost of procuring oil, sugar, and rice during 2016–2024 [19].
2. Budgetary constraints, leading the Ministry of Supply to maintain nominal credit while reducing physical entitlements to remain within expenditure ceilings [20].
3. Periodic supply-chain disruptions, especially after the Russia–Ukraine conflict, which prompted administrative rationing and adjustments to monthly quotas [21].

Together, these dynamics show that in-kind subsidies contract silently under stress, reducing the goods households actually receive even when nominal benefits remain unchanged. This reinforces a core argument: centralised ration systems are vulnerable to opaque quantity reductions, whereas targeted, indexed cash transfers preserve transparency, choice, and real purchasing power for low-income households.

Table 4. Erosion of principal ration commodities (2012–2025) [22][23]

Year	Oil (kg)	Oil Value (EGP)	Sugar (kg)	Sugar Value (EGP)	Rice (kg)	Rice Value (EGP)	Tea (g)	Tea Value (EGP)
2012	1.5	4.5	2.0	2.5	2.0	3.0	50	0.65
2013	1.5	10.5	2.0	9.0	2.0	8.0	50	2.00
2017	1.0	14.0	2.0	20.0	1.0	6.5	50	2.75
2023	0.8	30.0	1.0	12.6	1.0	12.7	50	5.00
2025	0.8	30.0	1.0	12.6	1.0	15.0	40	4.00

E. Macroeconomic Volatility

Because Egypt imports most wheat and cooking oil, subsidy costs are highly sensitive to exchange-rate fluctuations and global commodity prices. When the Egyptian pound depreciated by 50 % in 2023–2024, the fiscal cost of the bread subsidy rose proportionally.

4.2 Quantitative Trends

Table 5. Fiscal and social indicators of Egypt's subsidy system, 2010–2025

Indicator	2010/11	2015/16	2020/21	2024/25
Total subsidy & social-benefit share of expenditure (%)	30.6	25.2	18.7	16.4
Share of GDP (%)	8.9	6.1	4.4	3.7

