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AGRICULTURAL POLICY ANALYSIS PROJECT, PHASE III

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Under contract to the Agency for International Development, Bureau for Global Programs, Field Support & Research,
Economic Growth Directorate, Office of Agriculture & Food Security
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POLICIES AFFECTING AGRIBUSINESS IN EGYPT: A COMPREHENSIVE ASSESSMENT USING THE AGRIBUSINESS POLICY INVENTORY METHOD

Volume I: Main Report

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LIST OF ACRONYMS

AERI	Agricultural Economic Research Institute (MALR)
ARC	Agricultural Research Center
CAAES	Central Administration for Agricultural Extension Services
CAS	Central Administration of Seeds
CBE	Central Bank of Egypt
EEPC	Egyptian Export Promotion Center
EOS	Egyptian Organization for Standards and Quality Control
ERSAP	Economic Reform and Structural Adjustment Program
EU	European Union
GATT	General Agreement on Tariffs and Trade
GOE	Government of Egypt
GOEIC	General Organization for Export and Import Control
ICA	Industrial Control Authority
MALR	Ministry of Agriculture and Land Reform
MCA	Ministry of Civil Aviation
MD	Ministerial Decree
MDHPU	Ministry of Development, Housing, New Communities, and Public Utilities
MEFT	Ministry of the Economy and Foreign Trade
MMT	Ministry of Maritime Transport
MOS	Ministry of Supply
NARP	National Agricultural Research Project
PBDAC	Principal Bank for Development and Agricultural Credit
PD	Presidential Decree
PMD	Prime Ministerial Decree
RBA	Roads and Bridges Authority
RREC	Regional Research Extension Councils
TRO	Trade Representation Office
USAID	United States Agency for International Development
WTO	World Trade Organization

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EXECUTIVE SUMMARY

Macroeconomic, agricultural, and other specific policies affect agribusinesses directly. To develop a comprehensive picture of the current policy environment for agribusiness in Egypt, an APAP III team conducted an assessment, using the agribusiness policy inventory method. The inventory method organizes complex information about policies, highlighting interactions, inconsistencies, and areas requiring further research. It provides guidance for policy dialogue and reform, and aids in the development of a strategy to promote agribusiness.

At the request of the GOE and USAID/Cairo, the team focused on the impacts in four areas: employment in agribusiness, trade by agribusinesses, investment in agribusiness, and technology transfer into agribusiness production and marketing processes. The team was also asked to give special attention to the food processing subsector and four vegetable crops: potatoes, tomatoes, onions, and green beans.

A six-person team conducted the field work for the assessment during April-June, 1994 by reviewing and analyzing secondary materials, including laws and regulations, and interviewing agribusiness entrepreneurs and policymakers. Entrepreneurs were generally interviewed in Arabic by the Egyptian experts on the team, or in some cases in English.

The nature and impact of various policies affecting agribusinesses in Egypt are elaborated in both the main report and the synthesis. If one had to select one economic problem as being the most pressing in Egypt today, it would be employment. Figure 1 summarizes the policies that affect employment in agribusiness and shows whether they are favorable or unfavorable to the creation of additional employment. The key point that emerges from this analysis is that many important pricing reforms (including the liberalization of the exchange rate) have been made and would have a positive impact on employment were it not for other severely constraining policies like restrictions on hiring and firing (and court interpretations of employee rights) and strong biases in the university admissions system that turn the best students away from both agriculture and business. Similar charts in the synthesis illustrate the potential impacts of policies on agribusiness trade, investment, and technology transfer.

This study makes numerous specific policy recommendations that will foster the development of agribusiness. Overall, the most important principles for maintenance of an enabling policy environment and continued policy improvement are to:

- Maintain market-based and flexible regimes for the exchange rate and for prices in the agricultural and energy sectors.

- Get privatization moving, especially for banks.[1]

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[1]Eliminating rent control on newly constructed apartments could go a long way toward absorbing the shock to the labor market of reducing redundant employment in the Government.

- Adjust rules and regulations to provide more flexibility in hiring and firing of employees.

- Adjust rules and regulations to eliminate bias against agriculture and business in channeling graduates to fields of study in universities.

- Complete the freeing of the food and fiber system from government production and excessive government control over what is produced and how.

This study also recommends the following types of activities be included in an agribusiness project, if one were designed for implementation in Egypt:

- Training in loan appraisal and feasibility analysis (for bankers and businessmen).

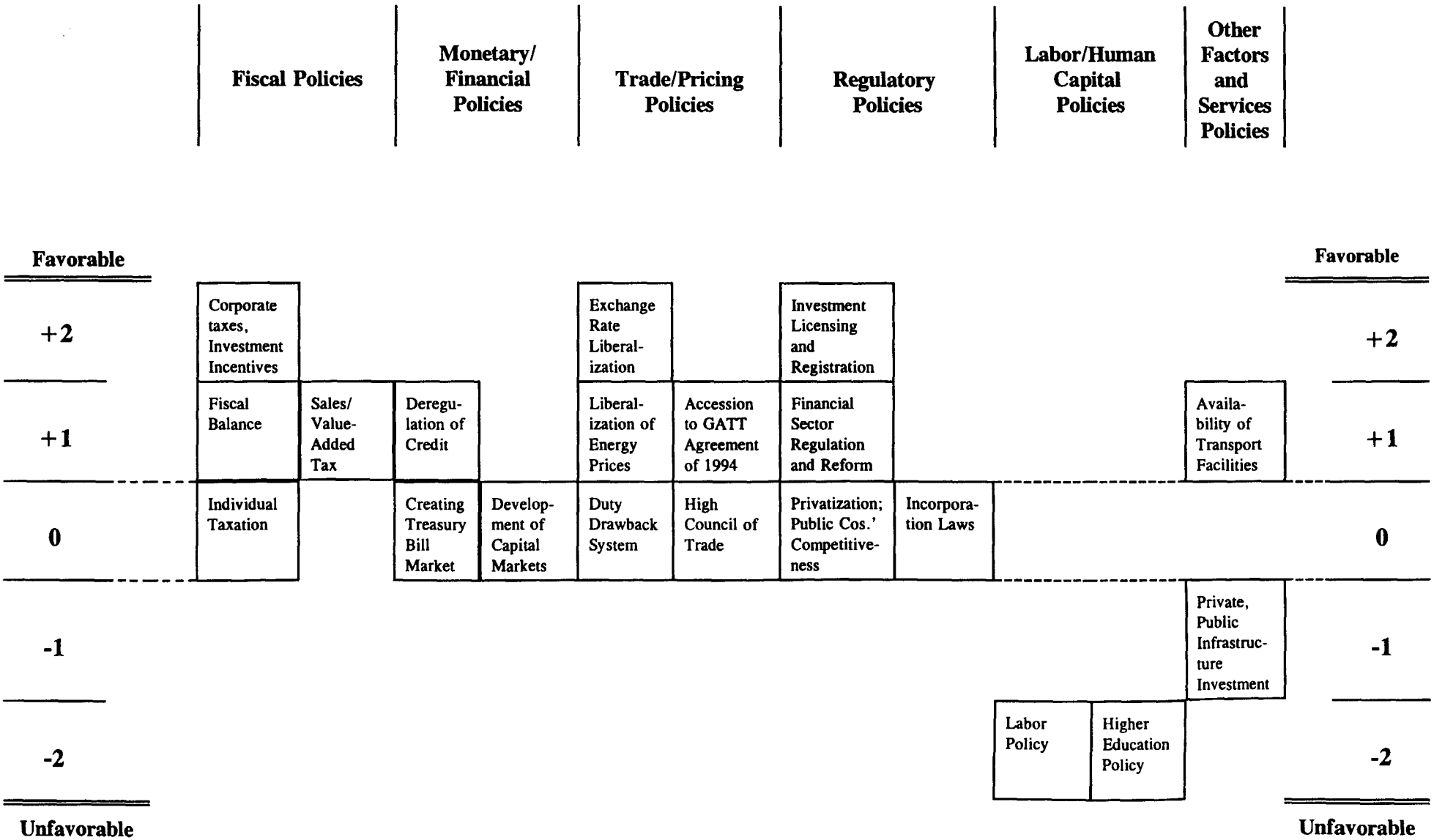
- Training in agribusiness management.

- Improvements in the systems that collect, analyze, and disseminate price, quantity, and other relevant economic information for decision making.

- Incorporation into a project of a component that allows the Government to perceive the problems of private entrepreneurs in a confidential way. This would presumably lead to the investigation of serious rent-seeking behavior by officials and the removal of other obstacles to efficient operations.

The team also delineates potential policy reform benchmarks and areas for further research. Please see the synthesis or the main report for the former, and the main report for the latter.

Figure 1: **ECONOMY-WIDE POLICIES FAVORABLE AND UNFAVORABLE TO AGRIBUSINESS EMPLOYMENT IN EGYPT**



1. INTRODUCTION

1.1 Background

The Government of Egypt (GOE) and USAID/Cairo have cooperated to fund many subsector-specific studies of the agricultural sector. To develop a more comprehensive picture of the policy environment for agribusiness, they asked APAP III to conduct an assessment based on the agribusiness policy inventory method.[2]

USAID/Cairo has been working with the GOE on a wide range of activities related to agribusiness. These activities include agricultural and general economic policy reform, commodity production and marketing projects, privatization, development of analytical capability, investment promotion, development of capital markets, commodity imports, infrastructure construction and maintenance, and training.

Recently policy reform has been a key thrust for both the Government and USAID/Cairo. It is important to understand the policies both promoting and hindering agribusiness before either carrying out an agribusiness project or undertaking policy reform intended to promote the development of agribusiness. While general development efforts (like infrastructure projects) have helped agribusiness in the past, the set of policies that affect agribusiness have generally not been examined as a group.

1.2 Justification

An agribusiness policy inventory is an important first step in organizing and understanding complex information about economic and agricultural policies and their impact on agribusiness development. Agribusiness spans agriculture and business, and commerce and industry, so many policies affect it, and the net impact is not obvious. There are several specific reasons to prepare an inventory. It can

- Highlight interactions and inconsistencies among policies
- Provide guidance for policy dialogue and reform
- Aid in the development of an effective strategy for the promotion of agribusiness
- Reveal gaps in knowledge, so it is a guide for further analysis.

The most important difference between an inventory-based analysis and most others is the comprehensive approach of the inventory. It provides an overview of the entire policy

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[2]Dr. Gary Ender, team leader for the current study developed this method during Phase II of the Agricultural Policy Analysis Project (APAP II). See Ender, 1993.

environment as it affects agribusiness. Other studies typically provide more detail on specific issues.

1.3 Objectives

The specific objectives of this study are to:

- Provide an organized inventory of policies affecting agribusiness in Egypt and, where they exist, the laws and decrees that embody them.
- Provide a preliminary assessment of the impacts of these policies on selected impact variables.
- Suggest alternatives or modifications of existing policies to improve the policy environment for agribusiness.
- Recommend further research needed to clarify policy issues before proceeding with other project or program activities.
- Provide, to the extent possible, a preliminary list of potential policy benchmarks to be incorporated into the ongoing policy reform program.
- Provide recommendations that would be useful in designing an agribusiness development project.

In addition to the components specified in the inventory method, the Mission requested that the team provide an explanation of the functioning of laws and decrees in Egypt and their interrelationships.

1.4 Impact Variables and Special Focuses

Policies that affect agribusiness can do so in a variety of ways. To assess the impacts of these policies in a meaningful way requires agreement on a set of impact variables. At the outset of this study, the GOE and USAID/Cairo specified the following impact variables:

- Employment in agribusiness
- Trade by agribusinesses
- Investment in agribusiness
- Technology transfer to agriculture and agribusiness[3]

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[3]This study generally does not focus on the agricultural production component of agribusiness (see "Definition of Agribusiness," below). The technology being transferred into production, however, often comes through the seed, fertilizer, and equipment that is sold and about which advice is given by agribusiness enterprises. Thus it is important not to exclude such transfers here.

There are a number of reasons for choosing these variables. Employment is perhaps the most pressing national economic problem, especially as the Government contemplates eliminating redundant public sector jobs. Under the new economic regime, international trade is the prescribed route out of stagnation; it enlarges the potential customer base for agribusiness. Investment is key because it creates jobs. It also reflects the private sector's confidence in the Government's policies over the long term. Technology transfer is critical to boost productivity. This is a key question in agriculture because irrigated and irrigable land is scarce. Finally, investment—e.g., in agro-industry—and the technology transfer that may be embodied in it are together a reflection of whether the economy is truly open to the kinds of new ideas it needs to keep growing and to provide a better standard of living to all its citizens.

The inventory method can also be customized. In addition to providing a broad focus, it can concentrate on certain commodity subsectors. For this study, these areas where chosen for concentration:

- Food processing, and
- Potatoes, onions, tomatoes, and green beans.

1.5 Definition of Agribusiness and Analytical Emphasis

Agribusiness is a term that is quite commonly used now. Different analyses may, however, use different definitions of the term. In general, there are three components to what is also called the food and fiber system. There are those who manufacture and/or supply input products and services, those who produce agricultural commodities, and those who store, transport, process, or in other ways depend on agricultural commodities.

In some cases an enterprise may be 100 percent agribusiness; in others, only part of a business may be agriculture-related. If one were to measure the size of agribusiness in an economy, however, one would want to include that part of every business that was agriculture-related. This study is not a quantitative analysis of agribusiness. Nevertheless, there will be parts of the study—e.g., in the impact analysis—where it will be important to bear in mind the definition used here when interpreting the impact of different policies on "agribusiness."

In this study agribusiness is defined to include all three of the above components. The analysis, however, will focus on the impacts of policies on pre- and post-production enterprises. Many other studies have shown that recently reformed agricultural policies have had a dramatic impact on production. What, however, were the impacts of these policies, and others, on those parts of the food and fiber system other than production? How much scope is there for employment creation in these areas? How much investment will be stimulated? This study will emphasize the answers to these and similar questions by focusing on the parts of the food and fiber system other than agricultural production.

1.6 Organization of the Report

The remainder of the main report is organized into the following sections:

- Description of the General Economic Setting
- Overview of Agribusiness Performance
- Policy Analyses
- Preliminary Assessment of Policy Impacts
- Analysis of Key Policy Interactions

Each policy analysis contains: 1) The agencies responsible for policy formulation and implementation, 2) The number and date of any law(s) or decree(s) embodying the policy, 3) A statement of the policy, 4) Any differences between the intended policy and its implementation, 5) The impact of the policy on agribusiness, 6) Suggested alternatives to or modifications of the policy, and 7) Suggested further research.

Appendixes to the main report include an explanation of laws and decrees in Egypt and persons contacted.

Since the main report is long and complex, a synthesis volume is provided as a companion. The synthesis volume is structured as follows:

- Summary of Policies Affecting Agribusiness
  - Economy-Wide Policies
  - Agriculture/Agribusiness Policies
  - Vegetable Crops Policies
  - Key Policies and their Effects on Employment, Trade, Investment, and Technology Transfer
  - Other Policies Affecting Employment
  - Other Policies Affecting Trade
  - Other Policies Affecting Investment
  - Other Policies Affecting Technology Transfer

- Policy Recommendations
  - General Recommendations
  - Specific Recommendations
  - Agribusiness Project-Oriented Recommendations
  - Potential Policy Reform Benchmarks

- Recommended Further Research

2. THE SETTING

2.1 Recent Reforms

In 1994, agribusinesses and indeed almost all Egyptians are part of an economy in a major transition. The Government of Egypt has made momentous economic policy changes over the past several years. The main objective is to accelerate growth by modifying the economy from heavily planned to market-based. Adjustment to these changes is occurring even as more changes continue to be made.

Macroeconomic reforms were initiated in 1991 as part of the Economic Reform and Structural Adjustment Program (ERSAP). The exchange rate has been unified and devalued to a realistic level. Trade has been greatly liberalized: most bans were removed, Government monopolies were ended, and tariffs are being reduced. Investment licensing has generally been converted to registration. The income tax code has been unified. Significant income tax holidays have been granted (since 1989) for investment in New Communities and the New Lands (for agriculture on reclaimed land). Public sector enterprises have been put on a commercial footing with the removal of their costly subsidies and other preferential financial treatment.

Agricultural reforms began earlier, in 1986, and are in many ways more radical than reforms in the economy at large. Virtually all product prices and trade (domestic and international) have been freed. Under the previous highly controlled system, farmers had to make mandatory deliveries of portions of their output at prices well below their international equivalents. Concomitant with the output price reforms, input subsidies have been removed, resulting in substantial private sector entry into fertilizer marketing. Consumer food subsidies, a mainstay for so long, have been eliminated or reduced. In 1994/95 they will cost LE 3.9 billion out of a total budget of LE 70.8 billion, or about 5% (*Egyptian Gazette* (newspaper) June 8, 1994).

In conjunction with these reforms, debt rescheduling by the Paris Club led to a significant reduction in external debt, with the debt-service-to-exports ratio falling from 46% in 1990 to 17 percent in mid-1993 (American Embassy, 1994b, p.7). The fiscal deficit has also been brought under control. The nominal exchange rate has been stabilized. There is some speculation that the real exchange rate may be overvalued again, but there is no visible evidence of this, i.e., there is no black market. Real price increases stemming partly from the reform policies have helped to bring about a slowdown in growth that was probably not unanticipated but that is nonetheless worrisome. Somewhat disappointing is that private investment has remained "weak" during 1992 and 1993 (American Embassy, 1994b, pp. 6-7). Many in the private sector are gauging the sincerity of the Government's reforms, including how serious the Government is about the privatization program it has announced.

2.2 Economic, Technological, Political, and Socio-Cultural Factors

In general, agribusinesses in Egypt have been operating in a complex technical, economic, political, and cultural environment. Some key aspects of this environment are the following.

2.2.1 Economic

Egypt's most pressing economic problem is to provide productive employment for more of its citizens. Unemployment in 1992 was estimated by various sources as 12-20% (Economist Intelligence Unit, 1992, p.4). Until 1991 the Government employment guaranteed to high school and college graduates. As a result, the Government provided about 42% of employment and produced about 40% of GDP in FY 1992, the latter up from 36.5% in FY 1987 (World Bank, 1993c, pp. 60-1). Employment in the Government is often disguised unemployment; pay in these cases is more like a transfer payment. Unfortunately this has set the tone for private employment as well. The role of the informal sector has become large, as many in the Government run businesses or take second jobs to augment the extremely low government salaries (Economist Intelligence Unit, 1992, p.4).

The Government has for a long time played a major role in production, trade, and employment. Government agribusinesses produced and/or exported raw or processed foods with the protection that came from tariffs, budget subsidies, preferential credit, and other such facilities. The private sector generally could not compete with such subsidized operations. Most agricultural trade was conducted by public companies that had statutory monopolies.

While the Government's role in production and trade is being reduced, it still exerts considerable direct control over the economy. Even where control is not direct, the attraction of control persists in the bureaucracy, and this is often reflected in the administration of various regulations. Even after major reforms, with agricultural deliveries eliminated, interference continues in hiring and firing, and in rent control.[4]

In this context, both the private and public sectors would probably agree that privatization is next major component of necessary economic reforms. With so many redundant government jobs at stake, it is not surprising that the Government is moving very carefully. It has promised to privatize a very large number of public enterprises, but to date it has sold the nationalized Coca-Cola and Pepsi-Cola enterprises back to their previous owners and privatized very few other enterprises.

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[4]Under rent control, one can bequeath the controlled rental rate to one's heirs! The rents are so low that supplemental expenditures by tenants are essential to maintain properties and keep elevators running. There has been almost no private apartment construction except condominiums. Rents are supposed to be decontrolled under the second phase of ERSAP, currently under way, but progress does not seem to be rapid.

While the reforms take effect, the current account is being sustained by some items that are relatively independent of them. Substantial remittances, petroleum exports, revenues from the Suez Canal, and even tourism—down significantly due to Islamic militants' threats—have built the current high level of reserves.

Egypt's nearby trading partners are other Middle Eastern countries and the EU. Egypt faces competition in its agricultural exports to wealthier Arab countries from Jordan and others. To the EU it faces competition from a variety of quarters, including Morocco and Israel. As the EU modifies its agricultural policies in the wake of the GATT agreement, it will be important for Egypt to try to secure preferential access agreements comparable to those of its competitors. Apparently the Government has initiated such discussions.

2.2.2 Technological

Irrigation water and land are limiting or binding constraints in agriculture. In response the Government has launched major land reclamation and research programs to increase cultivated area and yields. Agricultural yields are often among the highest in the world; virtually all Egyptian crops' yields are above the world average. Production in the Delta and the New Lands require very different management, however. The latter is much riskier, but it employs some of the most advanced technology in the world. Marketing systems for the crops produced there are evolving and generally not yet on a par with production systems. With peace and the opening of trade, some very advanced desert (fertigation) and vegetable seed technology is entering Egypt from Israel; similarly, advanced seed technology is coming in from the Netherlands and elsewhere.

2.2.3 Political

Islamic militants threatening tourists have reduced tourism significantly, thereby diminishing the potential of local agribusinesses to supply food to hotels and restaurants. These threats stem from unemployment and poverty in turn stemming partly from recession and maldistribution of income; there does not seem to be strong evidence of a religious problem. Indeed Egypt's Constitution bans parties based on religion. Despite these threats, the ruling party is in a relatively strong position. One of the powers that ministers retain is the right to issue decrees—e.g., banning imports or exports of a particular item—at will, which can create significant uncertainty for agribusinesses. This uncertainty either leads to reduced investment and employment or to financial losses for these enterprises.

2.2.4 Socio-cultural

Egypt has religious and cultural ties to nearby Arab countries, although it is not clear how much commercial advantage this brings. Other Arab countries often compete for the same

market niches. Egypt is perhaps unique in having both these ties and a large domestic market from which to build expertise in satisfying customers for its agricultural products.[5]

2.3 Commodity Subsystems

The commodity subsectors that are the focus of this study are evolving. The horticultural commodity subsector, which includes the crops that are the focus of this study —tomatoes, potatoes, green beans, and onions—has been relatively freer of restrictive government intervention than the "strategic" crops, i.e. cotton, wheat, rice, maize[6], and sugarcane. Overall, the domestic markets for these horticultural crops have been price sensitive rather than quality sensitive. By and large produce for which there are no officially recognized and enforced grades and standards sell on the basis of price. Exports of these crops have been limited, but there seems to be a growing awareness among the more sophisticated grower-packers that it takes a quality product to compete internationally.

In the food processing subsector, private sector operations account for a growing share of the market. Some of the larger multinationals, including Heinz and Nestle, have established operations to service the regional market. The state-owned companies in this industry, as most government corporations, are now supposed to operate on commercial terms. The impacts of this fundamental change have yet to work their way through the system, however.

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[5]One recent example of the mixing of religious and economic functions was when the General Manager of the Food Industries Holding Company took samples of his products to Saudi Arabia during Hajj.

[6]Locally produced maize was not subject to restrictions; imported yellow maize was.

Table 1: Egypt: Major Economic Indicators

Item	FY 1990	FY 1991	FY 1992	FY 1993
Real GDP growth, percent	2.5	2.3	0.3	NA
Current account balance ($US billions)	-3.7	-2.4	1.3	-0.4
Fiscal deficit/GDP, percent	NA	-16.5	-5.0	-4.1
Debt outstanding ($US billions)	51.1	39.1	38.2	38.5
Gross reserves ($US billions)	2.3	8.3	13.1	NA
Government investment/GDP, percent	17.5	14.7	11.4	NA
Inflation (GDP deflator), percent	17	22	19	NA
Inflation (CPI), percent (calendar years)	17	20	14	12
Major exports	Petroleum products, cotton products, engineering/metallurgical goods			
Major imports	Transport equipment; livestock, food and drink; chemicals, rubber, and leather; wood, paper, and textiles			
Major agricultural products	Wheat, cotton, maize, rice, tomatoes, berseem			
Major agricultural exports	Cotton, oranges, potatoes, rice			
Major agricultural imports	Wheat, maize, sugar, vegetable oil, beef			

NB: FY 1990 is July 1, 1989 - June 30, 1990.

Sources: World Bank, 1993c, table 2.1 and paras 1.17 and 1.3; World Bank, 1992a, Appendix 3, tables 3 and 7; Economist Intelligence Unit, 1992, p. 3.

3. AGRIBUSINESS PERFORMANCE

The data available to assess the overall performance of the agribusiness sector in Egypt, and private agribusiness in particular, are limited. The data provided by Central Agency for Public Mobilization and Statistics (CAPMAS) make it impossible to disaggregate the agribusiness component of most of the traditional industrial classifications (See World Bank, 1992a). For example, the data for the "Non-metallic Mineral Products, Except Products of Petroleum and Coal" do not dissaggregate fertilizers. The "Machinery, Transportation Equipment, and Other Equipment" category does not provide access to data about farm machinery and equipment. The CAPMAS data report separately on food, beverage, and tobacco manufacturing.

The data that are available provide some indication that agribusiness is growing in importance and that private sector firms are increasing their overall share of the input supply, production, and processing markets in which they compete. There are a large number of private companies operating across the subsectors that make up agribusiness. The Kompass Directory of businesses in Egypt identifies companies operating in 47 different food and tobacco processing industries, 11 different segments of the beverage market, and along 48 product lines in the machinery and equipment industry (see Table 1). It is important to note that the number of firms shown in the table includes agents, distributors, importers and exporters, as well as manufacturers and producers. Still, the numbers are impressive. The Kompass Directory identifies 79 firms under the heading "Fruits and vegetables, processed." Given that the Government's Food Industries Holding Company only has two operations in this category, we can conclude from the Kompass data that there are on the order of 77 private sector firms engaged in the processing of fruits and vegetables as well as their distribution, both through domestic marketing channels as well as through export channels.

Private agribusiness is playing an increasingly important role in the liberalized markets for agricultural inputs. As a result of the policy to remove fertilizer and other input subsidies, and cease PBDAC's monopoly over the supply of inputs, the private sector has responded vigorously. There are over 800 duly registered private firms now delivering fertilizer, pesticides, and other inputs to Egypt's farmers. There are currently ten private companies that have invested in the production and marketing of seeds. Private companies are the major suppliers of pumping and irrigation and fertigation[7] equipment that is essential to the producers of horticultural crops on the New Lands.

[7] Fertigation is the application of fertilizer through the irrigation system.

Table 2: Distribution of Agribusiness Firms in Egypt, 1994

Kompass Activity Code	Types of Companies	Number of Companies
20	**Food and tobacco**	
- 10	Abattoir products	38
- 12	Sausage casings	3
- 13	Meat and game, processed and preserved	82
- 15	Meat, dried	7
- 16	Poultry and birds, processed and preserved	24
- 20	Milk and milk products. Cream	63
- 21	Ice cream and sorbet	43
- 24	Cheese	47
- 25	Egg products	1
- 30	Fruits and vegetables, processed	79
- 32	Fruits add vegetables, canned and bottled	116
- 36	Soaps and extracts	1
- 40	Fish, processed	16
- 41	Shellfish and seaweed, processed	3
- 42	Fish, canned and bottled	9
- 45	Fish roes	2
- 46	Fish and shellfish by-products	2
- 48	Frozen food products	87
- 49	Food, dehydrated and freeze-dried	18
- 50	Flours and flakes, cereal	71
- 51	Flours and flakes, non-cereals	N/A
- 52	Rice, processed	16
- 53	Malt	1
- 54	Pasta	97
- 56	Bread, cakes and pastry	220
- 58	Biscuits, crackers, crisps and savory snacks	116
- 59	Breakfast cereals	5
- 60	Health and diet products	28
- 61	Baby food	13
- 62	Sugar	21
- 64	Sugar confectionery	308
- 68	Fruit, candied	7
- 70	Tea	79
- 71	Herbal and fruit teas	7
- 72	Coffee and coffee substitutes	16
- 74	Cocoa and chocolate products	93
- 78	Sugar and herbs, processed	58

Kompass Activity Code		Types of Companies	Number of Companies
20		**Food and tobacco, continued**	
	- 80	Vinegar, condiments and sauces	19
	- 82	Olives, prepared and preserved	3
	- 83	Palm fruit	1
	- 84	Nuts, processed	5
	- 85	Coconut products	1
	- 86	Oils and fats, edible	
	- 88	Animal feed	
	- 89	Additives for the food industry. Yeast	41
	- 95	Food processing and packaging services	130
	- 98	Tobacco products	N/A
21		**Beverages**	
	- 10	Alcoholic spirits	1
	- 12	Whiskey and bourbon	2
	- 14	Liqueurs	1
	- 15	Aperitifs and cocktails	2
	- 20	Wine, grape	1
	- 25	Champagne	2
	- 30	Beers	1
	- 40	Juices, fruit and vegetable	67
	- 48	Lemonades, carbonated and soft drinks	24
	- 50	Mineral waters	6
	- 99	Drink processing, bottling add canning services	3
32		**Chemical products, including agricultural chemicals, and insecticides**	
	- 02	Fertilizers	40
	- 04	Fungicides, insecticides, bactericides, vermin destroyers	65
	- 06	Herbicides, plant growth control substances chemical spray products	15
41		**Agricultural and forestry machinery and equipment. Food, drink and tobacco industry machinery and equipment.**	
	- 01	Agricultural tractors and power cultivators	43

Kompass Activity Code		Types of Companies	Number of Companies
41		**Agricultural and forestry machinery and equipment. Food, drink and tobacco industry machinery and equipment, continued.**	
	- 02	Soil preparation equipment. Ploughs	19
	- 03	Soil dressing equipment. Harrows	10
	- 10	Forage harvesting and processing farm machinery and equipment	5
	- 11	Balers	1
	- 12	Vegetable and fruit harvesting and processing farm machinery and equipment	19
	- 13	Farm machinery and equipment for crop processing, N.E.S.	10
	- 14	Cattle and horse breeding and farming equip.	2
	- 15	Pig and sheep breeding and farming equip.	3
	- 16	Poultry breeding and farming equipment	9
	- 17	Bee keeping and silkworm culture equip.	2
	- 18	Fish, mollusc and crustacean farming equip.	2
	- 19	Fur animal breeding and farming equip.	1
	- 20	Kennel and cattery equipment	1
	- 21	Dairy farm equipment	6
	- 22	Agricultural farm handling and storage equip.	11
	- 23	Agricultural trailers	19
	- 24	Agricultural equipment, parts & accessories	N/A
	- 25	Agricultural and horticultural tools	N/A
	- 26	Mushroom farm equipment	1
	- 31	Sugar beet processing industrial machinery and equipment	2
	- 32	Sugar cane processing industrial machinery and equipment	2
	- 33	Sugar refining machinery add equipment	2
	- 34	Grain and maize processing industrial machinery and equipment	6
	- 35	Flours, semolina, and rice milling and processing machinery and equipment	9
	- 36	Animal feed processing industrial machinery and equipment	19
	- 38	Pasta manufacturing machinery and equip.	5
	- 40	Bread making machinery and equip., industrial	6
	- 41	Cake and biscuit making machinery and equipment, industrial	2
	- 42	Bakery machinery and equipment, commercial	7

Kompass Activity Code		Types of Companies	Number of Companies
41		**Agricultural and forestry machinery and equipment. Food, drink and tobacco industry machinery and equipment, continued.**	
	- 44	Sugar confectionery making plant and equip.	2
	- 45	Syrup, candied fruit and jam making plant and equipment	1
	- 51	Edible vegetable oil and fat processing plant and equipment	2
	- 52	Edible animal oil and fat processing plant and equipment	2
	- 53	Abattoir plant and equipment	4
	- 55	Meat and offal processing and sausage making plant and equipment	4
	- 58	Butchery machinery and equipment	6
	- 61	Vegetable and fruit processing machinery and equipment, industrial	1
	- 63	Fish, shellfish and seaweed machinery and equipment, industrial	4
	- 70	Casein and lactose plant and equipment	1
	- 71	Dairy industry machinery and equipment	6
	- 72	Condensed and powdered milk manufacturing plant and equipment	N/A
	- 73	Cream, butter and yogurt making plant and equipment	3
	- 74	Cheese making machinery and equipment	4
	- 75	Egg industry machinery and equipment	1
	- 77	Ice cream making and dispensing machinery and equipment	4
	- 80	Drinks industry machinery and equipment, N.E.S.	N/A
	- 87	Soft drink and fruit juice production plant and equipment	1

Firms include: manufacturers/producers; agents; distributors; importers/exporters; and service companies

N/A = No information available.

Source: KOMPASS Egypt Directory, 1994; Volume 2: Products and Services

The structure of most of Egypt's major commodity systems and the performance of the firms that operate within them have been and are likely to continue to evolve. Although the most demonstrable changes have occurred in those commodities that were once centrally organized, there have been changes in the traditionally organized systems as well. The more important centrally organized commodity systems used to include cotton, rice, wheat, and sugarcane. Today, only sugarcane remains a highly controlled product from production through processing. The private sector is venturing into markets in the formerly controlled commodities that were dominated by state-owned firms.

Rice is a good example. In that sector, the operating units of the Government-controlled Holding Company for Rice Mills have seen their share of the paddy procured decline from 52 percent fifteen years ago to less than ten percent for the crop year just ended. According to a preliminary study by the University of Arkansas, public sector rice mills were only able to procure nine percent of the 1993/94 crop year's harvest of paddy to run through their operations. Although this is favorable for private rice millers, it has a negative impact on another segment of private agribusiness firms. As a result of reduced throughput, the public rice mills have been unable to meet private rice exporters' demands for milled or white rice.

In the wheat sector, the World Bank has estimated that there are 3,700 small, private mills in operation and that private companies account for 85 percent of the production of the country's bakeries and half of the macaroni production.

The cotton sector has just been liberalized to allow for private sector involvement in trade. A decree to reopen the cotton exchange in Alexandria has finally been promulgated, and private sector operators can now compete to export Egypt's world renowned cotton. The private sector can now buy or lease cotton gins from the Government.

Overall, food manufacturing has maintained its overall importance in the industrial sector. As Table 2 shows, after declining to 18 percent of total manufacturing in FY 1985/86 it rebounded over the second half the 1980s to reach 21 percent in FY 1989/89, the same share it held in at the beginning of the decade. The food industry's share of manufacturing employment increased slightly, from 16 to 17 percent over the same period. It is important to note that by FY 1989 both public and private food manufacturers had higher value-added per employee than manufacturing as a whole.

The private sector's role within food manufacturing grew throughout the 1980s. As Figure 1 shows, in 1980 private firms had nearly equal shares of food manufacturing and overall manufacturing in 1980. At the onset of the reforms, private companies played a slightly more important role in the food industry than in total manufacturing. In 1985/86 the private sector accounted for a quarter of the food industry's production and 24 percent of Egypt's total manufacturing output. By the end of the decade, these shares had increased to 34 and 32 percent, respectively.

Table 3: Summary of Food Industry Performance in Egypt (Fiscal Years)

Item	1980	1985	1989
		(Percent)	
Food Manufacturing's Share of Total Manufacturing	21	18	21
Private Sector's Share of Food Manufacturing	16	26	34
Private Sector's Share of Total Manufacturing	16	24	32
Food Industry's Share of Total Manufacturing Employment	16	17	17
	(Constant 1985 Egyptian Pounds)		
Value Added per Public Sector Food Industry Employee	3,527	2,692	4,679
Value Added per Private Sector Food Industry Employee	2,374	3,328	5,414
Value Added per Manufacturing Sector Employee	2,957	4,080	4,433

Source: Calculations based on data provided by CAPMAS as shown in World Bank. 1992. Arab Republic of Egypt: The Private Sector Regulatory Environment. Report No. 10049-EGT; Wholesale price index from International Financial Statistics, IMF.

In the packaged goods segment of the food processing industry, the firms tend to be small. Even the two state-owned companies, Edfina Company for Preserved Foods and El Nasr for Preserved Food Company, (which sells under the "Kaha" label), had combined production of only LE 167 million (approximately US$ 50 million) for the year ended June 30, 1992 and almost nine percent less, LE 152 million, in 1992/93. Given a population approaching 54 million, these two companies combined to produce less than US$0.84 in product for every consumer in the country.

