PENSION REFORM IN AN AUTHORITARIAN STATE: A CASE STUDY OF EGYPT

Yusuke Kawamura
DPhil in Political Science (University of Durham, UK),
Assistant Professor, Graduate School of International Cooperation Studies, Kobe University, Japan.
Address: 2-1 Rokkodai-cho, Nada-ku, Kobe, 657-8501, Japan.
E-mail: yusuke.kawamura@boar.kobe-u.ac.jp

Acknowledgement:
This work was supported by the Japan Society for the Promotion of Science (Grant Number JP19K13591).

Abstract

This article focuses on two pension reforms in Egypt in order to understand the dynamics of social policy reform under authoritarian rule. One was supported by the World Bank and promulgated in 2010. It included drastic changes, such as the introduction of a defined benefit scheme, and ultimately failed. Another was successfully implemented in 2019. Compared to the 2010 reform, the 2019 reform involved only parametric change (such as increasing the retirement age and amalgamating social insurance funds), in order to mitigate the criticisms that had been made of the previous pension reform and to facilitate gradual, steady enhancement of the programme's sustainability. The findings suggest that perceptions of authoritarian leaders as having wide-ranging discretion in decision-making concerning public policy and being able to more decisively implement harsh social reform compared with democratic political leaders need to be reconsidered.

Keywords: Pension reform; authoritarianism; Egypt; non-financial defined contribution (NCD); the World Bank.

Citation: Kawamura, Y. (2021). Pension Reform in an Authoritarian State: A Case Study of Egypt. *Public Administration Issues*, no 5 (Special Issue I, electronic edition), pp. 89–106 (in English). DOI: 10.17323/1999-5431-2021-0-5-89-106

Introduction

Pension reform law was promulgated in August 2019 in Egypt and enforced in January 2020. As a result of this pension reform law, the retirement age will gradually increase from 60 to 65 years old. In addition, the reform

law combined two social insurance funds and calculation formulas for contributions that had been previously divided in terms of the occupations of the insured. This reform modified the Egyptian pension system that had been consolidated in the 1980s.

Two interesting questions arise concerning this reform. First, in comparison with other countries that have implemented pension reform, the Egyptian population is considerably young. The population exceeded 100 million in 2020 and is still increasing by 2.28% annually. More than half of the population (51.63%) was under 24 years old by 2020, with a median age of 24.1 years, whereas the population over 65 only comprised 4.44% (Central Intelligence Agency, 2020). It seems that pension reform was neither necessary nor urgent, although Egyptian citizens over 65 years old will account for more than 15% of the country's population by 2100 (Egypt Today, 9 June 2020). What motivated the pension reform in Egypt?

Second, the pension reform in 2019 was a second attempt at such reform as the Egyptian government had failed in a previous attempt. President Hosni Mubarak (1981–2011) initiated pension reform in 2007 and adopted a law in 2010, whose contents (e.g. the introduction of defined benefit schemes) were more radical than those in the 2019 law. Although this law was scheduled to take effect in January 2012, the interim government at the time postponed its implementation following the January 25th Revolution (2011). President Mohammad Morsi (2012–2013) finally annulled the reform law and confirmed that the pension legislation, current since the Sadat era (1970–1981), would remain operative (Ido, 2018). Authoritarian governments often implement radical pension reform successfully (for example, in Chile under Augusto Pinochet). In typical authoritarian countries such as Egypt, political leaders have been considered to have overwhelming decision-making power concerning public policy (including social policy) (Brownlee, 2007; Lust-Okar, 2005). However, the Egyptian government was forced to abandon the 2010 pension reform law. Why did the Egyptian government give up the 2010 pension reform?

In seeking to address these questions, this article proceeds as follows. The literature on pension reform under authoritarian rule is first reviewed. The development of the pension programme under President Gamal Abdel Nasser (1956–1970) and Anwar al-Sadat (1970–1981) and its emerging shortcomings under President Hosni Mubarak (1981–2011) are then investigated. Next, the two pension reforms and their political motivations are analysed. Finally, the article concludes with a discussion of the findings and suggests that scholars should reconsider their perceptions of authoritarian leaders as having wide-ranging discretion in public policy decision-making and as being more decisive in implementing harsh social reform proposed compared with democratic political leaders.

Theories on Pension Reform under Authoritarian Rule

What factors motivate pension reform under authoritarianism? Demographic factors do not necessarily lead to pension reform, as ageing populations motivate a restructuring of pension systems in some countries but not

in others. In the literature, political factors are considered to determine whether an authoritarian government initiates pension reform, with two factors identified as particularly important.

The first factor concerns authoritarian leaders' strategies. Since these political leaders have wide discretion in the public policy decision-making process, they utilise public policy strategically to maximise their power. In particular, political alliance-building strategies have had a long-term effect on features of social policy in authoritarian developing countries. In mid-twentieth-century Latin America, for example, authoritarian leaders attempted to co-opt organised labour; therefore, they implemented social policy more favourable to urban formal-sector workers than for those in urban informal and agricultural sectors. Consequently, social-insurance-based pension programmes covered urban formal workers, while urban residents in the informal sector and rural farmers were excluded or provided with only minimal welfare provision (Haggard & Kaufman, 2008; Mares & Carnes, 2009).

Beginning in the 1970s, political leaders in several pro-labour authoritarian countries have shifted their political alliance-building strategies to become more pro-capitalist and have often adopted a neoliberal approach in pension reform. Pinochet's Chile provides an excellent example. After the 1973 coup d'état and the collapse of Salvador Allende's socialist government, Pinochet began to implement neoliberal economic policy to resolve Chile's balance-of-payment problems, based on support from industrial capitalists. At the same time, the Pinochet government attempted to exclude a previously active popular sector from the national political arena (O'Donnell, 1979). This change in political alliance-building strategies (from pro-labour to pro-capitalist) significantly influenced Chile's pension programme. In 1980, Chile introduced a new savings-based pension programme, which eliminated employer contributions and obliged workers to save at least 10% of their taxable income in their personal accounts. After 1981, this programme became mandatory for all dependent workers. Subsequently, this new pension programme has been administered by private health funders, and workers can freely choose between funders (Castiglioni, 2001).