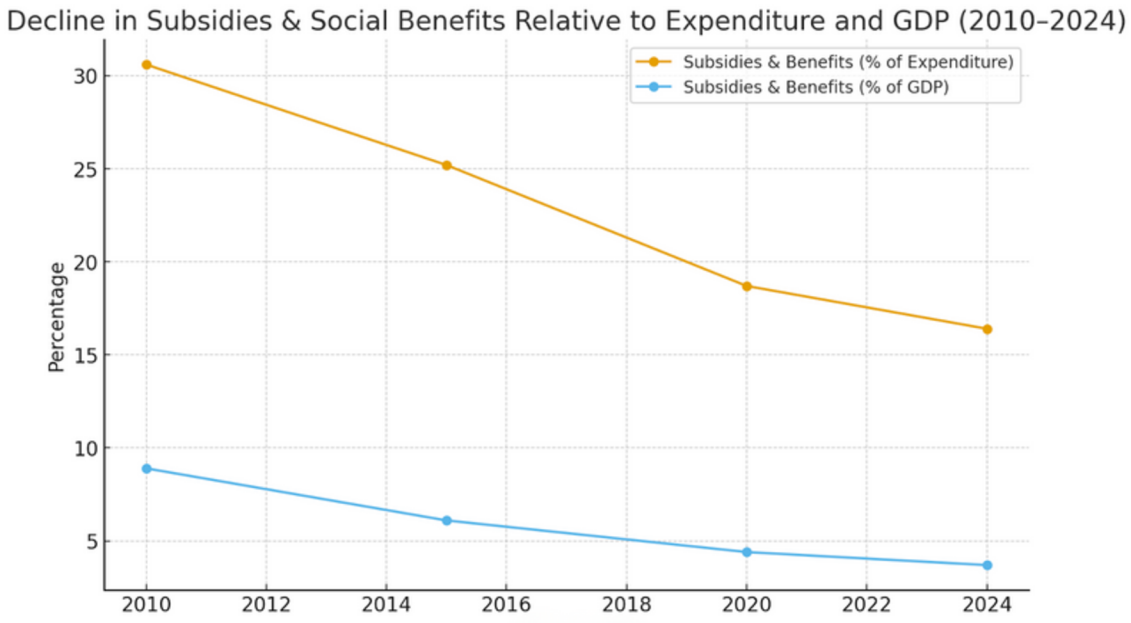


Figure 2 Decline of subsidies as % of Expenditure and GDP

4.3 Fiscal and Administrative Leakage

Leakage and inclusion errors have long been recognised as structural weaknesses in Egypt's food-subsidy system. Earlier studies by the World Bank and independent researchers documented significant diversion of subsidised goods and considerable benefit leakage to non-poor households, underscoring the system's vulnerability to inefficiency and weak targeting [24].

News reports and enforcement actions consistently document diversion and informal resale of subsidised flour and other ration goods. Statements from the Ministry of Supply and repeated seizures by Supply Investigations indicate that substantial quantities of subsidised commodities continue to be illegally resold, reflecting structural weaknesses in the in-kind subsidy chain [25] [26] [27].

4.4 Risks of an Abrupt Shift to Cash Transfers

While cash transfers will improve efficiency, unmanaged monetisation carries political and inflationary risks.

1. **Price Pass-Through:** Removing in-kind subsidies without stabilisation measures could immediately raise prices [28] [29] [30].
2. **Inflation Erosion**: If cash amounts are not indexed to inflation, their real value may vanish within months [31][32].
3. **Digital Inclusion Gaps**: Rural and elderly beneficiaries may lack access to e-wallets or bank accounts [33] [34].
4. **Social Resistance**: Historical precedent shows that abrupt changes can trigger protests and political instability [35][36].

Hence, transition design must mitigate those risks, prioritise communication, and compensation.

4.5 Alternative Policy Pathways

Three broad reform scenarios emerge from international and regional experience.

Table 5. Alternative reform scenarios for Egypt's subsidy system.

Scenario	Mechanism	Expected Fiscal Impact	Equity Impact	Implementation Risk
A. Maintain In-Kind System (Status Quo)	Continue smart-card rationing, minor administrative tweaks	Low short-term cost saving	Reduction in protection of the poor, increasingly inefficient	Low political riskNo inflationary impact
B. Partial Cash Conversion (Hybrid (Model	Gradual cash transfer ;for non-bread items maintain subsidised bread	Medium savings (bn EGP/yr 15-10)	Targeted improvement but requires data upgrade	Moderate political risk; moderate inflationary risk
C. Full Cash Transfer (Monetary (Subsidy	Replace all in-kind support with monthly digital payments indexed to CPI	High savings after 3-5 yrs	High inequality risk unless well-targeted	High political and inflation risk

Among these three options, the hybrid model, retaining subsidised bread while monetising other goods subsidies, offers the most politically feasible transitional path. However, it does not resolve the issues of accurate targeting, leakage and bureaucracy cost.

4.6 Governance and Technological Enablers

Successful reform depends on the digital and institutional foundations that enable accurate targeting and fiscal monitoring. Key requirements include:

- **Integrated National Beneficiary Registry** linking ration cards, social-assistance databases, and national IDs with Social insurance numbers to capture income;
- **Digital Payment Platforms** managed jointly by the Ministry of Finance and the Central Bank to deliver transfers through e-wallets or prepaid cards;
- **Real-Time Data Dashboards** publicly accessible for transparency;
- Third-Party Auditing by the Accountability State Authority and independent agencies to verify subsidy reach.
-

These mechanisms mirror the architecture of India's Direct Benefit Transfer (DBT) system and Brazil's Bolsa Família—both of which reduced leakage by between 20 and 36% within two years of launch [37] [38] [39] [40].

4.7 Summary Assessment of the Existing Food Subsidy Framework

The analysis in Sections 2–4 highlights that Egypt's current food-subsidy framework continues to play an important stabilising role but is increasingly misaligned with contemporary economic conditions. While the system has historically contributed to social cohesion and food access, its underlying design reflects a price-based logic that is poorly suited to an environment of sustained inflation, currency depreciation, and fiscal constraint.