The packaged foods line is one of the less important lines of the Food Industries Holding Company (FIHC). As Table 3 shows, only biscuits/confections and dried and preserved foods account for a smaller percentage of the combined total production of the FIHC affiliates. As might be expected, it is the formerly centrally controlled commodities that figure most prominently in the Food Industries Holding Company's portfolio. The single most important item of production is fats and oil processing, which accounted for almost a third of the holding

company's 1992/93 production, up slightly from almost 30 percent the year before. Sugar processing and flour milling rank second and third in importance, accounting for 17.8 and 10.7 percent of production in FY 1992/93, respectively.

To summarize, the data show that in the manufacturing sector, food companies maintained their overall importance during the 1980s. The private companies continue to play a slightly larger role in food processing than in the overall manufacturing sector. Fragmentary and qualitative data suggest that private agribusiness is increasing its importance in the input supply segment of agribusiness as well.

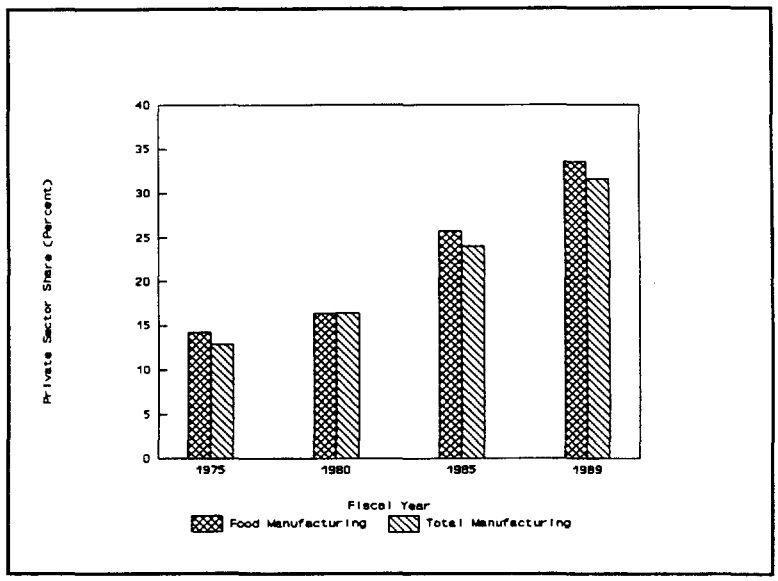

Figure 2 Private Sector Share of Food Manufacturing and Total Manufacturing in Egypt, 1975-89

Table 4: Value of Production of Public Sector Food Processing, 1991/92 and 1992/93, by Sector

Sector	1991/92	1992/93
Industrial activities	(Millions of Egyptian Pounds)	
Sugar	1,184	1,283
Fats/Oils processing	2,080	2,290
Dairy products	155	167
Canned Foods	167	152
Biscuits/Confections	141	145
Soft Drinks[a]	310	353
Starch/Glucose production	189	180
Dried and Preserved Foods	20	30
Flour Milling	803	774
Packing and Fish Preparation	532	327
Total Industrial activities	5,581	5,701
Total Marketing Activities	1,379	1,491
Grand Total	6,960	7,192

[a] Now privatized. Source: Food Industries Holding Company.

4. POLICY ANALYSES

4.1 Categorization of Policies

One of the purposes of this inventory-based analysis is to organize a large amount of policy information. This organization itself has important value to a policy analyst because it clarifies the types of policies that are being pursued (and not pursued) and the levels of the economy at which the policies are targeted.

The organization and analysis of policies in this study uses two basic principles. Policies are organized according to the level of the economy at which their effect is intended. Another way to describe this level is that it is the broadest level at which the effects of the policy could be felt. The levels we use here are: 1) Economy-wide, 2) Agriculture/agribusiness, 3) Food Processing, and 4) Vegetable crops. In the policy matrix, these levels form the rows of the matrix.

The primary purpose of this study is to analyze the impact of the macroeconomic, agricultural and other policies that exist in Egypt. This analysis determines the impact of each policy on agribusiness employment, agribusiness trade, agribusiness investment, and technology transfer in agribusiness. Thus policies are organized by their intended scope, which may be the entire economy or only the agriculture/agribusiness system, but they are evaluated by their impact on agribusiness.

The columns in the policy matrix are formed different categories of policies. These are: 1) Fiscal, 2) Monetary/Financial, 3) Trade/Pricing, 4) Regulatory, 5) Labor/Human Capital, and 6) Other Factors and Services. "Other Factors and Services" includes infrastructure, transportation and storage services, public goods and services, and non-mobile factors like land.

While considerable effort has been expended to make these categories meaningful and non-duplicative, there are certain arbitrary aspects to this categorization that are unavoidable. For example, parastatals often control both the pricing of certain key commodities and their marketing. The former aspect is included in our matrix under trade/pricing policies, whereas the control of quantities that comes from regulations like delivery quotas is included under regulatory policies. The general problem is to create enough categories to highlight the key policy issues without creating so many categories that the categorization becomes too arbitrary and therefore no longer meaningful. Another example is the exchange rate regime. While the exchange rate regime clearly affects trade, and the exchange rate is a key price, exchange rates are also closely linked to monetary policy. In the end the authors have tried to place policies in categories that would be the most meaningful for this particular analysis of policies affecting agribusiness in Egypt. Placement might be very different in another study.

4.2 Fiscal Policies with Economy-Wide Scope

4.2.1 Sales/Value-Added Tax

Formulating Institution: Ministry of Finance

Implementing Institution: Sales Tax Administration

Policy Group: Fiscal

Intended Scope of Policy: Economy-wide

Form, Number, Year: Law 11/1991

Statement of policy: Law No. 11 of 1991, The General Sales Tax Law, imposes a general sales tax "on the sales of the commodities locally manufactured and imported unless being excepted by special provision." The general rate of tax is ten percent (10%), however various schedules to the law set rates higher and lower for certain products.

The sales tax is part of the Government's overall effort to reform indirect as well as direct taxes. The plan is to broaden the base of the tax and eventually change it to a value-added tax by 1995. The law calls for the implementation of the General Sales Tax in stages. During Stage One, effective from the date of promulgation, the General Sales tax is applicable to producers, importers and service contractors. In stage two, the tax will apply to wholesalers, and in stage three the application will extend to retailers. As a result, the base to which the tax is applicable will broaden and that should increase the amount of revenue it generates.

Differences between intended policy and implementation: It remains an issue whether or not the Sales Tax Administration has the capacity to implement and execute successfully all the requirements of the law. The record keeping requirements appear onerous. In principle, firms subject to the tax have to file a monthly declaration regarding the amount of tax due, based upon accurately kept sales records.

Impact of policy on agribusiness: Agriculture and agribusiness generally receive favorable treatment under this law. Schedule A, which provides a list "Regarding the Commodities Exempted from the General Sales Tax" is heavily weighted towards food products, including dairy products, edible vegetable oils, products of the milling industry, prepared and preserved meats and fish (except caviar), fruits and vegetables, bread of all kind, and food prepared and sold by "restaurants and non tourist places: for the final consumer directly."

Schedule B applies a reduced tax of five percent (5%) to several important agricultural inputs, including: fertilizers, insecticides, fungicides, herbicides, and "plant growth regulators, for agricultural purposes."

Because the rates are moderate, the main impact of the sales tax on agribusiness will be through the fiscal stability of the Government. Although revenues are not earmarked, the improved fiscal situation should give the Government more resources to devote to areas that are of importance to agribusinesses, like infrastructure and market information.

Suggested alternatives to existing policy: None.

Suggested further research (necessary before policy reform): None.

4.2.2 Fiscal balance (surplus/deficit)

Formulating Institution: Central Bank of Egypt

Implementing Institution: Ministry of Finance

Policy Group: Fiscal

Intended Scope of Policy: Economy-wide

Form, Number, Year: Law 120/1975 (organizing the Central Bank of Egypt)

Statement of Policy: Under the economic reforms begun in 1991, the Government undertook to reduce the fiscal deficit. The Central Bank of Egypt's **Annual Report 1992/1993** summarized current fiscal policy in the following words:

> The economic and financial reform program led to . . . results [that] were an outcome of the application of fiscal policy aimed on the one hand to rationalize public expenditure and to develop public revenues on the other hand. Concurrently, the government depended upon real resources savings to finance the budget deficit . . . estimated to be around the targeted percent of (3.6%) of GDP for the year 1992/93 . . . and reformed the financial structure of the economic authorities so as to depend basically on their own resources in order to reduce their financial burden on the budget.

(The "economic authorities" referred to above includes the holding companies and their affiliates and other Government institutions that perform productive functions.)

In fiscal year 1992/93 GOE expenditures equaled 39 percent of the country's GDP.

A smaller deficit means less need for the Government to borrow either domestically or from the international market. Indeed as part of the reform program, much of Egypt's foreign debt is being forgiven. Smaller government borrowings are intended to provide more flexibility in the capital market for the private sector to borrow there as well. This is consistent with the

revamped roles of the public and private sectors, in which greater investment by the private sector is called for.

Differences Between Intended Policy and Implementation: The fiscal situation has improved greatly under the stabilization program. With help from the new sales tax and other measures, the deficit as a share of GDP shrank from its peak of over 20 percent in 1990/91 to about 4 percent in 1992/93.[8]

Differences might exist if there were changes in the reporting of revenue and expenditure items. (For example, the U.S. Government sometimes puts certain items "off-budget.") There is no evidence that this is the case. The growth of total Government expenditure decelerated abruptly after 1990/91.

Impact of Policy on Agribusiness: Sales tax, customs duties, and other indirect taxes can have an impact on the sales of agribusiness firms. However, because the incidence of the sales tax is broad, however, and the rates are low, especially the preferential rates applied to many agricultural inputs an outputs, the negative impact on agribusiness is not likely to be large. Similarly, since the rates of customs duties are declining or remaining the same, these changes are not likely to dampen agribusiness activity. Indeed, it seems likely that lower duties led to larger collections through higher volumes passing through formal channels. Nontax revenue levies may affect particular agribusinesses, depending on what kind of levies these are.

On the spending side, one of the key fiscal policies is to reduce subsidies gradually. This includes subsidies on fertilizers and pesticides, and restrict investment to basic services. However, there have been few, if any discernable negative impacts, from the removal of subsidies on fertilizer and other agricultural inputs.

In addition, agriculture and agribusiness increase in importance in the 3rd Plan (covering 1992/93 to 1996/97) substantially. Agriculture's share of the Public Sector Investment Program almost doubles from 6.9 to 13.5 percent.

The overall impact of the changes in taxation *per se* would seem to be small. The indirect impact of the improved fiscal balance on the credit market could be much greater in the long run.

Suggested Alternatives to Existing Policy: None.

Suggested Further Research: None.

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[8]1992/93 is preliminary actual figure, from SPRP PAAD; see pp. 18 and 30.

4.2.3 Corporate Taxation and Tax Incentives to Investment

Formulating Institution:	Ministry of Finance and the Ministry of Economy and Foreign Trade
Implementing Institutions:	District Tax Office/Tax Commission on Commercial and Industrial Profits, General Authority For Investment (GAFI)
Policy Group:	Fiscal
Intended Scope of Policy:	Economy-wide
Form, Number, Year:	Law 157/1981, Income Tax Law, as amended by Law 187/1993, the Unified Tax Law; Law No. 230/1989 (Investment); Law 59/1979 (New Cities)

Statement of Policy: Corporate tax policies and investment promotion policies are inextricably linked. Under current policies, tax concessions are the major incentives used to promote and encourage investment in Egypt. This is especially so for agribusiness.

Corporate Taxation: Both the Income Tax Law and the Unified Tax Law address individual and corporate income taxes. The latter establishes the current rates of taxation of corporate profits, including the two-percent development tax, as follows:

- 34 percent for export and manufacturing companies;
- 40.55 percent for oil and gas companies;
- 40 percent for subcontractors of oil and gas companies; and
- 42 percent for all other business concerns.

A company's first LE 18,000 of taxable income is exempt from the two percent development tax.

The law applies to all corporate activities, including joint stock companies, partnerships limited by shares, and limited liability companies; public sector banks, companies and units; foreign banks, companies and establishments operating in Egypt; and "Public Organizations and other Public Juridical Persons, with regard to the taxable activity exercised thereby." At least in principle, the tax law does not discriminate against private sector companies in favor of public enterprises.

The law defines "net taxable income" and the allowable deductions, including the deductibility of twenty-five percent "of the cost of new machinery and equipment . . . effective the date of using them in production."

Investment Incentives: The Income Tax Law, the Investment Law (Law No. 230 of 1989), and the law providing incentives for investment in New Cities all provide significant tax breaks to promote investment. Law 157 of 1981 provides for a five-year tax holiday for industrial companies employing more than 50 people. This incentive was extended only to those companies that came into existence after the law was promulgated.

Law No. 230 of 1989, The Investment Law, provides a number of incentives for investment in the "reclamation and cultivation of barren and desert land, tourism, housing and real estate development" as well as in free zones. By and large the incentives come in the form of tax holidays. The law exempts profits from "projects", i.e. incremental investments, from the tax on industrial and commercial profits and the corporate income tax. In addition, the distributed profits (dividends) of such investments are exempt from the normal taxes applied on revenues from moveable capital.

The period of these tax holidays granted varies according to the type of investment. The base period of exemption is for "5 years following the start of production." A resolution of the Council of Ministers may extend the exemption for a maximum of five additional years. Investments in new industrial zones, new urban communities and remote areas as well as land reclamation projects are granted a ten-year exemption. The Council of Ministers may extend the latter for an additional period of time, not to exceed five years. An investor can gain an additional two years of exemptions if sixty percent or more of the machinery, equipment and outfits used are of local manufacture. Finally, even after the exemption period the profits distributed "shall be exempted from the general tax on income to the extent of 10% . . . of the original value of the tax-payers share" in the project's investment. This exemption is double, i.e. 20 percent, for projects undertaken by joint stock companies which offer "at least 40% of [their] shares for public subscription."

Differences Between Intended Policy and Implementation: Both policies appear to be working as intended. In fiscal year 1992/93 corporate income taxes equaled LE 11.1 billion or 40.7 percent of total tax revenue. However, taxes on oil and gas companies and the Suez Canal Authorities accounted for about half the amount. The law might be considered to discriminate against smaller firms because it only provides tax breaks to larger firms, i.e. one that employ 50 or more. However, because so much of new private sector investment benefits from these tax holidays, it will be some time before the intended impact of corporate tax policies translates itself into increased Government revenue.

The policy to promote investment mainly with tax incentives also is being implemented as intended and is promoting considerable investment in the "New Lands," "New Cities," and in free trade zones.

Impact of Policy on Agribusiness: Agribusiness is a major beneficiary of the combined impact of current corporate taxation and investment promotion policies. There is ample evidence to suggest that these policies have had a significant impact on agriculture and agribusiness in Egypt. There has been substantial investment in agriculture in desert areas which has increased the

production of horticultural crops. In addition, there has been substantial investment in food processing operations in the new cities.

Corporate Taxation: The corporate tax policies in effect in Egypt neither discriminate against nor provide special benefits for agribusiness. The generous first year depreciation allowance may serve as an incentive to import or otherwise acquire modern processing equipment and other capital goods firms need to expand their operations.

Investment Incentives: The investment incentives offered by Laws 230 and the law covering investment in the New Cities serve to lessen the potentially discriminatory impact on small- and medium-sized firms of Law 157's incentives for larger firms. Given all the incentives available to potential investors, regardless of the size of their operation, it is unlikely that they would make an investment today outside the tax favored zones. For that reason, firms (and individuals) with and without existing operations in agribusiness are investing significantly in the new lands, mainly in the production of horticultural crops, especially tomatoes, cucumbers and potatoes.

Suggested Alternatives to Existing Policy: The current corporate tax policy is sound. The tax holidays seem generous, but do not address some of the other key problems in promoting investment in agriculture and agribusiness. For example, potential investors sometimes confront difficulties in acquiring land. Specific problems include "under the table" payments to Bedouin "squatters" and difficulties in obtaining free and clear title to land purchased from regional authorities. The local-content provisions of the existing policies discriminate in favor of local manufacturers and producers of key inputs, including machinery and equipment. This could slow the adaptation of technologies most appropriate to make reclaimed land productive.

Suggested Further Research: Several issues need further research before policy reform. Are firms complying with the rules and regulations of the Income Tax Law and the Unified Income Tax Law? How effective are the tax collecting authorities in collecting taxes due? Do firms subject to these laws find them fair and the application of the laws by the relevant authorities just? Over the longer term what is likely to happen after the tax exemptions expire? Will investors in the New Lands continue to produce, or will they liquidate their investments for other, tax-preferred endeavors? Another issue that needs to be investigated is whether or not current investors in new and reclaimed lands are using these investments to shelter profits from less tax-favored operations.

4.2.4 Individual Taxation

Formulating Institution: Ministry of Finance

Implementing Institution: Taxation Directorate

Policy Group: Fiscal

Intended Scope of Policy: Economy-wide

Form, Number, Year: Law 187/1993

Statement of Policy: The Unified Tax Law, Law No. 187 of 1993, constitutes a complete rewriting of Book 1 - Tax on Physical Individual Revenues and Requirements of the Income Tax Law (No. 157) of 1981. It presents a "unified" system of individual taxation in that it calculates the amount of tax payable on "the total net income realized by the taxpayer." This includes:

- Movables/Moveable Capitals Revenues;
- Commercial and Industrial Activities Revenues;
- Salaries and incomes of like status;
- Non-Commercial Professions Revenues; and
- Real Wealth Revenues.

This law changes the overall tax structure, increases the top margin rate of tax on salary income, but substantially lowers the top margin rate on the General Income Tax. For example, the old law applied a marginal rate of 22 percent to taxable income from salaries in excess of LE 3,840. The new law taxes income from salaries up to LE 50,000 at 20 percent and anything above that amount at 32 percent. The eleven tax brackets for revenue subject to the General Income Tax, which ranged from 26 to 65 percent are reduced to six brackets with marginal rates ranging from 20 to 48 percent. The Unified Law doubles the amount of income a taxpayer can exempt from the tax on commercial and industrial profits (i.e. sole proprietorships). It does not cover interest income.

Differences Between Intended Policy and Implementation: The Unified Tax Law has not been in effect long enough to measure differences between its intent and actual implication. It would appear that the overall impact may be to shift some of the tax burden from the lower and upper income tax brackets to the middle. The new law taxes income between LE 7,000 and LE 68,000 at a marginal rate of 45 percent. Under the old law, a marginal rate of 45 percent applied to income in excess of LE 65,000 under the General Income Tax. Whether this type of shift is sufficient to offset an increase in the amounts taxpayers can exempt and a reduction in the top margin rates is yet to be seen. It may well be that this law results in lower income tax revenue in the short run. In the long run, if rates are viewed as fair and reasonable by taxpayers, it may encourage more individuals to pay taxes, resulting in a more equitable and stable tax system and higher revenues.

Impact of Policy on Agribusiness: If revenues remain lower than expected under this new legislation, it could put pressure on the Government to find other sources of revenue or to increase its borrowing. This, in turn, could cause some crowding out in the capital markets which would have a negative effect on all business, including agribusiness.

Suggested Alternatives to Existing Policy: Interest income, including that on the new Treasury bills, should immediately be subject to income tax. This would prevent new distortions from creeping into the macroeconomy. It would also raise more revenue. Perhaps most importantly, it would create expectations among taxpayers that all forms of income would be treated equally, avoiding the experience of some other countries, where taxpayers make economic decisions that maximize their after-tax income but may not maximize social welfare. Expectations of equal treatment are important to those running agribusinesses, just as they would be to any entrepreneur.

Suggested Further Research: It is important to monitor closely the actual implementation of the Unified Tax Law in order to determine any differences from the original intentions of the law.

4.3 Monetary/Financial Policies with Economy-Wide Scope

4.3.1 Removal of Interest Rate Controls and Credit Rationing

Formulating Institution: Ministry of Finance

Implementing Institution: Central Bank of Egypt

Policy Group: Monetary/Financial

Intended Scope of Policy: Economy-wide

Form, Number, Year: January, 1991

Statement of Policy: Both fixed interest rates and credit rationing were features of the previous monetary regime and have been eliminated as part of the country's structural adjustment program. Both the control of interest rates and the rationing of credit by sector were key elements of the former policy to control the flow of funds to the productive sector. This policy attempted to allocate credit to those projects or sectors that the Government felt were most deserving, and not necessarily on their financial and economic merit.

With the promulgation of the major economic reforms in 1991, the Government removed most controls on both interest rates charged on loans and paid on deposits and the allocation of credit by sector of the economy. Interest rates were completely freed in March, 1993. The intent of the reforms is to allow the credit market to function more freely, allocating credit

according to risk. Interest rates are the prices of capital, which in a freely functioning market must be allowed to fluctuate to reflect supply and demand conditions. This does not preclude indirect management of the interest rate through the money supply, which the Central Bank can influence through the sale and purchase of Treasury bills. As a result, interest rates have increased throughout the economy.

As a result of the abolition of controls on interest rates and the removal of credit rationing, interest rates are higher now than in 1991. With this change as back drop, the Central Bank of Egypt now has three main goals for monetary policy: a) to control monetary expansion; b) to stabilize the Egyptian pound exchange rate against the U.S. dollar and c) to promote a gradual decline in the interest rate on the Egyptian pound from today's higher levels in order to encourage investments and promote economic growth.

Differences Between Intended Policy and Implementation: The Bank's policy on interest rates conflicts with another of its stated objectives: to control monetary expansion. The greater the monetary expansion, *ceteris paribus*, the lower the interest rate. Indeed in 1992/93, the rate objective seems to have been achieved somewhat at the cost of some additional inflation.

In addition, the current bankruptcy laws may impede the flow of credit to some businesses that should otherwise benefit from lower interest rates. As the World Bank notes, "Egyptian tax treatment of bad loans is very unfavorable to the banks." They are required to count as taxable income interest that should have been paid, but is not, until the said is declared uncollectible. In addition, the law limits the deduction for bad loans to only 5 percent of their net income. "These provisions discourage banks from lending to risky businesses, usually new, small businesses" (World Bank, 1993e, p. 109).

Impact of Policy on Agribusiness: The removal of controlled rate ceilings and the abolition of policies to allocate credit to different sectors are steps in the right direction. Both policies should benefit agribusiness over the longer term. In the short term, however, agribusinesses will continue to complain about the high cost of borrowing, and the financial community may be hesitant to lend to the sector (agribusiness) it perceives to be more risky than other segments of the economy. This may occur despite the fact that the riskiness of agribusinesses varies considerably, and it is therefore not reasonable to generalize about the degree of risk in agribusiness in Egypt or elsewhere. In the medium term, it is hoped that both borrower and lender will discover that above average profitability offsets this perceived riskiness and that lending to the sector at above average rates makes good economic and financial sense. Over the longer term, if the Central Bank of Egypt successful achieves its goal of reducing interest rates, agribusiness—as well as the economy at large—will benefit. The key is to keep the real rates banks and other financial institutions charge on loans and pay for deposits positive.

Suggested Alternatives to Existing Policy: The treatment of bad loans for tax purposes should be reconsidered. When private banks operate normally, their profitability will attract capital to them. Penalizing them through the tax code does not seem to be an effective way of reducing bad loans.

Suggested Further Research: One topic for research is to determine what impact, if any, the fact that most, if not all, of the new investment in agriculture and agribusiness benefits from generous tax holidays, has on the pricing of loans to these new ventures.

4.3.2 Creation of Treasury Bill Market and Markets for Similar Public Debt Instruments

Formulating Institution: Ministry of Finance

Implementing Institution: Central Bank of Egypt

Policy Group: Monetary/Financial

Intended Scope of Policy: Economy-wide

Form, Number, Year: Law 6/1986; Law 17/1991

Statement of Policy: As stated in the Central Bank of Egypt's 1992/93 Annual Report, one of the Government's key monetary policies is to control monetary expansion. The goal of current bank operations in this regard is to reduce net Treasury bill issues so as to be just adequate to the requirements of the Ministry of Finance to cover the budgetary deficit and to achieve a reasonable amount of liquidity in the national economy.

The interest on Treasury bills is not subject to income tax.

Differences Between Intended Policy and Implementation: The Central Bank is implementing this policy as it was intended.

Impact of Policy on Agribusiness: This policy has no specific effect on agribusiness. Short-term Government debt instruments are a key part of modern financial management of the economy. The introduction of treasury bills and the creation of a market for them allows the Government to have indirect but effective control over both interest rates and the money supply. However, if it serves to make the overall business climate in Egypt more favorable, that will extend to agriculture and agribusiness as well.

Suggested Alternatives to Existing Policy: None.

Suggested Further Research: It is important to continue to monitor closely the overall health of the Treasury bill market and the continued ability of the Central bank to execute successfully its key monetary policies.

4.3.3 Development of Capital Markets (Stock and Bond Exchanges)

Formulating Institution: Minister of Economy and Foreign Trade

Implementing Institution: Capital Markets Authority

Policy Group: Monetary/Financial

Intended Scope of Policy: Economy-wide

Form, Number, Year: Law 95/1992

Statement of Policy: The overall purpose of the capital market law is to bring the regulation and control of the securities industry in Egypt up to date with the country's overall shift to a free market orientation. The law is an effort to strengthen the capital market, covering both debt and equity instruments, sufficiently that it will become a substantial source of capital for a growing private sector.

This law defines how the different market participants, such as portfolio managers, brokers, and investment bankers, can operate. It has removed restrictions on foreign ownership of Egyptian securities and provided certain tax advantages. It has also allowed for the creation of legitimate investment vehicles, including mutual funds and vehicles of international institutional investors. The law has established more stringent disclosure requirements, including semi-annual disclosure of financial statements (*Business Monthly*, 10/2, Feb/Mar 1994, p.19).

Differences Between Intended Policy and Implementation: Under current tax law, joint stock companies have a strong incentive to register on the exchange even if they have no intention to issue additional debt or equity. Among other factors, exchange registration leads to preferential tax treatment of interest and dividends paid to bond and stock holders. Overall, the capital market law has been written to address the needs of larger firms, registered as joint stock companies, than smaller, more entrepreneurial firms that are registered as either limited partnerships or limited liability companies.

Impact of Policy on Agribusiness: Although a substantial number of companies are registered under Law 95, action in the stock markets in both Cairo and Alexandria is still quite limited. On a recent day, shares in only 25 of over 600 companies listed were traded on the Cairo stock exchange (*Egyptian Gazette*, May 12, 1994). However, in the long run it could develop into an important source of capital for the expansion of companies that have grown successfully through the entrepreneurial stage of their development.

The capital market law provides "the enabling environment" to help the larger, public sector companies (Law 203) which are by law incorporated as joint stock companies privatize. They have an opportunity to sell their shares to the public or private sector firms through the stock exchanges. It may also be of benefit to large-scale private ventures, including those that

include foreign participation. However, it is unrealistic to expect that this law will have much of an impact on smaller, more entrepreneurial ventures in agriculture and agribusiness in the near to medium term.

Suggested Alternatives to Existing Policy: This law favors larger, existing firms over smaller, new ventures. A more favorable environment, especially for agriculture and agribusiness, would be one in which access to the capital markets and benefits of the tax code treated firms, regardless of their size, on an equal basis. This means either eliminating the tax preferences extended to joint stock companies on the stock exchanges or extending the same tax benefits to partnerships, limited liability companies, as well as sole proprietorships.

Suggested Further Research: The Government should analyze the costs and benefits of modifying the capital market law, and other relevant legislation, to treat dividend and interest payments equitably regardless of an enterprise's form of incorporation (joint stock company, limited liability company, partnership or sole proprietorship). What impact would these changes have on the ability of firms so structured to raise capital?

4.4 Trade/Pricing Policies with Economy-Wide Scope

4.4.1 Unification and Liberalization of the Exchange Rate and Liberalization of Access to Foreign Exchange

Formulating Institution: Ministry of the Economy and Foreign Trade

Implementing Institution: Central Bank of Egypt

Policy Group: Trade/Pricing

Intended Scope of Policy: Economy-wide

Form, Number, Year: MD 117/1991 (Amends law 97/1976)

Statement of Policy: Exchange rates were unified in October 1991 as a part of the reform program for the second standby agreement with the IMF. Prior to the unification, a multiple exchange rate system existed. The official Central Bank exchange rate applied to export earnings from petroleum, cotton, rice, Suez Canal transit fees, and royalties from the Sumed pipeline; these proceeds were used to import essential raw materials and foodstuffs. Between 1979 and August 1989, the Central Bank rate was fixed at LE 0.7 a US dollar. It was adjusted to LE 1.1 a dollar in August, 1989, and then to LE 2 a US dollar in July, 1990. There was also a transitory exchange rate between the Central Bank's official rate and that of the commercial banks. The parallel foreign exchange market through the commercial banks applied to the commercial banks' foreign exchange receipts from workers' remittances, tourism, and other export earnings. Finally, there was a black market rate.

In October, 1991 a free market for foreign exchange was established as part of the Economic Reform and Structural Adjustment Program (ERSAP). It abandoned the multiple exchange rate system and implemented a unified exchange rate. Under a ministerial decree about two years later, exporters were given free access to 100 percent of the foreign exchange they earned, and companies and individuals were allowed to open foreign exchange accounts. The central bank formerly imposed restrictions on the issuance of letters of credit as a way of rationing foreign exchange. In 1993, this set of restrictions was abolished.

The Central Bank has aimed to stabilize the exchange rate and to promote net capital inflows. To maintain the stability of the exchange rate, the Central Bank has intervened in the market to purchase foreign exchange.

Differences Between Intended Policy and Implementation: Since December, 1991 the rise in the general price index of non-tradables, concurrent with the nearly unchanged nominal exchange rate, has resulted in an appreciation of the nominal exchange rate by around 20 percent. Unofficial estimates of the real exchange rate suggest that it has appreciated by more than that amount. The liberalization of the exchange rate in 1991 was expected to cause a major depreciation in the Egyptian pound. However, the pound to dollar exchange rate has stabilized around LE 3.3 a dollar.

Exchange rate adjustments have been discussed by the Government and the IMF in light of the appreciation that has taken place since 1991. However, since this appreciation followed a major devaluation when the exchange rate was unified, it remains unclear whether or not the Egyptian pound is misaligned, and whether the current exchange rate is reducing the international competitiveness of Egypt's non-oil exports (Government of Egypt, 1992b).

There seem to be no problems getting access to foreign exchange. Whereas exporters had to balance exports and imports before, and only received 25 percent of the foreign exchange they earned, now they earn all of it and can keep it in their own account.[9]

Impact of Policy on Agribusiness: As Egypt moves from a relatively closed, planned economy to an open, market-based economy, the exchange rate is arguably the most important macroeconomic variable. Reducing overvaluation of the exchange rate and giving economic agents like traders free access to foreign exchange creates a tremendous stimulus to exports. In addition it reduces the distortion in favor of imported capital, thereby increasing the incentive to employ labor. Moreover, the ability to freely exchange Egyptian pounds for foreign currency, in the context of other changes to investment policies, makes foreign direct investment more attractive. Any reduced inflow of technology (embodied in capital) due to the reduction of overvaluation is likely to be offset by the eventual increase in foreign direct investment.

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[9]Travelers leaving Egypt can convert surplus Egyptian pounds to US dollars without showing any documentation of having converted dollars to pounds.

The competitiveness of Egyptian products under the new regime did indeed stimulate investment in trading activities, including horticultural exports. This in turn could generate substantial employment opportunities. The stability of the exchange rate, combined with interest rate differentials between foreign and domestic interest rates, has also stimulated a large capital inflow.

Suggested Alternatives to Existing Policy: None.

Suggested Further Research: Because the exchange rate is so important, the Government needs to ensure that it does not become seriously misaligned.[10] In particular, any analysis of the international competitiveness of Egypt's non-traditional exports needs to consider whether or not the real exchange rate is near an equilibrium level. It would enhance the confidence of the private sector in the Government's efforts if the Government were to undertake such research regularly and make the results public. Because estimation of the real exchange rate of any country is quite difficult, technical assistance to the Government might be appropriate.

[10]Apparently there is currently a disagreement between the GOE and the IMF over whether the pound is overvalued again.

4.4.2 Reform of Import Tariff and Bans, Import Quality Assurance

Formulating Institution: Tariff, Bans: Ministry of Finance
Quality: Ministries of Economy, Agriculture, Health, and Supply, Egyptian Organization for Standards and Quality Control

Implementing Institution: Tariff, Bans: Ministry of Finance
Quality: Ministries of Economy, Agriculture, Health, and Supply, General Organization for Export and Import Control, Atomic Energy Authority

Policy Group: Trade/Pricing

Intended Scope of Policy: Economy-wide

Form, Number, Year: Tariff: PD 178/1991, PD 294/1993 (Tariff Preference), PD 38/1994
Bans: MD 288/1993 (July 1993 & 1991 and Special Conditions List)
Quality Assurance: PD 1770/1971 and Law 118/1975

Statement of Policy: Tariff: Customs tariffs have undergone four major changes during the last 14 years.[11] The first change took place in 1980, when the tariff structure was completely reformed to link protection to the stages of manufacturing of commodities. With few exceptions, raw materials were taxed at rates less than intermediate goods, which were in turn taxed at rates less than final products. The effect of this reform was to create tariff escalation, which was exacerbated by the use of multiple exchange rates for customs valuation.

The most comprehensive reform occurred in 1986, which continues to serve as the foundation of today's tariff structure in Egypt. Tariffs were reduced by 50 percent across the board, tariff categories were consolidated from 43 to 12, and a duty range of 5 to 160 percent was established. A 1-percent tariff rate was applied to necessary foodstuffs. At the same time, all supplemental taxes on imports were abolished, which represented a surcharge of between 15 and 20 percent (Lord, 1994, pp. 27-8). These taxes included a tariff for local governments that was introduced in 1979, the customs statistical tax dating from 1969, the economic development duty, and the maritime consolidation duty.

Tariff rebates were also introduced as part of the 1986 reform to encourage local production of components for the domestic assembly industry. Tariff discounts were linked to

[11]All tariffs are ad valorem with the exception of those applied to tobacco and tobacco products, which are calculated on the basis of product weight. Egypt does not apply seasonal tariffs, nor does it apply variable import levies.

the share of local input materials in finished products, which often reached 75 percent of the total import duty (Lord, 1994, pp. 27-8). The overall positive effect created by the reduction in tariff rates was offset by the simultaneous devaluation by 48 percent of the exchange rate used in customs valuation against the US dollar.

In 1989, PD 305 mandated a third reform by decreasing most tariff rates by 30 percent. The objective of this reform was to ensure that domestic prices would not increase as a result of the adoption of the free market exchange rate for customs valuations purposes.[12] The tariff rate on basic foodstuffs was also decreased to 0.7 percent.

The fourth important tariff structure reform was introduced in 1991 by PD 178, which increased tariffs while simultaneously lifting non-tariff restrictions on imports. The effect of this reform was to essentially return the rate structure to its 1986 level. At that time, the range of tariffs was modified from 0.7 to 120 percent to 1 to 100 percent (Lord, 1994, pp. 27-8). Tariff categories were further reduced from 12 to 10. A 10-percent sales tax was also introduced at that time to replace the consumption tax; this tax also applied to imports.

In 1992, as part of the World Bank and IMF SAL, the tariff range was narrowed further. Minimum rates were raised to 5 percent and maximum rates were lowered to 80 percent. New tariff rates were imposed on a total of 106 commodities, primarily by reducing customs duties on raw materials and intermediate goods, and raising duties on finished goods. At the end of 1993, new tariff rates were imposed on 120 commodities, with no change in the minimum and maximum rates. Most of the commodities that were subject to tariff increases included: food products (e.g. butter, table eggs, margarine), chemicals and pharmaceuticals, printing and writing paper, construction materials, metal products, and tractors, buses, and motorcycles. Those commodities subject to tariff decreases included: frozen fruit, stamping foil, silk yarn, milking materials, tin for packing, stranded wire, and horizontal pumps.

Current tariff levels are being maintained at high levels as part of the Government's current trade strategy to protect industries from the sudden adaptation to a free trade system. They also provide an important source of revenue for the Government. A further reduction in the maximum tariff to 70 percent has been implemented in 1994. Thereafter, maximum tariff rates are supposed to be decreased by another 10 percent by December, 1994 and to 50 percent in FY1996. Rates below 30 percent will remain unaffected. Current rates for agricultural items are shown in the following table.

Tariff preferences and concessions have also undergone reform measures since the late 1980s. In 1990 the preference list specified 96 items; it was reduced by 27 items in 1991, and again in 1992 by 32 items. In 1993, PD 294 removed virtually all import tariff preferences.