The second factor is international pressure. In the 1980s, the World Bank adopted neoliberal approaches to economic reform in developing countries, which consequently had significant effects on social policy in developing, authoritarian countries. In the 1990s, the bank paid more attention to social policy in these countries (Rapley, 2007). In 1994, it published a report, *Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth*, which had a significant effect on debates concerning pension reform in developing countries. That report suggested that, to achieve both financial security for the elderly and economic growth, developing countries would need to build up a three-pillar pension system consisting of a publicly managed, mandatory pension system for poverty alleviation among the elderly; a privately managed, mandatory saving system; and voluntary savings. The authors of that report recommended that, where possible, states should replace pay-as-you-go (PAYG) systems with funded, privately managed, defined contribution systems (World Bank, 1994).

However, this three-pillar model was criticised for overestimating the benefits of funded, privately managed, defined contribution systems and overlooking their shortcomings. Responding to such criticism, the World Bank changed its approach in the 2000s (Merrien, 2001; Orszag & Stigliz, 2001). First, it explicitly noted the importance of social pensions in countries with large informal sectors and low coverage for social insurance. Second, it drew attention to non-financial (or notional) defined contribution (NDC) schemes. These schemes, as well as PAYG schemes, use contributions to pay current pensioners. However, in such schemes, benefits are closely tied to contributions as workers' pensions are calculated based on how much they have paid during their working lives. After retirement, a social insurance fund pays benefits with interest, whose rate is notional, reflecting the growth in productivity in relation to real wages and labour force growth. The benefit is calculated according to life expectancy on entering retirement. Although such schemes are essentially PAYG schemes, the incentive structure is like a funded scheme (Wodsak & Koch, 2010).

In 2005, the World Bank proposed a five-pillar model to replace the current three-pillar model. The five pillars comprised: a basic 'zero-pillar' in the form of social pensions; a mandatory 'first-pillar' contributory system linked to earnings and aiming to replace some portion of lifetime pre-retirement income; a mandatory 'second-pillar' involving essentially an individual savings account but which could be constructed in a variety of ways; voluntary 'third-pillar' arrangements taking many forms (e.g. individual or employer-sponsored savings); and informal intra-family or intergenerational support to the elderly (Holzmann & Hinz, 2005). This five-pillar model allowed countries to flexibly interpret risk diversification and select aspects in accordance with their preferences and needs while avoiding the risk of 'putting all the eggs in one basket' (Wodsak & Koch, 2010).

Formation of the Pro-Labour Pension Programme in Egypt

In Egypt, a modern pension programme was developed after the 1952 Revolution. Although a pension programme had already been introduced in the pre-revolutionary era, it had only targeted civil servants and military personnel and was not based on their contributions, but on tax. In 1956, a new social insurance programme was designed, in which social insurance funds were founded separately for government employees and for workers in the private sector and state-owned enterprises (SOEs)[1].

As in Latin America countries, the pension programme's main beneficiaries were urban workers, especially workers in the public sector (including government institutions and SOEs). Most wage earners in the private sector were not covered by the pension programme because, to keep costs down, their employers did not take part (Loewe, 2000). Indeed, some private-sector employers pre-

[1] These social insurance funds covered various social risks, such as (1) old age, (2) disability and death and (3) work injury. They were further developed and payments began for unemployment and sickness in addition to existing payments in the mid-1960s.

vented the government from collecting contributions. Instead, employers forced their employees to form fictitious companies and treated them as 'partners'. Because employees were no longer 'workers', employers did not need to pay social insurance contributions for them, according to contemporary laws[2]. In another example, employers continuously hired and fired workers temporarily to avoid paying social insurance contributions because the programme did not cover temporary workers. Therefore, during large-scale nationalisation that occurred in 1961, the number of workers covered by the pension programme almost doubled, from approximately 300,000 in 1960 to 555,000 in 1961. As a result of this institutional expansion, the number of insured workers in 1971 became almost 20 times as large as that in 1956, rising from 75,412 (1956) to 1,561,344 (1971) (Garrison, 1976).

The pro-labour features of the pension programme resulted from the fact that President Nasser attempted to co-opt organised labour into his ruling circle. Following Colonel Nasser's mobilising of the Cairo Transport Workers' Union to win his political struggle against General Mohammad Naguib in March 1954, the Nasser government subsequently attempted to incorporate organised labour within the ruling party. Although the government deprived organised labour of political freedom, workers in the formal sector enjoyed various social and political benefits, one of which was the pension programme (Kassem, 2004). Although the pension programme began to provide old-age, disability and death pensions to more vulnerable people, including: (1) self-employed and employers (Law 61/1973); (2) Egyptian citizens working abroad for employers (Law74/1973); and (3) casual workers (Law 112/1980) during the Sadat era (Ministry of Social Insurance, 1984), the beneficiaries of the pension programme remained primarily those workers in the formal sector.

It should be noted that the state's role in the programme changed during the Sadat era. Following the 1952 Revolution, the government spent little on the pension programme, as it was mainly financed through contributions from employees and employers. However, in the Sadat era, the government spent more on the programme, and it gradually shifted to become a partially funded PAYG with defined benefits (Selwaness, 2012).

Shortcomings Revealed in the Pension Programme during the Mubarak Era

The Egyptian pension programme was established and expanded because authoritarian leaders were motivated to act in this domain to ensure ongoing support among urban workers for regime survival. Consequently, it functioned poorly as an effective social protection programme, and its shortcomings became more apparent during the Mubarak era.