The dominance of in-kind subsidies—particularly subsidised bread and ration-card commodities—has resulted in weak targeting outcomes. Eligibility is largely disconnected from household income, leading to significant inclusion errors and regressive benefit distribution. As a result, a substantial share of subsidy expenditure accrues to households that are neither poor nor economically vulnerable, while the real value of support received by poorer households has eroded over time.

From a fiscal perspective, the current system remains costly yet inefficient. Budgetary outlays have been partially contained through periodic price adjustments and quantity controls, but these measures have not addressed the structural drivers of leakage, administrative fragmentation, and benefit dilution.

Institutionally, the system has undergone partial digitalisation, notably through smart ration cards. However, digital tools have primarily improved transaction monitoring rather than eligibility determination. The absence of a unified, income-linked beneficiary registry limits the state's ability to target support dynamically or to adjust benefits in response to changing economic conditions.

Taken together, these findings suggest that the principal weakness of Egypt's food-subsidy system is not its scale, but its structure. The challenge is therefore not whether food support should continue, but how it can be redesigned to better protect vulnerable households while improving fiscal efficiency and policy credibility. This assessment provides the basis for examining international experience and for developing a reform model that reconciles social protection objectives with economic sustainability.

5. International & Regional Models of Food-Subsidy Reform

This section examines selected international and regional food-subsidy and cash-transfer systems using a common set of evaluation criteria, allowing for a structured comparison across countries with differing income levels, institutional capacities, and welfare traditions.

The analysis focuses on four systems: the United States (SNAP), Brazil (Bolsa Família), Morocco's direct social-support programme, and Jordan's cash-based compensation schemes. Each case is assessed against seven criteria covering coverage, benefit adjustment, fiscal cost, macroeconomic footprint, targeting performance, digital delivery arrangements, and broader structural features.

5.1 United States: Supplemental Nutrition Assistance Program (SNAP)

SNAP is the largest food-assistance programme in high-income countries, providing monthly electronic benefits to eligible low-income households. It operates entirely through digital payments, with national standards for eligibility, monitoring, and fraud control.

Coverage and Eligibility Architecture

SNAP covers approximately **42 million** individuals (about 12–13% of the U.S. population). Eligibility is based on income and assets, with federal thresholds (e.g. gross income ≤130% of the federal poverty line), adjusted annually. States administer caseloads under federal oversight. Inclusion and exclusion errors exist but remain relatively low due to extensive verification procedures [41].

Indexation and Benefit Adjustment

Benefit levels are indexed annually using the Thrifty Food Plan (TFP), which models the cost of a nutritionally adequate diet. Indexation is automatic and nationwide.

This ensures benefits adjust in line with food inflation, preserving purchasing power, especially during high inflation periods such as 2022–2023 [42].

Fiscal Burden (% of Government Expenditure)

SNAP spending fluctuates with economic conditions. In recent years, it has represented approximately **1.5–2%** of federal expenditure, with temporary increases during recessions or national emergencies. The programme is federally financed, with states contributing only to administrative costs [20].

Cost as Share of GDP

SNAP typically accounts for **0.3–0.5% of U.S. GDP,** marking it as a relatively small but stable component of national welfare spending. Its macro-fiscal footprint is modest despite large administrative reach [20].

Targeting Performance and Leakage

SNAP has some of the lowest leakage rates internationally. Confirmed fraud and trafficking losses are around **1–2%** of total programme benefits, reflecting strong oversight and digital integrity systems. The retailer network, over **260,000** authorised stores, is monitored through automated anomaly detection, periodic audits, and disqualification procedures [43].

Digital Delivery Infrastructure

SNAP operates entirely on Electronic Benefit Transfer (EBT), with monthly digital deposits redeemable at authorised retailers. Identity verification, case management, and payment processing are integrated into federal and state information systems. Data analytics and real-time monitoring support fraud prevention and compliance.

Structural Design Features

SNAP is a cash-like, unconditional transfer restricted to food purchases but without behavioural conditionality (unlike Brazil's Bolsa Família). Administration is decentralised to states but governed by federal statute, ensuring uniform rules and national standards. Portability is nationwide. A formal grievance mechanism and periodic eligibility recertification enhance accountability.