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[12]The move to the free market exchange rate represented a devaluation in the Egyptian pound, which was adjusted from LE 1.89 per US Dollar to LE 2.57 per US Dollar.

Bans: A list of prohibited imports was instituted in 1986 as a replacement for the import licensing system. MD 333/1986 specified about 210 tariff lines to be included in the "ban" list; more items were added in the following two years. In early 1990, about 570 products were affected by the list (Lord et al., 1994, p. 31), which constituted the predominant form of NTBs (non-tariff barriers) to trade. As a condition of the World Bank SAL, the coverage of domestic production was reduced to 23 percent in 1991, down from 37 percent one year earlier. The reductions, however, were much larger for the private sector than for the public sector, which dominated the textile industry and was protected from foreign competition through this policy measure. As a consequence, the public sector production coverage of import bans remained above 40 percent, whereas that of the private sector was reduced to 10 percent. More recently, in line with trade policy reforms agreed upon by the Government with USAID, the production coverage of import bans has been lowered to under 5 percent, without significant differences between the public and private sector coverage. While the most recent reduction is indeed significant, the remaining 3 commodities on the import ban list in effect represent 26 items: poultry was broken down into 3 sub-items (e.g., poultry, poultry offal, and poultry liver); textiles and ready-made garments were disaggregated into 23 sub-items according to their customs nomenclature (e.g., types of woven fabrics, blankets, clothing accessories). Indeed, protection of the textile industry, which is dominated by public sector enterprises, remains very high. Under the
agreement with the World Bank, the ban on poultry is to be removed during 1994, and the ban on textiles and garments is to be reviewed in the context of the inclusion of such items in the new GATT agreement.

Quality: Presidential Decree No. 1770 of 1971 and Law No. 118 of 1975 govern the operations of the General Organization for Export and Import Control (GOEIC), which operates under the Ministry of Economy and Foreign Trade. During the 1970s and 1980s it was responsible for monitoring food imports by state monopolies and assuring the quality of products and commodities traded under barter agreements and protocols with Eastern European and countries and the former Soviet Union. Finally, Presidential Decree No. 392 of 1979 provides "the sole legal authority to set standards for industrial products and services . . . with the Ministry of Industry through the Egyptian Organization for Standards and Quality Control (EOS)." Quality control regulations are designed to protect the safety and health of the consumer. The list of quality controls on imports includes 159 items, of which 37 items have been removed from the ban list in July 1993 and added to the quality control list.

Item	Import Tariff
Animals (live), except Chickens (>185 g), pigs	5% 70%
Fertilizers	5-30%
Fibers: raw yarn cotton textiles, clothes[13]	5% 30% 60%
Fish	5-40%
Fruits/vegetables for consumption: Dates/potatoes/tomatoes/onions Citrus/grapes/apples	 20% 70%
Grains and flours, except Rice Starch	1-5% 20% 40%
Legumes and oilseeds, except Peanuts	1-5% 40%
Machinery (agricultural)	5-10%
Meat, except Poultry (fresh or frozen)[14]; pork	5% 70%
Seeds	5%
Sugar	5-15%
Tractors	10-40%

Differences Between Intended Policy and Implementation: Tariffs: According to calculations by the GATT (Lord, 1994, p. 28), a comparison between the 1986 and 1980 tariff structure reveals that although the estimated average rate of nominal protection fell from 48.1 percent to 47.5 percent, the weighted average nominal tariff rate on the US dollar value of imports increased from 34 percent to 64.6 percent.

Egypt's new tariff policies—those that have been implemented and that are expected to be introduced under World Bank-IMF SAL conditions in the next two years—have met with

[13]Temporarily banned.

[14]Temporarily banned.

negative opinions from both the public and private sectors. Parliamentary discussions concerning tariff reductions indicate that many ministries fear that the reductions will threaten domestic industries (Al-Ahram newspaper, November 21 and December 20, 1993). The Ministry of Industry does not endorse the proposed tariff reductions in intermediate inputs (Al-Ahram, December 19, 1993).

Despite negative opinions on the topic of tariff reductions, it is clear that the Government's compliance with the conditions set forth by the World Bank and the IMF will force Egyptian businessmen to confront the realities of international competition when it is fair. Examples of unfair competition include the importation into Egypt of "heavily subsidized European frozen beef" and "competitive subsidies offered by the EEC and USA" for poultry (see Walters, 1993, pp. 102-3).

Bans: While the reduction in the number of commodities included on the import ban list indicates that this import measure is no longer a significant NTB to trade, it is noteworthy to recall that the three remaining items on the list represent 26 related products.

A comparison of the list of products included on the quality control list before and after the 1993 import ban revision indicate that quality control is increasingly being used as an important NTB to trade. 34 items were removed from the import ban list and included on the quality control inspection list, which totalled 159 products at the end of August, 1993 (Lord, 1994, p. 28). Government officials in the Customs Administration reported, however, that the application to imported commodities of the International Standardized Specifications (ISS) system is an ordinary procedure in all parts of the world, and that it is not being used in Egypt as a substitute for the import ban list. Indeed, good reasons may exist for the requirements pertaining to foodstuffs.

Quality: Although quality control regulations are aimed at protecting the health and safety of the consumer, they sometimes end up unduly restrictive, poorly applied, and in many cases lacking scientific and objective justification. Many agribusinesses visited by the team complained of this problem.

There are many ministries involved in the formulation and enforcement of health, safety, and quality control measures. They include the Ministries of Economy, Agriculture, Health, and Supply as well as the Atomic Energy Authority. There is practically no coordination between these Ministries in the formulation of regulations, and hence one product can be subjected to the requirements of several of these agencies.

It is doubtful that all the mandatory quality control regulations have been based on health, safety, and quality grounds. Specific examples include:

- Including items like toothbrushes, carpets, boxes and bags, playing cards, and textiles of silk on the quality control list.
- Establishing a maximum fat content for beef.

- Setting specifications for imported wheat.

Impact of Policy on Agribusiness: Tariffs, Bans: In general, the reduced dispersion among tariffs for intermediate and final goods tends to improve the efficient allocation of resources, encourage the production and export of those products in which the country is internationally competitive, and improve the welfare of consumers by lowering the cost of their purchased goods. Tariffs on most agriculture-based items are moderate, with only selected items like poultry, garments, and certain fruits at the maximum 70 percent. Thus most agribusinesses operating in the import area should not suffer significant restriction of demand for their products due to the addition of duty to the price. Moderate duties on agricultural machinery present little obstacle to investment (although for higher duties on machinery with 20-85 horsepower engines, see the section on agricultural input pricing). Importers and producers who expand their activities as a result of reductions in duties are likely to create new job opportunities. Similarly, revision of the import ban list and reducing the constraints on many imported items like fertilizers, wheat, seeds, other agricultural products and machinery strengthened the private sector capabilities and agribusiness.

The lack of a tariff on beef that is being dumped by European countries results in substantial profits for those trading it in Egypt and lower prices and disincentives to local beef producers (Walters, 1993, p. 102).

Quality: The system of quality controls has resulted in increased uncertainty and risk for local producers and foreign investors, as well as increased costs for the importer and the consumer. Uncertainty is created, for example, because ministers retain the right to issue decrees establishing regulations and the means by which they will be enforced. The diverse quality control regulations and the multiplicity of agencies involved with the enforcement of these regulations impose a heavy burden on many local and foreign private firms that import. This is a barrier to the expansion of these activities.

In agriculture, commodities do not all have identical or similar quality measures. While inspection and quality control are generally reasonable, the problem lies in the lack of systematic, objective, coordinated inspection by the various agencies involved. Specifications for quality control are broad and vague, thus permitting subjective rejection or acceptance of any parcel by one agency but not by another (standards include, e.g., "free from insects," "free from other seeds," "free from straws and weed seeds").

Suggested Alternatives to Existing Policy: Tariffs: A countervailing duty on imported subsidized beef may be appropriate to level the playing field for local producers. Completely fair play would require a duty that would bring the price of EU beef up to the unsubsidized world market price. On the other hand, many poor consumers in Egypt are benefiting from these imports, so it may be more appropriate to apply only a partially equalizing duty (see Walters, 1993, pp. 102, 131). Other commodities like wheat may enter the Egyptian market bearing export subsidies. The new GATT agreement will reduce the level of export subsidies on agricultural products over the next six years.

Bans: Remove textiles from the import ban list (which would be more compatible with the new GATT agreement).

Quality: The quality control system should shift toward a quality assurance system. Regulations need to be reviewed for current relevance. The Government and the private sector need to work together better to further the legitimate objectives of the system. The Government should become more accountable for the regulations it makes and the way it enforces them.[15]

Suggested Further Research: Procedures:

- Investigate the need for and effectiveness of the numerous steps and procedures required for import activities and the various authorities involved. This would help prioritize the elimination of some procedures and authorities involved in such activities.

- Investigate alternatives for exporters under the temporary admission system (especially those followed in similar developing countries). This would lead to a more competitive environment for private business.

4.4.3 Reducing Export Bans, Simplifying Export Procedures, Export Quality Assurance

Formulating Institution: Bans, Procedures: Ministry of the Economy and Foreign Trade
Quality: Ministries of Economy, Agriculture, Health, and Supply, Egyptian Organization for Standards and Quality Control

Implementing Institution: Bans:
Procedures: Ministry of the Economy and Foreign Trade
Quality: Ministries of Economy, Agriculture, Health, and Supply, General Organization for Export and Import Control

Policy Group: Trade/Pricing

Intended Scope of Policy: Economy-wide

Form, Number, Year: Bans: MD 288/1993

Statement of Policy: Bans: In 1991, the number of items on the export ban list was reduced from 20 to 6 (Lord, 1994, p. 38). Important modifications were the lifting of restrictions on foodstuffs and fodder, which had originally been imposed to prevent smuggling of subsidized foodstuffs, including subsidized imports, out of Egypt. In 1993, the only agricultural items

[15]A complete set of recommendations is given in Coyle, 1994, p. 2-3.

included on the export bans list were raw hides and skins. MD 288/1993 also eliminated the only remaining item on the list of export quotas, which was tanned hides and skins.

Procedures: Exporters are faced with a multitude of complex procedures. In their exporting activities, exporters must complete up to 48 steps, deal with several different agencies (i.e. the Ministry of Economy, the customs authority, the investment authority, the industrial authority) and complete up to fifteen documents. In addition, they have to pay more than eight different types of charges in ports, airports, and packing stations, some of which are paid several times for the same services under different names.

Perhaps the most important change to take place recently was the replacement of the letter of guarantee required by exporters who benefitted from the temporary admission system with an insurance policy, and the immediate reimbursement of customs duties and sales taxes levied under the drawback system.

According to Ministry of Finance Decree No. 4 for 1994, exporters using the temporary admission system for imported raw materials and intermediate goods are required to submit one of the following documents in order to be exempted from port duties and sales tax on their imported inputs:

1. A bank letter of guarantee
2. Cash deposit
3. A pledge that is accepted by one of the ministries, government agencies, or public authorities.
4. An insurance policy in favor of the customs authority with a ceiling equivalent to 50 percent of the paid share capital of the exporting company.

Quality: Export quality assurance has become more limited in Egypt since the macroeconomic policy reforms of 1991. For large exporters, there is often little or no quality inspection of exports, because their customers abroad have sufficiently high standards and sufficiently thorough inspection systems of their own. Some exports are and should be inspected to prevent one-time exporters from ruining the country's reputation in particular commodities.

Differences Between Intended Policy and Implementation: None.

Impact of Policy on Agribusiness: Bans: The dismantling of the export ban list and export quotas provide further incentives for export expansion, with concomitant employment opportunities.

Procedures: The long procedures and the numerous agencies that exporters have to deal with represent an unjustified cost, time-wise and money-wise, which affects negatively the exporter's competitiveness in the world market. Regarding the temporary admission system, the options number one and two (above) of the temporary admission system available for exporters under this decree impose an unjustified financial burden on the exporter. The third option is

clearly in favor of public enterprises because it is very easy for them to get the endorsement of a ministry or government agency. The new fourth alternative, the insurance policy, may work well for companies that produce for export. Even if their paid capital is much larger than their volume of transactions, it is only the premium on the policy (for half the capital) that must be paid. This may be modest in relation to the export revenue. If this new form of temporary admission is successful, significant investment, income, and employment could be generated by exporting companies that import part of their requirements.

Quality: Subjective inspection, to the extent that it is carried out on exports, might make a commodity acceptable by one agency but rejected by another. This will result in a negative attitude toward investment and production for the export market and reduce competition with world commodities. Accordingly, this policy, in reality, discourages investment and employment in the agribusiness sector. It might have a positive effect on technology transfer for the capable firms in order to produce commodities with standard quality measures that would be marketed competitively in the international market.

Suggested Alternatives to Existing Policy: While the first stage in export reform has been implemented fairly rapidly, the next stage must aim to improve the administration of policies, strengthen institutions, and reinforce the mechanisms for implementing policy and evaluating reforms.

Procedures: To encourage exports and the performance of agribusiness, the Government should reduce to a minimum the multitude of regulations and procedures imposed on export activities. Even though several steps have been taken annually to facilitate the execution of such activities, numerous procedures still remain.

Quality: The problem areas that constrain the growth of the foreign market include:

- Overhauling the system of quality control on imports and exports to unify the measures and agencies and reduce the procedures for inspection and certification.

- Inspection of imported inputs by various agencies is time-consuming and costly, especially if samples are sent to the control laboratories in Cairo. Ports should be equipped with the required facilities. Inspection should be consolidated in one building housing technicians representing the various agencies and ministries.

Suggested Further Research: Procedures: The Government in cooperation with the private sector should investigate the need for and effectiveness of the numerous steps and procedures required for export/import activities and the various authorities involved. This would help prioritize the elimination of some procedures and authorities involved in such activities.

Quality: To determine objective and scientific measures of quality, measures used and applied in similar countries should be examined to select those applicable to local conditions.

4.4.4 Liberalization of Energy Prices

Formulating Institution: Cabinet/Ministry of Petroleum and Energy

Implementing Institution: Ministry of Petroleum and Energy/Electricity Organization

Policy Group: Trade/Pricing

Intended Scope of Policy: Economy-wide

Form, Number, Year: MD /1993

Statement of Policy: Prices of energy have been set below cost, leading to ingrained economic distortions. The extremely low prices for energy led to wastefulness. Energy prices have been highly subsidized for at least the last 10-12 years: petroleum product prices averaged about 75 percent of world price in the mid-1970s. This proportion declined to under 20 percent by the early 1980s as a result of the Government's decision not to raise domestic prices and the sharp increase in world prices in 1978/79.

Domestic prices for most petroleum products, particularly those used in industries, have been raised in the past few years. In May, 1987 the prices of kerosene, gasoline, oil, fuel oil, natural gas were increased by 65-70%. In 1990-92 there were further increases in the prices of petroleum products. Electricity prices have been increased seven times during 1982-89, but the increases have not kept with inflation. In May, 1990 the price of electricity increased by 50%, reaching 59% of its estimated long-term marginal cost. It was increased again, reaching 69% of the long-term cost by the end of 1992. Full coverage of the long-term marginal cost is envisaged by the end of 1995.

Differences Between Intended Policy and Implementation: While the agreement between the General Organization for Electricity and the World Bank was only intended to provide a decent return on investment for the electricity ministry and not to hurt business, some claim that "Bureaucrats wanting more money started adding things like stamps and the cost of extending lines to factories to company bills. They insisted on a minimum charge. None of these things was directly related to the cost of the electricity."

In early April, 1994, President Hosni Mubarak ordered the elimination of stamps and other excess charges, saying that people and companies should only bear the actual cost of power they use. The rates for consumption will not be cut back (Allen, 1994 and Lord, 1994).

Impact of Policy on Agribusiness: New production has sometimes been held up because companies can't afford to pay the increasing electricity bills that would result from starting up new lines of equipment. This kind of problem often occurs when pricing distortions are removed, but the effect on business planning is real.

One person interviewed said that if the electricity cost problem isn't sorted out soon, "It could be a big deterrent for potential investors. The worst thing that can happen—to new investors or established companies alike—is an unpredictable development like soaring power costs, which Parliament is not responsible for and can't rescind." Companies that have kept new equipment in boxes for the past year to avoid power charges will have to decide whether they can afford to start using it.

Agricultural investors, particularly in the New Lands, are affected by these changes in energy costs. The increasing prices of liquid fuel and electricity may increase their costs of production significantly, because of their intensive operation of irrigation pumps. This will lead them to try to rationalize the quantities of energy consumed. Rationalization is likely to lead to more careful use of modern irrigation techniques. Improved management may require some additional investments in sprinkler and drip irrigation equipment, but overall, higher energy prices would be expected to slow the use of energy-intensive modes of production.

Agro-industrial and other firms adjusting to the changes in energy prices are likely to be encouraged to use less energy-consuming capital and more labor, assuming that such technological choices are available.

Suggested Alternatives to Existing Policy: The Government should make its energy policy as transparent as possible, so investor-producers and other agribusinesses can incorporate the changes in prices into their business plans. Clearly there will be some political cost to announcing increases in electricity prices. One way to reduce this cost is to have the announcement made by the bureaucracy rather than a politician, i.e., transfer "ownership" of the issue away from elected officials to technocrats, whose job it is to collect the correct amount of money for providing electricity.

Suggested Further Research: While the most modern equipment is often desired by potential investors, the most appropriate technology may be unknown. The Government might conduct research and disseminate information on technologies that are available to agro-industrial and other investors that minimize the use of "expensive" electricity and capital (now that electricity rates are moving up toward their true cost and much overvaluation has been removed from the exchange rate). A new one-story wheat-milling technology is one example. In most current mills, the wheat must be lifted several stories several times before the milling process is completed.

4.4.5 Duty Drawback System

Formulating Institution: Ministry of the Economy and Foreign Trade

Implementing Institution: Ministry of the Economy and Foreign Trade

Policy Group: Trade/Pricing

Intended Scope of Policy: Economy-wide

Form, Number, Year: PD 431/1992; Decree 274/1986 (temporary admittance)

Statement of Policy: The duty drawback system is used by exporters to obtain refunds of duties paid on imported inputs used in the production of a final exported product. The finished product must be exported within one year of the importation of the raw materials. If imported raw materials are not totally exported in the form of finished goods, the exporter is only entitled to rebates for the customs duties and taxes paid on those raw materials used in the exported goods. The drawback system also applies to indirect exporters—i.e., when the importer and exporter are different entities. In these instances, a decision is made as to how to allocate the rebate.[16]

Differences Between Intended Policy and Implementation: While in cases of indirect exports the potential problem of allocating the rebate may appear difficult, the rules used by the Industrial Control Authority (ICA) to calculate the amount of imported inputs on which drawback is allowable are more troublesome to businessmen. For industries other than paper, cigarette packaging, and standard furniture, the ICA calculates the amount of the rebate provided to the exporter after reviewing the production process in each plant and determining the quantities of imported raw materials required. A certificate indicating the approved production formula is then issued and remains valid for one year. Businessmen have complained that they have difficulty proving the amount of imported input used in the final product, and that the ICA somehow needs to make the system simpler and more transparent. Another firm claimed that they had to produce a bank guarantee for the full amount of the imported product, not just the amount of the duty.

The intent of duty drawback systems is to compensate exporters for the high cost of imported inputs (i.e., to promote exports). However, in countries in which structural adjustment is occurring, this type of system can constrain the shift towards a uniform tariff level and conflict with import liberalization when the rebate system is perceived as a long-term alternative to import reform (Lord, 1994, p. 37). Such a system can also encourage exporters to over-

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[16]Normally one would expect the rebate to go to the exporter, on the assumptions that the importer passes through the full price increase due to the duty and because it is the exporter whom the Government is trying to encourage—i.e., any increased imports are a derived demand. In cases where the importer is not able to pass through the full cost, there would have to be a determination of how to allocate the rebate.

invoice imported inputs. This type of system also requires that exporters carry the total cost of duties and sales tax until all final goods are exported and all rebates are received. In a public announcement made at the end of January 1994 (Al-Ahram newspaper, Jan. 25, 1994), the Minister of Finance stated that reimbursement for all customs duties and sales taxes would be reimbursed immediately upon the re-export of all imported inputs, a policy which was to be effective immediately.

Impact of Policy on Agribusiness: If it functions smoothly, the duty drawback system is an effective tool to encourage agricultural exports. The present system has some problems in implementation that seem to be creating disincentives to export among agribusinesses. If firms have to produce a bank guarantee for the full amount of the imported product, not just the amount of the duty, this would further restrict their cashflow. On the other hand, the severity of this problem will to some extent decline "automatically" as the level of duties continues to be reduced.

Suggested Alternatives to Existing Policy: Since technology is unlikely to change every year, it seems unnecessary to make certificates good for only one year. Perhaps the Government could issue the certificates with an indefinite validity and check the amounts of inputs used on a random basis. Firms could be required to report when the ratios of inputs and outputs changed. Fines could be levied on firms that did not comply properly. At the same time, the personnel enforcing such regulations should be reminded that their primary purpose is to facilitate exports.

4.4.6 Coordination of Trade Policy through the High Council of Trade

Formulating Institution: Ministry of the Economy and Foreign Trade

Implementing Institution: Ministry of the Economy and Foreign Trade

Policy Group: Trade/Pricing

Intended Scope of Policy: Economy-wide

Form, Number, Year: PD 339/1979

Statement of Policy: The High Council of Trade is the apical agency working in the field of foreign trade. The Council is headed by the Minister of the Economy and Foreign Trade; other members include ministers from the concerned ministries.[17] The council's tasks are the following:

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[17]Ministry of the Economy and Foreign Trade, Ministry of Agriculture, Ministry of Supply, and Ministry of Planning.

- Determine foreign trade policies and targets and set long-term plans.

- Direct studies concerning planning of trade and assessing national production potentials and domestic consumption requirements (family and governmental) and their impact on the volume and kinds of imports and exports.

- Suggest a strategy for Egypt with respect to international trading blocs.

- Study the foreign trade annual plans prepared by technical committees in concerned ministries.

- Monitor and evaluate the implementation of annual plans and suggest solutions for trade problems. The council has five committees for commodity planning; one of them is for agricultural and food commodities.

Differences Between Intended Policy and Implementation: Since it's establishment the Council has met very rarely, thus playing a very limited role in setting trade policy. The members of the council are in the meantime members of the Supreme Committee for Policies and Economic Affairs, where all economic polices are discussed. This supreme committee, however, is not a substitute for the council. The absence of a trade data bank is another problem the council might have resolved.

Impact of Policy on Agribusiness: Coordination of trade was a concept that was more feasible when most imports and exports were in the hands of the Government. Now that the private sector is to take the lead in trade, the Council's existing mandate is not likely to serve the trade sector very well. In particular, agricultural exports like fruits and vegetables are seriously affected by the absence of market information.

Suggested Alternatives to Existing Policy: Because the Council has the potential to positively affect Egypt's trade performance, its functions should be modified in light of the structural reforms that have taken place. The Council's functions should include:

- Conducting or commissioning studies on the potential of various foreign markets for Egyptian imports and exports.

- Advising importers and exporters on the impact of the GATT agreement signed in April, 1994. This would include providing information about expected changes in world prices for Egyptian agricultural imports and exports.

- Monitoring the effects of Egyptian trade policies and working with the private sector to find solutions to problems facing traders.

4.4.7 Accession to GATT Agreement of 1994

Formulating Institution: Ministry of the Economy and Foreign Trade

Implementing Institution: Ministry of the Economy and Foreign Trade

Policy Group: Trade/Pricing

Intended Scope of Policy: Economy-wide

Form, Number, Year: April, 1994

Statement of Policy: In April, 1994 Egypt signed the agreement resulting from the Uruguay Round of multilateral trade negotiations, which had for the first time made agricultural policies subject to negotiation, rather than merely exceptions. The GATT agreement will come into force for the industrial country signatories in 1994. For developing countries, enforcement will begin in January, 1995. Egypt remains in the third category, least-developed countries. As such, it is not required to undertake commitments or concessions. It would do so only to the extent that they were consistent with its developmental, financial, and trade needs (GATT, 1993) (Habashi, 1994). That is, it need not reduce subsidies in agriculture or increase market access if it does not feel it is in its interest to do so.

Egypt and other GATT members in the same category were given an additional one year to submit their policy schedules, with any concessions and commitments, as required by Article XI of the Agreement Establishing the World Trade Organization (WTO). These countries are also to receive from the WTO technical assistance in the development, strengthening, and diversification of their production and export bases and their trade promotion activities.

The main principles and elements of the GATT agreement are:

- To reduce subsidies, without any discrimination among countries.
- To protect domestic production only through duties, and the conversion of non-tariff barriers to tariffs.
- For products subject to tariffication, to maintain current market access opportunities and to establish quantitative commitments for new access opportunities if imports in the period 1986-88 were low or non-existent. The imported percentage will increase by 1995 to 3% of the annual consumption of the commodity and to 5% by 2000.
- To decrease over 6 years subsidies given to agricultural producers by 20% of the subsidies in 1986-88 and export subsidies by 36% of the subsidies in 1986-90 (and reduce the volume of subsidized exports by 21%). For developing countries (second

category), the commitments to trade liberalization will be over 10 years, and the export subsidy reduction will be by 24%. The agreement allows subsidies in non-trade-distorting areas like research, infrastructure, and marketing services.

- To establish the WTO, which represents the institutional and organizational framework which will monitor the agreement.

Differences Between Intended Policy and Implementation: Egypt need not make significant changes in its agricultural and trade policies as a result of signing the GATT agreement for two reasons. First, as a least-developed country, it is not required to do so.[18] Second, as a result of the macroeconomic reforms initiated in 1991, Egypt is in a good position vis-a-vis the new GATT agreement. Virtually no production or export subsidies are provided to agriculture. Tariffs have been reduced several times, and import bans and quotas have virtually been eliminated.

Impact of Policy on Agribusiness: Even if Egypt does not make further changes in its agricultural and trade policies, the GATT agreement will have an impact on importers, exporters, businessmen, and farmers. The elimination of subsidies to producers by the developed countries will gradually increase agricultural prices on the world market. Egypt is a net importer of some important agricultural products like wheat, flour, maize, vegetable oil, sugar, and meat. Importers and consumers of these commodities will face higher prices than before. The quantities of these commodities imported may decline. However, there will also be a greater incentive to produce these commodities domestically. On the other hand, exporters will benefit from price increases for cotton, vegetables, fruit, onions, and garlic.

In general, if world prices increase, consumers will bear the burden until production increases sufficiently to bring prices back down. There could be substantial relocations of production if emerging patterns of production follow comparative advantage rather than policy inducements. For all those commodities whose world price increases, there will be an incentive for producers to increase their output. In countries where there are no significant obstacles to such growth, this in turn will generate more income, employment, and exports. The openness promoted by GATT and the exclusion of research and related activities from the list of subsidies to be reduced should also lead to more technology transfer.

Suggested Alternatives to Existing Policy: The Government should advise importers, exporters, and the general public on the likely impact of the GATT agreement. This would include providing information about expected changes in world prices for Egyptian agricultural imports and exports, as well as any improvements in market access.

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[18]The dynamics of trade negotiations in some ways make it more desirable to make such changes, however, if they are not severely detrimental to the country's interests. That is, those countries that participate in the negotiations and policy changes tend to have more clout in both succeeding and related negotiations and thus to benefit more from the trading and negotiating system in the long run. Related negotiations might include those determining preferential access to the European market.

As the EU modifies its agricultural policies in the wake of the GATT agreement, it will be important for Egypt to try to secure preferential access agreements comparable to those of its competitors. One example is the citrus "quota" allocated to Morocco by the EU. Apparently the Government has initiated general discussions along these lines.

Suggested Further Research: To be in a position to advise the public on the impacts of GATT, the Government may need to conduct or commission some research. Many economic models have been developed to simulate the effects of trade liberalization on trade in agricultural products (USDA, OECD, IIASA, Tyers and Anderson). Government research institutes and others should be able to obtain these models or work with their developers to generate useful results.

4.5 Regulatory Policies with Economy-Wide Scope

4.5.1 Privatization of Agribusiness Holding Companies

Formulating Institution: Cabinet

Implementing Institution: Various ministries

Policy Group: Regulatory

Intended Scope of Policy: Economy-wide

Form, Number, Year: Law 203/1991

Statement of Policy: Law 203 of 1991, The Public Business Sector Law, provides the legal and regulatory basis for the management and operation of the Government of Egypt's vast holdings in operating companies. The law also provides the foundation for the privatization of these holdings. The law establishes seventeen holding companies for 314 "affiliated companies" which have full autonomy to operate as businesses and to shift away from the authority of the line ministries.

According to the law the holding companies are responsible for managing the assets in the affiliated enterprises. Currently, the "affiliated companies" enjoy no more special advantages, and have to compete with private sector borrowers for capital, without the benefit of automatic government guarantees. Subsidized exchange rates are no longer available, trade barriers have been reduced, and most of the price controls have been lifted. Therefore, the managers of those enterprises are responsible for efficient and profitable operations.

The fact that the affiliated companies are established as joint stock corporations lays the ground work for their eventual privatization. At least in principle, private firms and/or investors can purchase equity in the affiliated companies in the stock market. However, the

Executive Regulations for Law 203 put apparently severe strictures on an affiliated company's ability to liquidate assets, especially profitable operations which would presumably be most attractive to private investors. The regulations hold that a company shall not dispose, by sale, of any asset of the main production lines unless it "becomes unable to operate these production lines economically" and the selling price is not less than the value as determined by a valuation committee formed by ministerial decree. Logic would dictate that a company is more likely to be able to find private sector buyers for its profitable lines of business than its money losers.

Partly because the state has been such a dominant factor in the economy, anti-trust legislation is virtually non-existent in Egypt. According to Price Waterhouse, the public sector accounted for 57 percent of total fixed investment at the end of 1992. "Within the breadth of that investment, many monopolistic situations exist . . . and the government has not passed legislation dealing with monopolies or antitrust."[19]

In summary, a major intent of the law was to "level the playing field" for private sector firms that compete with state-owned corporations throughout the economy. However, the Government will not relinquish its dominate role in the so called "strategic industries" which include utilities, communications, public transport, and heavy industries.

Differences Between Intended Policy and Implementation: The law is applicable to 314 of a total 399 financial and non-financial public enterprises which were formed during the socialist system either through the merger of nationalized firms or through the establishment of new state-owned industries. This group of enterprises employs 1.3 million workers and operates in all of the tradable and competitive sectors of activities, with major concentration in manufacturing with more than half of the group assets and employment, followed by construction, trade and transport. The public enterprises that are not subject to Law 203 are affiliated with finance, insurance, military production, the Suez Canal, and petroleum industries.

Although the law removes some of the advantages the public sector companies used to enjoy, certain aspects of their size and structure linger. The affiliated companies used to benefit from several advantages, including, negative real interest rates, preferential access to credit, automatic government loan guarantees, subsidized exchange rates, and major trade protection. This has resulted in capital-intensive modes of production and balance sheets dominated by debts. In certain industries, the large, capital-intensive nature of these companies could give them an advantage over new, smaller private sector companies. For example, the larger scale of operation of the state-owned corporation may result in the lower overhead cost per unit of output. In addition, these companies may have established markets and brand name recognition for their products.

Overall, the Government's privatization plans are unfolding more slowly than expected. Although it is its intent under the second phase of the Economic Reform and

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[19] Price Waterhouse, 1990, p. 28 and 1993, p. 12.

Structural Adjustment Program to privatize twenty-five percent of public sector assets by June of 1995, this is unlikely to happen. As of the end of 1993, only three percent of the sales target and 12 percent of the point of sales target had been achieved.

It is easy to conclude that private investors are not confident that the government is seriously committed to the promotion of private sector development. The general reluctance of Egyptian investors to substitute equity investments for holdings in government debt instruments and other less risky forms of investment has slowed the pace at which ownership of the affiliated companies has shifted from public to private hands. The deregulation that has occurred has not made a great enough difference to attract private sector investment. Another major constraint to the privatization is the debt problem. If standard accounting practices are used, many state-owned enterprises have negative net worth. That does not make them attractive to potential buyers.

Impact of Policy on Agribusiness: The Government of Egypt traditionally has played a predominant role in the processing of agricultural commodities, including food crops and cotton. The public sector's involvement has been most concentrated in commodities that require complex or large-scale processing, for example, cotton or sugar. As recently as 1988, government operations had monopoly positions in milled cereals, sugar, rice, animal feeds, edible oils, malt and beer, starch/glucose/yeast, and essential oils and near monopoly positions in tobacco, soft drinks, hydrogenated fats and oils, and alcoholic beverages. In 1991, public sector companies accounted for 60.9 percent of the value added and 64.0 percent of the employment in food industries. The corresponding figures for the beverage industries were 81.9 and 68.3 percent, respectively (World Bank, 1993a).

These numbers suggest that the policy changes initiated under Law 203 are having a measurable impact on agribusiness. Clearly, the roles of both the public and private sector in the processing of the so called "strategic" agriculture commodities—maize, rice, and wheat—are changing. Rice is the best example. Law 203 transferred public sector rice mills to the Holding Company for Rice Milling and Marketing as the first step in the privatization process. At the same time, the Government began to relax those policies that had restricted the number of privately held processing companies, their operating capacities and volume of output, and the periods during which could operate.

This has contributed to the growing importance of private operations in the rice subsector. From 1980/81 to 1989/90, the private sector's estimated share of the rice milling market rose from 56 to 64 percent. A recent study by the University of Arkansas finds that "the quantity of paddy procured by the Rice Holding Company for public sector milling has fallen dramatically from a peak of 52.3% of total rice production in 1979/80 to about 9.0% in the 1993/94 crop year."[20] As a result some private rice exporters, who depend upon state-owned

[20] Wailes, et. al. This seems to be the result of the Government's setting only a minimum procurmeent price and creating some uncertainty about the freedom of the private sector to export

and operated facilities for exportable-quality milled rice, were only able to procure 75 percent of the amounts they had requested.

Policies have allowed the private sector to operate more freely to produce packaged food products. The private sector's share of total production of Egypt's food processing industry increased from only 14.2 percent in 1975 to 33.5 percent for the year ended 30 June 1989. In 1987/88, private firms accounted for 34.9 percent of the production of the food packaging and preserving segment of the food industry. The only segments in which the private sector had a higher market share were dairy products (79.8 percent), sweets and biscuits (58.9 percent) and macaroni (55.0 percent) (World Bank, 1993a).

Nevertheless, the Food Industries Holding Company (FIHC), which comprises over twenty affiliated companies, still is a major presence in the food processing subsector. Although it recently sold its interests in both Coca Cola and Pepsi, it still manages 20 industrial companies and 2 marketing companies whose production in 1992/93 totaled LE 7.2 billion (approximately US$ 2.15 billion). That figure represented an increase of 3.3 percent (in nominal terms) over the previous year.

Two FIHC firms play an important role in the processing of fruits and vegetables. Edfina Company for Preserved Foods and El Nasr for Preserved Food Company "Kaha" combined for a total fiscal year 1992/93 (July 1, 1992 - June 30, 1993) production of LE 83 million (approximately US$ 25 million) and LE 69 million (approximately US$ 21 million), respectively. The combined figure of LE 152 million represents an almost nine percent decrease from year earlier production of LE 167 million, however.

There is some evidence to believe that the food processing industries in general and fruit and vegetable processors in particular are finding Egypt to be an attractive market. The most concrete evidence of this are the new processing plants Heinz and Nestle have established in 6th of October City.

Suggested Alternatives to Existing Policy: The requirement that limits affiliated companies from disposing of assets as the managers of those firms see fit seems overly restrictive and counterproductive. It should be eliminated. If a majority of the shareholders, i.e. the Government, does not approve of the way in which the managers are operating affiliated companies, they can replace them. In particular, the Government can ensure that the management is both competent and motivated to assess the value of the company's assets and their productivity. Likewise, the law should be amended so that it is the board of directors that is responsible for evaluating any assets or lines of business to be sold, and not an outside "valuation committee." These changes should force the managers of affiliated companies to act more like their private sector counterparts and hasten the privatization of their firms.

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rice. Excerpted from section on the "operations of the Rice Holding Company" in the marketing chapter of forthcoming study of the rice commodity subsystem in Egypt.