The first shortcoming was the programme's limited coverage. Although the pension programme had seemingly expanded to cover more people during the

[2] This option was prohibited in 1971.

Sadat era, it still actually covered only a limited percentage of the population. First, both employers and workers tended to avoid enrolling because of its high contribution rates. Employees had to pay 10% of their wage as contributions for old-age, death, and disability insurance, which meant that they had to pay 14% of their wage for social insurance overall. Employers also needed to pay 15% of the payroll as contributions for old-age, death, and disability insurance, and so their total contribution rate amounted to 26% (Maait & Demarco, 2012).

The privatisation of SOEs also negatively affected coverage. The ratio of insured workers to total workers declined from 51.6% in 1998 to 41.8% in 2006 (Roushdy & Selwaness, 2012), which occurred in conjunction with the privatisation of SOEs in the 2000s. As privatisation reduced the number of public sector jobs, young people tended to start their private-sector jobs without social insurance coverage (Sieverding, 2016). This tendency was clearly evident in that the insurance coverage of young people (32.7%), which was lower than that of older groups (59.2% for the 40–49-year-old age group and 58.2% for the 50–59-year-old age group). With limited movement from the informal to the formal sector in the Egyptian labour market, particularly for the low-educated, these figures further confirmed that workers were not starting out in the informal sector and then moving into the formal sector as they gained experience (Sieverding, 2012). Consequently, the privatisation of SOEs resulted in the exclusion of significant numbers of young people from the pension programme.

The second shortcoming was low benefits. Income replacement rates in social insurance benefits in Egypt were higher than those in other middle-income countries. Average pensions were equivalent to 147% of private-sector workers' nominal lifetime taxable salaries in 1995 (Loewe, 2004). However, the actual benefits paid were inadequate for many Egyptian households because pension benefits were not automatically adjusted according to inflation but were determined by government decree. Whereas benefits increased by 10% per annum on average, inflation peaked at 20% in the 1980s. Moreover, actual contributions fell below legally required contribution rates. Although legislation mandated that both employer and employee contributions comprise approximately 32%–33% of covered earnings, actual aggregate contributions represented only 17% of contributory wages, because non-payment of contributions was not severely sanctioned (World Bank, 1993). The programme was particularly unhelpful for certain vulnerable groups, such as the work-disabled and surviving family members. For example, if an earner became injured or died at a young age, the accumulated contributions were so low that family members could not afford to live on survivor benefits only. Thus, Egyptian households without a male earner tended to fall below the poverty line (Loewe, 2000).

The third shortcoming was high dependency ratios. Although Egypt had a young population structure, the ratio of programme beneficiaries to the overall population was relatively high (38% in 1998), compared to Middle East and North Africa (MENA) region countries (27%), Latin America (25%) and Asia (11%). The numbers of beneficiaries increased due to several factors: improved life expectancy, a declining birth rate, and increasing employment, especially among young people (Helmy, 2008). In the 1990s, the introduction of early retirement

schemes, which aimed to facilitate the privatisation of SOEs and to ease pressure on the labour market, also contributed to an increase in beneficiaries. Accordingly, the number of beneficiaries reached 6.5 million in 1998 (4.16 million in 1983) (Maait et al., 2000).

The fourth shortcoming was a legal requirement (Law 119/1980) that investments be restricted to government-related funds. Social insurance funds had accumulated reserves that were invested in government debt instruments, such as bonds and treasury bills, and in the National Investment Bank (NIB). Although the government began to invest the pension's annual surplus in the capital market in the late 1990s, only 1% of that could be invested (Loewe, 2014). In the 2004/05 financial year, the treasury was indebted to the NIB to the sum of E£143.7 billion, approximately 41% of the government's public net domestic debt, which amounted to E£349.2 billion (Helmy, 2008). Although these invested reserves were expected to generate a surplus, low or negative actual returns had been recorded since 1975 and had eroded the reserves. Consequently, failed investments forced the government to spend on *ad hoc* financial support to maintain benefit levels (Maait & Demarco, 2012).

Despite such shortcomings, which critically affected the programme's sustainability, the Mubarak government increased expenditure on the programme without radical reform until 2010. From 1987, the treasury had financially supported the scheme to pay assured pension benefits, in addition to existing contributions the government also had to pay. The government's additional payments to social insurance funds were intended to alleviate high costs of living and to maintain benefits at the same level as previously. Consequently, its expenditure steadily increased from approximately E£8.0 billion in 2000/01 to approximately E£13 billion in 2004/05 (equivalent to 8.2% of the total public expenditure) (Helmy, 2008).

However, fiscal restrictions meant that the treasury was unable to cover pension liability in full from the beginning of the 2000s onwards. In 2004/05, liabilities amounted to over E£35 billion. Consequently, from 2004/05, the government had to restrict annual increments to beneficiaries. In addition, this government indebtedness imposed a burden on the pension system, leading to lost opportunities to transfer funds to the NIB and obtain investment returns, which weakened the pension system further (Helmy, 2008).

Current Pension Reform in Egypt

Pension Reform in 2010

To solve these problems, the Mubarak government began to consider a radical reform of the social insurance system in 2005 (Maait & Demarco, 2012). On 13 June 2010, the Egyptian Parliament passed a pension reform law (Law 135/2010), which entailed that existing social insurance laws be abolished. The pension reform included the following four features.

First, the pension reform law stipulated that the retirement age would increase gradually, from 60 years of age to 61 by 2015, to 62 by 2018, to 63 by 2021,

to 64 by 2024, and to 65 by 2027 (Sieverding & Selwaness, 2012; Social Security Administration, 2010). Although increasing the retirement age was not an urgent priority given Egypt's demographic structure at the time, the measure aimed to deal with a future ageing society.