5.2 Brazil, Bolsa Família and the Digital Cash Transfer Model

Bolsa Família is one of the world's most established digital cash transfer programmes. It provides income support to low-income households through a unified national registry and an electronic payment infrastructure. The programme is widely regarded as a benchmark for targeting accuracy, administrative efficiency and low leakage.

Coverage and Eligibility Architecture

Bolsa Família currently supports approximately **21 million households**, representing about one third of Brazil's population. Eligibility is based on verified household income as reported in the Cadastro Único national registry, with categorical priority given to families with children, pregnant women and adolescents. Coverage is targeted rather than universal and benefits are adjusted based on household composition [44].

Indexation and Benefit Adjustment

Benefit values are reviewed periodically and increased through federal decree. Adjustments reflect fiscal conditions rather than automatic inflation indexation. During periods of high inflation, the real value of benefits decreases until new adjustments are approved, which has occurred several times, most recently in 2023 and 2024.

Fiscal Burden, percentage of government expenditure

Spending on Bolsa Família typically ranges from **1.5 to 2.5** percent of federal expenditure. Fluctuations reflect government decisions on benefit levels and the number of enrolled families. Although politically salient, the programme represents a modest share of the federal budget relative to its national reach [45] .

Cost as a Share of GDP

Bolsa Família generally costs between **0.4 and 0.6 percent of GDP**. This macroeconomic footprint is small compared to in kind food subsidy systems in many developing countries, reflecting the lower administrative cost of cash transfers.

Targeting Performance and Leakage

Early assessments in the 2000s indicated inclusion and exclusion errors exceeding **30 percent**. The introduction of Cadastro Único, cross checking with tax and employment databases and periodic data verification reduced these errors by almost half to around **15 to 16 percent**, while confirmed fraud cases remain below **2 percent.** Continuous updating of the registry and municipal level oversight contribute to maintaining targeting accuracy [46].

Digital Delivery Infrastructure

Benefits are paid electronically through Caixa Econômica Federal using dedicated social programme accounts. Cadastro Único serves as a centralised database linking household demographic and socioeconomic data with eligibility decisions. The system supports automated verification, periodic audits and integration with other social protection programmes. Payment traceability is high and reduces opportunities for diversion.

Structural Design Features

Bolsa Família combines income transfers with behavioural conditions related to school attendance, child vaccination and prenatal care. Administration is decentralised, with municipalities responsible for enrolling households and verifying compliance while the federal government manages financing and payment processing. Grievance mechanisms and periodic social audits support transparency and accountability.

5.3 Jordan: Cash Transfers and Subsidy Reform Through NAF and the Bread Compensation Scheme

Jordan has moved steadily toward monetised social assistance, replacing several in kind subsidies with targeted cash transfers. The National Aid Fund (NAF) manages the country's principal cash transfer programmes, supported by a national unified registry and a digital payments ecosystem. Jordan's experience illustrates how cash transfers can be expanded within fiscal constraints while improving targeting accuracy.

Coverage and Eligibility Architecture

The NAF cash assistance programmes reach approximately **220,000 to 250,000** households, representing about **1.2 million** individuals or **10 percent** of the population. Eligibility is determined through a proxy means test that assesses household income, consumption, assets and vulnerability indicators. The system is designed for inclusion of poor and vulnerable households but not universal coverage [47].

Indexation and Benefit Adjustment

Benefit levels are reviewed periodically but are not automatically indexed to inflation. Adjustments occur through government decisions, which means real benefit values decline during periods of high inflation. This was evident during the inflationary pressures of 2022 and 2023 when cash transfer values lagged behind rising food and fuel costs

.

Fiscal Burden, percentage of government expenditure

Social assistance spending including NAF programmes typically accounts for **1.2 to 1.5 percent** of central government expenditure. Jordan finances social assistance through both domestic revenue and international development partners, especially the World Bank and EU, which support targeting and delivery reforms.

Cost as a Share of GDP

Cash transfer programmes generally represent **0.3 to 0.4 percent** of GDP. This reflects Jordan's limited fiscal space and its strategy of maintaining narrowly targeted assistance rather than broad universal transfers.