In addition, privatization of the so called "strategic" industries should be reconsidered. It is quite reasonable for the public sector to continue to maintain ownership firms engaged in military production and in the heavy industries. However, there is ample evidence from around the globe to suggest that private sector ownership and operation of utilities, transportation and communications would be more efficient.

Suggested Further Research: More research is required into the costs and benefits of privatizing utilities, and firms engaged in transportation and communication. In addition, the Government should analyze the options it has to use the profits from the state-owned enterprises to cushion the likely negative employment impacts of privatization.

Many of the options available to privatize government-owned companies are well known. They include selling mills and other processing operations outright, leasing mills, operating mills on a custom basis for private sector clients, and selling shares in affiliates of the holding companies. More research, however, is needed on the risks and rewards and the costs and benefits of all options so that holding companies have a better understanding of which options to pursue under which circumstances.

4.5.2 Financial Sector Regulation and Reform

Formulating Institution:	Central Bank of Egypt
Implementing Institution:	Central Bank of Egypt
Policy Group:	Regulatory
Intended Scope of Policy:	Economy-wide
Form, Number, Year:	Law 37/1992; Law 120/1975 (Central Bank) and PD 59/1993

Statement of policy: Law 37 of 1992 comprises the second major set of amendments to Law 63 of 1957, the Banks and Credit Law. Law 50 of 1984 provided an earlier set of changes. The revised law constitutes an important series of regulatory reforms for the financial sector, especially the banking industry. The emphasis of Law 37 is on prudential and protective regulations. The overall emphasis of these reforms is to "level the playing field" so that public and private sector banks can compete on an equal footing.

The 1992 law initiated the following reforms:

- Foreign banks can open "representative offices and establish joint-stock subsidiaries that are permitted to deal in local currency;

- New higher minimum capital requirements have been established for banks and foreign bank branches;

- The CBE can require a bank to increase its capital and/or to merge with another bank if it is exposed to financial problems;

- A "deposit insurance fund" in which bank membership is compulsory has been created, with its own budget, and sanctions can be taken by the deposit insurance fund against member banks that violate its articles of association or decrees;

  Under new reasonable procedures, the CBE may remove directors and senior managers who engage in unsafe or unsound practices and, under certain conditions, may dissolve the board of directors and appoint a conservator to manage the bank;

- Banks must now be audited by two auditors that enjoy the confidence of the CBE. In addition, banks are not allowed to offer credit facilities to their auditors. The external auditors are also under a statutory obligation to notify the bank under audit, as well as the CBE, of any shortage, error, or violation discovered by the auditor. In addition, external auditors must comment on the adequacy of a bank's internal controls and its valuation (loan loss) reserves. If the reserves are below the minimum prescribed by the CBE, the auditor must determine the amount of estimated shortfall;

- Public authorities, public sector companies (i.e. Government companies outside the rules and regulations of Law 203), and the public business sector companies (i.e. firms covered by Law 203) are now subject to the 25 percent (of capital) exposure limit and the CBE has now assumed the powers of general assembly (stockholders' meeting) with regard to the public sector banks; [and]

- Banks cannot invest more than 100 percent of their capital, in the aggregate, in the shares of joint-stock companies, nor can banks invest in more than 40 percent of the shares of a company's stock (World Bank, 1993f, pp. 1-2).

The new capital adequacy requirements are based on the risk-based capital requirements agreed to by the Basle Committee of bank regulators, i.e. they are compatible with international standards. Law 37 allows regulators to take guarantees for public company borrowing into consideration "only when an explicit letter of guarantee has been issued by the Minister of Finance" (World Bank, 1993f, p. 18). In other words, the new policy environment does not allow bank regulators to recognize an implicit Government guarantee for public company loans.

In addition, the Government has shown through its agreements with the World Bank that it is intent on privatizing its extensive holdings in the banking sector. These include ownership of four public sector banks, in addition to the Principal Bank for Development and Agricultural Credit, as well as majority ownership of joint venture banks, formed in partnership

with foreign and Arab banking interests. According to the Program Assistance Authorization Document (PAAD) for USAID/Egypt's Sector Policy Reform Program (SPRP) citing a World Bank financial study, joint-venture banks are more efficient than public sector banks (Lord, 1994). Thus privatization, if it means control of the operations of the bank that is made accountable directly to its owners, is likely to increase efficiency. By selling its shares, the Government will reclaim capital that it can invest in infrastructure, education, social services, and other priority areas in which the private sector is not likely to invest. The Government has an agreement with the World Bank to bring to the point of sale[21] all of its shares in joint-venture banks by the end of June, 1995. The Government's agreement with USAID calls for reducing its share in 11 banks to achieve a majority ownership by the private sector by June, 1995 and bringing to the point of sale one bank by June, 1996.

Difference Between Intended Policy and Implementation: The reforms initiated in 1992 and the Government's plans to privatize its bank holdings should produce a healthier and more productive financial sector. Overall, private sector banks will focus on the business of financial intermediation and the Government will focus more on regulation and supervision. However, there are still some impediments in the regulatory apparatus that make the overall playing field less level than it could be to promote healthy competition. For example, the minimum capital requirements to create a new bank, LE 100 million, of which half is paid in, sets a high barrier to entry and discourages the creation of new, privately owned banks. The reserve and liquidity requirements remain high and favor banks holding foreign currency deposits. Banks must hold reserves of fifteen percent of local currency deposits in non-interest bearing accounts within the CBE "as well as an additional liquidity ratio of 20 percent, which can be in the form of excess reserves balances, net interbank deposits, treasury bills or commercial bills" (World Bank, 1993f, p.12). The reserve and liquidity requirements for foreign currency deposits are 15 and 25 percent respectively, but are in the form of interest bearing accounts. Finally, the current law requires that the CBE inspect banks once every three years. This is too infrequent to assure that banks are following the new rules and regulations.

As far as privatization is concerned, if selling shares in a bank does not lead to changes in its operation, then there are unlikely to be increases in its efficiency. For example, if the Government retains policy direction over the bank through directors, the policies of the bank may not become those that would occur in a free market.

Impact of policy on agribusiness: The recent financial sector regulatory changes and reforms should have a positive, long-term effect on agribusiness. A general leveling of the banking sector playing field means that private agribusiness firms should be able to compete fairly with firms in other industries, as well as public sector companies, for bank financing. This is expected to have a positive effect on employment in private agribusiness firms. Increased efficiency of the financial sector coupled with increased competition in the private agribusiness

[21]That is, the Government cannot guarantee a qualified purchaser will appear; it can only guarantee that it will prepare the asset for sale and offer it in a reasonable fashion.

sector will encourage the transfer of technology in order to compete domestically and internationally.

There is a risk, however, that if bank regulators view agribusiness lending as inherently more risky that other forms of borrowing, and this is reflected in their calculations of capital adequacy, this could discourage bankers from making loans and put agribusiness at a comparative disadvantage.

The impact of bank privatization on agribusiness will be a function of the lenders' overall assessment of the risks and rewards of lending to these firms. If bankers perceive loans to agribusiness to be inordinately risky, they have two options. They can price loans to agribusiness firms expensively, i.e. at high interest rates, or they can forego lending to the sector altogether. High interests rates are acceptable to the borrower only if the anticipated returns allow the agribusiness to service such debt. At present, it seems that many potential borrowers are deterred from even seeking bank credit because of seemingly high nominal rates. How bankers establish collateral requirements for their agribusiness clients will play a major role in the overall risk and reward assessment. Because of the seasonal nature of agricultural production, agribusinesses often have working capital requirements that are higher than other enterprises. Yet perishable commodities are often difficult for banks to value and accept as collateral. Obviously, the more perishable a crop, the less value it has as collateral. However, the banking sector has already started to make some progress. PBDAC will lend licensed fertilizer distributors up to 65 percent of the value of their properly warehoused stocks.

In any case the impact of bank privatization is not likely to be strong on agribusiness in the short run. First, bank privatization is likely to proceed gradually. Second, and more important, the ability of agribusinesses to expand also depends on the privatization or restructuring of public sector enterprises that compete directly with private agribusinesses, like food and fiber processing, and international and domestic trading. The privatization of these firms is proceeding at an even slower pace.

Suggested Alternatives to Existing Policy: The policy is basically sound. Alternatives would only be needed if there were problems in implementation.

Even though the reforms the financial sector has implemented previously have had a substantial impact on its operations, there is more to be done to increase the sector's overall efficiency. The main focuses of action in the financial sector should be to:

- Strengthen the existing institutional infrastructure for the financial sector such as, the legal framework, prudential control and supervision;

- Deepen the money markets to develop a reliable reference rate and promote the development of variable rate instruments;

- Ensure that commercial banks and the PBDAC develop into efficient and autonomous institutions; and

- Promote the development of markets for long-term funds.

Suggested Further Research: To increase competition and efficiency of the financial market, the following research is suggested:

- Research to reveal the bottlenecks that inhibit the expansion of the commercial banks activities in the agricultural and agribusiness sectors; and

- Research to reveal the need for specialized banks to promote and encourage the expansion of the agribusiness sector (if reforms to PBDAC's mandate have not already accomplished this).

4.5.3 Investment Licensing, Registration and Promotion

Formulating Institution: Cabinet

Implementing Institution: General Authority for Investment (GAFI)

Policy Group: Regulatory

Intended Scope of Policy: Economy-wide

Form, Number, Year: Law 230/1989

Statement of Policy: Law 230 of 1989, the Investment Law, outlines the policies and procedures that govern new investments. As discussed under fiscal policy, the law provides a number of fiscal incentives, primarily in the form of tax holidays, for new investments. This analysis focuses on the regulatory aspects of the law.

The law protects new investments from nationalization and confiscation; and assures that the assets of a project "may not be seized, requisitioned, blocked, confiscated, placed under custody or sequestration except through judicial procedures." (Article 8) It also protects products of projects from price controls and profit margin ceilings (Article 9).

Chapter 4 of the law spells out the responsibilities of the General Authority for Investment, which operates under the authority of the Minister of Economy and Foreign Trade. Among other tasks, GAFI is to review applications, help project owners obtain all the licenses required "for establishing, managing and operating their projects" and approve "the transfer abroad of net profits . . ."

The law does permit the Prime Minister, upon the proposal of GAFI's Board of Directors, to "specify certain fields where either Arab or Foreign capital, or both of them, may not be invested without the participation of Egyptian capital, as well as the proportion of such participation." (Article 5)

In 1991, under the Economic Reform and Structural Adjustment Program, the investment licensing requirements were reduced with the introduction of a "negative list" (through GAFI Executive Regulations) that defines areas in which investment is prohibited. As of the end of 1993, this list had narrowed to three categories: military industries, tobacco, and investments in the Sinai.

Finally, President Mubarak has announced that any bureaucratic procedures for an investment project with a capital of less than LE 5 million (approximately US$ 1.5 million would be eliminated.[22]

Difference Between Intended Policy and Implementation: The move from controlling new investment and business expansion to registration is a positive step. However, there is some fragmentary evidence that the new systems do not always function as smoothly as intended. For example, there are cases where it has taken a businessperson as long as six months to get a license to distribute fertilizer. In addition, there is a sizeable amount of economic activity that goes on in the so called "informal" sector, which operates completely outside established licensing and regulatory procedures.

Impact of Policy on Agribusiness: Under socialist policies, public enterprises replaced private sector firms throughout the Egyptian economy. Licensing served as a prime instrument of this policy. Even under the open door policy which started in 1973, licensing continued to favor state enterprises, the rationale being that it prevented the channelling of scarce natural resources into unnecessary investments, provide a safeguard for existing investments and related jobs, and assured technological advances. In reality, licensing served as a major impediment to private sector entry, operation, and capacity expansion in a number of activities. It had a serious negative impact on the Egyptian economy. There was a general reduction in private industrial investment and the established firms in protected positions had a tendency to become inefficient, over staffed, and poorly oriented to changing market needs. This in turn encouraged import substitution rather than export oriented industries.

The policy of registration instead of licensing is an important step to promote private investment that should create employment and increase production. In a general sense, the agribusiness sector should benefit from this policy. The only imposition imposed by the greatly reduced "negative" list that would have an impact on potential agribusiness investors is prohibition against investments in the Sinai. This is, at best, a minor problem however.

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[22] Most recently in Alexandria on August 14, 1994.

Suggested Alternatives to Existing Policies: This policy does not require any major revisions. It is important, however, to monitor the actual performance of those government agencies with licensing and registering responsibilities. The overall efficiency of these procedures might be improved by adapting some measures already in place in selected situations more broadly. For example, Article 52 of Law 230 gives GAFI twenty days from the date complete documents have been submitted to the Authority" for the Board of Directors to make a decision. It does not specify what happens if the board does not respond within that time frame. The article should state more clearly that if the board finds no reason to reject an application, and so informs the applicant within the twenty day time frame, that constitutes approval of the request. This is the approach Law 159 governing the regulation and registration of private companies takes. Specifically, Article 19 of Law 159 gives the committee assigned to review an application for incorporation sixty days to complete its task. "If the Committee does not object within this period . . . by a written letter to those concerned . . . the application will be considered accepted . . ."

Suggested Further Research: Documenting and analyzing investors' experience with GAFI could provide the foundation for recommendations to improve that organization's handling of investment applications and registrations.

4.5.4 Incorporation of Private Sector Companies

Formulating Institution: Council of Ministers

Implementing Institution: Competent Ministries; Capital Markets Authority

Policy Group: Regulatory

Intended Scope of Policy: Economy-wide

Form, Number, Year: Law 159/1981

Statement of Policy: Law No. 159 of 1981 covers the regulation of private sector companies. It limits the juridical form a private enterprise may take to three types:

- Joint stock;
- Limited partnership; and
- Limited liability.

Specifically, the law details the capital structure that companies structured along these lines must follow. This law covers companies "having their headquarters in . . . Egypt or undertaking their main activities therein" as well as branches and representative offices of foreign companies. Article 17 of the law specifies that "the following shall be attached to applications for company incorporations . . .:

- The company's Contract and Statutes, with respect to joint stock and limited partnership companies;
- The Articles of Incorporation, with respect to limited liability companies; and
- All other papers required by the Law or the Executive Regulations.

Further, the law stipulates that a committee, chaired by at least one of the under-secretaries and also including representatives of the Council of State's Department for Legal Rulings, the competent administrative authority and the Capital Markets Authority and not more than three other authorities examine applications for incorporation. Article 19 of the law requires the committee "to issue a decision, within sixty days at most as of the date of receipt of all the relevant papers" and is specific about the reasons for which it may object to the incorporation. These reasons include:

- Non-conformity of the company Contract of Articles of Incorporation or Statutes to the mandatory conditions and data set forth in the model or the inclusion therein of conditions conflicting with the Law;

- Incompatibility of the object or activities of the company with public order or morality;

One of the founders lacks the necessary legal competence to form a company; and

- One of the directors or members of the Board of Directors does not meet the requirements stipulated by the Law.

If no decision is taken within sixty days of the date of submission, "this will be considered as approving its incorporation."

The law sets certain employment requirements. For example, Egyptian nationals have to account for 90 percent of the employees and 80 percent of the payroll of firms covered by the law. In addition, Egyptian nationals are to account for 75 percent of the technical and administrative staff and receive 70 percent of the salaries paid to such staff.

Differences Between Intended Policy and Implementation: None.

Impact of Policy on Agribusiness: The law does not seem to either favor or discriminate against the formation of agribusiness firms. However, it is not clear how restrictive the law's stipulations concerning labor might be. They could serve to deter potential investors, whose projects—especially in the start-up phase—required a higher percentage of more expensive expatriates. As well as slowing job creation throughout the economy, as well as in the agribusiness sector, this policy might also serve to slow the adaptation of new technologies.

Suggested Alternatives to Existing Policy: None.

Suggested Further Research: None.

4.6 Labor/Human Capital Policies with Economy-Wide Scope

4.6.1 Labor Policy, including Guaranteed Government Employment for Graduates and Restrictions on Firing Employees

Formulating Institution: Cabinet

Implementing Institution: Ministry of Manpower

Policy Group: Labor/Human Capital

Intended Scope of Policy: Economy-wide

Form, Number, Year: Law 48/1978 (Public sector workers)

Statement of Policy: Guaranteed Government Employment: During the application of the socialistic approach over the last three decades, it was the responsibility of the Ministry of Manpower to guarantee employment for high school and university graduates. Graduates were assigned certain jobs in the Government with little possibility for transfer to other jobs. Transfer to other jobs has not been practiced, as salaries have been fixed according to the diploma obtained (high school or university) and not according to the performance of the employee in his/her job. The Egyptian Government has not been committed to the employment of new graduates since 1991, when Phase I of the ERSAP began.

Firing Employees: Under the current labor law, and especially because of its interpretations in the courts, the dismissal of workers is extremely difficult, except for documented cases of incitement to strike, extremely poor work performance, chronic absenteeism, or willful damaging of property. Labor regulations in Egypt also impose government intervention in the recruitment process.

Differences Between Intended Policy and Implementation: Disciplinary sanctions against misconduct and low productivity are not readily enforceable.

Impact of Policy on Agribusiness: Guaranteed Government Employment: Unemployment is a severe problem for the Egyptian economy, especially disguised unemployment. During the last decade, the Government was not able to provide enough jobs to absorb the increased rate of labor growth. The local market and the international market became highly saturated. Government offices, public enterprises, and authorities became highly overstaffed, with decreasing labor productivity, and consequently, a low rate of economic growth. The conditions

of public employment may affect the attitude of workers in the private sector, which may hamper productivity growth.

Firing Employees: Egypt's job security policy aimed at protecting workers from aggressive actions by businessmen but did not provide sufficient flexibility to permit increased labor productivity. It has resulted in increased risk and reduced investment and employment in the private sector. Labor regulations make it difficult for private sector firms to lay off workers during periods when operations must be reduced (e.g., during recessions) or for new technologies to be introduced to maintain competitiveness.

The private sector—particularly the large-scale and better-organized private sector—has created relatively few jobs since 1970. The current labor regulations undermine labor discipline, leading to a preference on the part of investors for projects with unnecessarily high capital, or temporary employment.

The system also creates obstacles to business formation and business restructuring. Accordingly, the rigidities in labor legislation encourage the operation of unprofitable firms while limiting the entry and expansion of potentially profitable enterprises. Constraints on labor mobility tend to hamper the responsiveness of private investment to changes in incentives by adding to the exit costs that investors would incur if their projects were to fail. Managers are reluctant to undertake new activities, choosing instead to expand operations by incremental steps, even if such an approach is less economical.

Exit barriers often block the introduction of new or better technologies that necessitate the elimination of some product lines or scrapping old plants. Businessmen resist shifting resources to areas characterized by rapid demand changes and short product cycles. On the other hand, the disincentive to hire new employees created by labor regulations also leads to some investment in more capital-intensive technology.

In summary, the current labor regulations create serious barriers to labor mobility; severe government intervention in hiring, firing, and transfers has a negative effect on investment, production, and transfer of technology. It also increases unemployment, instead of reducing it.

Suggested Alternatives to Existing Policy: Labor regulations need to be changed in order to allow employers to respond to changing market conditions, to induce labor mobility, and to encourage labor-intensive activities. With appropriate changes in the labor regulations, growth in employment could be fostered. In general the Egyptian economy needs to move labor from the public to the private sector through both privatization and improvements in the labor laws and regulations to allow the private sector to connect wages with productivity. It is recommended that:

- Over the medium term, private firms should be permitted to lay off workers after just compensation, and dismiss them if they violate disciplinary rules.

- Labor regulations should do away with the discretionary power of the Stoppage Committee in cases of closure. Firms should be able to cease business permanently by fulfilling their existing contracts with workers or by paying a specific compensation (e.g., up to three months salary). No prior approval should be necessary. For partial or temporary stoppage, firms could be required to pay salaries up to a specified period on a descending scale. The basic idea here should be that a firm suffering from a lack of demand, or other source of loss, is not penalized to the extent it can not recover financially, which ultimately means the loss of jobs for workers.

- Labor regulations should provide for the right to strike and collective bargaining power, which does not exist in any meaningful sense.

- For new government employment, a long-term program should be developed and applied to relate salaries to tasks required and performance, not to diplomas held. This would require not only training of employees but also an educational campaign for managers in the government offices and strategic public enterprises not under the privatization scheme.

- Some provisions in the labor law may be left intact, especially those intended to protect juveniles, females, and the handicapped.

Suggested Further Research: The Government should investigate the labor laws of other countries with an eye to finding suitable compromises between the rights of workers and the efficiency of business operation.

4.6.2 Higher Education Policy

Formulating Institution:

Implementing Institution: Ministry of Education

Policy Group: Labor/Human Capital

Intended Policy Scope: Economy-wide

Form, Number, Year: Law 49/1972; PD 809/1975 (Executive regulations)

Statement of Policy: It has been the sole responsibility of the Government to provide free education through high school and university. Through the Universities Admittance Office, which is centralized at Cairo University, high school graduates who apply for university and high institutes education are distributed to the different colleges, universities, and institutes. Three main criteria are used for distribution: a) the location of the student's residence, b) the student's preference for a certain education, and c) the student's grades on the high school exam.

The colleges, universities, and institutes provide students admittance in four stages based on their secondary school grades:

- The first stage is mainly for students with high grades, who normally prefer the medical, pharmaceutical, and engineering colleges. These top colleges generally fill their rolls with these top students.

- The second stage is for students with somewhat lower grades; it includes economics, communications, and partially science, agriculture, and commerce.

- The third stage completes admittance to all university colleges.

- The fourth stage is for the institutes of different types.

Movement down is allowed, but transfer upward is not allowed. That is, a student with high grades can be admitted in an agricultural or commercial college, but a student with low grades is not allowed to transfer to a medical or engineering college. Cairo University and some others have recently started a program of "open education," in which students are accepted for any field of study. Unlike students in other programs, these students pay tuition and fees. The People's Assembly is discussing the establishment of private universities with fees.

The Government also encourages students to pursue certain lines of study both by providing scholarships and by offering higher salaries or in some cases guaranteed employment in the public sector (e.g., teachers).

Differences between Intended Policy and Implementation: None.

Impact of Policy on Agribusiness: The admissions component of the higher educational system in Egypt has built-in reinforcements of long- and widely-held social preferences. These put agriculture and business lower down the social and educational ladder than law, medicine, and engineering. While bright students are not forbidden from choosing the former fields, the system ensures that few of them wind up there.

This is a serious problem for agriculture and agribusiness. Many of those interviewed complained of both the quality of agriculture graduates and their lack of hands-on and relevant experience. These comments reflect weakness in both agricultural curriculums and the aptitudes of the graduates. The long-held less-than-best opinion of businesspersons is also reflected in the position of commerce in the pecking order of the educational admissions system. Several persons running agribusinesses who were interviewed by the team revealed weaknesses in management capability. Skills in this area might have been improved by higher education in business administration if such education were available and desirable.

Suggested Alternatives to Existing Policy: The Government should abolish the existing preference system, as it does not serve national needs for educated individuals. A new system

should be established that includes no bias toward any field of study. In a market-based economy, the supply of and demand for educated persons will determine rewards for pursuing different careers. If the Government feels that certain careers are for some reason in its strategic interest to encourage, it can do so with special scholarships or by paying such individuals high salaries. The existing system wastes the resources of many colleges by supplying them with mostly lower-quality students.

Suggested Further Research: None.

4.7 Other Factors and Services Policies with Economy-Wide Scope

4.7.1 Regulation and Roles of Private and Public Sectors in Investment in Infrastructure

Formulating Institution: Cabinet

Implementing Institution: Ministry of Planning, Ministry of Economy

Policy Group: Other Factors and Services

Intended Scope of Policy: Economy-wide

Form, Number, Year: ERSAP, 1991

Statement of Policy: The objective of the second phase of the Economic Reform and Structural Adjustment Program is to complete the transition to a decentralized, market-based, outward-oriented economy. Among the components of the program is "the reform of the public investment program: the redirection of investment toward social sectors (primary education and preventive health care) and infrastructure, complementing private sector investment while maintaining the aggregate level of investment consistent with the overall macroeconomic framework of the reform program." Reflecting this policy, the Third Plan does not envisage any significant investment by the private sector in strategic sectors like transport or communications (World Bank, 1993c, p. 79).

Differences Between Intended Policy and Implementation: During the decades of the socialist approach to development, public enterprises were the executing agencies for the investment program in all sectors, whether in infrastructure and the social sectors or in production and trade. This limited the amounts invested in each activity and diminished the role of private firms in investment, leading to a low rate of economic growth. During the second phase of ERSAP, the Government is to limit the investments of the public enterprises to the social fields and infrastructure, leaving investments in production and trade activities to the private sector. This would lead to certain types of complementarily between the two sectors.

However, the Third Five-Year Plan includes the following major agro-industrial projects: LE 75 million for sugar extraction from molasses, LE 207 million for beet sugar, LE 250 million for El Nasr fertilizers, LE 319 million for Misr electrolysis plant, and LE 315 million for El Nasr Coke (fertilizers).[23] In addition the Plan lists over LE 1.5 billion for projects related to aluminum. This indicates that the Government commitment to limit public investments in the productive sectors may not be fulfilled. It is hoped that such investments will be used only for repairs and maintenance and not for expansion of productive activities.

Moreover, the public sector provides trucking services (which are subsidized), port services, and until recently had a monopoly on air cargo services. Public sector contracting companies are employed to build roads (World Bank, 1993c, pp. 25, 231).

Impact of Policy on Agribusiness: Investments in transport and communications and other supporting activities facilitate agribusiness production and trade and thereby promote increased employment and transfer of technology. These investments are part of a conducive atmosphere for complementary private sector investment. Some of the private investment can be in transport or communications equipment or facilities. Because the Government has restricted such investments to the public sector, it has spread its own investments thinner than necessary and failed to tap additional sources of capital and the entrepreneurship of the private sector. Thus the infrastructure-related services currently available to the private sector are less adequate than they might have been.[24]

Suggested Alternatives to Existing Policy: The private sector could both take some of the burden off the public sector to make infrastructural investments and operate some of the new facilities more efficiently. It is important, however, to spell out a viable approach to privatization. Only then will the private sector take up its role with confidence and energy. Some examples of possible private sector involvement in the area of infrastructure include: 1) The new state-of-the-art container terminal being constructed at El Dikheila (just west of Alexandria) [World Bank, 1993c, p. 243], 2) Contracting for road construction,[25] 3) Provision of trucking services, and 4) Provision of loading/unloading and related services in existing ports.

The provision of trucking (and possibly port) services by the private sector would require reducing the subsidies currently being provided and/or some positive steps to divest or remove other barriers. Another general area where the private sector could be involved is in

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[23]The sugar-related projects are apparently joint investments with the private sector. Since the sugar industry has been entirely public for some time, the joint investment—the public sector's share is only 5-10%—is seen as a way of sharing technology.

[24]For a further assessment of the impact of investments in infrastructure on agribusiness, see the policy on transport facilities.

[25] World Bank, 1993c, p. 231; the Government might also free the management of public sector contracting companies from labor and other restrictions.

the field of communications, where experience has shown that, with appropriate policies and regulations, operations tend to be more efficient and investment can be self-financing when the private sector is involved (World Bank, 1993c, p. 220).

The Government should make it easier for the private sector to make investments to provide air cargo services. The protection of EgyptAir's position through its landing rights at airports and its monopoly on refrigerated services at airports does not serve the public interest. Finally, construction of infrastructure and transport service provision are two areas where the private sector could generate much additional employment if the Government were to signal its approval of the private sector's involvement in these areas.

4.7.2 Availability of and Access to Transport Facilities

Formulating Institution:	Ministry of Transport, Ministry of Planning
Implementing Institution:	Roads: RBA, MDHPU (New Communities and local), Governorates (local) Ports: MMT, plus port authorities Air cargo: MCA
Policy Group:	Other Factors and Services
Intended Policy Scope:	Economy-wide
Form, Number, Year:	Law 53/1973; MD 320/1983 (Executive regulations)

Statement of Policy: The GOE made major expenditures in the area of infrastructure during the First and Second Plans (FY 1983-FY 1992). Over half the public sector investment went to infrastructure during this period, with 25.8 percent to transport and communications alone. These investments went for both rehabilitation and expansion. The cargo capacity of harbors rose by 76 percent and the length of paved roads increased by 130 percent (World Bank, 1993c, p. 65). In the Third Plan, the share of transport and communications falls to about 13 percent (World Bank, 1993, p. 75).

Differences between Intended Policy and Implementation: The Government's investments in infrastructure had a positive impact on private investment in the 1970s and 1980s (World Bank, 1993c, p. 65). Substantial economic growth was not achieved, however, despite these large investments partly due to overstretching of the investments themselves and largely because policy distortions like depressed prices and an overvalued exchange rate discouraged investment and economic activity by the private sector. In addition, the costs of providing infrastructure to the New Communities was very high (World Bank, 1993c, pp. 65, 67). The transport program proposed in the Third Plan does not extend to most local roads, where there is a sizable backlog of necessary improvements (World Bank, 1993c, pp. 230, 233, 262-3).

The full value of investments in roads was not obtained because road maintenance was not adequate. Insufficient funds were made available for this function (World Bank, 1993c, p. 25). Most local roads are constructed and maintained by the governorates, but they have no direct funding channels for road maintenance. According to the World Bank:

> Mechanisms already exist for funding intercity road maintenance through toll collections and earmarked funds from fuel taxes, but legal restraints on adjustments have resulted in limiting the direct funding of intercity road maintenance to about 80 percent of routine maintenance needs and just 15 percent of overall maintenance needs (World Bank, 1993c, p. 229-30).

Other reasons why the road and trucking system did not provide adequate services to agricultural producers include the complete absence of refrigerated trucks, truck suspensions that are too stiff or worn out (World Bank, 1993c, p. 57), and the large numbers of vehicles that exceed the prescribed weight limits (World Bank, 1993c, p. 230).

Air cargo facilities are of crucial importance to certain export crops like green beans. While the Government has allowed airlines to operate in the private sector (e.g., ZAS), access to the cold chain at the airport is so tightly controlled that it is not feasible for other airlines to make use of it (Harrison, 1994e, p. xxxix). Team interviews revealed that EgyptAir is the authorized company to transport agricultural products, even though its main activity is carrying passengers. The available space on EgyptAir for air cargo is very limited. To use a foreign airline, an approval must be issued by the civil aviation authority. In the case of perishable agricultural products, serious losses occur while the shippers are waiting for these approvals.

Impact of Policy on Agribusiness: Given the expenditures that have been made, the extent of the road network and ports is satisfactory. Road construction standards are also adequate. In the road system, maintenance is the main problem (World Bank, 1993c, pp. 226, 227, 231). On the other hand, port infrastructure is sometimes poor, there is a lack of bulk handling facilities, and railway facilities are also poor (Walters, p. 118). Many of those interviewed by the team complained of the delays in the port caused by a variety of factors, including a lack of testing facilities in the port.

The result is that the main cause of postharvest losses to fresh produce in Egypt is mechanical damage. This is due to both the poor condition of roads and poor packing materials (Harrison, 1994a, p. 62).

Suggested Alternatives to Existing Policy: The Government should consider modifying the rules on the use of maintenance funds. It might also attempt to select areas for maintenance with particular purposes in mind, for example, to better support the less damaging transport of horticultural and other products. It would be a service to the economy if a way could be found to enforce truck weight limits without merely creating more rents for the enforcing officials. The Government should allow exporters to freely use any airline for air cargo shipments.

Suggested Further Research: The agricultural research program should investigate locally produceable and importable alternatives to the inferior packing materials currently used for fresh produce. Upgrades in road quality will be of little use if the produce is still damaged by its container. This kind of research project could be an example of how the research program can be reoriented to serve the needs of agribusiness as well as production agriculture.

4.8 Fiscal Policies with Agriculture/Agribusiness Scope

None.

4.9 Monetary/Financial Policies with Agriculture/Agribusiness Scope

4.9.1 Transforming PBDAC from a Parastatal Credit and Marketing Institution into a Commercial and Development Bank

Formulating Institution:	Ministry of Agriculture and Land Reclamation
Implementing Institution:	Principal Bank for Development and Agricultural Credit
Policy Group:	Monetary/Financial
Intended Scope of Policy:	Agriculture/Agribusiness
Form, Number, Year:	Law 117/1976

Statement of Policy: Law No. 117 of 1966 designated the Principal Bank for Development and Agricultural Credit, which was nationalized in 1961, as "the primary source of agricultural production credit and the sole official distributor of fertilizers and other agricultural inputs" (Aly, 1994, p. 7). Under these policies, PBDAC's operations were highly subsidized, and the bank was more concerned with the supply of credit rather than savings mobilization. Under Law 117, PBDAC's credit policy was to provide investment loans for narrowly defined productive purposes in the farming sector. The law also mandated PBDAC with a monopoly for the procurement and distribution of fertilizer and other agricultural inputs. PBDAC distributed these products as loans in kind, at subsidized prices, taking a fixed margin or commission. In addition, PBDAC was responsible for buying crops under the quota system specified by the Ministry of Agriculture and the Ministry of Supply under legislation dating back to 1966. This system helped the bank insure a high repayment rate on its loans in kind.

Current policy reforms are transforming PBDAC from a monopolistic supplier of important agricultural inputs, including credit, at subsidized prices and a monopsonistic buyer of agricultural produce at fixed prices to a full-service financial institution serving the rural community. Among other things, this means making loans at real rates of interest that are

positive. According to a September 17, 1994 press release, an extraordinary meeting of the shareholders of PBDAC modified article (3) of its bylaws to include all types of clients and activities both on the farm "as well as all the areas of rural, environmental and social development and services."

Differences Between Intended Policy and Implementation: PBDAC has phased out its in-kind lending and now focuses on "seasonal" and "investment loans." In most cases PBDAC is making loans that are at real rates of interest that are at least barely positive. With interest on the ninety-one day Treasury bill yielding 14.8 percent and the Central bank's discount rate at 16.9 percent, PBDAC was charging 15 to 18 percent for short-term loans, and 15 to 17 percent for medium-and long-term loans in early 1994. For short-term bank deposits, its single most important source of funds, PBDAC was paying 12.5 percent.

Seasonal loans are short-term, i.e. up to fourteen months, crop production loans. Investments loans may be short-, medium- or long-term. Short-term loans "meet the operating cost of poultry projects, animal production projects, agricultural marketing and food processing projects and agro-business projects" (Aly, p. 19). Medium-term loans can be as long as five years. They finance agricultural production projects or farm-related business. For these loans, the "financial asset (or project) is usually considered as the loan guarantee" (Aly, p. 19). Long-term loans can extend from 5 to 15 years. "Activities eligible for funding through long-term loans include land reclamation, construction of farm buildings and poultry houses, and investments in orchard plantations" (Aly, p. 24). These loans require a twenty percent down payment and the "loan date has to be within 75% of the expected life of the guarantor's assets" (Aly, p. 24).

It is important to note that the short-term loans do not require collateral. "However, PBDAC requires the *hiza* card as a loan guarantee. This card is issued to land owners and to official tenants. Landless and non-official tenants are therefore not eligible for obtaining PBDAC's credit" (Aly, p. 19).

Finally, the current policies continue to allow PBDAC to extend loans for land reclamation and irrigation systems at the subsidized rate of nine percent.

Impact of Policy on Agribusiness: The policy reforms should allow PBDAC to focus more on the part of its mandate that requires it to serve as a farm-related business lender. As of mid-1992, "farm-related business" loans of almost LE 577 million (approximately US$ 173 million) accounted for approximately 23 percent of PBDAC's outstanding investment loans.

PBDAC has extensive an extensive work, which includes 17 affiliated Banks for Development and Agricultural Credit, 800 village banks, and 4,300 agencies. In an environment of market- determined interest rates, this would put PBDAC into competition with the rest of the banking industry. In the long run this competition should lead to better services at lower cost for agribusiness.

Suggested Alternatives to Existing Policy: This is a sound policy that should serve the interests of Egyptian agribusiness over the long term. However, PBDAC should stop subsidizing loans of any kind, including its current loans for land reclamation and irrigation systems.

Suggested Further Research: As PBDAC completes its evolution into a rural financial institution, how is Egypt going to meet the financial needs of its landless, rural poor? Can agribusiness use contract farming agreements or other contractual arrangements, to tie the rural poor into the emerging, market driven economy? What role, if any, should the Government play in this process?