Second, the pension reform law attempted to reduce burdens on employers and employees. Employees paid 10% of their basic wages and 3% of their variable earnings (e.g. incentives and bonuses) in contributions, while employers paid 15% and 2% of employees' basic and variable earnings, respectively (Social Security Administration, 2011). The new law amalgamated these two contribution rates (for basic and variable earnings) and provided that employers and employees pay 13% and 9% of employees' earnings, respectively (Maait & Demarco, 2012). Through this reform, total contribution rates for social insurance reduced from 26% to 19.5% for employers and from 14% to 11% for employees (Selwaness, 2012). This measure was intended to help employers insure their employees more easily. As in 2006, only 57.5% of wage workers were insured despite all wageworkers being required to participate in the pension system. While almost all public sector workers were insured (94% in the government sector and 93% in SOEs), only 24% of private-sector workers were insured, partly because employers avoided making contributions (Roushdy & Selwaness, 2012).

Third, the new law introduced a minimum pension wherein all resident Egyptian citizens over the age of 65, whether or not they had paid into the contributory pension system, would be entitled to receive a pension funded from the state budget. The minimum pension amount would equal 15% of the national average wage and was intended to alleviate poverty through aiding the vulnerable, such as low-income pensioners and non-pensioners, most of whom are uninsured (Sieverding & Selwaness, 2012; Social Security Administration, 2010).

Finally, and most importantly, the new law introduced a defined contribution scheme to replace the existing defined-benefit PAYG scheme. This new scheme consisted of an NDC component and a financial defined contribution (FDC) component, to create a fully funded pension system, which involved a radical rather than a parametric change. On the one hand, although an FDC scheme would increase the risk to the pension system in terms of greater volatility concerning returns, it could allow for higher returns. On the other hand, an NDC scheme would offer lower-risk returns than an FDC scheme but would involve collecting deposits (usually required to maintain the existing defined-benefit PAYG scheme until the transition to the new scheme completes) from the insured. The Mubarak government decided to adopt a mix of NDC and FDC, although this choice was likely to complicate the administration of the pension system (Maait & Demarco, 2012).

Along with the introduction of a defined contribution pension scheme, the reform law involved measures to enhance the relationship between collected contributions and paid benefits. In the original pension system, the retirement pension amount was only linked to the amount contributed during the five years prior to retirement. The new law aimed to link contributions from throughout workers' careers to what they would receive as retirement pensions (Roushdy & Selwaness, 2012). Every participant would have an individual account that

would record contribution amounts in the new system. Money in individual accounts would be disbursed with interest at retirement (Sieverding & Selwaness, 2012). The interest rate of the NDC account would be equal to the annual average on government bonds, and that of the FDC account would be determined according to the average rate of return from investment in a diversified portfolio (Maait & Demarco, 2012).

Furthermore, the new law introduced additional voluntary savings for future social risks. The original law stipulated the maximum pensionable wage, which was a cap on employees' earnings used for calculating contributions (Sieverding & Selwaness, 2012). As of 2008, the maximum pensionable wage was E£1,275[3] (approximately equivalent to US$235) (Roushdy & Selwaness, 2012). In contrast, the new law stipulated that employees would be able to pay additional voluntary contributions (Roushdy & Selwaness, 2012; Social Security Administration, 2010), which meant that higher-income workers would be able to save more money than previously under the new system.

The World Bank assisted with the design of this pension reform through a multi-year technical assistance programme, and a draft of the pension reform law was prepared in close collaboration with the Egyptian Ministry of Finance (MoF) (Arslan, 2009, World Bank, 2015). The five-pillar model proposed by the World Bank had a significant influence on this pension reform. The introduction of NDC and FDC components, which formed the core of the overall reform programme, was based on 'the principle that multipillar schemes serve multiple objectives–sustainability, transparency, efficiency, and solidarity' (Maait & Demarco, 2012, p. 168), which the World Bank had previously emphasised (Holzmann & Hinz, 2005). Following the World Bank's policy advice in this matter was expected to cut the government's fiscal deficit from 7.9% of GDP in 2010/11 to 3.5% over the following five years (*Reuters*, 14 June 2010).

The following two political changes in the Mubarak regime in the 2000s encouraged the Mubarak government to embark on this pension reform: the decreasing political influence of organised labour in Mubarak's ruling circle, and the increasing influence of a growing pro-capitalist elite.

First, organised labour's political influence had weakened in Mubarak's ruling circle. The government had excluded non-permanent workers from the official labour movement (Kienle, 1998), and co-opted union leaders only into the ruling circle. These measures meant that organised labour altered its role within government from being a partner of the regime to a potential challenger (or obstacle) to government policy and could no longer express its 'true' voice in policymaking within the National Democratic Party (NDP), the ruling party during the Mubarak era (Kassem, 2002). Consequently, the Mubarak government was in a stronger position to reform the pension programme, whose largest beneficiaries were workers in urban areas or leading trade union officials, to reduce the fiscal deficit.

---

[3] In the original pension system, contributions were deducted from two types of monthly earnings: basic earnings and variable earnings (e.g. incentives and bonus). As at 2008, the maximum for basic earnings was E£775 and that for variable earnings was E£500.

Furthermore, pro-capitalist, business elites had become dominant among Mubarak's ruling circle, with the rise of Gamal Mubarak, a son of President Hosni Mubarak in the 2000s. Because he did not rely on the military or intelligence sectors but rather on big business groups, he was regarded as a promising advocate of economic liberalisation: 'He imposed a structure within the NDP through which he promoted his trusted elite, channelled ideas and projects and found roles (and government positions) for the favoured capitalists' (Osman, 2010, p. 135). The appointment of Ahmed Nazif as Prime Minister in July 2004 was another sign of change in the ruling coalition, with the new cabinet including several members (e.g. Youssef Boutros-Ghali and Mahmoud Mohieldin) who had worked for such international organisations as the International Monetary Fund (IMF) and the World Bank (Adly, 2013).