Targeting Performance and Leakage

The introduction of the unified national registry and automated eligibility scoring has improved targeting performance. Leakage declined markedly compared to earlier categorical schemes, with independent evaluations suggesting inclusion error rates of **10 to 15 percent** and exclusion errors somewhat higher due to the tight eligibility thresholds. Leakage from fraud or diversion is considered low because payments are made directly into verified bank accounts or mobile wallets [48].

Digital Delivery Infrastructure

Jordan operates a fully digital payments system for NAF benefits using bank accounts and mobile money through the JoMoPay platform. The national unified registry integrates data from multiple ministries and is linked to civil registration databases. Automated verification, digital application platforms and remote grievance channels have reduced administrative bottlenecks and improved oversight [49].

Structural Design Features

Jordan's cash transfer system is centralised, with benefit levels set nationally and administered through NAF offices and digital channels. The 2018 bread subsidy reform replaced a universal in kind subsidy with compensation transfers to eligible households, marking an important shift toward monetisation [50].

5.4 Morocco: Digitalisation and the Transition Toward Unified Cash Transfers

Morocco is undergoing a major social protection reform that phases out several commodity subsidies and replaces them with targeted cash transfers.

The reform is built around the Unified Social Registry and the expansion of Tayssir and other social assistance programmes. Morocco's experience demonstrates the role of national digital registries in restructuring subsidy systems.

Coverage and Eligibility Architecture

Morocco's emerging unified cash transfer system aims to cover **7 to 8 million households** once fully implemented. Eligibility relies on the national social registry (Registre Social Unifié), which scores households based on income, demographic characteristics and vulnerability indicators. The system consolidates multiple programmes under a single eligibility framework and moves away from broad and often regressive price subsidies [51].

Indexation and Benefit Adjustment

Cash transfer values are not automatically indexed to inflation. Adjustments are made by government decision and may lag behind cost-of-living increases. During the reform rollout, benefit amounts for child allowances and social assistance were periodically revised to maintain adequacy, but the adjustments remain discretionary rather than automatic [52].

Fiscal Burden, percentage of government expenditure

Social assistance spending including cash transfers and health insurance expansion represents approximately **2 percent** of government expenditure. The reform aims to reallocate resources from price subsidies, particularly fuel subsidies that previously accounted for a large share of the budget, toward more targeted cash benefits
.

Cost as a Share of GDP

Total social protection spending linked to the reform has been estimated at **1.5 percent** of GDP. This includes health insurance expansion, child benefits and targeted support for vulnerable households.

Targeting Performance and Leakage

Before digitalisation, leakage within Morocco's price subsidy system was high because subsidies for fuel and staple goods were universal. Estimated leakage exceeded 30 percent, largely due to benefits accruing to higher income households. The introduction of the Unified Social Registry aims to reduce leakage by consolidating beneficiary identification, eliminating duplicates and verifying household information. Independent evaluations are ongoing to measure the new system's targeting accuracy [53].

Digital Delivery Infrastructure

Morocco's reform relies on the Registre Social Unifié and Registre National de la Population, two digital systems that integrate demographic identity with socio economic scoring. Cash transfers are delivered through the national banking network and mobile money services. The system supports online registration, automated eligibility checks and cross verification with administrative databases.

Structural Design Features

Reform implementation is phased, starting with child allowances and gradually expanding to other categories of vulnerable households.

The programme architecture is centralised at the national level. Conditionality varies across programmes, for example school attendance monitoring in Tayssir. The reform is part of a broader strategy that includes dismantling universal subsidies, expanding health insurance coverage and strengthening grievance and redress mechanisms.