4.10 Trade/Pricing Policies with Agriculture/Agribusiness Scope

4.10.1 Liberalization of International Trade in Agricultural Products

Formulating Institution: Cabinet

Implementing Institution: Ministry of the Economy and Foreign Trade

Policy Group: Trade/Pricing

Intended Scope of Policy: Agriculture/Agribusiness

Form, Number, Year: MD 288/1993

Statement of Policy: Most agricultural trade was in the Government's hands until 1986. A small share was with the private sector, most of which was exporting horticultural crops. There were a number of constraints to international trade by the private sector. They included: 1) Limiting exporters to retention of 25% of the foreign currency earned through exports, 2) Inadequate transportation facilities and finance, 3) Public sector companies that controlled exports of cotton, rice, citrus, and processed foods, and imports of wheat flour, poultry and red meat, and vegetable oil (the private sector was allowed to import poultry in some periods). Exports of processed foods by the public sector companies were subsidized; with the reorganization under the holding company, they are now commercial.[26]

Current policy allows private sector involvement in virtually all agricultural trade, including the import of wheat, sugar, fertilizers, meat, poultry, and pesticides, and the export of rice and citrus.[27] With the removal of restrictions on private exports of citrus, the private

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[26]Personal communication, Engineer Abdel Sattar Soliman, General Manager, Food Industries Holding Company, June 8, 1994.

[27]See also Potato Seed Policy.

sector is permitted to establish packing stations. In 1993, the Government reduced the number of goods banned from importation from 105 to only 3.

Differences Between Intended Policy and Implementations: The private sector is still required to obtain licenses from the Government to import various agricultural commodities. Phytosanitary and health regulations have sometimes been an effective barrier to trade. Moreover, inadequate testing facilities compound the problem. There are still some restrictions on imports of vegetable oils and some types of agricultural machinery, the latter to protect production by public companies under the Ministry of Military Production. With the issuance of a Presidential Decree, the export of cotton has begun a transition away from public control.

Sugar is imported partly by the private sector. The landed cost of sugar is likely to be higher than the domestic price for two reasons. Domestic production is entirely in the public sector, and these factories enjoy the benefit of energy prices that are still somewhat subsidized (about 30%). In addition there is a small tariff (5-15%) on sugar imports.

While the private sector is free to export rice, it currently must make use of public mills to do so. This is because the mills capable of meeting export standards are all in the public sector. These mills typically have high operating costs and therefore create an obstacle to exporting.[28] In addition, the Government continues to intervene in the export of rice by a variety of measures. In the past year it has banned exporters from milling rice at public mills in certain months, did not allow exporters to choose which mill to export from, did not permit contract milling by exporters at public mills until February, 1994, and also created obstacles to efficient exporting through its pricing changes and payment requirements. There may be "trigger points" at which some of these interventions take place, but these are not specified publicly.[29]

Impact of the Policy on Agribusiness: Egypt has advantages in terms of location and climate that have value in the world market, but it will take considerable effort on the part of both the public and private sectors to ensure that the country's export potential is realized. Some of the effort has already been demonstrated: the Government has taken bold steps to liberalize both macroeconomic and agricultural policies and the private sector has sought out and experimented with new technologies from abroad, including from Israel.

The involvement of the private sector in international trade should lead to a more competitive situation. Competition both within the private sector and with the public sector will lead to more efficient trade. This will be reflected in higher incomes and employment and in higher-quality products. Allowing the private sector to export citrus has led to increased investment in packing stations, more employment, and more modern facilities. In addition, many warehouses have been built by the private sector to handle wheat and flour imports.

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[28] Wailes, 1994, pp. 207ff.

[29] Wailes, 1994, pp. 143ff.

Importing and producing vegetable oil is now an important activity of the private sector. If rice millers in the private sector follow the example of poultry feed millers, they may not wait for the Government to privatize or make more efficient the higher-quality rice mills that it owns. They may decide to invest in additional cleaning and other equipment or even new mills. This would have a positive effect on rice trading, but might also leave the Government with even more redundant investments and employment in the rice mills.

The import of some commodities like poultry has been permitted in some periods and banned in others. Complaints from local private producers and traders led to government bans on poultry imports. Complete freedom to import could lead to a sharp decline in prices in the domestic market, because subsidized poultry is available from the EU and the United States (Walters, 1993, p. 103). In cases like this, a countevailing duty might be appropriate, at least until developments like the new GATT agreement eliminate export subsidies.

Alternatives to Existing Polices: Egypt has a long history of inward-looking policies. Thus part of what needs to be done in the trade sector is similar to what needs to be done in all areas of economic reform. The positions of those in the Government who are sympathetic to market-based solutions to economic development need to be bolstered. This might be through the provision of information, analysis, or other more general resources to encourage discussion and implementation of the appropriate roles of the Government and the private sector under the new paradigm.

The minor impediments to trade that remain, like those on imports of some agricultural machinery, should be removed. Under the new system, public companies are to compete fairly with the private sector. There is no national security aspect to the production of agricultural tractors and the like.[30]

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[30]One major set of issues in agricultural trade surround cotton exports. On the one hand, the Government has already proclaimed the liberalization of cotton exports. On the other, there remain complex regulations and technical characteristics that impede the rapid entry of the private sector. Because USAID and the Government are already engaged in serious discussions of policy reform in this area, and because several other studies have covered the topic in substantial depth, it is not addressed here.

4.10.2 Liberalization of Agricultural Product Pricing

Formulating Institutions: Producer Prices: MALR
Consumer Prices: Cabinet, Ministry of Supply

Implementing Institutions: Producer Prices: Cooperative Societies, PBDAC
Consumer Prices: Consumer Cooperative Societies

Policy Group: Trade/Pricing

Intended Scope of Policy: Agriculture/Agribusiness

Form, Number, Year: MD 894/1994 (Cotton); MD 583/1991 (Wheat)

Statement of Policy: Producer Prices: Before 1986, there were many distortions in agricultural prices. Farmgate prices under the quota delivery system were determined on the basis of average cost of production per unit of land plus a margin estimated at as much as twice the land rent. The prices set by this procedure (for rice, wheat, sesame, onions, and others) implicitly taxed farmers. The entire cotton crop was delivered to the Government; prices were far below the world prices. There was also an implicit taxation represented in the difference between the real exchange rate and the overvalued nominal exchange rate. The Government has moved away from the taxation of agriculture through the price mechanism, which was not only distortionary but also extremely expensive in terms of maintaining a public sector enforcement system. The implicit taxation of agricultural crops has been reduced from above LE 5.5 billion in 1985 to about LE 1 billion in 1991 (World Bank, 1993a), with cotton remaining as the principal taxed crop. In the period 1992-94, all crops except cotton and sugarcane were subject to the market price mechanism, and cotton prices have been increased dramatically.

Until 1986 administrative pricing was applied to certain field crops in the context of a quota delivery system, while the prices of other crops—including vegetables, fruits, berseem, and livestock—were free. Prices were set by the Government for the quota delivery. These prices implied high taxation, as they represented only about 40%-70% of the economic prices of different crops. The over-quota quantities were either consumed or sold in the free market at prices that were usually higher than quota prices. The period 1987-93 witnessed drastic changes with respect to crop prices. An optional delivery system is now applied to all crops except sugarcane. In 1994 cotton prices were liberalized; especially during the transition to free market pricing, however, a guarantee (floor) price will be set by the Government and defended through purchases.

Consumer Prices: The Government subsidized consumers by selling certain commodities (meat, sugar, poultry) at a loss as a social policy for low-income people. These subsidies were reduced significantly starting in 1991 for meat and poultry and discontinued in 1993. The consumer subsidy on bread has also been reduced.

Differences Between Intended Policy and Implementation: Producer Prices: Public rice and cotton marketing entities recently had problems paying farmers when they delivered their crops. In both cases there were accumulated stocks and insufficient liquidity.

Consumer Prices: When consumers were subsidized, there were different prices for one commodity. Sometimes there were three or four prices for the same commodity: subsidized, rationed, semi-rationed, and free-market. As a result of these policy distortions, corruption and black markets were the characteristics of the retail market in Egypt.

Impact of Policy on Agribusiness: Producer Prices: The new policy has achieved tangible effects in removing the distortions that previously prevailed in the trade of agricultural products. Farmers now receive market prices for virtually all their products.

The removal of implicit taxation on agricultural output accompanied the removal of input and feed subsidies, including credit subsides. This transparent status of the markets induced producers to increase the productivity of their agricultural resources and to increase their irrigation and drainage investments. In the new liberalized environment, farmers are likely to follow market signals that will lead them toward production of commodities in which Egypt has a comparative advantage. Certain shifts in production patterns have already occurred as a result of price liberalization. Farmers increased the area of wheat and rice significantly, while reducing that of potatoes and cotton since 1987, while the yield of nearly all crops increased.

Government guarantee prices aim to ensure the stability of farmers' incomes against market fluctuations. The positive side of the policy for trade and production is that the exportable amounts will increase. While the output price increases are offset somewhat by the removal of input subsides, the net welfare effect will be positive for farmers. Increased production should lead to increased revenues and profits for traders and other agribusinesses.

Consumer Prices: These policies led to substantial corruption in the retail markets for the subsidized commodities. Thus it is highly likely that the cheapest commodities were not reaching their intended targets, the poorest consumers. If this is the case then removal of the subsidies will cause a hardship to only a small number of poor people. Further, after removal of these distortions in the market, agribusinesses that process and trade meat, sugar, and poultry have clearer incentives to produce optimal amounts and higher-quality products.

Suggested Alternatives to Existing Policies: Producer Prices: In the new policy environment, the Government does not have the implicit taxation of agriculture as a source of potential revenue. It may feel a need for a more direct, efficient, equitable, and administratively simple means of taxing agriculture that does not result in a net capital

Changes in Area and Yield, 1987-92 (Percent)		
Crop	Area	Yield
Wheat	52	11
Rice	24	31
Onions	7	18
Sugarcane	0	8
Berseem (Long)	-2	7
Potatoes	-13	-7
Cotton	-14	16

outflow from the sector, as was the case in the past. Income tax is such a vehicle. Agricultural income is subject to tax in Egypt, but there is a large loophole for those investing in the New Lands areas, where there is a ten-year income tax holiday. While this holiday probably stimulates investment in these areas, it may be that the profitability of cultivation in the New Lands would attract investment even in the absence of this incentive.

With the reduced role of the Government in the marketing of agricultural products, the Government may feel the need to protect farmers from "exploitation." The Government can reduce the opportunities for traders to exploit farmers through monopolistic practices by providing good physical infrastructure (market places, roads, communications) and market information that is timely, accurate, and widely accessible. These will facilitate competition, which is an excellent remedy for monopolistic practices. The Government could also investigate whether there are any other barriers to the entry of small traders and processors, like access to credit. If there are, the Government might consider facilitative—as opposed to administrative—solutions to these problems.

Floor prices for strategic crops might also be continued along with market prices during transition periods. The government should declare floor prices for specific crops well before planting, based on market analyses. Floor prices should protect farmers only against drastic drops in prices and only during the transition to fully market-based pricing; they are not intended to keep the Government in the business of buying and selling agricultural output.

Consumer Prices: Consumer prices should remain unsubsidized, except in the case of carefully targeted subsidies for which a need can be shown and the incidence of which is carefully monitored.

Suggested Further Research:

1. Carefully conducted and widely disseminated "situation and outlook" analyses of key crops and livestock products will be of use to both the Government and the entire agribusiness system (i.e., including producers).

2. The Government might investigate the profitability of cultivation in the New Lands with and without the tax holiday to see if it should be shortened, rescinded, or otherwise modified. The data in the New Lands study (see Harrison, 1994d) are likely to be sufficient to carry out this exercise.

4.10.3 Liberalization of Agricultural Input Pricing

Formulating Institutions: Land Rent: People's Assembly
Purchased Crop Inputs: Cabinet
Livestock and Poultry Feed Subsidies: MALR, PBDAC

Implementing Institutions: Land Rent: MALR
Purchased Crop Inputs: PBDAC (mostly free-market)

Policy Group: Trade/Pricing

Intended Scope of Policy: Agriculture/Agribusiness

Form, Number, Year: Land Rent, taxation: Law 96/1992, PD /1994
Purchased Crop Inputs: 1991, 1992 (No decrees)

Statement of Policy: Land Rent: The previous law determined the relations between a tenant and a landowner with respect to agricultural land. The rent was fixed at seven times the land tax, and the heirs of the tenant had the de facto automatic right to inherit the tenancy contract, with the contract virtually valid in perpetuity. These policies were revised by law 96 of 1992. Beginning in 1993 land rent will increase to 22 times the land tax over a transition period of five years. By 1996/97, owners will be able to buy back their contracts from tenants; land rents will be freely determined by market forces; and landowners will be able to terminate prevailing tenancy contracts.

Purchased Crop Inputs: Until 1986 input prices were set by the Government with an average 50 percent subsidy (fertilizer, pesticides, seeds, and feed). The new policy removed subsidies gradually, starting in 1987. Prices of inputs are now market determined, except for a 20-percent subsidy on fuel, a 50-75% subsidy on cotton seeds, and an 80-percent subsidy on cotton infestation control costs. Since 1988 fertilizer retail prices have been successively increased to reduce the subsidy levels. By 1991 the fertilizer subsidy was totally removed (except for potash). Subsidies on seeds have been decreasing since 1989. (Complete

privatization of seed marketing is expected in two years.) The same is true for subsidies on cotton pest control. Fertilizer subsidy reductions exceeded their targets, falling from LE 103.5 million in FY 1991 to LE 32 million in FY 1992. The pesticide budget subsidy fell from LE 116.7 million in FY 1991 to LE 107 million in FY 1992 to LE 61.9 million in FY 1993.

A recent IFPRI study summarizes policies affecting agricultural machinery and equipment as follows:

> Local manufacturing was heavily protected in the past and mostly concentrated in the hands of parastatals. Small producers were discriminated against, especially by preventing them from importing spare parts and denying them institutional back-up. On the marketing side, credit constraints were limiting the development of large markets for domestic private producers (Khan 1993).
>
> In August, 1992, GOE announced new tariffs for 106 commodities including a 50-percent tariff on 10-85 HP machinery [which] still represents a protection of domestic production (Badiane, 130-131).

In February, 1994, the tariff for 20-85 HP tractors was adjusted to 40 percent.

Land tax: The land tax is levied only on the Old Lands. It can be considered a weak proxy for a water charge, since only the Old Lands are irrigated by the Nile waters (and some groundwater) and there is no direct charge for this water. The land tax was increased by only about LE 20 per feddan recently, and is revised only once every ten years.

Livestock and Poultry Feed: Under these policies, cottonseed meal, wheat and rice bran, and molasses were subsidized to encourage livestock and poultry production. Low prices of feed ingredients were also enforced. The Government has also owned and operated feed mills both for cattle and poultry feed. Feed subsidies were withdrawn from 1986 onwards (Walters, 1993, p. 111). In 1991, PBDAC discontinued the distribution of subsidized feeds and removed feed subsidies.

Differences Between Intended Policies and Implementation: Livestock and Poultry Feed: As is often the case with subsidies, livestock feed subsidies in Egypt resulted in sales of feed on a black market. Thus it is likely that there was little stimulation of production, only collection of rents by those who had access to the subsidized feed.

Impact of Policy on Agribusiness: Land Rent: There is still a big difference between the land rent in contracts between landowner and tenant—signed long ago and inherited by the tenant's family—and the market rate of land rent. The official land rent—22 times the land tax—is still below the land rent in the market. Tenants accepted the increase in rent since land rent has been stagnant for a long time; in addition, the free market land rent is significantly higher than their contracted land rent.

The changes underway in the land rental market are clearly a step in the right direction. Because official land rents are still below rents set by the market, the impact of the new policy during the transitional period until the year 1996/97 is not likely to be very significant. That impact will manifest itself fully only after market forces determine all rents. As rents go up, one expects tenants and farmers in general to use land more efficiently. Since land and labor trade off in agricultural production, the increase in rents could well lead to more employment. By the same token, there will be a stronger incentive to search for those production technologies that make the best use of the land. Agribusinesses possessing knowledge or selling equipment or inputs embodying this kind of technology stand to profit.

The new policy has also effected some redistribution of the income from agriculture toward landowners. The effects of this change on the land in production is likely to be quite small, since rents are still low. In particular, local economic systems might well be compensating owners for legislated rent levels that were below their economic level. The major effect of the new rent policy will therefore be through the increase in the cost of land to tenants.

Purchased Crop Inputs: Removing subsidies on purchased agricultural inputs, which was accompanied by other policy reforms, has led to greater market transparency; most inputs are now sold at their shadow prices. This was a necessary step in the process of transferring fertilizer and other input marketing to the private sector. Significant numbers of private firms have begun to handle fertilizer, thus increasing private investment and employment. With the elimination of subsidies, farmers have apparently stopped using excess fertilizer. Moreover, despite the removal of both subsidized credit and subsidized fertilizer, yields of nearly all crops have increased in the aftermath of the policy reforms (see policy analysis on output prices). Black markets for subsidized inputs have also disappeared.

The current policies continue to provide limited protection for the Egyptian agricultural machinery and equipment manufacturers. It is difficult to assess whether or not this seriously slows the transfer and adaptation of technologies that have proven successful elsewhere but would be new to Egypt.

Land Tax: The rate of taxation of land (Old Lands) is quite low. This encourages the use of land relative to other factors like labor. Since labor is also abundant and cheap, however, the impact of the low tax rate on labor use is probably very limited. The land tax is in some ways a proxy for a water charge. Since there is no direct link between the level of the tax and the amount of water used by farmers, however, changes in the tax rate are not likely to have any effect on water use.

Livestock and Poultry Feed: With the removal of feed subsidies, open competition has pushed feed prices up to or near the world level (Walters, 1993, p. 125). Higher feed costs have been passed on to consumers, resulting in lower demand for animal products and feed. There is currently overcapacity in the feed milling industry. New entrants, particularly in poultry, built their own mills rather than depend on the Government. Thus new investment in this industry is not likely in the near future.

Suggested Alternatives to Existing Policy: Land Tax: With the marked reduction in implicit taxation of agriculture through the price mechanism, consideration should be given to bringing farmers owning less than 3 feddans (exempted now from land tax) within the purview of the land tax system.

Raising the land tax should also be considered. Additional tax revenue from non-commodity-related taxes would be consistent with the evolving tax structure, in which direct (income) and indirect taxes are replacing implicit taxation (low farm prices). A higher land tax would contribute to a more efficient tax system by encouraging farmers to use land for the most profitable crops. From such a low level, increases in the land tax would probably not have a great impact on farm prices.

Livestock and Poultry Feed: To encourage maximum flexibility in the feed milling industry, the Government should remove the required approval for new feed formulations, or institute a program of "fast-track" approval (Walters, 1993, p. 118).

Suggested Further Research: While cost-of-production studies are not theoretically valid for establishing appropriate output prices, these and farm income studies are nevertheless useful. They can reveal, for example, the impact of increasing land taxes and input and output prices on farm income and profitability. Such analyses are extremely useful to policy makers in monitoring the impact of significant policy changes.

4.11 Regulatory Policies with Agriculture/Agribusiness Scope

4.11.1 Liberalizing Crop Production and Marketing Regulations

Formulating Institution:	Ministry of Agriculture and Land Reclamation
Implementing Institution:	Ministry of Agriculture and Land Reclamation
Policy Group:	Regulatory
Intended Scope of Policy:	Agriculture, agribusiness
Form, Number, Year:	Law 141/1994 (Cotton spot market); Law 210/1994 (Cotton trade); Law 211/1994 (Cotton exporters' union); MD 894/1994 (Cotton marketing); MD 1028/1989-90 (Eliminating rice deliveries); MD 583/1991 (Eliminating wheat deliveries, floor price); MDs 491 and 539/1986 (Eliminating storage and milling restrictions); MDs 171/1980, 90/1982, 216/1983, and 230/1984 (Transport)

Statement of Policy: Prior to 1986, Law 63 of 1966 specified that the Ministries of Agriculture and Supply jointly determine quotas for the yearly harvest of most food and export crops. Delivery quotas, i.e. the amount of crop a farmer was required to sell to state-owned agencies, were established per feddan. Quotas applied to cotton, wheat, and rice. FArmers delivered 100 percent of their cotton, about fifty percent of their rice, and varying amounts of wheat[31] to the Government under this system. The delivery of onions by farmers was based on contracting arrangements between the cooperative socieites and exporting companies, not on compulsory deliveries.

Since 1986, the Ministry of Agriculture and Land Reclamation has implemented numerous policy changes to liberalize the production, processing and marketing of most of the major crops. Among the more noteworthy policy reforms are the:

- Removal of crop area allotments and the compulsory delivery to government-controlled agencies of all major crops, except sugarcane[32];
- Liberalization of agricultural producer prices for all crops, except cotton and sugarcane[33]; and
- Removal of restrictions on movement and milling of rice by the private sector;

Farmers now decide which crops they will grow and which varieties (see footnote re cotton) and the crop rotations they will follow. There is a limitation of 1.2 million feddans on the area that may be planted in rice. As of the 1994 crop year, farmers decide how much cotton to plant and to whom they will sell their output, but the Government still decides which varieties are to grow where according to technical factors such as climate, soil and environmental conditions. The Government also intervenes heavily in sugarcane. The limitation on rice is largely a function of water availability as determined by the Ministry of Irrigation.

Further reforms are under way in the cotton subsector. The Cotton Exchange is to reopen in Alexandria for the 1994/95 crop year, and the private sector has been allowed to engage in exporting.

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[31]During the period when delivery quotas were in effect, there were quotas for wheat in only some of these years.

[32]Farmers are no longer required to grow cotton, but must grow certain varieties if they choose to grow cotton.

[33]Cotton prices are being liberalized; because of the importance of the crop, the Government has maintained a floor price for producers. This market is likely to require a transition period of several years.

Differences Between Intended Policy and Implementation: These reforms have been generally successful in increasing agricultural production in Egypt. As a recent IFPRI notes, the "food grain economy is adjusting to the changes in policy and regulatory framework . . . Farmers are reacting with higher output levels and marketed surplus" (Badaine, 1994).

Impact of Policy on Agribusiness: Overall the impacts of these policy reforms have been favorable on agribusiness, particularly for rice millers and exporters. There has been both an increase in the number of private sector rice mills and an extension in the rice milling season, "leading to a more even seasonal distribution of operations and less seasonal pressure on food grain prices." There is a downside, however. As competition increases, the scale at which a miller has to operate is likely to increase. This will put pressure on smaller operations.

Policy reform also appears to have had a positive impact on onion production. From 1987 to 1992, area cultivated in onions increased seven percent, while yields increased 18 percent. The removal of many of the former restrictions on the marketing and pricing of onions and other horticultural crops has increased the flexibility with which private firms can operate in these markets.

Suggested Alternatives to Existing Policy: None. The reforms should continue with the implementation of the reforms of the cotton sector. The sugarcane subsector is likely to remain closed as long as the sugar refineries remain under public sector control.

Suggested Further Research: IFPRI's study of *Agricultural Input and Output Market Reforms in Egypt: Initial Impact and Future Policy Issues* lays out a reasonable agenda for further research. Its recommended topics include: market costs, price formation, and performance of local food grain markets; transition to competitive private-sector-based food grain markets; intergovernorate trading; technology dualism and costs in milling industry; and responses in farm and non-farm sectors of the rural economy.

4.11.2 Food Safety and Consumer Protection; Protect Agriculture from Pests, Contamination

Formulating Institution:	Egyptian Organization for Standards and Quality Control
Implementing Institution(s):	Atomic Energy Authority; General Organization for Export and Import Control (GOEIC); Ministry of Agriculture and Land Reclamation,; and Ministry of Health
Policy Group:	Regulatory
Intended Scope of Policy:	Agriculture, agribusiness
Form, Number, Year:	Numerous

Statement of Policy: The regulations affecting food safety and packaging and phytosanitary issues are numerous. Law No. 10 of 1966 grants the Ministry of Health "the sole power to test, inspect and certify domestic and imported food products as fit for human consumption." The Ministry of Health's Food Control Department tests for microbiological contamination, pesticide and other chemical residues. In addition, it has a mandate to examine production and expiration dates and assess the overall wholesomeness of the imported product. Law No. 53 of 1966 entrusts the Ministry of Agriculture "primarily through its divisions for Veterinary Services (VS) and Plant Protection and Quarantine (PPQ) . . .to inspect and certify movement of both imported and domestic livestock, and seed and commodities."

In addition, the Atomic Energy Authority (AEA) inspects all imported foodstuffs for radiation contamination. The Ministry of Supply's General Authority for Silos and Silage carries out quality inspections of imported wheat; and the Cotton Textile Consolidation Fund (CTCF) sets and enforces standards for exported cotton products.

The basic policies have three objectives: a) to protect the health and safety of the consumer; b) to protect the agricultural sector from contamination and foreign pests, and c) to provide minimum quality standards for agricultural and manufactured products.

Differences Between Intended Policy and Implementation: Although GOEIC inspection of 48 products is deemed mandatory, and it can provide inspection for another 124, rarely are these inspections carried out. There are complaints, particularly from importers of food products that the Ministry of Health's inspections take too long. According to the Nathan Associates study on quality assurance, the Ministry of Health's Central Laboratory in Cairo conducts 17,000 tests and analyses of food related products and services per month.[34] The Nathan study concludes that inspection charges and delays increased the cost of perishable food products to the consumer by five to twenty percent.

Impact of Policy on Agribusiness: The major impact of these policies, especially as they are currently being implemented, is to cause confusion and uncertainty among agribusiness firms in Egypt. There is no evidence to suggest that the controls and regulations on exports serve to make Egyptian products more competitive on world markets.

Suggested Alternatives to Existing Policy: There is a need for two separate and distinct sets of policies, one covering the broad issue of food safety and consumer protection and the second directed to enhancing the competitiveness of Egyptian agricultural and food products in international trade. For example, there is probably need for a program that will help agricultural and agribusiness exporters meet the new international product quality standards referred to as ISO 9000.

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[34] Coyle and Gallagher, 1994.

Suggested Further Research: A major research effort is required to develop a strategy for a complete overhaul of the current policies and institutions that mandate and carry out inspections of agricultural and food products.

4.11.3 Liberalizing Production and Marketing of Agricultural Inputs

Formulating Institution: Ministry of Agriculture and Land Reclamation

Implementing Institution: Various departments within MALR, as detailed below

Policy Group: Regulatory

Intended Scope of Policy: Agriculture, agribusiness

Form, Number, Year: Several laws and decrees, as detailed below

Statement of Policy: Prior to 1986 state-owned and operated entities played a preeminent role in the production and marketing of agricultural inputs: seeds; fertilizers, pesticides, and other agricultural chemicals; animal feeds; and machinery and equipment. The government set the prices for key inputs at highly subsidized rates. Since then the Government of Egypt has followed a policy of reducing the direct involvement of state-owned enterprises in these businesses and has encouraged the increased involvement of private sector firms.

Seeds: Ministerial Decree No. 1477 of October 30, 1993 outlines a policy that revamps the seed sub-subsector dramatically. It lays the groundwork to transform the Central Administration for Seeds, which had a mandate to multiply, condition, and distribute seed as well play a quality assurance role, into two separate entities. The Central Administration for Seed Certification (CASC) becomes the sub-sector's principal regulatory authority. The General Department for Seed Production (GDSP) has a mandate to produce seed that the private sector is unwilling or unable to provide to the country's farmers.

Fertilizer, pesticides, and other agricultural chemicals: Prior to the policy reforms, the Principal Bank for Development and Agricultural Credit (PBDAC) was the major distributor of fertilizers and other agricultural inputs in Egypt. Its operations were highly subsidized. As part of these policy reforms, PBDAC has been disengaging from the fertilizer distribution business. As a result the subsidies provided to distribute fertilizer have dropped from LE 183 million during the 1988/89 crop year to LE 33 million in 1992/93. PBDAC's role in the input supply sub-sector is to provide credit at commercial rates to the private sector firms that have filled its former role in distribution.

Animal feeds: "Historically, the GOE has subsidized feed and feed ingredients and enforced low prices for feed mill products. This was accompanied by government control on importation of ingredients and quotas to feed mills which resulted in a black market for feed and

an inefficient industry in terms of feed production and profitability" (Walters, 1993, p. 111). In 1986, the government instituted a policy to reduce these subsidies. As a result of this and the removal of quantitative controls, "the feed and feed ingredient markets are moving towards free and competitive markets" (Walters, 1993, p. 111).

Differences Between Intended Policy and Implementation: The implementation of these policies has, in general been successful. Noted below are a few instances where there are differences between the apparent intent of these policies and the way in which they are being implemented.

Seeds: The policy changes mandated by Ministerial Decree No. 1477 only recently have gone into effect. Thus far, no problems with implementation have arisen. However, cotton seed, which is a by-product of the parastatal controlled cotton ginning industry, remains under public sector control.

Fertilizers, pesticides and agricultural chemicals: There is ample evidence to suggest that, contrary to the intent of the law, unlicensed companies are distributing fertilizer. Egyptian law requires that a dealer have a license for each product line, have storage facilities that are a proper distance from residential and other buildings, and that the manager of a licensed operation be a member of the Association of Agricultural Engineers. As a result of these licensing requirements, some sources estimate that the ratio of licensed to unlicensed dealers is on the order of 1 to 5. PBDAC is only allowed to loan to licensed dealers.

Animal feeds: According to Walters, the private sector and joint ventures dominate the poultry feed sector component of the market, but the GOE "still owns considerable feed milling capacity in the production of cattle feed." Also, there are minor problems with the regulatory approval of changes in feed formulations, which force firms to operate less effectively than they might otherwise.

Impact of Policy on Agribusiness: The net effect of these policy changes has been to encourage and promote private sector investment in agribusiness.

Seeds: The changes in seed policy should make Egyptian agriculture and agribusiness more productive and competitive over the longer term. With greater private sector involvement, farmers should have increased access to the seeds they needed to grow the crops for which there is a demand. The changes to date have stimulated private sector investment in seeds. Private companies are entirely responsible for the supply of vegetable, hybrid and forage crop seeds. There are currently ten (10) companies actively involved in the marketing and production of these products. However, the private sector's involvement in the markets for self-pollinated crops (wheat, barley, rice) is limited as these are considered risky and unprofitable lines of business. There is only one private sector company engaged in the market for wheat seed.

Fertilizer, pesticides and agricultural chemicals: The policy affecting fertilizers, pesticides and agricultural chemicals clearly has stimulated private sector investment and activity

in this sub-sector. By one estimate, there were 892 licensed fertilizer and pesticide dealers in operation by the end of 1992. Assuming that some of these firms will expand their operations to include the marketing of their customers' output, this could generate increased competition in output marketing as well.[35]

Animal feeds: Despite the continued presence of state-owned operations in the animal feed sub-sector, Walters concludes "state ownership is not a major policy issue restricting the supply of animal products as long as current trends towards open markets and divestiture continue" (Walters, 1993, p. 125). Therefore, the private sector should be able to operate successfully and profitably here.

Suggested Alternatives to Existing Policy: These policies are generally sound and have the agribusiness sector moving in the right direction. There is room, however, for some incremental changes and improvements. For example, the Government should review the licensing requirements for fertilizer distributors, especially the one requiring membership in the Association of Agricultural Engineers. Unless it can articulate a clear purpose for this requirement, it should be dropped.

Suggested Further Research: As the IFPRI study recommends, further research analyzing how farmers, and especially small farmers, are benefitting or not under these reforms would be useful before the recommendation of further changes.

4.11.4 Geographical Rationing of Water and On-Farm Water Use

Formulating Institution: Ministry of Public Works and Water Resources

Implementing Institution: Ministry of Agriculture and Land Reclamation

Policy Group: Regulatory

Intended Scope of Policy: Agriculture/Agribusiness

Form, Number, Year: Numerous, each year

Statement of Policy: Water is a limiting factor in the agricultural sector. It is the Government's policy to provide Nile River water free of charge to farmers. The full cost of operation and maintenance as well as the replacement of the irrigation system is borne by the

[35] Since these distributors have established channels of distribution to the farmer, it is reasonable to assume that some will use these same channels, including transportation and storage facilities, to assemble product from the farm and market it further downstream.

Government through the Ministry of Public Works and Water Resources (a.k.a. Ministry of Irrigation).

In conjunction with the Ministry of Agriculture and Land Reclamation (MALR), the Ministry of Public Works and Water Resources (MPWWR) establishes the quantities of water it will release on a regional basis. The determinants include specific rations for each crop by region (Delta, Middle Egypt and Upper Egypt). The process includes negotiation between the MPWWR and the MALR about restrictions on the area dedicated to the two most water dependent crops, rice and sugarcane. The rations are determined according to experiments conducted by MPWWR in different regions for different crops taking into account absorptive capacity, efficiency of water use, distribution system, and evapotranspiration.

Differences Between Intended Policy and Implementation: Sometimes there are discrepancies between the amount of water consumed on a particular farm and the established ration for a specific crop in a given region. Some farmers with advantageous locations can and will consume more water than those without as much access, for examples farmers located near the tail ends of irrigation canals. Besides creating inequities in a system intended to make water readily available to all farmers on an equal basis, this policy may also lead to waterlogging and soil fertility problems.

Impact of Policy on Agribusiness: The current policy has some long-term, negative implications for agribusiness. It encourages the production of some crops, in particular rice and sugarcane, at the expense of those for which Egypt may have more competitive advantage, especially horticultural crops. For example, the World Bank estimates that the value added from a cubic meter of water applied to tomato production is eight times that of a cubic meter used to irrigate sugarcane and four times that of rice. If the country's farmers do not have the proper incentives to grow the crops for which Egypt has the greatest comparative advantage, the firms in the industries dependent on these crops may operate less efficiently than otherwise. That is, tomato processing plants, e.g., may not be able to take advantage of economies of scale because of restricted output of tomatoes resulting from the unavailability of irrigation water. On the other hand, many farmers in the Old Lands (and virtually all farmers in the New Lands) must lift water before they can apply it to their fields. Since they must pay for electricity—and the price of electricity is also being rationalized—farmers do have some incentive to conserve Nile water.

The issue of recovering the costs of supplying farmers with irrigation water is fraught with religious, social, cultural and political, as well as practical, difficulties. The most serious practical difficulty is the high cost of any effective metering system that would charge a farmer for the water he actually used.

Suggested Alternative to Existing Policy: There are a number of measures the Government could pursue to encourage more efficient on-farm use of the country's scarce water resources. It could:

1. Educate farmers about investing in water-saving technologies like laser device for levelling the land, which will promote better distribution of water throughout their field,

2. Educate farmers about the use of sprinkler and drip irrigation in some areas in the Old Lands that might be suitable for these systems, and

3. Promote the use of meters to measure the quantities of water used.

Short of a pricing system to reinforce these policies, however, they would be difficult to implement in a meaningful way.

Suggested Further Research: Given the socio-cultural foundation of the current policy, it may be useful to research examples of how other governments around the world prepared for and implemented policy changes that represented a quantum departure from past experience and tradition. A review of water distribution and rationing policies in other Islamic countries might contribute significantly to the debate in Egypt.

4.12 Labor/Human/Capital Policies with Agriculture/Agribusiness Scope

None.

4.13 Other Factors and Services Policies with Agriculture/Agribusiness Scope

4.13.1 Provision of Economic Information on Agricultural Production and Marketing

Formulating Institution: Ministry of Agriculture and Land Reclamation

Implementing Institution: Ministry of Foreign Affairs/TRO,
Ministry of the Economy and Foreign Trade/EEPC,
Ministry of Agriculture and Land Reclamation/AERI

Policy Group: Other Factors and Services

Intended Policy Scope: Agriculture/Agribusiness

Statement of Policy: Providing information on the supply, demand, and prices is among those services (including basic research; education and training; and transportation, communications and market infrastructure) that improve the efficiency of marketing systems but that is costly for individuals to undertake. Governments generally render this service to all market participants.

MALR has a mandate to collect data on the costs of production for each crop at the governorate level. The Agricultural Economics Research Institute (AERI) of MALR does cost of production studies. These are generally up-to-date on the aggregate level; some studies focus on certain regions.

Among the mandates of the Egyptian Export Promotion Center (EEPC) is "storing and disseminating trade information to assist exporters" (Harrison, 1994b, p. 51).