The business elites in Mubarak's ruling circle aimed to transform the Egyptian welfare state from a 'protective' model (primarily protecting certain individuals from the market) to a 'productive' model (primarily promoting market development), to use Nita Rudra's terminology (Rudra, 2007). They attempted to liberalise the economy (through deregulation and privatisation of SOEs, for example). Current social policy in Egypt centred on protecting urban workers from the uncertainties of the market to retain their support in ensuring the regime's survival. Business elites aimed to reform social policy to contribute to (rather than disturb) economic growth more effectively (through developing human resources, alleviating poverty, and accumulating capital, for example). In response to business elite pressure, the NDP proposed that subsidies could be better targeted and that it was prepared to reallocate funds set aside for fuel subsidies towards investments in education and health, at its annual conference held in December 2010 (*Ahram Online*, 7 January 2011), which were broadly in line with a 'productive' model of the welfare state.

Two further features of the reform also indicated an intention to transform the Egyptian welfare state into a 'productive' model, namely, the introduction of a defined contribution scheme and a social pension.

The introduction of a defined contribution scheme was expected to contribute to economic growth in three ways. First, it was expected to reduce expenditure on compensation in relation to pension deficits, which would alleviate the burden on the country's economy by reducing the fiscal deficit. Second, it was expected to encourage citizens to participate in the pension programme (or to pay their contributions correctly), as a defined contribution scheme would make clear the relationship between contributions and benefits. An increase in insured citizens would lead not only to the stabilisation of pension funds and the expansion of social safety nets but also to an accumulation of funds needed for investment in the private sector. Third, it was planned that some funds collected in the defined contribution scheme would be invested in assets through the private market. While some contributions (collected as the NDC component) would be invested in less risky assets, such as government-related bonds, others (collected as the FDC component) would be invested in riskier assets through the private market, with NDC component contributions comprising 65%–80% and FDC component contributions comprising 20%–35% initially (Maait & Demarco, 2012). The Mubarak

government expected that investment in the private market would galvanise the private sector and lead to economic growth.

Introducing a minimum pension (or social pension) was also intended as part of a 'productive' model of the welfare state. A 'productive' welfare state seeks to implement poverty alleviation programmes to maintain social stability as a minimum requirement for economic growth. The minimum pension proposed in the new pension system aimed to alleviate poverty by providing a minimum income guarantee to the non-insured elderly. Gamal Mubarak had also specifically referred to the necessity to improve social policy for poor and limited-income citizens, although those opposed to the changes asserted that his attitude towards the economically vulnerable was a pretence and only adopted to refute allegations that he was working to serve the interests of wealthy businessmen and to polish his image (*Ahram Online*, 25 December 2010). However, it is plausible to consider Gamal Mubarak's attitude to poverty alleviation as being motivated by his desire to ensure the country's economic growth.

To successfully reform the pension programme, the government attempted to overcome workers' distrust of pension reform. First, the new law reduced contributions for employees, as noted. It also restricted the application of the defined contribution scheme to new entrants into the labour market and those with no previous record of contributions. Members of the existing system would have the option of remaining within the existing system or switching to the new system, as any law obliging such members to switch would be unconstitutional (Maait and Demarco, 2012). Furthermore, these measures were intended to divide workers into two groups (that is, existing beneficiaries and those who were excluded from the pension programme) to control worker movements against pension reform.

This pension reform was, nevertheless, unacceptable to Egyptians, with trade union activists initiating a campaign against it. An Egyptian labour activist opposed to the reform commented:

> This is merely a way for the government to gather funds. The law we have now has been praised by the ILO [International Labour Organization] as one of the best laws in the world. Why are we changing it? Because the law is costing the government, and the IMF says that the government should reduce social welfare spending (*Daily News Egypt*, 18 May 2010).

The interim government that was installed following the January 25th Revolution postponed the implementation of pension reform that had been scheduled to take effect in January 2012. The reform law was subsequently annulled (Presidential Decree 79/2013), with the previous model reconfirmed (Ido, 2018).

Pension Reform reinitiated in 2019

In 2019, the government of President Abdel Fattah el-Sisi (in office since 2014) resumed pension reform with the ILO's support. On 19 August 2019, the Egyptian Parliament issued a new Social Insurance and Pension Law (Law 148/2019) that amalgamated the two existing pension funds into a new pension fund. In contrast to the 2010 reform, this pension reform was parametric rather than radical. Table 1 shows four features of this reform in relation to the 2010 pension reform.

Table 1

Comparison of Two Pension Reforms in Egypt

	2010 Reform	2019 Reform
Pensionable age	Age 60 (2012) → Age 65 (2027)	Age 60 (2020) → Age 65 (2040)
Contribution rates	Employer: 15% → 13% Employee: 10% → 9%	Employer: 15% → 12%* Employee: 10% → 9%*
Social pension	All non-insured citizens over the pensionable age	Citizens with a previous record of contributions
Pension scheme	Introducing a defined contribution scheme	Maintaining the existing defined benefit scheme

Note: * Contribution rates are time-bound and will increase by 0.5% every 7 years until reaching a maximum combined rate of 26% in 2055.

Source: Compiled by the authors.

First, the new pension reform law, as with the previous reform law in 2010, entailed an increase in pensionable age, rising from 60 years to 61 in 2032, to 62 in 2034, to 63 in 2036, to 64 in 2038 and to 65 in 2040 (Social Security Administration, 2020).

Second, the new reform law, like the 2010 reform law, reduced contributions both for employees and employers. New contribution rates for employees and employers were set at 9% and 12% of the total monthly payroll, respectively, whereas employee and employer contributions rates had previously been 10% and 15%, respectively, and levied on basic and variable earnings up to two different monthly earning ceilings[4]. In addition, the new law created 26 new categories to include informal workers in both the private and public sectors, who had otherwise been excluded from the social insurance programme. Ten of these 26 categories comprised new beneficiaries, including irregular and seasonal workers (e.g. fishermen, land-transportation employees, and household workers) and small employers (e.g. owners of rural and family businesses) (Social Security Administration, 2020). Through these measures, the government sought to strengthen the social protection component as part of pension reform.