Table 6. Comparative Assessment of Food-Subsidy and Cash-Transfer Systems

Criterion(exact wording)	United States (SNAP)	Brazil(Bolsa Família)	Jordan:NAF & Bread Compensation)	Morocco (Unified Social Registry)	Egypt(Current System)
1. Coverage and Eligibility Architecture	~42 million individuals (~12–13% of population); income & asset tested (≤130% FPL),	~21 million households (~33% of population); income-based	~1.2 million individuals (~10% of population); proxy means testing	Target 7–8 million households (~60%); unified socio-economic scoring	**~61 million individuals (~55% of population); weak income testing**
2. Indexation and Benefit Adjustment	Automatic annual indexation via Thrifty Food Plan (food CPI-linked)	Discretionary political adjustments;	Discretionary adjustments;	Discretionary adjustments;	**None; fixed since 2017, with occasional top up**
3. Fiscal Burden, percentage of government expenditure	~1.5–2.0%	~1.5–2.5%	~1.2–1.5%	~2.0% (incl. health & social transfers)	**~3.5% (food & bread subsidies)**
4. Cost as a Share of GDP	~0.3–0.5%	~0.4–0.6%	~0.3–0.4%	~1.5% (broader social protection)	**~1.6–1.8% (food & bread only)**
5. Targeting Performance and Leakage	Low	Medium	Medium	Medium-High (Declining)	**High**
6. Digital Delivery Infrastructure	Full EBT system; real-time monitoring and audits	Fully digital payments;	Bank accounts & mobile wallets (JoMoPay)	Integrated population & social registries; digital payments	**Smart ration cards; no integrated income registry**
7. Structural Design Features	Unconditional food-restricted transfer; federal rules, state administration	Conditional cash transfer; decentralised enrolment	Centralised cash assistance; bread monetisation	Phased replacement of price subsidies with cash	**In-kind bread + ration system; administratively centralised**

6. Lessons for Egypt from International and Regional Experience

The comparative analysis of food-subsidy and cash-transfer systems in the United States, Brazil, Jordan, and Morocco yields a set of clear and transferable lessons for Egypt. These lessons do not point to the replication of any single model but rather to a set of design principles that determine whether food-support systems remain fiscally sustainable, socially legitimate, and economically effective.

6.1 Digital Infrastructure Is a Necessary but Insufficient Condition

All comparator countries demonstrate that digital infrastructure is foundational to modern social-protection systems. Egypt's transition to smart ration cards since 2014 represents an important institutional achievement. However, international experience shows that digital delivery alone does not ensure effective targeting.

In the United States, Brazil, Jordan, and Morocco, digital payment systems are embedded within integrated national registries that link identity data with income, employment, and vulnerability indicators. Egypt's system remains largely transactional, digitising the distribution of subsidies without digitising eligibility assessment. The key lesson is that digital infrastructure must extend beyond payment mechanisms to include income-linked beneficiary registries, updated periodically and cross-checked against tax, social insurance, and administrative databases.

6.2 Digital Payments Enhance Choice, Transparency, and Control

The comparative cases show that digital payments are superior to in-kind distribution in terms of administrative control, beneficiary autonomy, and leakage reduction. Electronic Benefit Transfer (SNAP), Bolsa Família payments, and Jordan's mobile-wallet transfers all demonstrate that direct digital transfers reduce opportunities for diversion while allowing households to allocate resources according to their needs. For Egypt, the lesson is a progressive monetisation through digital channels.

6.3 Indexation to Food Inflation Is Essential in High-Inflation Contexts

One of the most decisive differences between Egypt and comparator systems lies in benefit adjustment mechanisms. SNAP benefits are automatically indexed to food inflation, preserving real purchasing power during price shocks. In contrast, systems without automatic indexation, including Egypt's, experience rapid erosion of benefit value.

The lesson for Egypt is unequivocal: fixed nominal food support is structurally incompatible with sustained high inflation. Any monetised subsidy or cash-transfer component must incorporate either automatic or rule-based adjustment linked to food price indices. Without indexation, reform risks replicating the current system's failure in a different form.

6.4 Linking Benefits to Income Improves Equity and Fiscal Efficiency

All comparator systems link benefits, explicitly or implicitly, to household income or vulnerability scores. Egypt's current system, by contrast, remains largely categorical and consumption-based, resulting in substantial inclusion errors and leakage.

International experience demonstrates that income-linked targeting allows governments to concentrate resources on the poorest while reducing overall fiscal cost. For Egypt, the lesson is not to eliminate broad coverage overnight, but to gradually shift toward income-tested eligibility bands, beginning with differentiation between poor, vulnerable, and non-poor households.