The Trade Representation Office, which includes the overseas commercial attaches, recently moved from the Ministry of the Economy and Foreign Trade to the Ministry of Foreign Affairs. It assists Egyptian exporters in understanding market regulations, packaging requirements, and qualities and quantities demanded in overseas markets. It is now establishing a new international trade information system, using sophisticated computer and communication equipment. It will maintain access to international trade information centers like the Market News Service for horticultural products of the International Trade Center (Harrison, 1994b, p. 52).

When an economy moves from more centrally planned to market-led, it requires wider dissemination of price and technical information on possible investments. For example, an investor who is considering setting up an agro-industrial enterprise needs to have up-to-date information on the technology—foreign or domestic—that is appropriate to the current conditions in Egypt. The investor needs to match the cost and availability of labor, capital, and other factors to the technology. It is not clear how easily Egyptian investors can get this kind of information today. Some of it is available from foreign commercial services, who have an incentive to promote their country's exports. Other fora—like trade fairs—are possible means of dissemination. There is also an investor office in the MALR, and the ARC and the Academy of Sciences provide information on new technology.

Differences between Intended Policy and Implementation: A recent study of the livestock-feed sector found that "the lack of market and technical information is probably the current largest barrier to operation of an effective economy in the animal protein foods sector." It went on to list specific problems in the sector:

- Much basic livestock and poultry market information is not available. Every business interviewed said that they had to collect information directly.
- Available information is often out-of-date or misleading.
- Estimates of farm prices are not made from farm surveys; other prices of animal protein foods are made monthly but are not available until a year later.
- Domestic and international market trends and forecasts are not available (Walters, 1993, p. 122).

Another recent study found similar problems in the area of economic data on production. While farmers are now free to produce what they wish, there is little reliable information on production, yield, price behavior, and other variables that is required for an analysis of crop profitability (Harrison, 1994b, p. 19). It also found that the EEPC has been fundamentally ineffective in achieving its objectives, partly due to limited funding (Harrison, 1994b, p. 51). The lack of research and farm testing that would lead to good production information is particularly acute on the sandy soils of the New Lands, where management practices are different from both the old lands and the older New Lands (Harrison, 1994d, p. 8) Yet another study found that most market research is not oriented to solving practical marketing problems, nor is there an effective system for disseminating the results (Harrison, 1994e, p. 61).

Impact of Policy on Agribusiness: The impact of the lack of production and market information is significant but largely invisible. That is, one cannot measure the loss in crops not produced or not exported, exactly because one does not know the true potential for such production or export. To know these requires the kind of information that is generally lacking.

While some investors in the New Lands, for example, clearly have the ability to obtain the most up-to-date information on the technologies available to them, this is not likely to be the case for most farmers in Egypt. Thus there are probably significant opportunities being missed both by farmers and by those who might establish businesses to produce or import various agricultural inputs like seed and equipment. It is also probably the case for agro-industrial equipment.

Suggested Alternatives to Existing Policy: Farmers, traders, and processors need regular, detailed, and reliable information if production and marketing systems are to be efficient. Data collected by studies like Walters, 1993, Harrison, 1993b, and Harrison, 1994d, and others like them have undoubtedly begun to fill the information gap. The Government should ensure that whichever agencies are tasked with collecting and disseminating such information have adequate budget and the staff have adequate training. This might include training on the need to disseminate information freely and widely. Two recent studies, Harrison, 1994b (pp. 78ff.) and Walters, 1993 (p. 130), make various specific recommendations about market information systems. The Government should consider these and implement the most effective system. It should also try to minimize the obstacles to the wide availability of the information necessary for new investments in agribusiness.

Suggested Further Research: While cost-of-production studies are not theoretically valid for establishing appropriate output prices, they are nevertheless highly useful to those allocating resources in agricultural production. Although each farm may differ in its endowments and each farmer may differ in his/her ability to manage those resources, cost-of-production studies provide general guidance about the profitability of different crops and livestock products in a rapidly changing economic environment. Similarly, prices received by farmers may not coincide with past prices, but market information is nevertheless crucial in making production decisions. This information will be even more useful if it can be analyzed in the context of domestic and

international supply and demand factors that influence future prices. The Government should ensure that cost-of-production and market information is available for key crops and livestock products and that analysis of these data is also carried out. Part of ensuring such availability is investigating the most practical means for disseminating the information to farmers.

Marketing research, rather than simply measuring marketing margins, should concentrate on the practical problems of marketing. For example, the locally made palm rib containers in which many fruits and vegetables are shipped are not uniform enough in shape or strength to protect fresh produce on its trip to the wholesale market. Those packing the containers often overpack them, partly to compensate for unpredictable weak crates.[36]

4.13.2 Provision of Marketplaces

Formulating Institution:	Ministry of Supply and Local Trade
Implementing Institution:	Ministry of Housing & New Communities/Governorate of Cairo
Policy Group:	Other Factors and Services
Intended Policy Scope:	Agriculture/Agribusiness

Statement of Policy: Physical marketplaces are a necessary part of any efficient marketing system. The provision of these marketplaces by the Government is not in question. Indeed, the Government has endured a long battle with local fruit and vegetable wholesalers to provide a modern marketplace at Al Obour, on the outskirts of Cairo. Two other, similar markets are also planned.

Differences between Intended Policy and Implementation: The new Al Obour market does not include refrigerated storage (Harrison, 1994a, p. 59). It has conceptual problems as well: produce cannot be packed for export there, because it must be packed near to where it is grown (Harrison, 1994a, p. 109).

According to small farmers, many areas in the New Lands are inadequately served by marketplaces. The authors of the New Lands Development Study, however, are skeptical. Their belief is that if markets were economically sustainable, they would arise.[37]

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[36] See Harrison, 1994e, p. 61 for a comprehensive list of recommended marketing research.

[37]Nonetheless they advocate trying an experiment in a village with dense production of some commodities near it. They recommend establishment of a very simple rural assembly market. Unfortunately they do not give any evaluation criteria for the sustainability of such a market. Harrison, 1994e, p. 66.

Impact of Policy on Agribusiness: Merchants have bought up all the space in the new Al Obour wholesale market. This is likely to improve competition in these markets. To the extent that this marketplace can handle more produce or handle it with lower losses, there will be increases in the incomes of traders and greater employment. The functioning of the fruit and vegetable markets will be less than fully efficient, however, because of the administrative restrictions that apply to the marketplace. This will be particularly true for highly perishable commodities for export, like green beans.

Suggested Alternatives to Existing Policy: The Government should seriously consider requests to operate a refrigerated facility in Al Obour. This might be feasible for the accumulation of pre-packed, pre-cooled produce for export. Thus the Government should leave the space that is set aside for exporters and processors free until an interested party makes a request to use it. The Government should also ensure that the electricity supply to the marketplace is adequate to support refrigeration equipment (Harrison, 1994a, p. 109). (See also suggested alternatives in section 4.7.1.)

Suggested Further Research: None.

4.13.3 Agricultural Land Use

Formulating Institution: Cabinet

Implementing Institution: Ministry of Agriculture and Land Reclamation

Policy Group: Other Factors and Services

Intended Scope of Policy: Agriculture/Agribusiness

Form, Number, Year: Prohibition of Fallow: Law 2/1985
Prohibition of Bricks: Law 116/1983 (Article 150)

Statement of Policy: Prohibition of Fallow: Under arid conditions, leaving agricultural land fallow may lead to its deterioration. The salt level in the surface soil will increase as capillary action brings dissolved salts up and the water subsequently evaporates. Farmers sometimes left land fallow because then they could build on it, whereas building on agricultural land is prohibited. Law 2 of 1985 states that landowners and tenants are prohibited from leaving the land uncultivated for one year from the last cultivation period. If the violator is the landowner, the Government will rent the land out, although the use of the land will later be returned to the landowner. If the violator is the tenant, the lease contract will be canceled, and the use of the land will be given to the landowner.

Prohibition of Bricks: Law 116/1983 (Article 150) makes it illegal to establish brick factories on agricultural land and prohibits the owners of brick factories from running their

factories using topsoil. A license from the Ministry of Housing to build a house is conditioned on not using bricks made from soil. The Government encourages factories to produce cement bricks and other types to replacing those made of topsoil. Soil conservation became a particular problem after silt stopped coming with Nile water as a result of the construction of the High Dam. This called for adjustment of Law 53/1966. Law 116 also prevents transporting soil for non-agricultural uses.

Subsidized Sale to Graduates: Graduates of technical high schools and universities are encouraged to own and manage small plots of reclaimed lands. The policy of the Government has been to develop part of the New Lands with these graduates, with the private sector being responsible for its utilization. After the Government stopped appointing graduates to government jobs and delayed such appointments for at least ten years, it tried to create jobs for them through land distribution. Land is provided with all the needed infrastructure, including irrigation. Graduates also receive housing. When the graduate receives the land, it is already cultivated. The Government pays a stipend of LE 60 per month during the first two years of settlement and provides some fringe benefits through the World Food Program. The area reclaimed, cultivated, and distributed to 35,000 graduates reached about 180,000 feddans by 1993 (Abou Hadb, 1992). The Government has not intervened in the cropping pattern in the New Lands as was the case in the old lands in the past.

New Lands: The policy of the Government is to develop the New Lands and leave the private sector responsible for its utilization. Much of the land reclaimed during the 1960s was kept as state farms. The prevailing wisdom then was that only such large farms would allow extensive mechanization and thus benefit from economies of scale.

There was a major policy shift during the 1980s. The GOE became disillusioned with the overall performance of the state farms because of their inherent inefficiency and inability to quickly develop or adopt new farming practices applicable to desert-like conditions. Accordingly, a policy decision was taken to allocate the New Lands in a ratio of about 60% to investors with adequate capital to develop their own farms and the remaining 40% to economically disadvantaged groups like landless farm workers, unemployed graduates, and a small number of retired government and army personnel. A strong incentive is provided by the ten-year income tax holiday provided to investors in reclaimed land (see tax policy).

Most of the public sector agricultural companies (previously the state farms) have been sold either to investors or to their employees. For private investors and graduates, public utilities, roads, electricity, and main canals are provided.

The policy aimed also to promote land reclamation societies (cooperatives) by assigning them some land to reclaim and cultivate. The costs of infrastructure were shared between the government and these societies.

Contracts with land reclamation cooperative societies made it the societies' responsibility to avail themselves of on-farm irrigation systems including wells.

Differences Between Intended Policy And Implementation: Prohibition of Fallow: The implementation of the law seems to be very effective; there is virtually no building on agricultural land.

Prohibition of Bricks: The policy has succeeded to a great extent. Only a small number of people still build their houses with clay bricks.

Subsidized Sale to Graduates: The area reclaimed is an important national resource on which major investments have already been completed but that is presently not producing to its full potential (See Harrison, 1994d). Although the Government has established the needed infrastructure, graduates still face many irrigation problems, including maintenance and electricity breakdowns. Reclamation operations have sometimes been assigned to companies with inadequate finance. The financial capacity of graduates was often limited, particularly in the first years after settling. They receive a stipend, but no operating finance.

New Lands: Agro-industrial complexes were one of the targets of the New Lands policy. These are largely absent; some packing houses and refrigeration facilities have been put up. Some big investors have built high-capacity stations for sorting, grading, packing, and freezing fruits and vegetables in these areas, but they are working far below their capacity. Their apparent high costs point to a lack of careful feasibility studies and/or weak management.

Many land reclamation societies did not succeed in availing themselves of irrigation or in contributing to the needed infrastructure. By 1991 the number of these societies reached 206, with about 161 thousand members, and covering about 393,000 feddans (Abou Hadb, 1992). These cooperative societies faced problems related to either the lack of cooperative awareness—because merchants or brokers joined only for speculation—or inefficient management. They also faced financial constraints partly due to their inability to present sound feasibility studies to banks.

Impact of the Policy on Agribusiness: Prohibition of Fallow: This policy has led to higher land productivity, higher farm income, and an incentive for some farmers to move or to purchase new (including desert) land where building is not prohibited.

Prohibition of Bricks: The prohibition on the use of topsoil for making bricks has conserved soil fertility, thereby also contributing to the attainment of higher crop yields. In addition, new construction materials suitable for use in other industries have come into use. Labor has become trained in new skills, ensuring that unemployment did not increase substantially as the former brickworks ceased operations.

Subsidized Sale to Graduates: The area reclaimed for graduates is not producing to its full potential. Most graduates do not have sufficient agricultural knowledge, training, or experience to run their farms efficiently. Seventy percent of them have no experience in farming (Harrison, 1994d, p. 9). Many graduates plant high-value crops, particularly perennial fruit crops, on significant parts of their land in order to generate high returns. Yields have not been

high. Limited production and inadequate prior feasibility study has resulted in the establishment of agribusinesses like packing houses and other marketing facilities that are not working at full capacity.

New Lands: Since the 1960s about 1.2 million feddans have become productive land instead of desert (World Bank, 1992a). With the deregulation of agricultural [illegible] prices and the settlements in the New Lands, the total production of fruits in Egypt increased significantly. Egypt's production of fruit and vegetables reached a record level of 14.2 million [illegible] in 1992, an increase of 30 percent over 1983 (Brent, 1993, p. 3). Production of vegetables peaked in 1987, moreover, as pricing policy reforms made field crops more attractive, so the record production is due even more to increases in fruit production, much of which came from the New Lands.

The Government's reclamation program and income tax incentives attracted a substantial amount of investment by the private sector in the New Lands. This introduced many modern techniques in agriculture and irrigation, which contributed to increased productivity, income, and local employment. Agricultural exports grew rapidly based on production from these and other areas. Many private sector companies are involved in establishing irrigation wells and pumping stations.

Suggested Alternatives to Existing Policy: Subsidized Sale to Graduates: Because many graduates are not well trained for agricultural production, a rigorous and practical training program should be developed. It could be offered both for university and technical students as well as for those who have already graduated. The problems of current graduates could be used as the basis for developing the course.

New Lands: The Government should make widely available cost/benefit data like those in the New Lands Development Study (Harrison, 1994d). This will support the establishment of both efficient farms and supporting agribusinesses and agro-industries. The Government should also reexamine its infrastructure policies and implementation for the New Lands to ensure that adequate irrigation, electricity, roads, and markets are established to facilitate the efficient production and marketing of agricultural products. In conjunction with the establishment of marketplaces, market information systems should also be established.

The low yields of small farms in the New Lands (Harrison, 1994d) point to a need for strengthened agricultural research and extension in these areas. Where it is economically possible to develop a more diversified cropping pattern, MALR should encourage farmers to do so through better extension and credit facilities, creation of pilot farms, and/or other appropriate measures.

Suggested Further Research: Building on the New Lands Development Study, the Government should continue to develop reliable data to support cost/benefit analysis of agricultural enterprises.

4.13.4 Agricultural Research and Extension[38]

Formulating Institution: Ministry of Agriculture and Land Reclamation

Implementing Institution: Ministry of Agriculture and Land Reclamation

Policy Group: Other Factors and Services

Intended Policy Scope: Agriculture/Agribusiness

Form, Number, Year: PD 19/1983 (ARC)
MD 211/1983 (ARC extension)
MD 845/1988 (CAAES)
MD 148/1994 (RREC)

Statement of Policy: Agricultural research is an ongoing priority in any country where agriculture is an important sector of the economy. This is certainly the case in Egypt. Agricultural research in Egypt is managed by the ARC, which is an autonomous body with a Board of Directors chaired by the Minister of Agriculture. It has a Director and two deputies, one each for research and extension (pp. 11ff).

Agriculture's share of public investment doubled from under 7 percent to over 15 percent from the Second to the Third Five-Year Plan. This is more a reflection, however, of the removal of public sector investment from certain other areas of the economy than of a large emphasis on agriculture (World Bank, 1993c, p. 115). The ARC gets the largest allocation under MALR during the Third Plan, which allows continuation of research expenditures during the remainder of the Third Plan at levels existing during NARP (through 1994) (World Bank, 1993c, p. 122).

Differences between Intended Policy and Implementation: Based on the evaluation of NARP, one would have to say that the agricultural research program in Egypt made significant contributions to past agricultural growth, and is even more poised to do so in the future. The capabilities of the research staff are described as "remarkable," and the system's ability to deal with emergencies was also highlighted (pp. 92-3). Among the few weaknesses pointed out are less than optimal use of existing talented staff, slow progress on seed industry objectives, and research on food animal production (pp. 93, 39, and 108, respectively).

Impact of Policy on Agribusiness: "Exceptionally great" gains in productivity have been made in many crops since the early 1980s. This is attributed both to the research effort and to the

[38]Agricultural research and extension in Egypt have been described and the NARP project evaluated in York, 1994. Thus little detail is given here. Page numbers refer to York, 1994 unless otherwise stated.

liberalization of agricultural prices that occurred in the mid-1980s. Yields of many crops moved higher from already high levels. 31 of 32 crops in Egypt had yields higher than the world average, one was highest in the world, and several were second or third (pp. i-ii.). Yields of animal products increased more slowly.

The research program has contributed to some improvements in the seed industry, although progress is described as "slow but steady." The objectives have been 1) Restructuring CAS and 2) Encouraging private sector participation in the seed industry and privatizing GOE seed production (p. 39). (See policy on regulation of input marketing.)

Furthermore, the evaluators felt that the greatest impact of the agricultural research program was yet to come (p. iii).

Suggested Alternatives to Existing Policy: The evaluation of NARP makes many fairly specific recommendations for the continued improvement of the research system. One specific recommendation that seems to have particular merit is the "check-off" (p. 111). This would raise funds for research by attaching a small tax to agricultural inputs or outputs, with an earmark for their expenditure. This notion seems to work well in the area of road tolls being used for transport development in Egypt.

This study makes three additional recommendations. The first is that farmers and agribusiness representatives should have greater representation on the RRECs, which include only two representatives from the private sector, all the rest being civil servants (p. 18).

The second is that the People's Assembly should pass a new seed law (see p. 40). If the private sector is to get involved in seed production, it must have certain protection and proprietary rights under the law.

Finally, research should devote more resources to solving upstream and downstream crop- and livestock-related problems, and not only focus on production.

Suggested Further Research: None.

4.14 Fiscal Policies with Food Processing Scope

None.

4.15 Monetary/Financial Policies with Food Processing Scope

None.

4.16 Trade/Pricing Policies with Food Processing Scope

None.

4.17 Regulatory Policies with Food Processing Scope

None.

4.18 Labor/Human/Capital Policies with Food Processing Scope

None.

4.19 Other Factors and Services Policies with Food Processing Scope

None.

4.20 Fiscal Policies with Vegetable Crops Scope

None.

4.21 Monetary/Financial Policies with Vegetable Crops Scope

None.

4.22 Trade/Pricing Policies with Vegetable Crops Scope

4.22.1 Potato Seed Policy, including Import Restrictions

Formulating Institution: Ministry of the Economy and Foreign Trade

Implementing Institution: Ministry of Agriculture and Land Reclamation

Policy Group: Trade/Pricing

Intended Scope of Policy: Vegetable Crops

Form, Number, Year: MD 69/1967 and others

Statement of Policy: Traditionally Egypt has imported large tonnages of its seed potatoes from the European Community (EC). This seed is grown mainly for two purposes: 1) to plant to grow the fresh export crops, 2) to remultiply for the several potato crops that are grown. In total there are two major and three minor growing seasons per year. Approximately 30% of the seed potatoes are imported each year to keep the cycle operating.

MALR restricts the ability of importers to purchase certain varieties and from certain countries of origin. Until 1991/92, the MALR used a quasi-government committee to determine the seed import requirements and the need for in-country certified seed to supply the domestic and export markets. One reason that the varieties are regulated is that exports must be free of brown rot. This disease causes visible imperfections that make export shipments unacceptable (see Harrison, 1994c).

Differences Between Intended Policy and Implementation: This has been a case of privatizing and providing monopolies at the same time. Perhaps the apparent monopolistic practices by the cooperative associations and cooperative union will soon be counteracted by the power of the private sector, and they will be able to compete on a level playing field. From 1959 to 1991/92 the cooperative associations and the cooperative union have exerted significant influence through their exclusive right to import potato seeds. Since then, however, the door has been open for private firms to apply for import licenses. In addition, the association-union monopoly seed production position is being eroded by companies with tissue culture and rapid multiplication facilities who are starting to supply farmers with F4, F5 and F6 certified seeds.

Impact of Policy on Agribusiness: Potato yields have increased from 4-6 tons per feddan in the early 1960s to 8-9 tons by the end of the 1980s on a combined national summer and winter crop basis. It is expected that potato yields will further increase significantly by using domestically-produced certified young seed and applying the improved agricultural practices based on the package of technological inputs that has already been introduced. Licensing of the private sector to import seed potatoes accelerated investment. Private sector companies now work with tissue culture and rapid multiplication facilities, contributing to the dissemination of these techniques. Potato processors have imported their own seed and have integrated the farming of potatoes in their operations.

Suggested Alternatives to Existing Policy: The recent trend towards potato growing in the New Lands for export purposes may have temporarily halted the problems with brown rot in the export shipments. However MALR will need to consider programs to keep uncertified potato seed from being transferred and grown in these new desert lands. Otherwise in a few years, the problem will surface again.

Egypt may be in a very favorable position to supply its own certified young F generation seed potatoes. The country could establish a "world class" certified seed potato export business, supplying southern hemisphere countries with young "F" generation seed potatoes (Harrison, 1994c). MALR should consider establishing isolated certified seed potato growing areas with strict monitoring of the certified seed potato production.

4.22.2 Removal of Wholesale and Retail Price Controls on Vegetables

Formulating Institution: Cabinet

Implementing Institution: Ministry of Supply

Policy Group: Trade/Pricing

Intended Scope of Policy: Vegetables

Form, Number, Year: 1989

Statement of Policy: Prices of vegetables used to be determined by the Ministry of Supply (MOS). A committee in the Ministry, composed of members from the Ministry of Agriculture, some wholesalers, the director of the main wholesale market and other representatives from MOS, used to set the weekly price for each kind of vegetable, either at the wholesale or retail level. Farmgate prices were not administered. Farmers and retailers were not represented on this committee. Some distortions in the vegetable market were obvious. Administered prices were usually set on an ad-hoc basis without any analysis of the market forces. According to the policy, the worst quality of these products would be sold at fixed prices if the consumer insisted on buying at the fixed price. A retail-wholesale price margin was set at 25%.

Starting from 1988, a new policy was implemented. MOS would agree with wholesalers on the weekly wholesale prices (on an informal basis). Wholesalers or retailers who did not apply these prices would be subject to fines. This informal agreement between MOS and wholesalers continues until now.

Differences Between Intended Policy and Implementation: None.

Impact of the Policy: The informal price agreement between MOS and wholesalers has not succeeded in keeping prices down, except during peak seasonal periods when there is abundant supply. In other periods, market forces play their role in determining prices. Retailers sort and grade the product to achieve better quality and got higher prices. Lower-quality products sold at lower prices without any government intervention.

Suggested Alternatives to Existing Policy: The price-setting committee should be abolished. The MOS should be re-tasked to perform activities like emergency food stockpiling and distribution, not the administration of prices or the normal supply of foodstuffs.[39]

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[39]Under H.E. Minister Goueli, the Ministry may already be undergoing reorganization.

4.23 Regulatory Policies with Vegetable Crops Scope

None.

4.24 Labor/Human/Capital Policies with Vegetable Crops Scope

None.

4.25 Other Factors and Services Policies with Vegetable Crops Scope

None.

5. PRELIMINARY ASSESSMENT OF POLICY IMPACTS

The foregoing narrative policy analyses reveal the impacts of a large number of policies on the selected impact variables. To summarize and to further elucidate the impacts of these policies, this chapter presents impact assessment tables (Tables 5, 6, and 7). These tables include the following information for each policy:

- Implementing institution
- Impact assessment, by variable
- Narrative explanation of policy impact
- Principal alternatives suggested

By its nature an agribusiness policy inventory does not generally allow for the estimation of quantitative impacts. On the other hand, determining the policies that create the most or best opportunities and those that impose the most severe constraints on the development of agribusiness is a key objective of this study. For this reason, a preliminary, qualitative assessment of the impact of each policy on the chosen impact variables is an important part of the analysis. These assessments, while somewhat subjective, are based on the data gathered from secondary sources and interviews, and on economic principles. Assessments are made using a simple numeric scale from +2 to -2, indicating impacts ranging from strongly positive to strongly negative.

When we assess a policy, we consider the impact of only those components of the policy that have actually been implemented. For example, the Government has announced a major program to privatize many of its holdings. As part of this program it has promulgated law 203, which mandates many public companies to operate as if they were private, i.e., without subsidies or other preferential treatment. As yet, however, the Government has not sold or in other ways privatized a significant portion of its assets. Thus the evaluation of the privatization policy would be limited to the steps already taken, namely the changes in the law 203 companies. Of course, the impact assessment is also confined to those impact variables chosen for this study. While the effects on employment, investment, etc. appear in the impact assessment table, the fiscal impact of removing the law 203 companies from the Government's books does not.

The impact of a policy has several important dimensions. These include the time over which the impact is likely to be felt, the degree to which a policy tends to foster an impact, and the total size of the impact.

Short-run and long-run impacts of policies may differ. If they do, in this study the impact assessment reflects the long-run impact. The stable impacts of policies are more important to the Egyptian economy than transitory ones. The restructuring of the economy to one that is market-led is the primary goal. To this end, those policies need to be promoted that have this

result. Since such a restructuring cannot be completed in the "short" run, it is the long-run impact of a policy that is more important.

The degree to which an impact is felt can be assessed by examining actual changes in the economy or considering how favorable a policy is to such change. That is, a "positive" (enabling) policy may be offset by a "negative" (constraining) policy. In this case, how should the positive policy be rated? In this study, impact assessments reflect how favorable the policy is, regardless of whether impact was actually achieved or not. Thus a "positive" policy gets a positive rating. In the policy interaction section, discussion focuses on the offsetting aspects of policies, shedding light on why impact may not have been achieved.

Normally a positive score indicating a favorable policy also indicates a favorable set of outcomes. It should be pointed out, however, that it is possible to have too much of a good thing. It is possible, for example, that the income tax incentives to invest in the New Lands may lead to overinvestment in those areas and underinvestment in other areas that also deserve investors' consideration. If those incentives expire, much of the investment that was made in favored areas may be abandoned or moved to other areas that are more profitable in the absence of such incentives.

The numerical score in the assessment might also be related to the volume of the impact. For example, potato seed import policy is not likely to have as great an impact on total agribusiness employment as a macroeconomic policy like rationalizing the exchange rate regime. Giving lower scores to policies that apply to subsectors would be inconsistent with the notion of rating how favorable a policy is towards the promotion of the impact variables. Thus, the numerical score reflects only how favorable the policy is, not the total volume of impact.

One should also note that the impact estimated for a particular policy depends on the definition of agribusiness that is being used in this study. That is, we define agribusiness to include that part of a sea freight forwarding company's business that is related to the transportation of agricultural products. Thus if a policy increases employment in such a firm by, e.g., increasing agricultural exports, then the impact of that policy on agribusiness employment would be assessed as positive.

Finally, the objective of the current policy reforms is to stimulate the development of the private sector and to reduce the level of employment in the public sector. Thus the impact of a policy on employment is gauged by considering whether it tended to create employment in the private sector. Policies that create employment in the public sector are not judged to have a positive impact, and policies that reduce public sector employment by an amount equal to that created in the private sector are judged to have a positive effect.

Table 5: Impact Assessment Table, Economy-Wide Policies

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
FISCAL POLICIES, ECONOMY-WIDE							
Sales/Value-Added Tax	Sales Tax Administration, Ministry of Finance	+1	+1	+1	+1	Agriculture and agribusiness receive generally favorable treatment under this policy to increase Government revenues via a sales/value-added tax. Overall, this policy should contribute to fiscal stability and provide the Government more resources to invest in the infrastructure needed to support agribusiness development.	None.
Fiscal Balance (surplus/deficit)	Ministry of Finance	+1	+1	+1	+1	Sales taxes, customs duties, and other indirect taxes can have an impact on the sales of agribusiness firms. However, the rates of these various taxes as applied to agribusiness firms are generally lower than those applied to firms in other industries. On the spending side, there have been few discernable negative impacts from the reductions in subsidies on fertilizer and other agricultural inputs. Overall, improved fiscal management should have a long-term positive impact on the capital market, which will benefit the entire private sector, not just agribusiness.	None.

Table 5: Impact Assessment Table, Economy-Wide Policies, cont'd

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
Corporate Taxation and Tax Incentives to Investment	District Tax Office/Tax Commission on Commercial and Industrial Profits, General Authority for Investment (GAFI)	+2	+2	+2	+1	The corporate tax rates in effect in Egypt neither discriminate against nor provide special benefits for agribusiness. The generous first-year depreciation allowance may serve as an incentive to import or otherwise acquire modern processing equipment and other capital goods firms need to expand their operations. Investors have taken advantage of the generous tax holidays offered by law 230 to invest in new ventures in both agricultural production and agricultural processing and marketing. There has been substantial investment in agriculture in desert areas, which has increased the production of horticultural crops. In addition, there has been substantial investment in food processing operations in the new cities. Local content provisions in law 230 make the impact on technology transfer smaller.	The tax holidays seem generous, but do not address some of the other key problems in promoting investment in agriculture and agribusiness. For example, potential investors sometimes confront difficulties in acquiring land. Specific problems include "under the table" payments to Bedouin "squatters" and difficulties in obtaining free and clear title to land purchased from regional authorities. The local content provisions of the existing policies discriminate in favor of local manufacturers and producers of key inputs, including machinery and equipment. This could slow the adaptation of technologies most appropriate to make reclaimed land productive.
Individual Taxation	Taxation Directorate, Ministry of Finance	+1	+1	+1	+1	Overall the impact of the recent changes in individual tax policy on agribusiness should be neutral to slightly positive. The Unified Tax Law favors agribusiness to the extent that it specifically exempts the profits from beekeeping indefinitely and provides ten-year exemptions from taxes on the profits of land reclamation and cultivation and poultry breeding, livestock fattening and breeding, and fisheries projects.	Interest income, including that on Treasury bills, should be subject to income tax immediately. This would prevent new distortions and raise revenue. Most importantly, it would signal that fiscal policy is going to treat all forms of income equally.

Table 5: Impact Assessment Table, Economy-Wide Policies, cont'd

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
MONETARY POLICIES, ECONOMY-WIDE							
Removal of Interest Rate Controls and Credit Rationing	Central Bank of Egypt (CBE)	+1	+1	+1	+1	The removal of interest rate controls and the abolition of policies to allocate credit to different sectors are steps in the right direction. Both policies should benefit agribusiness over the longer term. However, in the short term agribusinesses will continue to complain about the high cost of borrowing, and the financial community may be hesitant to lend to the sector it perceives to be more risky than other segments of the economy. In the medium term, both borrower and lender will likely discover that above-average profitability offsets this riskiness. Over the longer term, if the Central Bank of Egypt achieves its goal of reducing interest rates, agribusiness—as well as the economy at large—will benefit. The key is to maintain positive real rates on loans and deposits.	(Further Research:) One topic for research is to determine what impact, if any, the fact that most, if not all, of the new investment in agriculture and agribusiness benefits from generous tax holidays, has on the pricing of loans to these new ventures.
Creation of Treasury Bill Market and Markets for Similar Public Debt Instruments	Central Bank of Egypt	0	0	+1	0	This policy has no specific effect on agribusiness. Short-term Government debt instruments are a key part of modern financial management of the economy. The introduction of treasury bills and the creation of a market for them allows the Government to have indirect but effective control over both interest rates and the money supply. It also tends to increase the supply of capital for investment.	None.

Table 5: Impact Assessment Table, Economy-Wide Policies, cont'd

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
Development of Capital Markets (stock and bond exchanges)	Capital Markets Authority (CMA)	0	0	+1	0	Although a substantial number of companies are registered under Law 95, action in the stock markets in both Cairo and Alexandria is still quite limited. However, in the long run they could develop into an important source of capital for the expansion of companies that have grown successfully through the entrepreneurial stage of their development. The capital market law provides "the enabling environment" to help the larger, public sector companies (Law 203) which are by law incorporated as joint stock companies, privatize. It may also be of benefit to large-scale private ventures, including those that include foreign participation. It is unrealistic to expect this law to have much impact on smaller ventures in agribusiness in the near to medium term.	This law favors larger, existing firms over smaller, new ventures. A more favorable environment, especially for agriculture and agribusiness, would be one in which access to the capital markets and benefits of the tax code treated firms, regardless of their size, on an equal basis. This means either eliminating the tax preferences extended to joint stock companies on the stock exchanges or extending the same tax benefits to partnerships, limited liability companies, as well as sole proprietorships.
TRADE & PRICING POLICIES, ECONOMY-WIDE							
Unification and Liberalization of the Exchange Rate and Liberalization of Access to Foreign Exchange	Central Bank of Egypt	+2	+2	+2	+1	As Egypt moves from a relatively closed, planned economy to an open, market-based economy, the exchange rate is arguably the most important macroeconomic variable. Reducing overvaluation of the exchange rate and giving economic agents like traders free access to foreign exchange creates a tremendous stimulus to exports. In addition it reduces the distortion in favor of imported capital, thereby increasing the incentive to employ labor.	(Further Research:) Because the exchange rate is so important, the Government needs to ensure that it does not become seriously misaligned. In particular, any analysis of the international competitiveness of Egypt's non-traditional exports needs to consider whether or not the real exchange rate is near an equilibrium level. It would enhance the confidence of the private sector in the Government's efforts if the Government were to undertake such research regularly and make the results public.

Table 5: Impact Assessment Table, Economy-Wide Policies, cont'd

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
Reform of Import Tariff and Bans, Import Quality Assurance	Tariff, Bans: Ministry of Finance; Quality: Ministries of Economy, Agriculture, Health, and Supply, General Organization for Export and Import Control, Atomic Energy Authority	Tariff, Bans: +1 Quality: -1	Tariff, Bans: +1 Quality: -1	Tariff, Bans: +1 Quality: -1	Tariff, Bans: -1 Quality: 0	The reduced dispersion among tariffs for intermediate and final goods tends to improve the efficiency of resource allocation, encourage the production and export of those products in which the country is internationally competitive, and improve the welfare of consumers by lowering the cost of their purchased goods. Tariffs on most agriculture-based items are moderate, with only selected items like poultry, garments, and certain fruits at the maximum 70 percent. The system of quality controls has resulted in increased uncertainty and risk for local producers and foreign investors, as well as increased costs for the importer and the consumer. Uncertainty is created because ministers retain the right to issue decrees at any time that establish new regulations.	A countervailing duty on imported subsidized beef may be appropriate to level the playing field for local producers. Completely fair play would require a duty that would bring the price of EU beef up to the unsubsidized world market price. On the other hand, many poor consumers in Egypt are benefiting from these imports, so it may be more appropriate to apply only a partially equalizing duty. The quality control system should shift toward a quality assurance system. Regulations need to be reviewed for current relevance. The Government and the private sector need to work together better to further the legitimate objectives of the system. The Government should become more accountable for the regulations it makes and the way it enforces them.
Reducing Export Bans, Simplifying Export Procedures, Export Quality Assurance	Bans: ; Procedures: Ministry of the Economy and Foreign Trade; Quality: Ministries of Economy, Agriculture, Health, and Supply, General Organization for Export and Import Control	Bans: +1 Procedures: -1 Quality: -1	Bans: +1 Procedures: -1 Quality: 0	Bans: +1 Procedures: -1 Quality: -1	Bans: 0 Procedures: 0 Quality: 0	The dismantling of the export ban list and export quotas provide further incentives for export expansion, with concomitant employment opportunities. The long procedures and numerous agencies that exporters have to deal with represent an unjustified cost that affects negatively the exporter's competitiveness. Subjective inspection, to the extent that it is carried out on exports, might make a commodity acceptable by one agency but rejected by another. This will result in a negative attitude toward investment and production for the export market, thus reducing agribusiness employment.	While the first stage in export reform has been implemented fairly rapidly, the next stage must aim to improve the administration of policies, strengthen institutions, and reinforce the mechanisms for implementing policy and evaluating reforms.