Third, the new reform law, like the previous law in 2010, introduced a minimum pension. The minimum pension in the previous reform law was intended to cover all Egyptian citizens aged over 65 years, whether they paid their contributions or not, to guarantee minimum incomes to non-insured citizens. In contrast, the new minimum pension scheme only covered citizens who continue paying contributions for 15 years. The minimum pension was set at 65% of the monthly minimum wage of the social insurance subscription (*Egypt Today*, 20 July 2019). Before implementing the new reform law, the government had a minimum pension scheme paying a flat E£900 (approximately US$55) per month. Given that the

[4] It should be noted that, to stabilise social insurance funds among an ageing population, these contributions are time-bound and will increase by 0.5% every 7 years until reaching a maximum combined rate of 26% in 2055.

government had needed, at various times, to adjust the amount of the minimum pension with parliamentary approval, this fixed minimum pension had been insufficient to protect pensioners from inflation (*Ahram Online*, 11 June 2019).

In 2015, with World Bank financial and technical support, the Egyptian government expanded the social assistance programme, through its *Karama* and *Takaful*[5] initiatives, to cover non-insured elderly people. *Karama* provides cash income to poor elderly citizens aged over 65 years, as well as to citizens with severe disabilities and orphans, who receive a monthly pension of E£450 with no conditions. It has been reported that *Karama* beneficiaries comprised 306,016 households (approximately 1,300,568 individuals), of whom 52,338 (17%) were elderly (World Bank, 2018). Therefore, the Sisi government did not need a social pension covering all Egyptian citizens aged over 65 years, the introduction of which had been attempted in the 2010 law.

Finally, the new law maintained the existing defined benefit scheme, in contrast to the 2010 law. A defined benefit scheme normally has mechanisms to adjust pension benefits in accordance with the inflation rate. As the existing defined benefit scheme in Egypt lacked such mechanisms, the pension programme provided elderly citizens with insufficient income security. The new pension system, therefore, included a mechanism to automatically adjust pension benefits in accordance with the inflation rate. The pension amount is adjusted in July of each year, based on changes in the national consumer price index, with a maximum possible annual increase of 15% (Social Security Administration, 2020).

Compared to the 2010 reform, the 2019 reform was parametric as noted, despite a favourable environment for radical social policy reform. After a coup d'état led by the then Defence Minister, Abdel Fattah el-Sisi in July 2013, the government suppressed the labour movement, especially targeting independent trade unions. In addition, on assuming the presidency in June 2014, President Sisi and his government began implementing economic and social reform.[6] In March 2015, he publicised the Five-Year Plan, which involved reducing the deficit and debt burden (through cutting expenditures and increasing tax revenues), reforming social policy in relation to poverty alleviation without incurring excessive financial burdens, and creating a competitive investment climate for foreign investors (Economic Ministerial Committee, 2015). In August 2016, the government obtained a loan (approximately US$ 12 billion) from the IMF in a three-year Extended Fund Facility framework to facilitate gradual social policy reform, such as rationalising energy subsidies and restructuring food subsidies within a better-targeted poverty alleviation programme.

The Sisi government chose to adopt a gradual, parametric reform strategy in response to the failure of the 2010 reform. The Mubarak government undertook several measures to overcome workers' distrust in attempting to reform the pension programme successfully, including reducing employees' contribution rates and not requiring workers insured within the existing system to join the new

[5] *Takaful* is a conditional cash transfer to encourage families to keep children in school and to provide them with needed health care.

[6] Although President Mubarak co-opted business elites into his ruling circle, President Sisi often utilises the military and its business groups (rather than existing business elites) for his economic projects.

defined contribution scheme. This type of radical reform was not acceptable for most Egyptians, and the 2010 pension reform failed. The new reform law involved only parametric change (such as increasing the retirement age and amalgamating social insurance funds) to mitigate criticism of the pension reform, indicating a preference for a strategy to facilitate a gradual and steady enhancement of the programme's sustainability.

In addition, through the new pension reform, the Sisi government attempted to address the negative legacy of the previous pension reform as led by the MoF. Until the Ministry of Social Insurance was dissolved in 2005, social insurance funds were under the ministry's control and independent of the MoF. Social insurance funds deposited in the NIB could be borrowed by the MoF at a 4.5% interest rate (*Ahram Online*, 5 November 2013). However, Finance Minister Youssef Boutros-Ghali, who was considered an advocate of neoliberal economic reform, transferred the management of the NIB and social insurance funds to the MoF in 2005. Social insurance funds were then used to cover the fiscal deficit. Recently, these funds have been estimated to comprise E£1 trillion (approximately US$620 billion), according to Al-Badri Farghali, the Head of the General Union of Pensioners (*Ahram Online*, 7 February 2020).

The MoF was accused of misappropriation of social insurance funds after the January 25th Revolution. It was reported that the MoF had unlawfully confiscated social insurance funds to use for the annual budget (*Ahram Online*, 17 September 2011) and squandered E£436 million of social insurance funds because of insufficient investment. Although the interim government embarked on an investigation and denied these allegations, Egyptian citizens became distrustful of the MoF (*Ahram Online*, 7 October 2011). Since the revolution, therefore, the Ministry of Social Solidarity, not the MoF, supervises social insurance funds. In addition, the new reform law promised that the MoF would repay pensioners' funds to social insurance funds. The MoF is committed to repaying E£45 trillion for 50 years at an interest rate of 5.7%, with the government having paid E£160.5 billion in the 2019/20 financial year (*Ahram Online*, 7 February 2020).