Such linkage requires significant investment in data systems but delivers long-term fiscal sustainability and social fairness.

6.5 Sequencing and Credibility Matter More Than Speed

Finally, Jordan and Morocco illustrate that phased reform, supported by transparent communication and compensatory mechanisms, is more politically durable than abrupt subsidy withdrawal.

Reform must therefore be sequenced: strengthening income registries and digital payment capacity first, monetising subsidy in selected region, and only then reconsidering the scope of a nationwide rollout. Credibility depends not only on technical design but on public trust that reforms will protect real living standards
.
Taken together, these lessons indicate that effective food-subsidy reform in Egypt hinges less on the choice between cash and in-kind support, and more on the integration of digital infrastructure, income-linked eligibility, inflation-adjusted benefits, and phased implementation. These principles directly inform the recommended reform model outlined in the following section.

7. Recommended Food-Subsidy Reform System for Egypt

This section presents a proposed reform model for Egypt's food-subsidy system that is fiscally disciplined, socially targeted, and institutionally feasible. The proposed thresholds, benefit levels, and coverage parameters are indicative policy design choices, calibrated using the latest available data, and are intended to demonstrate a feasible reform envelope rather than to pre-empt official budgetary decisions.

The design draws directly on the lessons identified in Sections 5 and 6 and aligns eligibility with internationally recognised vulnerability benchmarks, while remaining grounded in Egypt's domestic labour-market conditions and inflation dynamics.

7.1 Reform Objectives

The proposed system pursues four interrelated objectives.

First, to protect food security for poor and vulnerable households in a context of sustained food-price inflation, through predictable, transparent, and inflation-adjusted cash support.

Second, to improve targeting accuracy by linking eligibility to household income rather than consumption proxies or categorical inclusion.

Third, to reduce fiscal leakage and administrative inefficiency by replacing fragmented in-kind mechanisms with a unified digital delivery architecture.

Fourth, to preserve fiscal discipline by keeping total expenditure broadly within the existing food-subsidy envelope while creating scope for reallocation and policy flexibility.

7.2 Eligibility Architecture and Coverage

Total programme coverage is set at **58.5%** of the population, aligned with the World Bank estimate of Egyptians living below the international vulnerability threshold of US $8.30 per day (2021 PPP) [54]. This framing recognises that a substantial share of the population lies above the national poverty line yet remains highly exposed to food-price shocks.

Eligibility is assessed on the basis of household income for a standardised household of four persons residing at the same address. Eligibility is capped at four members per household to contain costs, avoid beneficiary inflation, and preserve fiscal predictability. Larger households are expected to be supported through complementary social-assistance programmes rather than the food-support system.

The population is divided into three segments:

Very poor households, representing approximately 7% of the population, with monthly household income below EGP 5,000, per household (based on a standard family of four).

Poor households, representing approximately 26.5% of the population, with monthly household income between EGP 5,000 and EGP 7,000, per household (based on a standard family of four). This threshold is anchored to the statutory minimum wage, recognising its limited enforcement in the private and informal sectors.

Vulnerable households, representing approximately 25% of the population, with monthly household income between EGP 7,000 and EGP 10,500, per household (based on a standard family of four). The upper threshold is set at **1.5 times** the minimum wage, reflecting international practice in defining near-poor vulnerability bands and capturing households that are not poor in static terms but are highly exposed to food-price inflation [55] [56].

These income thresholds should be interpreted as eligibility criteria for food support, not as a redefinition of Egypt's official poverty line.

7.3 Benefit Levels and Vertical Equity

Monthly cash transfers are differentiated by income group to reflect varying degrees of vulnerability and to strengthen vertical equity.

Very poor households receive EGP 275 per person per month, equivalent to EGP 1,100 for a family of four.

Poor households receive EGP 240 per person per month, equivalent to EGP 960 for a family of four.

Vulnerable households receive EGP 170 per person per month, equivalent to EGP 680 for a family of four.