Table 5: Impact Assessment Table, Economy-Wide Policies, cont'd

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
Liberalization of Energy Prices	Ministry of Petroleum and Energy/ Electricity Organization	+1	0	-1	0?	Besides agricultural prices and the exchange rate, another set of fundamental prices now being rationalized are energy prices. They have increased greatly because they had been seriously distorted. Cheap electricity and petroleum products undoubtedly led to more capital-intensive investments than otherwise would have been the case. Thus the raising of these prices should lead to a more appropriate balance in the use of labor and capital, with the potential for many more jobs to be created. Agro-industrial and other firms adjusting to the changes in energy prices, for example, are likely to be encouraged to use less energy-consuming capital and more labor, assuming that such technological choices are available.	The Government should make its energy policy as transparent as possible, so investor-producers and other agribusinesses can incorporate the changes in prices into their business plans. Clearly there will be some political cost to announcing increases in electricity prices.
Duty Drawback System	Ministry of the Economy and Foreign Trade	0	0	0	0	If it functions smoothly, the duty drawback system is an effective tool to encourage agricultural exports. The present system has some problems in implementation that seem to be creating disincentives to export among agribusinesses. On the other hand, the severity of this problem will to some extent decline "automatically" as the level of duties continues to be reduced.	Since technology is unlikely to change every year, it seems unnecessary to make certificates good for only one year. Perhaps the Government could issue the certificates with an indefinite validity and check the amounts of inputs used on a random basis. Firms could be required to report when the ratios of inputs and outputs changed. Fines could be levied on firms that did not comply properly.

Table 5: Impact Assessment Table, Economy-Wide Policies, cont'd

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
Coordination of Trade Policy through the High Council of Trade	Ministry of the Economy and Foreign Trade	0	0	0	0	Coordination of trade was a concept that was more feasible when most imports and exports were in the hands of the Government. Now that the private sector is to take the lead in trade, the Council's existing mandate is not likely to serve the trade sector very well.	The Council's functions should be modified to include: 1. Conducting or commissioning studies on the potential of various foreign markets for Egyptian imports and exports. 2. Advising importers and exporters on the impact of the GATT agreement signed in April, 1994. This would include providing information about expected changes in world prices for Egyptian agricultural imports and exports. 3. Monitoring the effects of Egyptian trade policies and working with the private sector to find solutions to problems facing traders.
Accession to GATT Agreement of 1994	Ministry of the Economy and Foreign Trade	+1	On imports: -1 On exports: +1	+1	+1	Even if Egypt does not make further changes in its agricultural and trade policies, the GATT agreement will have an impact on importers, exporters, businessmen, and farmers. The elimination of subsidies to producers by the developed countries will gradually increase agricultural prices on the world market. Egypt is a net importer of some important agricultural products like wheat, flour, maize, vegetable oil, sugar, and meat. Importers and consumers of these commodities will face higher prices than before. The quantities of these commodities imported may decline. However, there will also be a greater incentive to produce these commodities domestically. On the other hand, producers and exporters will benefit from price increases for cotton, vegetables, fruit, onions, and garlic.	The Government should advise importers, exporters, and the general public on the likely impact of the GATT agreement. This would include providing information about expected changes in world prices for Egyptian agricultural imports and exports, as well as any improvements in market access.

Table 5: Impact Assessment Table, Economy-Wide Policies, cont'd

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
REGULATORY POLICIES, ECONOMY-WIDE							
Privatization of Agribusiness Holding Companies	Various Ministries	0	+1	0	0	The privatization of state-owned companies in agribusiness has been slow. The Food Industries Holding Company has only sold off its Coca Cola and Pepsi franchises. There does not appear to be substantial interest among private sector investors in other FIHC assets. Rather, large-scale investors are content to establish entirely new operations on their own. The elimination of public monopolies on exports has been a significant stimulus to the private sector.	The requirement that limits affiliated companies from disposing of assets as the managers of those firms see fit seems overly restrictive and counterproductive. It should be eliminated. If a majority of the shareholders, i.e. the Government, does not approve the way in which the managers are operating affiliated companies, they can replace them. Likewise, the law should be amended so that it is the board of directors that is responsible for evaluating any assets or lines of business to be sold and not an outside "valuation committee." These changes should force the managers of affiliated companies to act more like their private sector counterparts and hasten the privatization of their firms. In addition, privatization of the so called "strategic" industries should be reconsidered. It is quite reasonable for the public sector to continue to maintain ownership of firms engaged in military production and in the heavy industries. However, there is ample evidence from around the globe to suggest that private sector ownership and operation of utilities, transportation and communications would be more efficient.

Table 5: Impact Assessment Table, Economy-Wide Policies, cont'd

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
Financial Sector Regulation and Reform	Central Bank of Egypt	+1	+1	+1	0	The impact of privatizing the banks will depend on the policy environment in the financial market. The development of financial institutions and markets is crucial to raising the supply of capital and increasing the returns on this relatively scarce resource and directing its allocation to its most efficient uses. The impact of bank privatization on agribusiness will be a function of the lenders' overall assessment of the risks and rewards of such loans. How banks value the collateral, often perishable commodities, agribusiness has to offer will play a key role in this process. Overall, the impacts of this policy will be medium- to long-term pending both the privatization of the banks as well as public sector agribusiness firms.	The policy is basically sound. Alternatives would only be needed if there were problems in implementation.
Investment Licensing, Registration	General Authority for Investment (GAFI)	+2	+2	+2	+2	The policy of registration instead of licensing is an important step to promote private investment that should create employment and increase production. In a general sense, the agribusiness sector should benefit from this policy. The only constraint imposed by the greatly reduced "negative" list that would have an impact on potential agribusiness investors is prohibition against investments in the Sinai. This is, at best, a minor problem however.	This policy does not require any major revisions. It is important, however, to monitor the actual performance of those government agencies with licensing and registering responsibilities. The overall efficiency of these procedures might be improved by adapting some measures already in place in selected situations more broadly. For example, equating a lack of response after a fixed period to a positive response.

Table 5: Impact Assessment Table, Economy-Wide Policies, cont'd

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
Incorporation of Private Sector Firms	Various Ministries, Capital Markets Authority	0	0	0	0	The law does not seem to either favor or discriminate against the formation of agribusiness firms. However, it is not clear how restrictive the law's stipulations concerning labor might be. They could serve to deter potential investors, whose projects—especially in the start-up phase—required a higher percentage of more expensive expatriates. Besides slowing job creation throughout the economy, including agribusiness, this policy might also serve to slow the adaptation of new technologies.	None.

Table 5: Impact Assessment Table, Economy-Wide Policies, cont'd

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
LABOR & HUMAN CAPITAL POLICIES, ECONOMY-WIDE							
Labor Policy, including Guaranteed Government Employment for Graduates and Restrictions on Firing Employees	Ministry of Manpower	-2	-2	-2	0	Egypt's job security policy has resulted in increased risk and reduced investment and employment in the private sector. Labor regulations make it difficult for private sector firms to lay off workers during periods when operations must be reduced (e.g., during recessions) or for new technologies to be introduced to maintain competitiveness. Government offices, public enterprises, and authorities are overstaffed, with decreasing labor productivity, and consequently, a low rate of economic growth. The conditions of public employment often set the tone for private employment as well, putting a further damper on productivity and economic growth.	The government monopoly on job placement through the Ministry of Manpower and its placement service should be eliminated. Over the medium term, private firms should be permitted to lay off workers after just compensation, and dismiss them in violation of disciplinary rules. Labor regulations should do away with the discretionary power of the Stoppage Committee in cases of closure. Labor market information (job openings, available workers) should be collected and publicized to increase the efficiency of the market.
Higher Education Policy	Ministry of Education	-2	-2	-2	-2	The admissions component of the higher educational system in Egypt has built-in reinforcements of long- and widely-held social preferences. These put agriculture and business lower down the social and educational ladder than law, medicine, and engineering. While bright students are not forbidden from choosing the former fields, the system ensures that few of them wind up there. This is a serious problem for agriculture and agribusiness. Many of those interviewed complained of both the quality of agricultural graduates and their lack of hands-on and relevant experience.	The Government should abolish the existing preference system, as it does not serve national needs for educated individuals. A new system should be established that includes no bias toward any field of study. In a market-based economy, the supply of and demand for educated persons will determine rewards for pursuing different careers. If the Government feels that certain careers are for some reason in its strategic interest to encourage, it can do so with special scholarships or by paying such individuals high salaries.

Table 5: Impact Assessment Table, Economy-Wide Policies, cont'd

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
OTHER FACTORS & SERVICES POLICIES, ECONOMY-WIDE							
Regulation and Roles of Private and Public Sectors in Investment in Infrastructure	Ministry of Planning, Ministry of Economy	-1	-1	-1	-1	Investments in transport and communications and other supporting activities (like transport services) facilitate agribusiness production and trade and thereby promote increased employment and transfer of technology. These investments are part of a conducive atmosphere for complementary private sector investment. Some of the private investment can be in transport or communications equipment or facilities. Because the Government has restricted such investments to the public sector, it has spread its own investments thinner than necessary and failed to tap additional sources of capital and the entrepreneurship of the private sector. Thus the infrastructure-related services currently available to the private sector are less adequate than they might have been.	Some examples of possible private sector involvement in the area of infrastructure include: 1) The new state-of-the-art container terminal being constructed at El Dikheila (just west of Alexandria), 2) Contracting for road construction, 3) Provision of (all) trucking services, and 4) Provision of loading/unloading and related services in existing ports. Another general area where the private sector could be involved is in the field of communications. Finally, the Government should make it easier for the private sector to make investments to provide air cargo services.
Availability of and Access to Transport Facilities	Roads: RBA, MDHPU (New Communities and local), Governorates (local); Ports: MMT, plus port authorities; Air cargo: MCA	+1	+1	+1	0	Given the expenditures that have been made, the extent of the road network and ports is satisfactory. Road construction standards are also adequate. In the road system, maintenance is the main problem. On the other hand, port infrastructure is sometimes poor, there is a lack of bulk handling facilities, and railway facilities are also poor. The main cause of postharvest losses to fresh produce in Egypt is mechanical damage. This is due to both the poor condition of roads and poor packing materials.	The Government should consider modifying the rules on the use of maintenance funds. It might also attempt to select areas for maintenance with particular purposes in mind, for example, to better support the less damaging transport of horticultural and other products. It would be a service to the economy if a way could be found to enforce truck weight limits without merely creating more rents for the enforcing officials. The Government should allow exporters to use any airline for air cargo shipments.

-2 = highly unfavorable, - 1= unfavorable, 0 = neutral, +1 = favorable, +2 = highly favorable

Table 6: Impact Assessment Table, Agriculture/Agribusiness Policies

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
FISCAL POLICIES, AGRICULTURE & AGRIBUSINESS							
None.							
MONETARY POLICIES, AGRICULTURE & AGRIBUSINESS							
Transforming PBDAC from an Input Delivery and Output Marketing Parastatal to a Commercial and Development Bank	Principal Bank for Development and Agricultural Credit (PBDAC)	+2	+2	+2	+2	Current policy reforms are transforming PBDAC from a monopolistic supplier of important agricultural inputs, including credit, at subsidized prices and a monopsonistic buyer of agricultural produce at fixed prices to a full-service financial institution serving the rural community. PBDAC has phased out its in-kind lending and now focuses on "seasonal" and "investment loans." Short-term investment loans "meet the operating cost of poultry projects, animal production projects, agricultural marketing and food processing projects and agro-business projects." Medium-term loans can be as long as five years. They finance agricultural production projects or farm-related business. For these loans, the "financial asset (or project) is usually considered as the loan guarantee." Long-term loans can extend from 5 to 15 years. The overall impact of changes in PBDAC's operations has had a very favorable impact on agribusiness. As of mid-1992, "farm-related business" loans of almost LE 577 million (approximately US$ 173 million) accounted for approximately 23 percent of PBDAC's outstanding investment loans. Overall, the impact of recent policy changes affecting PBDAC is to increase the flow of debt capital to the agriculture and agribusiness sectors.	This is a sound policy that should serve the interests of Egyptian agribusiness over the long term. However, PBDAC should stop subsidizing loans of any kind, including its current loans for land reclamation and irrigation systems.

Table 6: Impact Assessment Table, Agriculture/Agribusiness Policies, cont'd

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
TRADE & PRICING POLICIES, AGRICULTURE & AGRIBUSINESS							
Liberalization of International Trade in Agricultural Products	Ministry of the Economy and Foreign Trade	+2	+2	+2	+1	The Government has taken bold steps to liberalize both macroeconomic and agricultural policies, and the private sector has sought out and experimented with new technologies, including those from abroad. Allowing the private sector to export citrus has led to increased investment in packing stations, more employment, and more modern facilities. In addition, many warehouses have been built by the private sector to handle wheat and flour imports. Importing and producing vegetable oil is now an important activity of the private sector.	The positions of those in the Government who are sympathetic to market-based solutions to economic development need to be bolstered. This might be through the provision of information, analysis, or other more general resources to encourage discussion and implementation of the appropriate roles of the Government and the private sector under the new paradigm. The minor impediments to trade that remain, like those on imports of some agricultural machinery, should be removed.

Table 6: Impact Assessment Table, Agriculture/Agribusiness Policies, cont'd

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
Liberalization of Agricultural Product Pricing	Producer Prices: Cooperative Societies, PBDAC; Consumer Prices: Consumer Cooperative Societies	+2	+2	+2	+2	In the new liberalized environment, farmers are likely to follow market signals that will lead them toward production of commodities in which Egypt has a comparative advantage. Certain shifts in production patterns have already occurred as a result of price liberalization. Farmers increased the area of wheat and rice significantly, while reducing that of potatoes and cotton since 1987, while the yield of nearly all crops increased. Increased production should lead to increased revenues and profits for traders and other agribusinesses. Consumer subsidies led to substantial corruption in retail markets. It is likely that the cheapest commodities were not reaching their intended targets, the poorest consumers. If so, then removal of the subsidies will cause a hardship to only a small number of poor people. After removal of these distortions, agribusinesses that process and trade meat, sugar, and poultry have clearer incentives to produce optimal amounts and higher-quality products.	Floor prices for strategic crops might also be continued along with market prices during transition periods. The government should declare floor prices for specific crops well before planting, based on market analyses. Consumer prices should remain unsubsidized, except in the case of carefully targeted subsidies for which a need can be shown and the incidence of which is carefully monitored.

Table 6: Impact Assessment Table, Agriculture/Agribusiness Policies, cont'd

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
Liberalization of Agricultural Input Pricing	Land Rent: MALR Purchased Crop Inputs: PBDAC (mostly free-market)	+1	+1	+1	0	Removing subsidies was a necessary step in the process of transferring fertilizer and other input marketing to the private sector. Significant numbers of private firms have begun to handle fertilizer, thus increasing private investment and employment. With the elimination of subsidies, farmers have apparently stopped using excess fertilizer. Moreover, despite the removal of subsidies on both credit and fertilizer, yields of nearly all crops have increased in the aftermath of the policy reforms. With the removal of feed subsidies, open competition has pushed feed prices up to or near the world level. Higher feed costs have been passed on to consumers, resulting in lower demand for animal products and feed. There is currently overcapacity in the feed milling industry, so new investment is not likely. Because official land rents are still below rents set by the market, the impact of the new policy during the transitional period (until the year 1996/97) is not likely to be very significant. That impact will manifest itself fully only after market forces determine all rents. As rents go up, one expects tenants and farmers in general to use land more efficiently.	With the marked reduction in implicit taxation of agriculture through the price mechanism, consideration should be given to bringing farmers owning less than 3 feddans (exempted now from land tax) within the purview of the land tax system. Raising the land tax should also be considered. To encourage maximum flexibility in the feed milling industry, the Government should remove the required approval for new feed formulations, or institute a program of "fast-track" approval.

Table 6: Impact Assessment Table, Agriculture/Agribusiness Policies, cont'd

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
REGULATORY POLICIES, AGRICULTURE & AGRIBUSINESS							
Liberalizing Crop Production and Marketing Regulations	Ministry of Agriculture and Land Reclamation	+1	+2	+1	+1	These reforms have created increased opportunities for agribusinesses engaged in production, processing, and marketing. Farmers are no longer compelled to make delivery to state-owned firms, making more crop available to private traders and processors. In the rice sector, the quantity of paddy procured by the Rice Holding Company for public milling has declined dramatically from 52 percent of total rice production in 1979/80 to only 9 percent during the 1993/94 crop year. In the wheat subsector, liberalization has increased the volume going to an estimated 3,700 small mills. Further downstream, 85 percent of the country's bakeries are private. As competition increases, the scale at which a miller has to operate is likely to increase. This will put pressure on smaller operations.	None. The reforms should continue with the implementation of the reforms of the cotton sector. The sugarcane subsector is likely to remain closed as long as the sugar refineries remain under public sector control.
Food Safety and Consumer Protection; Protect Agriculture from Pests, Contamination	Atomic Energy Authority; General Organization for Export and Import Control (GOEIC); Ministry of Agriculture and Land Reclamation,; and Ministry of Health	-1	-1	-1	0	The major impact of these policies, especially as they are currently being implemented, is to cause confusion and uncertainty among agribusiness firms in Egypt. There is no evidence to suggest that the controls and regulations on exports serve to make Egyptian products more competitive on world markets.	There is a need for two separate and distinct sets of policies, one covering the broad issue of food safety and consumer protection and the second directed to enhancing the competitiveness of Egyptian agricultural and food products in international trade. For example, there is probably need for a program that will help agricultural and agribusiness exporters meet the ISO 9000 standards.

Table 6: Impact Assessment Table, Agriculture/Agribusiness Policies, cont'd

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
Liberalizing the Production and Marketing of Agricultural Inputs	Various Departments within the MALR	+1	+1	+1	+1	The net effect of these policy changes has been to encourage and promote private sector investment in agribusiness. Seeds: The private sector is entirely responsible for the supply of vegetable, hybrid and forage crop seeds. There are currently ten (10) companies actively involved in the marketing and production of these products. Fertilizer, pesticides and agricultural chemicals: Policy changes clearly have stimulated private sector investment and activity in this subsector. Animal feeds: The private sector should be able to operate successfully and profitably here. Machinery and equipment: The current policies continue to provide limited protection for Egyptian agricultural machinery and equipment manufacturers, including the Ministry of Military Production.	These policies are generally sound and have the agribusiness sector moving in the right direction. There is room, however, for some incremental changes and improvements. For example, the Government should review the licensing requirements for fertilizer distributors, especially the one requiring membership in the Association of Agricultural Engineers. Unless it can articulate a clear purpose for this requirement, it should be dropped.

Table 6: Impact Assessment Table, Agriculture/Agribusiness Policies, cont'd

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
Geographic Rationing of Water and On-Farm Water Use	Ministry of Agriculture and Land Reclamation	-1	-1	-1	-2	The current policy has long-term, negative implications for agribusiness. It encourages the production of some crops, in particular rice and sugarcane, at the expense of those for which Egypt may have more competitive advantage, especially horticultural crops. The World Bank estimates that the value added from a cubic meter of water applied to tomato production is eight times that of a cubic meter used to irrigate sugarcane and four times that of rice. If farmers do not grow the crops for which Egypt has the greatest comparative advantage, the firms in the industries dependent on these crops will operate less efficiently than otherwise. This policy is also likely to reduce the incentives farmers have to adapt water-saving technologies and other innovations.	There are a number of measures the Government could pursue to encourage more efficient on-farm use of the country's scarce water resources. It could: 1) Educate farmers about investing in water saving technologies like laser device for levelling the land, which will promote better distribution of water throughout their fields; 2) Educate farmers about the use of sprinkler and drip irrigation in some areas in the Old Lands that might be suitable for such systems; and 3) Promote the use of meters to measure the quantities of water used. However, short of a pricing system to reinforce these policies, they would be difficult to implement in a meaningful way.
LABOR & HUMAN CAPITAL POLICIES, AGRICULTURE & AGRIBUSINESS							
None.							
OTHER FACTORS & SERVICES POLICIES, AGRICULTURE & AGRIBUSINESS							
Provision of Economic Information on Agricultural Production and Marketing	Ministry of Foreign Affairs/TRO, Ministry of the Economy and Foreign Trade/ EEPC, Ministry of Agriculture and Land Reclamation/AERI	-1	-1	-1	-1	The impact of the lack of production and market information is significant. The unavailability of information is an impediment to investment because the information is needed for the analysis of an investment's feasibility. Types of required information include price and quantity information on agricultural products as well as pricing and technical information on potential equipment or processes that might be used in agro-industrial or marketing enterprises.	The Government should ensure that whichever agencies are tasked with collecting and disseminating such information have adequate budget and the staff have adequate training. Two recent studies, Harrison, 1994b (pp. 78ff.) and Walters, 1993 (p. 130), make various specific recommendations about market information systems. The Government should consider these and implement the most effective system.

Table 6: Impact Assessment Table, Agriculture/Agribusiness Policies, cont'd

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
Provision of Marketplaces	Ministry of Housing and New Communities/ Governorate of Cairo	+1	0	+1	0	Merchants have bought up all the space in the new Al Obour wholesale market. This is likely to improve competition in these markets. To the extent that this marketplace can handle more produce or handle it with lower losses, there will be increases in the incomes of traders and greater employment. The functioning of the fruit and vegetable markets will be less than fully efficient, however, because of the administrative restrictions that apply to the marketplace. This will be particularly true for highly perishable commodities for export, like green beans.	The Government should seriously consider requests to operate a refrigerated facility in Al Obour. This might be feasible for the accumulation of pre-packed, pre-cooled produce for export. Thus the Government should leave the space that is set aside for exporters and processors free until an interested party makes a request to use it. The Government should also ensure that the electricity supply to the marketplace is adequate to support refrigeration equipment.
Agricultural Land Use	Ministry of Agriculture and Land Reclamation	Fallow, bricks: +1 Grad.'s: 0 New Lands: +2	Fallow, bricks: +1 Grad.'s: 0 New Lands: +2	Fallow, bricks: +1 Grad.'s: 0 New Lands: +2	Fallow, bricks: +1 Grad.'s: -1 New Lands: +2	Prohibition of fallow has led to higher land productivity, higher farm income, and an incentive for some farmers to move or to purchase new (including desert) land where building is not prohibited. The prohibition on the use of topsoil for making bricks has conserved soil fertility, thereby also contributing to the attainment of higher crop yields. The area reclaimed for graduates is not producing to its full potential. Most graduates do not have sufficient agricultural knowledge, training, or experience to run their farms efficiently. The Government's reclamation program and income tax incentives attracted a substantial amount of investment by the private sector in the New Lands. This introduced many modern techniques in agriculture and irrigation which contributed to increased productivity, income, and local employment. Agricultural exports grew rapidly based on production from these and other areas.	Because many graduates are not well trained for agricultural production, a rigorous and practical training program should be developed. It could be offered both for university and technical students as well as for those who have already graduated. The problems of current graduates could be used as the basis for developing the course. The Government should make widely available cost/benefit data like those in the New Lands Development Study. This will support the establishment of both efficient farms and supporting agribusinesses and agro-industries. The Government should also reexamine its infrastructure policies and implementation for the New Lands to ensure that adequate irrigation, electricity, roads, and markets are established to facilitate the efficient production and marketing of agricultural products.

Table 6: Impact Assessment Table, Agriculture/Agribusiness Policies, cont'd

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
Agricultural Research and Extension	Ministry of Agriculture and Land Reclamation	+1	+1	+1	+2	Great gains in productivity have been made in many crops since the early 1980s. This is attributed both to the research effort and to the liberalization of agricultural prices that occurred in the mid-1980s. Yields of many crops moved higher from already high levels. 31 of 32 crops in Egypt had yields higher than the world average, one was highest in the world, and several were second or third. Yields of animal products increased more slowly. The research and extension system has been focused on helping the farmer, with less attention to upstream and downstream problems that are important to agribusiness.	The evaluation of NARP makes many specific recommendations, including a "check-off," which would raise funds for research by attaching a very small tax to agricultural inputs or outputs, with an earmark for their expenditure. This study makes two additional recommendations: 1) Farmers should somehow have greater representation on the RRECs, which include only two representatives from the private sector, all the rest being civil servants. 2) The People's Assembly should pass a new seed law. If the private sector is to get involved in seed production, it must have certain protection and proprietary rights under the law.

-2 = highly unfavorable, - 1= unfavorable, 0 = neutral, +1 = favorable, +2 = highly favorable

Table 7: Impact Assessment Table, Vegetable Crops Policies

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
FISCAL POLICIES, VEGETABLE CROPS							
None.							
MONETARY POLICIES, VEGETABLE CROPS							
None.							
TRADE & PRICING POLICIES, VEGETABLE CROPS							
Potato Seed Policy, including Import Restrictions	Ministry of Agriculture and Land Reclamation	+1	+1	+1	+1	Licensing of the private sector to import seed potatoes accelerated investment. Private sector companies now work with tissue culture and rapid multiplication facilities, contributing to the dissemination of these techniques. Potato processors have imported their own seed and have integrated the farming of potatoes in their operations.	The recent trend towards potato growing in the New Lands for export purposes may have temporarily halted the problems with brown rot in the export shipments. However, MALR will need to consider programs to keep uncertified potato seed from being transferred and grown in these new desert lands. Otherwise in a few years, the problem will surface again. Egypt may be in a very favorable position to supply its own certified young F generation seed potatoes. The country could establish a "world class" certified seed potato export business, supplying southern hemisphere countries with young "F" generation seed potatoes. MALR should consider establishing isolated certified seed potato growing areas with strict monitoring of the certified seed potato production.

Table 7: Impact Assessment Table, Vegetable Crops Policies, cont'd

Policy	Implementing Institution	Impact Assessment				Policy Impact	Principal Alternatives Suggested
		Employment	Trade	Investment	Technology Transfer		
Removal of Wholesale and Retail Price Controls on Vegetables	Ministry of Supply	0	0	0	0	The informal price agreement between MOS and wholesalers has not succeeded in keeping prices down, except during peak seasonal periods when there is abundant supply. In other periods, market forces play their role in determining prices. Retailers sorted and graded the product to achieve better quality and got higher prices. Lower-quality products sold at lower prices without any government intervention.	The price-setting committee should be abolished. The MOS should be re-tasked to perform activities like emergency food stockpiling and distribution, not the administration of prices or the normal supply of foodstuffs.
REGULATORY POLICIES, VEGETABLE CROPS							
None.							
LABOR & HUMAN CAPITAL POLICIES, VEGETABLE CROPS							
None.							
OTHER FACTORS & SERVICES POLICIES, VEGETABLE CROPS							
None.							

-2 = highly unfavorable, - 1= unfavorable, 0 = neutral, +1 = favorable, +2 = highly favorable

6. POLICY INTERACTIONS

To this point key macroeconomic and agricultural policies and their impacts have been discussed individually. To understand fully their impacts on agribusiness in Egypt and the chosen impact variables in particular, one needs to consider these policies together and examine their interactions. Many of the policies that have a strong favorable or unfavorable impact on one impact variable have that same strong impact on all four impact variables (employment, trade, investment, and technology transfer). For this reason, the discussion first considers the interactions of those common policies. Then the differences among the interactions are discussed for each impact variable.

6.1 Policy Interactions Common to All Impact Variables

The following policies in Egypt are now very favorable to agribusiness firms' creating more employment, increasing trade, investing, and acquiring new technology:

- Unification and liberalization of the exchange rate and liberalization of access to foreign exchange
- Liberalization of agricultural product pricing
- Replacement of most investment licensing with registration
- Transformation of PBDAC from a parastatal input delivery and output marketing organization into a commercial and development bank
- Liberalization of international trade in agricultural products
- Tax incentives for investment in the New Lands and New Cities

The following policies are currently very unfavorable toward the four impact variables:

- Labor policy, especially restrictions on hiring and firing employees (and the residual impact of previously guaranteed government employment for graduates)
- Higher education policy

A key policy that could be having a major impact on the entire economy but is not is privatization.

Key changes in the exchange rate regime include the elimination of multiple rates, the elimination of overvaluation, provision to firms and individuals of easy access to foreign

exchange, and allowing easy repatriation of foreign exchange earned in Egypt. The net effect of these changes is to open the economy and facilitate trade at appropriate, often competitive, prices. With the rationalization of the exchange rate and domestic interest rates, there is no longer a significant bias in favor of capital over labor.

The liberalization of agricultural trade in this more open context has created many opportunities for importers and exporters to take over in areas where the Government had reserved monopolies for its trading organizations. The remaining limitations on such trade are in the process of being removed. Duties are being reduced and are generally low on agricultural products. The openness to trade manifested by the new exchange rate regime and the liberalization of agricultural imports and exports (and accession to the new GATT agreement) also results in faster inward transfer of new technologies for production, handling, and processing. One of the subsectors that responded fastest to the opportunities for agricultural exports is fruits and vegetables, where many jobs have been created.

The recent bold reforms in domestic agricultural prices have rationalized prices for most agricultural products sold domestically or exported. The reforms eliminated considerable implicit taxation of producers. Now proper investment and production signals (market prices) are sent to farmers and others in the food and fiber system. When combined with the elimination of crop delivery quotas, this means that farmers are free to choose their output mix and technology based on market-determined prices.

PBDAC was the Government's main instrument of intervention in the agricultural sector under the old set of policies that attempted to dictate to farmers which crops to grow, how to grow them, and where to deliver the output. With the shift to a premier rural banking institution, PBDAC will meet an important need of farmers, leaving operations like fertilizer marketing to the private sector. Substantial investment has occurred in these areas, bringing with it new employment as well. At the same time, substantial subsidies on agricultural inputs have been removed, again correcting distorted price signals and leading to use of appropriate amounts of fertilizer and other inputs. By relieving the Government of the fiscal burden it bore, this reform frees up investment capital that the Government can use in human or physical capital formation.

The shift from investment licensing to registration in most cases means that potential investors in agribusiness are not hampered by required approvals. With reasonable exceptions, investors are free to make their investments in whatever field and whatever location they desire. Income tax incentives for investment in the New Lands and New Cities have had a dramatic effect on land use in Egypt, particularly for modern agricultural production, and on the establishment of food processing operations in the New Cities. The scarcity of irrigation water made land reclamation a key objective. Concentration of population and economic activity in the Cairo area made diffusion to new areas another important goal. Protected agriculture[40] uses

[40]Cultivation under plastic "greenhouses."

substantial amounts of both labor and capital, and the most modern types of technology are often employed. Investors in the New Lands tend to be sensitive to the demands of the market, so they are often involved in exporting their produce. Firms that depend on the transport system to move their perishable or fragile produce to market in Egypt or abroad find a reasonable network of roads and ports to support them.

On the other hand, many private firms are constrained by the impacts of the labor and educational policies that the Government has pursued. Firms that try to capitalize on opportunities in the new market-based economy find that there is still significant government interference in hiring and firing, and that it is difficult to find qualified agricultural and business graduates.

Severe restrictions on hiring and firing employees are a very substantial damper on investment. The obligations to employees created by existing laws and especially their interpretation by courts are onerous. The policy is counterproductive: protection of workers' rights is undoubtedly the objective of the laws, but in the end, unemployment and disguised unemployment (much of it in the Government due to previously guaranteed employment of graduates) have been the result. These restrictions apply both in hiring employees, which has a direct impact on investment, and on firing employees, which limits the ability of firms to exit from certain types of production and to acquire new technology. Decreased labor mobility may also induce firms to invest more heavily than otherwise in more capital-intensive technology, which is socially inappropriate given the large supply of labor in the country. The creation of new trading firms, which are often labor-intensive, is also hampered by existing labor regulations. The existence of many redundant employees in the Government affects labor discipline in the private sector as well. Another impediment to investment is the lack of those kinds of information that are needed for analysis of the feasibility of an investment. These include price and quantity information on agricultural products as well as pricing and technical information on potential equipment or processes that might be used in agro-industrial or marketing enterprises.

The system in place for channeling high school graduates to colleges and universities exerts a considerable bias toward law, medicine, and engineering. Fields like agriculture and business are unlikely to receive top-notch graduates. This affects both enterprises engaged in modern agricultural production and new businesses, e.g., in agro-industry, requiring graduates with expertise in areas like feasibility analysis and management. Neither can easily find Egyptian graduates with current knowledge and practical experience.

The Government has announced a major sell-off of its assets, but in agribusiness only the former Coca-Cola and Pepsi-Cola enterprises have been privatized. Nearly all public companies have been brought under stricter financial discipline and reorganized under law 203. With so much at stake, it is not surprising that the Government is moving with what some say is understandable caution and others say is undue slowness. There are at least three major kinds of impact of gradual implementation of privatization. One is the negative impact on the firms not privatized: their lower efficiency and profitability, higher level of disguised unemployment,

and more limited use of modern technology. Firms that compete with previously subsidized public companies, on the other hand, are likely to experience a positive effect. The third impact is that of perceived delays on other potential investors. If they believe that the Government is not serious about privatization, they are likely to delay their investments as well, partly for fear that preferential treatment for public companies and unfair competition might return.

6.2 Other Policy Interactions Affecting Employment

The set of policy interactions described above are the main ones that affect agribusiness employment. In addition, it is worth pointing out that another set of fundamental prices that are in the process of being rationalized are energy prices. They have increased greatly because they had been seriously distorted. Cheap electricity and petroleum products undoubtedly led to more capital-intensive investments than otherwise would have been the case. Thus the raising of these prices should lead to a more appropriate balance in the use of labor and capital, with the potential for many more jobs to be created.

6.3 Other Policy Interactions Affecting Trade

In addition to those impacts mentioned above, agricultural trade has been given a major impetus by the liberalization of crop production and marketing regulations. With the lifting of delivery quotas and acreage controls, farmers are free to sell to whom they choose. The export marketing system has been responding to these new opportunities, although considerable development remains for many commodities. One specific market that has been opened considerably is in potatoes and seed potatoes. High-quality seed potatoes are now being exported by several private companies, and the output from some of these seeds become potato exports. Timely, reliable, and appropriate international market information has constrained agricultural exports. The Trade Representation Office is now establishing a new international trade information system, which will maintain access to international trade information centers like the Market News Service for horticultural products of the International Trade Center. An impediment to agricultural imports has been the numerous inspections that delay shipments and cause importers to carry larger inventories.

6.4 Other Policy Interactions Affecting Investment

Investment, like employment, is affected mainly by the policies described in the first section of this chapter. In addition, the liberalization of energy prices mentioned above has a depressing effect on investment, i.e., the amount of capital put into service. This may be part of what appears to be a hesitancy on the part of the private sector to respond to the overall macroeconomic and specific agricultural incentives that the new policy regime has provided. In fact, this slower pace of capital formation could be consistent with significant job creation were it not for the restrictive labor policies currently being enforced.

6.5 Other Policy Interactions Affecting Technology Transfer

In many ways, the policies influencing technology transfer interact differently than those affecting the other impact variables. Law 230, which includes income tax incentives that have had a strong effect on investment, employment, and trade, also contains local content provisions that result in a less significant impact on technology transfer. Liberalization of the exchange rate and agricultural trade by themselves also have a smaller effect on technology transfer, but in combination with policies like registration of investment (in lieu of licensing) and high-quality agricultural research, the impact should be substantial.

Labor laws have offsetting impacts on technology transfer. Restrictions on both hiring and firing employees limit the total amount of technology-embodying investment, the former in new projects and the latter in retooling. At the same time, the disincentives to hiring new labor may also lead companies to invest in more capital-intensive technology, which is also likely to be new.

Another major obstacle to technology transfer in agriculture is the water rationing and pricing system. This system supports the cultivation of significant amounts of rice and sugarcane, crops that consume disproportionately large amounts of water. If water were valued at its shadow price or rationed with the same effect, many less water-consuming crops would be planted on this rice and sugarcane land. The lack of change in the water system retards the inflow of new technologies that could better make use of Egypt's limited supply of irrigation water.

Finally, one of the most important factors in the technology area is research and extension. Superior research activities in combination with agricultural price liberalization have led to continued increases in agricultural yields from already high levels. Research has been oriented to agricultural production. Much of the technology developed is embodied in seeds, which do not necessarily generate investment by farmers, but some seed companies are beginning production.

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APPENDIX A: LAWS AND DECREES: THEIR ISSUANCE AND RELATIONSHIPS

1. Laws

According to the constitution, there are two procedures or ways by which a law is enacted, as follows:

1.1 Presidential Decrees that have the Force of Law

Regulations. The President of the Republic shall issue the necessary regulations for the implementation of the laws, in a manner that would not modify, obstruct or exempt them from execution. He will have the right to vest others with authority to issue such regulations. The law may also determine who can issue decrees that make regulations.