Conclusion

This article focused on two pension reforms in Egypt to help reveal the dynamics of social policy reform under authoritarian rule. It showed that political factors determined the success or failure of pension reform in Egypt.

From the 1950s to the 1970s, President Nasser and President Sadat developed and expanded the pension programme by targeting urban workers to ensure regime survival. Such political motivations undermined the capacity of the pension programme to provide effective social security in the 1990s. However, the first pension reform was only implemented in 2010, which can be explained as due to two political factors developing in the 2000s, namely, the decreasing political influence of organised labour and the increasing influence of a pro-capital elite in Mubarak's ruling circle.

Although the Mubarak government took measures to overcome workers' distrust of the pension reform (such as reducing employees' contribution rates

and excluding existing insured workers from the defined contribution scheme), the pension reform was unacceptable to most Egyptian citizens and abandoned after the January 25 Revolution in 2011. Therefore, the Sisi government chose a parametric reform when it resumed pension reform in 2019. This indicates that authoritarian leaders, who have wide-ranging discretion in public policy decision-making processes, cannot necessarily implement unpopular reform when seeking to ensure political stability and their survival.

This finding accords with Markus Loewe's analysis of pension reform under authoritarian rule in the MENA region. According to Loewe (2014), many authoritarian countries in the region have not attempted radical pension reform because their political leaders often prioritise political goals (i.e. favouring their clientele) over social goals (i.e. reducing old-age poverty) and economic goals (i.e. encouraging the engagement of low-income households in productive activities) in pension reform. If such leaders were to undermine the interests of their supporters, most of whom are middle-income earners, through radical reform, they might be faced with a popular uprising. As authoritarian leaders in these countries depend on resource redistribution to confirm their legitimacy, they are often reluctant to implement radical welfare retrenchment policies.

These findings highlight two points. First, current perceptions that political leaders under authoritarian rule have wide-ranging discretion in public policy decision-making processes to decisively implement harsh economic and social reform (Lal, 1997) need to be reconsidered. Given the lack of competitive elections, authoritarian leaders cannot readily obtain accurate information concerning the extent to which people are able to tolerate painful reform. In such circumstances, such leaders are likely to fear that painful reform could hurt supporters of the regime and trigger uprisings. As a result, they often avoid undertaking radical economic and social reform unless strongly motivated to do so. In addition, a lack of accurate information sometimes leads authoritarian leaders to miscalculate concerning their citizens' preferences and, consequently, to a failure in implementing radical reform successfully, which occurred in relation to the Egyptian pension reform in 2010.

Second, conventional perceptions that authoritarian leaders are more compliant with international financial institutions (such as the World Bank and the IMF) than democratic leaders also need to be reconsidered. The Egyptian case shows that an authoritarian leader may often prioritise the needs of domestic politics over World Bank policy advice on pension reform. In the 2010 reform, the government attempted to introduce a defined contribution scheme, based on World Bank advice, but the attempt was not successful. In contrast, the Sisi government prioritised political stability in the country and only carried out parametric pension reform that was less radical than that preferred by the World Bank.

Although the Egyptian government has successfully implemented pension reform, the reforms do not deal adequately with the ageing of Egyptian society, in which it is estimated that the elderly will comprise 22.7 million (12.3% of the population) in 2070, and to 33 million (15.3% the population) in 2100 (*Egypt Today*, 9 June 2020). The PAYG scheme, which is the core of social insurance in Egypt, is vulnerable to such demographic change and further reform, therefore, is inevitable.

REFERENCE

1. Adly, A.I. (2013). *State Reform and Development in the Middle East: Turkey and Egypt in the Post-Liberalization Era*. Abingdon-on-Thames: Routledge.

2. Arslan, I. (2009). *Egypt: Positive Results from Knowledge Sharing and Modest Lending*. Washington, D.C.: World Bank.

3. Brownlee, J. (2007). *Authoritarianism in an Age of Democratization*. Cambridge: Cambridge University Press.

4. Castiglioni, R. (2001). The Politics of Retrenchment: The Quandaries of Social Protection Under Military Rule in Chile, 1973–1990. *Latin American Politics and Society*, vol. 43, no 4, pp. 37–66.

5. Central Intelligence Agency (2020). *The World Factbook*. Available at: https://www.cia.gov/library/publications/resources/the-world-factbook/geos/eg.html (accessed: 15 November 2020).

6. Economic Ministerial Committee (2015). *Strat_EGY: Egypt's Five Year Macroeconomic Framework and Strategy* (paper presented at Egypt Economic Development Conference, 13–15 March 2015). Sharm El Sheikh.

7. Garrison, J.L. (1976). *The Development of Social Security in Egypt* (Doctoral Thesis). University of Chicago.

8. Haggard, S. & Kaufman, R. (2008). *Development, Democracy, and Welfare States: Latin America, East Asia, and Eastern Europe*. Princeton, N.J.: Princeton University Press.

9. Helmy, O. (2008). Toward a More Efficient and Equitable Pension System in Egypt. In: *The Egyptian Economy: Current Challenges and Future Prospects*. Cairo: American University in Cairo Press, pp. 201–231.

10. Holzmann, R. & Hinz, R. (2005). *Old Age Income Support in the 21st Century: An International Perspective on Pension Systems and Reform*. Washington, D.C.: World Bank.

11. Ido, Y. (2018). *Social Security Reforms in Egypt 2008–2015: Seeking for Better Coverage, Financial Sustainability, and 'Developmental' Social Policy*. Chiba: Institute of Developing Economies.

12. Kassem, M. (2002). Information and Production of Knowledge or Lobbying?: Businessmen's Association, Federation of Labor Unions, and the Ministry of Manpower. In: *Institutional Reform & Economic Development in Egypt*. Cairo: American University in Cairo Press, pp. 61–78.

