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**AGRICULTURAL DEVELOPMENT SYSTEMS
EGYPT PROJECT**

UNIVERSITY OF CALIFORNIA, DAVIS

FOOD SYSTEM DEVELOPMENT IN EGYPT

by

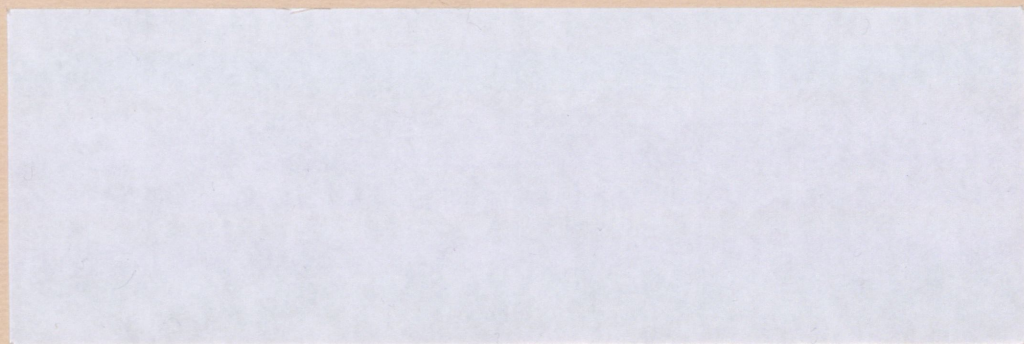
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WORKING PAPER

US / EGYPT 



FOOD SYSTEMS DEVELOPMENT

IN EGYPT

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FOOD SYSTEM DEVELOPMENT
IN EGYPT

I : Background :

Despite 25 years development strategy that heavily favored industry, agriculture continued to be the largest sector of the Egyptian economy. At present agriculture is contributing about 23% of the gross domestic product... It supports about 55% of the total population (43 millions in Jan.1981), and it employs 37% of the total labor force (11.3 millions) ...Agriculture provides about 21% of the total value of national exports ... At the same time, agriculture is the responsible sector for providing food commodities for local consumption, as well as raw material for basic industries.

Other sectors of the national economy such as industry , commerce, transportation , finance and government are directly related to agriculture, since it generates incomes within these sectors. Because of these relationships between farm and nonfarm sectors, changes in agricultural output and its components are generally reflected throughout the entire economy.

About 6 million acres of cultivated land are within the Delta and the Nile valley. This area is reflected in a cropping area of about 11.5 million acres, since on the average 2 crops can be cultivated successively on the same land during the years.

In addition, there is about a million acre of newly reclaimed land which has added very little to food production and foreign exchange.

food production was not able to catch with the increase of population.

In addition incomes per capita were also increasing in real terms due to economic development and more investments. Migration from rural sector to other industrial and service sectors, has been expanding. Remittances of Egyptian abroad have been growing very rapidly. This has been accompanied by a change in income distribution. All these factors have contributed to more purchasing power and the creation of greater demand especially for food.

During the period 71-80 and due to the large increase in consumption which was not matched by an equal increase in production, the food gap was increasing, the self sufficiency ratio was decreasing, and there was a heavy reliance on imports.

In the light of the agricultural situation in the last ten years, the continuous growing population at a high rate, and the rise in consumption, drastic measures of economic development to increase production have to be undertaken to improve the food situation and the living standard of the people.

III : Major Development Strategies to increase Agricultural Production :

Despite greater needs for more food, the economy has considerable potential for short and long term growth. Setting aside other outside sources of income to the agricultural sector, the government has adopted certain strategies directed to increase the amount of food in terms of quantity and quality. Major strategies are the following :

1) Investment Priority to Agricultural Sector :

Investment priority to agriculture was stressed especially in relation to food security. Food security is a major objective of the Egyptian agricultural policy. In order to induce the private

given a role in importing agricultural inputs and food commodities as well as export of fruits and vegetables. Improving marketing facilities is being encouraged by the government through providing credit under the food security program.

5) Availability of Inputs:

Positive measures are taken to provide farmers with inputs mainly seeds, fertilizers, pesticides and feed.

A major development regarding seed production is that the government has encouraged the establishment of joint venture companies to operate in Egypt for the production of high quality seeds. Importation of fertilizers according to a new regulation has been permitted to semi public organizations, cooperatives and the private sector. However, prices paid by farmers for fertilizers have been raised to reduce the level of subsidy borne by the government. New regulations permitting the private sector to import pesticides for controlling vegetable and fruit insects have been put into effect.

6) Strengthening Research and Extension :

The government is giving full support to agricultural research. Coordination of agricultural research in different institutions is taken into consideration. Concentration on applied types of research within the frame of a plan is the policy of the Ministry of Agriculture.

The relationship between research and extension is being strengthened so as to create a channel for conveying new knowledge and information to farmers and to obtain feed back from farmers to research stations seeking solutions for their problems.

IV : The "Systems" Approach to Egyptian Food Production, Processing and Distribution :

The food system should be looked at as a chain of actions through which production , processing and distribution of food commodities are closely coordinated and linked together . The marketing system plays the key role in such coordination . It should be able to do its function efficiently i.e. commodities should reach consumers in quantities, qualities and at the time when they are needed. In addition there should be close coordination between institutions working in the market. The development of marketing as a system for carrying out the movement of goods and services is a major requirement for social and economic progress.