These transfers are designed to subsidise food consumption costs rather than replace household income. When benchmarked against the World Bank lower-middle-income poverty line (US $4.20 per day, 2021 PPP), which corresponds to approximately EGP 4,640 per month for a family of four in 2025 nominal terms, the proposed transfers cover between 15% and 24% of basic consumption needs [54] [57]. This positioning is consistent with international food-support programmes focused on mitigating consumption shocks rather than providing comprehensive income replacement.

7.4 Digital Infrastructure and Delivery Mechanism

Eligibility determination and payments are managed through a unified national digital register linked to the national ID system, with biometric verification where feasible. The register integrates income data from tax records, social insurance databases, and other administrative sources and is subject to periodic updating [58].

Payments are delivered digitally through smart cards linked, where possible, to bank accounts or mobile wallets, ensuring inclusion of informal-sector households. Offline functionality and assisted enrolment mechanisms are retained to prevent exclusion of elderly or digitally constrained beneficiaries.

The retail network is to be expanded from approximately 30,000 licensed outlets to around 90,000 retailers nationwide with the bulk of the expansion coming from private sector retailers. This expansion improves geographic access, reduces congestion, and replaces state-managed distribution points with regulated private participation. It corresponds pro rata to the size of population using the US SNAP model as a benchmark with more than 266,000 licensed SNAP retailers for a USI amed population of approximately 340 million.

7.5 Indexation, Conditionality, and Phased Implementation

Cash transfers are indexed to the CAPMAS food and non-alcoholic beverages consumer price index, with periodic adjustment to preserve real purchasing power [59].

Conditionality is limited and targeted. School attendance is required for children under the age of 16 in beneficiary households, aligning food support with human-capital objectives without imposing excessive administrative burden.

Implementation is phased region by region, allowing for testing of eligibility verification, grievance resolution, and digital delivery systems before nationwide rollout. Phasing is geographic rather than commodity-based, ensuring continuity of food access throughout the transition.

7.6 Fiscal Impact and Built-in Policy Flexibility

The total annual cost of the proposed three-tier system is estimated at approximately EGP 162.5 billion. While this figure is marginally higher than the current **EGP 160 billion** food-subsidy allocation, the reform generates significant structural savings.

With the government's likely and ongoing move towards eliminating fuel subsidies, it may wish to remove the subsidiary for fuel to baladi bread bakeries which is estimated at EGP 10 billion annually [60] and use the proceeds or most of it to uplift our suggested cash subsidy pro rate to all three segments. The replacement of state-managed bread distribution points with private retailers would generate an additional saving of approximately **EGP 2.5 billion** [61].

Together, these measures create a net fiscal flexibility of roughly **EGP 4.5 billion** per year. This fiscal flexibility is a deliberate design feature of the reform. It provides the government with flexibility to enhance support for the very poor during inflationary shocks, introduce temporary social incentives linked to education or nutrition outcomes, or accelerate indexation without breaching the overall subsidy envelope.

Conclusion

Egypt's food-subsidy system has reached the limits of what an in-kind, price-based model can deliver in an economy characterised by high inflation, currency volatility, and persistent vulnerability. While the system remains historically and politically significant, its ability to protect real living standards has steadily eroded, even as fiscal costs remain substantial.

This paper has shown that the central challenge is not whether to reform food subsidies, but how to do so without undermining food security or social stability. International and regional experience demonstrates that well-designed, income-linked cash transfers can outperform in-kind subsidies in terms of targeting accuracy, transparency, and fiscal control—provided that reforms are sequenced, digitally supported, and credibly communicated.

The proposed reform model offers a pragmatic pathway forward. By aligning coverage with vulnerability rather than universality, linking eligibility to income thresholds anchored in domestic labour-market conditions, and indexing benefits to food inflation, the system strengthens protection for those most exposed to price shocks while remaining fiscally sustainable. Crucially, the reform creates policy flexibility rather than fiscal rigidity, enabling the state to respond to economic shocks without ad hoc interventions.

Ultimately, food-subsidy reform in Egypt is not merely a technical exercise. It is a test of the state's capacity to modernise social protection while preserving trust in the social contract. A carefully designed transition from in-kind subsidies to targeted, inflation-adjusted cash support can transform food assistance from a blunt fiscal instrument into a responsive and credible pillar of social protection.

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