13. Kassem, M. (2004). *Egyptian Politics: The Dynamics of Authoritarian Rule*. Boulder, Colo., Lynne Rienner Publishers.

14. Kienle, E. (1998). More than a Response to Islamism: The Political Deliberalization of Egypt in the 1990s. *Middle East Journal*, vol. 52, no 2, pp. 219–235.

15. Lal, D. (1997). *The Poverty of 'Development Economics'* (2nd ed.). London, Institute of Economic Affairs.

16. Loewe, M. (2000). *Social Security in Egypt: An Analysis and Agenda for Policy Reform*. Cairo: Economic Research Forum.

17. Loewe, M. (2004). New Avenues to Be Opened for Social Protection in the Arab World: The Case of Egypt. *International Journal of Social Welfare*, vo. 13, no 1, pp. 3–14.

18. Loewe, M. (2014). Pension Schemes and Pension Reforms in the Middle East and North Africa. In: *Reforming Pensions in Developing and Transition Countries*. Basingstoke: Palgrave Macmillan, pp. 69–100.

19. Lust-Okar, E. (2005). *Structuring Conflict in the Arab World: Incumbents, Opponents, and Institutions*. Cambridge: Cambridge University Press.

20. Maait, M. & Demarco, G. (2012). Egypt's New Social Insurance System: An NDC Reform in an Emerging Economy. In: *Nonfinancial Defined Contribution Pension Schemes in a Changing Pension World (vol. 1): Progress, Lessons, and Implementation*. Washington, D.C.: World Bank, pp. 159–186.

21. Maait, M., Ismail, G. & Khorasanee, Z. (2000). *The Effects of Privatisation and Liberalisation of the Economy on the Actuarial Soundness of the Egyptian Funded and Defined Benefits Social Security Scheme* (paper presented at the International Research Conference on Social Security, 25–27 September). Helsinki.

22. Mares, I. & Carnes, M.E. (2009). Social Policy in Developing Countries. *Annual Review of Political Science*, no 12, pp. 93–113.

23. Merrien, F. (2001). The World Bank's New Social Policies: Pensions. *International Social Science Journal*, vol. 53, no 4, pp. 537–550.

24. Ministry of Social Insurance (1984). Social Insurance in the Arab Republic of Egypt. *International Social Security Review*, vol. 37, no 4, pp. 424–440.

25. O'Donnell, G.A. (1979). Tensions in the Bureaucratic-Authoritarian State and the Question of Democracy. In: *The New Authoritarianism in Latin America*. Princeton, N.J.: Princeton University Press, pp. 285–318.

26. Orszag, P. & Stiglitz, J. (2001). Rethinking Pension Reform: Ten Myths about Social Security Systems. In: *New Ideas about Old Age Security: Toward Sustainable Pension Systems in the 21st Century*. Washington, D.C.: World Bank, pp. 17–57.

27. Osman, T. (2010). *Egypt on the Brink: From Nasser to Mubarak*. New Haven, Conn.: Yale University Press.

28. Rapley, J. (2007). *Understanding Development: Theory and Practice in the Third World* (3rd ed.). Boulder, Colo.: Lynne Rienner Publishers.

29. Roushdy, R. & Selwaness, I. (2012). *Who Is Covered and Who Underreports: An Empirical Analysis of Access to Social Insurance on the Egyptian Labor Market*. Cairo: Population Council Egypt Country Office.

30. Rudra, N. (2007). Welfare States in Developing Countries: Unique or Universal? *Journal of Politics*, vol. 69, no 2, pp. 378–396.

31. Selwaness, I. (2012). *Rethinking Social Insurance in Egypt: An Empirical Study*. Cairo: Economic Research Forum.

32. Selwaness, I. & Messkoub, M. (2019). The Egyptian Social Protection System: Coverage Gaps, Challenges and Opportunities. In: *Social Policy in the Middle East and North Africa: The New Social Protection Paradigm and Universal Coverage*. Cheltenham: Edward Elgar Publishing, pp. 84–115.

33. Sieverding, M. (2012). *A Life Course Perspective on Social Protection among the Working Poor in Egypt*. Cairo: Population Council Egypt Country Office.

34. Sieverding, M. (2016). Youth Perspectives on Social Insurance in Egypt: Qualitative Insights on the Gap between Legal and Effective Coverage. *Development Policy Review*, vol. 34, no 6, pp. 851–867.

35. Sieverding, M. & Selwaness, I. (2012). *Social Protection in Egypt: A Policy Overview*. Cairo: Population Council Egypt Country Office.

36. Social Security Administration (2010). *International Update: Recent Developments in Foreign Public and Private Pensions (June 2010)*. Woodlawn, Md.: United States Social Security Administration.

37. Social Security Administration (2011). *Social Security Programs Throughout the World: Africa, 2011*. Woodlawn, Md.: United States Social Security Administration.

38. Social Security Administration (2020). *International Update: Recent Developments in Foreign Public and Private Pensions (February 2020)*. Woodlawn, Md.: United States Social Security Administration.

39. Wodsak, V. & Koch, M. (2010). From Three to Five: The World Bank's Pension Reform Policy Norm. In: *Owning Development: Creating Policy Norms in the IMF and the World Bank*. Cambridge: Cambridge University Press, pp. 48–69.

40. World Bank (1993). *Egypt – Financial Policy for Adjustment and Growth (vol. 2): Financial Intermediaries*. Washington, D.C.: World Bank.

41. World Bank (1994). *Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth*. Washington, D.C.: World Bank.

42. World Bank (2015). *Egypt: Country Partnership Framework for the Period FY2015–19*. Washington, D.C.: World Bank.

43. World Bank (2018). The Story of Takaful and Karama Cash Transfer Program. Available at: https://www.worldbank.org/en/news/feature/2018/11/15/the-story-of-takaful-and-karama-cash-transfer-program (accessed: 15 November 2020).