As the economy develops and new opportunities for work are created , incomes start rising, with the result of greater demand especially for food commodities. If the marketing system is efficient to cope with the increasing demand, more commodities will be produced. The growth and performance of the agricultural sector as well as other related sectors will depend to a great extent on the efficiency of the marketing system.

Another very important element in the food chain is the amount of waste in the marketing system caused by technological factors such as waste due to insects , rodents , transportation and deterioration of quality through storage. In spite of the large investments directed to improve production in the developing countries, relatively little investments are allocated to reduce waste. Estimates indicate that waste in cereals and pulses is about 10% . For perishable products (including vegetables, fruits, meat and fish) the waste rises to about 30-35% . This waste is not only physical but it is socio-economic waste. If such waste could be reduced an equal reduction in food imports will take place and resources will be used more efficiently.

Although production will continue to increase, yet the food gap will also increase due to the great increase in the demand for food . It is expected that there will be a deficit mainly in cereals , pluses, red meat and food oils which have to be imported.

VI : The Necessity for Coordinated drive to improve The Entire Food Chain :

Certainly a coordinated drive which should take into account improving policies within different sectors on a different form than the existing system is badly needed. In my opinion such a drive is a long-run policy which should be implemented gradually and would take into consideration the following points:

1) The National Approach VS Sectoral in the Use of Economic Resources (Macro Level View VS Micro):

The interrelationships that exist between the different sectors of the economy necessitate that economic policies to be implemented should take into consideration the national view VS sectoral view. The implementation of economic policies on sectoral basis, notably with respect to those concerned with allocating human and non human resources in such a way to maximize net social gain, is not always advisable. The fact that each individual sector is maximizing its own technical and economic efficiency in a price distorted economy does not necessarily imply that the economy is achieving its maximum net social gains. Stated differently, provided that the price distortions characterise the market i.e. prices are not good signals to the real values of both commodities and services , there is no reason to believe that if say the industrial sector is getting inputs from agriculture at a low administered price and which made gains to industry, that we conclude that Industry is more efficient than Agriculture.

In view of the price distortions and for getting the maximum (marginal) returns, resources should be allocated at the national wide scale. This approach will lead to higher efficiency

4) Strengthening and Broadening the Scope of the Existing Food Security Policy :

Food security has been stressed within the frame work of the existing National Economic and Social Plan and is becoming a major objective of Egyptian Agricultural policy. Relatively more investments have been allocated to strengthen agriculture. More private sector loans with low interest rate are becoming available to the private sector for production projects and improving agricultural infrastructure. However, the existing food security program should be strengthened and broadened in scope. It should not be limited to improving production. Food security is also being effected by the performance of other sectors. New land, food processing, distribution, transportation and foreign trade effect food security. Food security should be looked at as a national objective, with integrated efforts of different sectors to achieve that objective. Even we believe that food insecurity in developing countries does not stem from irregular fluctuations in production and marketing of food crops within the country it self but mainly from irregularities of the international market. Thus the establishment of a food security program should seek international, regional or bilateral long term programs which would be able to satisfy demand to fill the food gap at stable prices.

5) Reducing government intervention in relation to price Policy:

For many years prices received by farmers have been determined at a low level than the social price aiming to favor consumers as well as the industrial sector, or to provide the government with a source of revenue. These policies did not take into consideration the effect on the farmers. In turn, this has meant that individual farm decisions are determined away from directions indicated by international market forces. At the same time farm policy decisions are influenced by a number of ministries and agencies to fulfill their partial objectives in the absence of an overall integrated policy. The result is a set of measures conflicting with one another which gave confusing signals to

The improvement of the marketing system should receive priority action on a scientific basis to deal with the technical, economic, social and institutional constraints causing the inefficient performance of the system. Government intervention should be reduced to the least, in the light of balancing between productivity objectives and equality of income distribution goals.

8) Coordination of Private and Public Sectors:

In agriculture the economy is mostly private where producers are operating their own land or land rented from others. Some specialized farmers cooperatives exist in the livestock production and marketing of fruits and vegetables.

Only a small part of the newly reclaimed land that is operated by public corporations. Other minor areas are held by the government as agricultural experiment stations. Also some public sector corporations exist in the livestock and poultry production.

The public sector role is dominant in agricultural processing industries - a part of the industrial sector. Cotton ginning, food oil extraction, rice milling and fruit and vegetable export do exist in the public sector. While there are certain disadvantages directed to the public sector activities because of the long extensive involvement of the government in the economy, much of criticism directed to public sector management and inefficiency, are caused by the government rules such as price systems and subsidies followed to favor low income groups and surplus labor. The role of the public sector as well as the private sector is being supported by the existing decision makers.

Egypt economic system will undoubtedly remain mixed, with a relatively large public sector and strengthened private sector. There is a place for the public sector to work in production and processing of strategic commodities where such industries would need large capital or the margins of profit are relatively

The gap between the two pictures will show the social cost (loss in social gain) due to inefficiency of resource allocation of conducting these economic policies at the sectoral level . TO what extent economists will be successful in providing alternative solutions to reduce the loss in social gain, will depend on other factors.

... ..

It is concluded from what has been stated that integrated efforts are badly needed for policy reform towards a more open market oriented economy. Some of the policies should be drastically changed. A case on hand is the price and subsidy policies. It is expected that the realization of the potential will require structural changes since the existing institutions and policies are not always appropriate to achieve the objective. The process will take time and is likely to generate pressures throughout the economy. The management factor during the period of transition is the key to success.