During Recess of People's Assembly. In case it becomes necessary, during the recess (between the sessions) of the people's assembly, to take measures which cannot suffer delay, the President of the Republic shall issue decisions in their respect which shall have the force of law. Such decisions must be submitted to the Peoples' Assembly within fifteen days from their date of issuance if the Assembly is standing.

In case of dissolution or recess of the said assembly, they shall be submitted at its first meeting.

In case of non-submission, then their force of law disappears with retroactive effect, without a need to issue a decision to this effect.

State of Emergency. The President of the Republic has the right to proclaim a state of emergency in the manner prescribed by law. Such proclamation must be submitted to the Peoples' Assembly within the subsequent 15 days in order for the Assembly to take a decision thereon.

The proclamation of the state of emergency shall be for a limited period, which extension shall only be by the Peoples' Assembly's approval.

Courtesy Delegation. At the beginning of the People's Assembly session, the Assembly may delegate the President to issue decrees with the force of laws. This is a courtesy; it does not convey any special powers.

New Permanent Laws. The President cannot make new permanent laws.

1.2 Laws That Are Issued By The People's Assembly

Right to Propose Laws. According to the constitution, the President of the Republic and every member of the Peoples' Assembly shall have the right to propose laws.

Enactment of laws. The following are the procedures by which a draft proposal becomes a law:

- Every draft of law shall be referred to a committee of the Assembly; and
- The committee will do a study on the said draft, then submit a report concerning it.
- The said drafts will not be referred to the aforementioned committee unless first referred to a special committee to study and give an opinion on the suitability of their consideration by the Assembly and after the Assembly decides to consider them.
- If a law is proposed by a member and rejected by the Assembly, the said law cannot be presented again in the course of the same session.
- If the President of the Republic objects to a draft law ratified by the People's Assembly, he has 30 days to refer it back to the Assembly with his objections or comments for ratification.
- If the President has not submitted a draft to the Assembly at the end of the aforementioned period, then the draft becomes law and shall be promulgated.
- If the President objects to the said draft, then a majority of two-thirds vote of members will approve the draft and it becomes a law.

2. Decrees

2.1 Presidential Decrees

Presidential Decrees have the force of law. These decrees are submitted to the Peoples' Assembly for information. A Presidential Decree can be altered or revoked only by a Presidential Decree revoking the said decree.

2.2 Prime Ministerial Decrees

Prime Ministerial decrees are issued by the Prime Minister and are submitted to the Peoples' Assembly for information.

2.3 Ministerial Decrees

Decrees or decisions are issued by various ministers in the framework of the state's general policy. The minister shall undertake its implementation.

2.4 Relationship among Decrees

The above decrees are in order of force and application. A Presidential Decree is the most powerful one, and it is applicable in all sectors. A Prime Ministerial Decree can serve one or more sectors. A Ministerial Decree covers the sector that is served by the issuing ministry.

2.5 Purpose and Validity of Decrees

Decrees may be for any matter which will be for the benefit of the public, including the alteration of articles in existing laws and the appointment of officials. The validity of a decree depends on the issuance of a new decree or decision nullifying the existing one, so long as the new decree is from the same or higher level. If not nullified, decrees remain valid indefinitely.

APPENDIX B: PERSONS CONTACTED

Individual	Title	Organization	Location
Riad Zaki Abdin	General Manager	Abdin Import & Export International Transport	5 Tahssin Farghally, 1st Zone, Nasr City
Abdel Aziz Mohamed	President	Africa Import & Export	Alexandria
Hany K. Abdel Nour	Managing Director	AGROTECH Modern Agriculture Company	43, Mohammed Mazhar Street Zamalek, Cairo
Mr. Hussein El Aguizy	President	Hussein El Aguizy Industries.	Monofia governorate - Sadat city
Mr. Essam El-Haiwan	Financial Manager and owner	Alpha International (Rodagreen)	Cairo
Ahmed Y. El Nawawi	Chairman	Ayona Trade Co.	421 Ramsis Street Cairo
Wafeek Yousri	General Manager	Bisky Universal Foods	113 El Thawra St., Heliopolis, Cairo
Captain: Yeahia Khalil	General Manager	Best Marine	Port-Said, 6 El Gabarti St.
Eng. Mohamed Adris	President	Central Agricultural Cooperative Union	Cairo
Safwat Habib; Mohammed Adel El Ghandour	President; Director of Agriculture	CENTECH	6, Zakaria Rizk Street Zamalek, Cairo

APPENDIX B: PERSONS CONTACTED, cont'd

Individual	Title	Organization	Location
Eng. Ali Gad El-Hak	Agricultural Engineer	National Damietta Vegetables and Fruit Products	Damietta
Eng. Farouk Afifi	Chairman of the company	ECASD	Giza
Engineer Abdel Sattar Soliman	General Manager	Food Industries Holding Company	Cairo
Abdel Rahman Ali	Deputy, General Manager	Food Marketing Enterprises	15 Saleh Harb St., Nasr city
Mohamed Ahmed Shaker	Manager, (Owner's son)	Green Way	78 Osman Ibn Affan St., Heliopolis
Mostafa Abd El-Moshen	Managing Director	Giza Seeds & Herbs, S.A.E	Factory: 6th October City
Madgy Mahmoud Hussein	General Manager	Interfood	Port-Said, Public Free Zone
El Sayed El Naggar	President	El Marwa for Export & Manufacturing, Agricultural crops	16 El Borsa El Kadima, Alexandria
Maged Nazmi Zaki	General Manager	Milky Land	10th of Ramadan, Sharkeya
Mohamed Kamel Zeinah	Production General Manager	National Trade & Agro-Industry	Ismailia
Morad S. Ahmed	Director General	Norwegian Trade Center	278 Corniche Ave., Stanley
Tarek Mekheimer	Vice President, Board of Directors	Orania Farm	101 Abdel-Moneim Riad St., Mohandessin, Cairo

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APPENDIX B: PERSONS CONTACTED, cont'd

Individual	Title	Organization	Location
Eng. Mahmoud Noor	Counselor (Senior Advisor, formerly Deputy President	PBDAC	Cairo
Sarwat Mustafa Hamdan	General Manager	Port-Said Agricultural Projects & Greenhouses	Port-Said, 4-A Building, Mubarakarea
Hamed A. El Shiaty	Chairman	Shoura Co.	42 Aden Street Mohandeseen
Tarek Mohamed.	Accountant	Sweefax for Chocolate	10th of Ramadan, Sharkeya
Tawfik Hafez	President	Osiris Travel Agency (franchisee for TCBY)	P.O. Box 119 Mohandissen, Cairo
Mahmoud Abboud Mohamed.	General Manager.	Trans Africa.	Port Said, public free zone
Samia A. El-Said	General Manager	Venus Air Cargo	@ Egyptian Produce Center Sadat City
Mark Gellerson	Economist	USAID	USAID
Larry Brown	Finance and Investment Director	USAID	USAID
Dr. Saad Nassar	Ministry Advisor	Ministry of Agriculture and Land Reclamation	Cairo
Ron Verdonk	Agricultural Attache	US Embassy	Embassy

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AGRICULTURAL POLICY ANALYSIS PROJECT, PHASE III

Under contract to the Agency for International Development, Bureau for Global Programs, Field Support & Research,
Economic Growth Directorate, Office of Agriculture & Food Security
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POLICIES AFFECTING AGRIBUSINESS IN EGYPT: A COMPREHENSIVE ASSESSMENT USING THE AGRIBUSINESS POLICY INVENTORY METHOD

Volume II: Synthesis

FEBRUARY, 1995

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Research Report
No. 1002

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EXECUTIVE SUMMARY

Macroeconomic, agricultural, and other specific policies affect agribusinesses directly. To develop a comprehensive picture of the current policy environment for agribusiness in Egypt, an APAP III team conducted an assessment, using the agribusiness policy inventory method. The inventory method organizes complex information about policies, highlighting interactions, inconsistencies, and areas requiring further research. It provides guidance for policy dialogue and reform, and aids in the development of a strategy to promote agribusiness.

At the request of the GOE and USAID/Cairo, the team focused on the impacts in four areas: employment in agribusiness, trade by agribusinesses, investment in agribusiness, and technology transfer into agribusiness production and marketing processes. The team was also asked to give special attention to the food processing subsector and four vegetable crops: potatoes, tomatoes, onions, and green beans.

A six-person team conducted the field work for the assessment during April-June, 1994 by reviewing and analyzing secondary materials, including laws and regulations, and interviewing agribusiness entrepreneurs and policymakers. Entrepreneurs were generally interviewed in Arabic by the Egyptian experts on the team, or in some cases in English.

The nature and impact of various policies affecting agribusinesses in Egypt are elaborated in both the main report and the synthesis. If one had to select one economic problem as being the most pressing in Egypt today, it would be employment. Figure 1 summarizes the policies that affect employment in agribusiness and shows whether they are favorable or unfavorable to the creation of additional employment. The key point that emerges from this analysis is that many important pricing reforms (including the liberalization of the exchange rate) have been made and would have a positive impact on employment were it not for other severely constraining policies like restrictions on hiring and firing (and court interpretations of employee rights) and strong biases in the university admissions system that turn the best students away from both agriculture and business. Similar charts below (Figures 2 through 7) illustrate the potential impacts of policies on agribusiness trade, investment, and technology transfer.

This study makes numerous specific policy recommendations that will foster the development of agribusiness. Overall, the most important principles for maintenance of an enabling policy environment and continued policy improvement are to:

- Maintain market-based and flexible regimes for the exchange rate and for prices in the agricultural and energy sectors.
- Maintain easy investment registration.

- Get privatization moving, especially for banks.[1]

- Adjust rules and regulations to provide more flexibility in hiring and firing of employees.

- Adjust rules and regulations to eliminate bias against agriculture and business in channeling graduates to fields of study in universities.

- Complete the freeing of the food and fiber system from government production and excessive government control over what is produced and how.

This study also recommends the following types of activities be included in an agribusiness project, if one were designed for implementation in Egypt:

- Training in loan appraisal and feasibility analysis (for bankers and businessmen).

- Training in agribusiness management.

- Improvements in the systems that collect, analyze, and disseminate price, quantity, and other relevant economic information for decision making.

- Incorporation into a project of a component that allows the Government to perceive the problems of private entrepreneurs in a confidential way. This would presumably lead to the investigation of serious rent-seeking behavior by officials and the removal of other obstacles to efficient operations.

The team also delineates potential policy reform benchmarks and areas for further research. Please see section 3.4 or the main report for the former, and the main report for the latter.

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[1]Eliminating rent control on newly constructed apartments could go a long way toward absorbing the shock to the labor market of reducing redundant employment in the Government.

Figure 1: **ECONOMY-WIDE POLICIES FAVORABLE AND UNFAVORABLE TO AGRIBUSINESS EMPLOYMENT IN EGYPT**

	Fiscal Policies		Monetary/ Financial Policies		Trade/Pricing Policies		Regulatory Policies		Labor/Human Capital Policies		Other Factors and Services Policies	
Favorable												**Favorable**
+2	Corporate taxes, Investment Incentives				Exchange Rate Liberal-ization		Investment Licensing and Registration					**+2**
+1	Fiscal Balance	Sales/ Value-Added Tax	Deregu-lation of Credit		Liberal-ization of Energy Prices	Accession to GATT Agreement of 1994	Financial Sector Regulation and Reform				Availa-bility of Transport Facilities	**+1**
0	Individual Taxation		Creating Treasury Bill Market	Develop-ment of Capital Markets	Duty Drawback System	High Council of Trade	Privatization of Agribusiness Holding Cos.	Incorpora-tion Laws				**0**
-1											Private, Public Infrastruc-ture Investment	**-1**
-2									Labor Policy	Higher Education Policy		**-2**
Unfavorable												**Unfavorable**

1. INTRODUCTION

1.1 Background

The Government of Egypt (GOE) and USAID/Cairo have cooperated to fund many subsector-specific studies of the agricultural sector. To develop a more comprehensive picture of the policy environment for agribusiness, they asked APAP III to conduct an assessment based on the agribusiness policy inventory method.[2]

USAID/Cairo has been working with the GOE on a wide range of activities related to agribusiness. These activities include agricultural and general economic policy reform, commodity production and marketing projects, privatization, development of analytical capability, investment promotion, development of capital markets, commodity imports, infrastructure construction and maintenance, and training.

Recently policy reform has been a key thrust for both the Government and USAID/ Cairo. It is important to understand the policies both promoting and hindering agribusiness before either carrying out an agribusiness project or undertaking policy reform intended to promote the development of agribusiness. While general development efforts have helped agribusiness in the past, the set of policies that affect agribusiness have generally not been examined as a group.

1.2 Justification

An agribusiness policy inventory is an important first step in organizing and understanding complex information about economic and agricultural policies and their impact on agribusiness development. Agribusiness spans agriculture and business, and commerce and industry, so many policies affect it, and the net impact is not obvious. There are several specific reasons to prepare an inventory. It

- Highlights interactions and inconsistencies among policies
- Provides guidance for policy dialogue and reform
- Aids in the development of an effective strategy for the promotion of agribusiness
- Reveals gaps in knowledge, so it is a guide for further analysis.

The most important difference between an inventory-based analysis and most others is the comprehensive approach of the inventory. It provides an overview of the entire policy

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[2]Dr. Gary Ender, team leader for the current study, developed this method during Phase II of the Agricultural Policy Analysis Project (APAP II). See Ender, 1993.

environment as it affects agribusiness. Other studies typically provide more detail on specific issues.

1.3 Objectives

The specific objectives of this study are to:

- Provide an organized inventory of policies affecting agribusiness in Egypt and, where they exist, the laws and decrees that embody them.
- Provide a preliminary assessment of the impacts of these policies on selected impact variables.
- Suggest alternatives or modifications of existing policies to improve the policy environment for agribusiness.
- Recommend further research needed to clarify policy issues before proceeding with other project or program activities.
- Provide, to the extent possible, a preliminary list of potential policy benchmarks to be incorporated into the ongoing policy reform program.
- Provide recommendations that would be useful in designing an agribusiness development project.

In addition to the components specified in the inventory method, the Mission requested that the team provide an explanation of the functioning of laws and decrees in Egypt and their interrelationships.

1.4 Impact Variables and Special Focuses

Policies that affect agribusiness can do so in a variety of ways. To assess the impacts of these policies in a meaningful way requires agreement on a set of impact variables. At the outset of this study, the GOE and USAID/Cairo specified the following impact variables:

- Employment in agribusiness
- Trade by agribusinesses
- Investment in agribusiness
- Technology transfer to agriculture and agribusiness[3]

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[3]This study generally does not focus on the agricultural production component of agribusiness (see "Definition of Agribusiness," below). The technology being transferred into production, however, often comes through the seed, fertilizer, and equipment that is sold

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There are a number of reasons for choosing these variables. Employment is perhaps the most pressing national economic problem, especially as the Government contemplates eliminating redundant public sector jobs. Under the new economic regime, trade is the prescribed route out of stagnation; it enlarges the potential customer base for agribusiness. Investment is key because it creates jobs. It also reflects the private sector's confidence in the Government's policies over the long term. Technology transfer is critical to boost productivity. This is a key question in agriculture because irrigated and irrigable land is scarce. Finally, investment—e.g., in agro-industry—and the technology transfer that may be embodied in it are together a reflection of whether the economy is truly open to the kinds of new ideas it needs to keep growing and to provide a better standard of living to all its citizens.

The inventory method can also be customized with regard to its commodity coverage. In addition to providing a broad focus, it can give additional attention to certain commodity subsectors. For this study, these areas where chosen for concentration:

- Food processing, and
- Potatoes, onions, tomatoes, and green beans.

1.5 Organization of the Report

This is volume II of a two-volume study on policies affecting agribusiness in Egypt. This volume is an extended executive summary of the main report (volume I). The contents of volume I are as follows:

- Description of the General Economic Setting
- Overview of Agribusiness Performance
- Policy Analyses
- Preliminary Assessment of Policy Impacts
- Analysis of Key Policy Interactions
- References
- Laws and Decrees: Their Issuance and Relationships
- Persons Contacted

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and about which advice is given by agribusiness enterprises. Thus it is important not to exclude such transfers here.

2. SUMMARY OF POLICIES AFFECTING AGRIBUSINESS

This chapter summarizes key policies in Egypt targeted toward the entire economy, toward agriculture and agribusiness, and toward the specific vegetable crops that are the focus of this study: potatoes, onions, tomatoes, and green beans. There were no important specific policies found that target the food processing subsector (although many affect food processing). Table 1 shows the policies in a matrix, by category.

The remainder of the chapter describes the policies and their impacts on agribusiness, and especially on the impact variables chosen for this study: employment, trade, investment, and technology transfer in agribusiness.

In the table and in the text, policies are grouped by intended scope: economy-wide, agriculture/agribusiness, and vegetable crops. Under these scopes, the policies are grouped by category: fiscal, monetary/financial, trade/pricing, regulatory, labor/human capital, and other factors and services.[4]

[4]"Other Factors and Services" includes infrastructure, transportation and storage services, public goods and services, and non-mobile factors (like land).

Table 1: Policies Affecting Agribusiness in Egypt

Intended Policy Scope	Policy Type					
	Fiscal	Monetary/ Financial	Trade/ Pricing	Regulatory	Labor/ Human Capital	Other Factors and Services (See footnote)
Economy-wide	• Sales/value-added tax • Fiscal balance • Corporate taxes, Tax incentives for investment • Individual taxation	• Removal of interest rate controls and credit rationing • Creation of markets for Treasury bills and similar public debt instruments • Development of capital markets (stock & bond exchanges)	• Unification and liberalization of the exchange rate • Reform of import tariff and bans, import quality assurance • Reduction of export bans, simplification of procedures, export quality assurance • Liberalization of energy prices • Duty drawback system • Coordination of trade policy through the High Council of Trade • Accession to 1994 GATT agreement	• Privatization and the autonomy and competitiveness of public companies • Financial sector regulation and reform • Investment licensing and registration • Incorporation of private sector firms	• Labor policy, including guaranteed government employment for graduates and restrictions on firing employees • Higher education policy	• Regulation and roles of private and public sectors in investment in infrastructure • Availability of and access to transport facilities
Agriculture/Agribusiness		• Transformation of PBDAC from a parastatal input delivery and output marketing organization into a commercial/ development bank	• Liberalization of international trade in agricultural products • Liberalization of agricultural product pricing • Liberalization of agricultural input pricing	• Liberalization of crop production and marketing regulations • Food safety; protection of agriculture from pests & contamination • Liberalization of the production and marketing of agricultural inputs • Geographic rationing of water, on-farm water use		• Provision of agricultural production and marketing information • Provision of marketplaces • Agricultural land use • Agricultural research and extension
Food Processing (see footnote)						
Vegetable Crops			• Potato seed policy, including import restrictions • Removal of wholesale and retail price controls on vegetables			

Notes: "Other Factors and Services" includes infrastructure, transportation and storage services, public goods and services, and non-mobile factors (like land). There were no important specific policies found that target the food processing subsector (although many affect food processing).

2.1 Economy-Wide Policies

2.2 Fiscal Policies

Agriculture and agribusiness receive generally favorable treatment under the policy to increase Government revenues via a sales/value-added tax. The tax contributes to fiscal stability and provide the Government more resources to invest in the infrastructure needed to support agribusiness development.

Overall, improved fiscal management is likely to have a long-term positive impact on the capital market, which will benefit the entire private sector, not just agribusiness. Sales taxes, customs duties, and other indirect taxes can have an impact on the sales of agribusiness firms. However, the rates of these various taxes as applied to agribusiness firms are generally lower than those applied to firms in other industries. On the spending side, there have been few discernable negative impacts from the reductions in subsidies on fertilizer and other agricultural inputs.

The corporate tax policies in effect in Egypt neither discriminate against nor provide special benefits for agribusiness. The generous first-year depreciation allowance may serve as an incentive to import or otherwise acquire modern processing equipment and other capital goods firms need to expand their operations.

Investors have taken advantage of the generous tax breaks offered by law 230 to invest in new ventures in both agricultural production and agricultural processing and marketing. There has been substantial investment in agriculture in desert areas, which has increased the production of horticultural crops. In addition, there has been substantial investment in food processing operations in the new cities. Local content provisions in law 230 make the impact on technology transfer smaller.

Overall the impact of the recent changes in individual tax policy on agribusiness will probably be neutral to slightly positive. The Unified Tax Law favors agribusiness to the extent that it specifically exempts the profits from beekeeping indefinitely and provides ten-year exemptions from taxes on the profits of land reclamation and cultivation and poultry breeding, livestock fattening and breeding, and fisheries projects.

2.3 Monetary/Financial Policies

The removal of controlled rate ceilings and the abolition of policies to allocate credit to different sectors are steps in the right direction. Both policies should benefit agribusiness over the longer term. In the short term, however, agribusinesses will continue to complain about the high cost of borrowing, and the financial community may be hesitant to lend to the sector (agribusiness) it perceives to be more risky than other segments of the economy. This may occur despite the fact that the riskiness of agribusinesses varies considerably, and it is therefore not reasonable to generalize about the degree of risk in agribusiness in Egypt or

elsewhere. In the medium term, it is hoped that both borrower and lender will discover that above average profitability offsets this perceived riskiness and that lending to the sector at above average rates makes good economic and financial sense. Over the longer term, if the Central Bank of Egypt successful achieves its goal of reducing interest rates, agribusiness—as well as the economy at large—will benefit. The key is to keep the real rates banks and other financial institutions charge on loans and pay for deposits positive.

Short-term government debt instruments are a key part of modern financial management of the economy. The introduction of Treasury bills and the creation of a market for them allows the Government to have indirect but effective control over both interest rates and the money supply. It also tends to increase the supply of capital for investment. This policy has no specific effect on agribusiness, however.

Although a substantial number of companies are registered under Law 95, action in the stock markets in both Cairo and Alexandria is still quite limited. In the long run the exchanges could develop into important sources of capital for the expansion of companies that have grown successfully through the entrepreneurial stage of their development. The capital market law provides the enabling environment to help privatize the larger, public sector companies (Law 203), which are by law incorporated as joint stock companies. It may also be of benefit to large-scale private ventures, including those that include foreign participation. It is unrealistic to expect this law will to have much impact on smaller ventures in agribusiness in the near term.

2.4 Trade/Pricing Policies

As Egypt moves from a relatively closed, planned economy to an open, market-based economy, the exchange rate is arguably the single most important macroeconomic variable. Reducing overvaluation of the exchange rate and giving economic agents like traders free access to foreign exchange creates a tremendous stimulus to exports. In addition, it reduces the distortion in favor of imported capital, thereby increasing the incentive to employ labor.

The reduced dispersion among tariffs for intermediate and final goods tends to improve the efficient allocation of resources, encourage the production and export of those products in which the country is internationally competitive, and improve the welfare of consumers by lowering the cost of their purchased goods. Tariffs on most agriculture-based items are moderate, with only selected items like poultry, garments, and certain fruits at the maximum 70 percent. The system of quality controls, however, has resulted in increased uncertainty and risk for local producers and foreign investors, as well as increased costs for the importer and the consumer. Uncertainty is created because ministers retain the right to issue decrees at any time that establish new regulations.

The dismantling of the export ban list and export quotas provide further incentives for export expansion, with concomitant employment opportunities. The long procedures and numerous agencies that exporters have to deal with represent an unjustified cost that affects

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negatively the exporter's competitiveness. Subjective inspection, to the extent that it is carried out on exports, might make a commodity acceptable by one agency but rejected by another. This will result in a negative attitude toward investment and production for the export market, thus reducing agribusiness employment.

Besides agricultural prices and the exchange rate, another set of fundamental prices now being rationalized are energy prices. They have increased greatly because they had been seriously distorted. Cheap electricity and petroleum products undoubtedly led to more capital-intensive investments than otherwise would have been the case. Thus the raising of these prices should lead to a more appropriate balance in the use of labor and capital, with the potential for many more jobs to be created. Agro-industrial and other firms adjusting to the changes in energy prices, for example, are likely to be encouraged to use less energy-consuming capital and more labor, assuming that such technological choices (and information about them) are available.

If it functions smoothly, the duty drawback system is an effective tool to encourage agricultural exports. The present system has some problems in implementation that seem to be creating disincentives to export among agribusinesses. On the other hand, the severity of this problem will to some extent decline "automatically" as the level of duties continues to be reduced.

Coordination of trade was a concept that was more feasible when most imports and exports were in the hands of the Government. Now that the private sector is to take the lead in trade, the High Council of Trade's existing mandate is not likely to serve the trade sector very well.

Even if Egypt does not make further changes in its agricultural and trade policies, the GATT agreement will have an impact on importers, exporters, businessmen, and farmers. The elimination of subsidies to producers by the developed countries is likely to increase agricultural prices gradually on the world market. Egypt is a net importer of some important agricultural products like wheat, flour, maize, vegetable oil, sugar, and meat. Importers and consumers of these commodities will face higher prices than before. The quantities of these commodities imported may decline. However, there will also be a greater incentive to produce these commodities domestically. On the other hand, producers and exporters will benefit from price increases for cotton, vegetables, fruit, onions, and garlic.

2.5 Regulatory Policies

The privatization of state-owned companies in agribusiness has proceeded gradually. The Food Industries Holding Company (FIHC) has sold its Coca Cola and Pepsi Cola franchises. It is not clear how much interest there is among private sector investors in other FIHC assets. Because the Government is approaching the transition from public to private ownership of agribusinesses carefully, most of them have not been offered for sale yet. Already, though, some large-scale investors are content to establish entirely new operations

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on their own. The elimination of public monopolies on exports has been a significant stimulus to the private sector.

The recent financial sector regulatory reforms should have a positive, long-term effect on agribusiness. Agribusiness firms should be able to compete fairly with firms in other industries, as well as public sector companies, for bank financing. This will have a positive effect on employment in private agribusiness firms. Increased efficiency in the financial sector coupled with increased competition will encourage private agribusiness to adopt new technology to compete domestically and internationally. On the other hand, bank regulators might view agribusiness lending as inherently more risky that other forms of borrowing. If this is reflected in their calculations of capital adequacy, this could discourage bankers from making loans to agribusiness.

The impact of bank privatization on agribusiness will be a function of the lenders' overall assessment of the risks and rewards of lending to these firms. If bankers perceive loans to agribusiness to be inordinately risky, they have two options. They can price loans to agribusiness firms expensively, i.e. at high interest rates, or they can forego lending to the sector altogether. High interests rates are acceptable to the borrower only if the anticipated returns allow servicing of the debt. At present, many potential borrowers are deterred from seeking bank credit because of seemingly high nominal rates. How bankers establish collateral requirements for their agribusiness clients will play a major role in the overall risk and reward assessment. Because of the seasonal nature of agricultural production, agribusinesses often have higher working capital requirements than other enterprises. Perishable commodities, moreover, are often difficult for banks to value and accept as collateral. The banking sector has already made some progress, however: PBDAC will lend licensed fertilizer distributors up to 65 percent of the value of their properly warehoused stocks.

The impact of bank privatization on agribusiness is not likely to be strong in the short run. First, bank privatization is likely to proceed gradually. Second, and more important, the ability of agribusinesses to expand also depends on the privatization or restructuring of public sector enterprises that compete directly with private agribusinesses, like food and fiber processing, and international and domestic trading. The privatization of these firms is proceeding at an even slower pace.

The replacement of investment licensing with registration is an important step to promote private investment that should create employment and increase production. In a general sense, the agribusiness sector should benefit from this policy. The only minor imposition imposed by the greatly reduced negative list that would have an impact on potential agribusiness investors is prohibition against investments in the Sinai.

In general, the incorporation law (159/1981) neither favors nor discriminates against the formation of agribusiness firms. However, it is not clear how restrictive the law's stipulations concerning labor might be. They could serve to deter potential investors, whose

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projects—especially in the start-up phase—require a higher percentage of more expensive expatriates. Besides slowing job creation throughout the economy, including agribusiness, this policy might also serve to slow the adoption of new technologies.

2.6 Labor/Human Capital Policies

Egypt's job security policy has resulted in increased risk and reduced investment and employment in the private sector. Labor regulations make it difficult for private sector firms to lay off workers during periods when operations must be reduced (e.g., during recessions) or for new technologies to be introduced to maintain competitiveness. Government offices, public enterprises, and authorities are overstaffed, with decreasing labor productivity, and consequently, a low rate of economic growth. The conditions of public employment often set the tone for private employment as well, putting a further damper on productivity and economic growth.

The admissions component of the higher educational system in Egypt has built-in reinforcements of long- and widely-held social preferences. These put agriculture and business lower down the social and educational ladder than law, medicine, and engineering. While bright students are not forbidden from choosing the former fields, the system ensures that few of them wind up there. This is a serious problem for agriculture and agribusiness. Many private entrepreneurs interviewed during this study complained of both the quality of agricultural graduates and their lack of hands-on and relevant experience.

2.7 Other Factors and Services Policies

Investments in transport and communications and other supporting activities (like transport services) facilitate agribusiness production and trade, and thereby promote increased employment and transfer of technology. These investments are part of a conducive atmosphere for complementary private sector investment. Some of the private investment can be in transport or communications equipment or facilities. Because the Government has restricted such investments to the public sector, it has spread its own investments thinner than necessary and failed to tap additional sources of capital and the entrepreneurship of the private sector. Thus the infrastructure-related services currently available to the private sector are less adequate than they might have been.

Given the expenditures that have been made, the extent of the road network and ports is satisfactory for use by agribusiness and other enterprises. Road construction standards are also adequate. In the road system, maintenance is the main problem. On the other hand, port infrastructure is sometimes poor, there is a lack of bulk handling facilities, and railway facilities are also poor. The main cause of postharvest losses to fresh produce in Egypt is mechanical damage, which is due to both the poor condition of roads and poor packing materials.

2.8 Agriculture/Agribusiness Policies

2.9 Monetary/Financial Policies

Current policy reforms are transforming PBDAC from a monopolistic supplier of important agricultural inputs, including credit, at subsidized prices and a monopsonistic buyer of agricultural produce at fixed prices to a full service financial institution serving the rural community. PBDAC has phased out its in-kind lending and now focuses on "seasonal" and "investment loans." Short-term investment loans "meet the operating cost of poultry projects, animal production projects, agricultural marketing and food processing projects and agro-business projects." Medium-term loans can be as long as five years. They finance agricultural production projects or farm-related business. For these loans, the "financial asset (or project) is usually considered as the loan guarantee." Long-term loans can extend from 5 to 15 years. The overall impact of changes in PBDAC's operations has had a very favorable impact on agribusiness. As of mid-1992, "farm-related business" loans of almost LE 577 million (approximately US$ 173 million) accounted for approximately 23 percent of PBDAC's outstanding investment loans. Overall, the impact of recent policy changes affecting PBDAC is to increase the flow of debt capital to the agriculture and agribusiness sectors.

2.10 Trade/Pricing Policies

The Government has liberalized agricultural trade considerably. Allowing the private sector to export citrus has led to increased investment in packing stations, more employment, and more modern facilities. In addition, many warehouses have been built by the private sector to handle wheat and flour imports. Importing and producing vegetable oil is now an important activity of the private sector. The private sector has also sought out and experimented with new technologies, including from abroad.

Thanks to bold government steps to liberalize domestic agricultural pricing policies, farmers are likely to follow market signals that will lead them toward production of commodities in which Egypt has a comparative advantage. Certain shifts in production patterns have already occurred. Farmers increased the area of wheat and rice significantly, while reducing that of potatoes and cotton since 1987, while the yield of nearly all crops increased. Increased production should lead to increased revenues and profits for traders and other agribusinesses.

Consumer subsidies previously led to substantial corruption in retail markets. It is likely, however, that the cheapest commodities were not reaching their intended targets, the poorest consumers. If so, then removal of the subsidies will cause a hardship to only a small number of poor people. After removal of these distortions, agribusinesses that process and trade meat, sugar, and poultry have clearer incentives to produce optimal amounts and higher-quality products.

Removing subsidies was a necessary step in the process of transferring fertilizer and other input marketing to the private sector. Significant numbers of private firms have begun to handle fertilizer, thus increasing private investment and employment. With the elimination of subsidies, farmers have apparently stopped using excess fertilizer. Moreover, despite the removal of subsidies on both credit and fertilizer, yields of nearly all crops have increased in the aftermath of the policy reforms. With the removal of feed subsidies, open competition has pushed feed prices up to or near the world level. Higher feed costs have been passed on to consumers, resulting in lower demand for animal products and feed. There is currently overcapacity in the feed milling industry, so new investment is not likely.

Because official land rents are still below rents set by the market, the impact of the new land rent/land tax policy during the transitional period (until the year 1996/97) is not likely to be very significant. That impact will manifest itself fully only after market forces determine all rents. As rents go up, one expects tenants and farmers in general to use land more efficiently.

Liberalizing crop production and marketing regulations has created increased opportunities for agribusinesses engaged in production, processing, and marketing. Farmers are no longer compelled to make crop deliveries, making more crop available to private traders and processors. In the rice sector, the quantity of paddy procured by the Rice Holding Company for public milling has declined dramatically from 52 percent of total rice production in 1979/80 to only 9 percent during the 1993/94 crop year. In the wheat subsector, liberalization has increased the volume going to an estimated 3,700 small mills. Further downstream, 85 percent of the country's bakeries are private. As competition increases, the scale at which a miller has to operate is likely to increase. This will put pressure on smaller operations.

The major impact of policies regarding food safety and consumer protection, and protecting agriculture from pests and contamination, especially as they are currently being implemented, is to cause confusion and uncertainty among agribusiness firms in Egypt. There is no evidence to suggest that the controls and regulations on exports serve to make Egyptian products more competitive on world markets.

The net effect of policy changes in regulations regarding the production and marketing of agricultural inputs has been to encourage and promote private sector investment in agribusiness. In seeds the private sector is entirely responsible for the supply of vegetable, hybrid and forage crop. There are currently ten (10) companies actively involved in the marketing and production of these products. In fertilizer, pesticides and agricultural chemicals, policy changes clearly have stimulated private sector investment and activity. In animal feeds, the private sector should be able to operate successfully and profitably. In machinery and equipment, the current policies continue to provide limited protection for Egyptian agricultural machinery and equipment manufacturers, including the Ministry of Military Production.

Current policy toward geographic rationing of water and on-farm water use has long-term, negative implications for agribusiness. It encourages the production of some crops, in particular rice and sugarcane, at the expense of those for which Egypt may have more competitive advantage, especially horticultural crops. The World Bank estimates that the value added from a cubic meter of water applied to tomato production is eight times that of a cubic meter used to irrigate sugarcane and four times that of rice. If farmers do not grow the crops for which Egypt has the greatest comparative advantage, the firms in the industries dependent on these crops will operate less efficiently than otherwise. This policy is also likely to reduce the incentives farmers have to adapt water-saving technologies and other innovations.

The impact of limited availability of economic information on production and marketing is significant. The unavailability of information is an impediment to investment because the information is needed for the analysis of an investment's feasibility. Types of required information include price and quantity information on agricultural products, as well as pricing and technical information on potential equipment or processes that might be used in agro-industrial or marketing enterprises.

Merchants have bought up all the space in the new Al Obour wholesale market near Cairo. This is likely to improve competition in nearby wholesale and retail markets. To the extent that this marketplace can handle more produce or handle it with lower losses, there will be increases in the incomes of traders and greater employment. The functioning of the fruit and vegetable markets will be less than fully efficient, however, because of the administrative restrictions—e.g., on refrigerated facilities—that apply to the marketplace. This will be particularly true for highly perishable commodities for export, like green beans.

The Government has implemented a number of land use-related policies. Prohibition of fallow has led to higher land productivity, higher farm income, and an incentive for some farmers to move or to purchase new (including desert) land where building is not prohibited. The prohibition on the use of topsoil for making bricks has conserved soil fertility, thereby also contributing to the attainment of higher crop yields. The area reclaimed for graduates is not producing to its full potential. Most graduates do not have sufficient agricultural knowledge, training, or experience to run their farms efficiently. The Government's reclamation program and income tax incentives attract a substantial amount of investment by the private sector in the New Lands. This introduces many modern techniques in agriculture and irrigation that contribute to increased productivity, income, and local employment. Agricultural exports have grown rapidly based on production from these and other areas.

Great gains in productivity have been made in many crops since the early 1980s. This is attributed both to efforts in the research system and to the liberalization of agricultural prices that occurred in the mid-1980s. Yields of many crops moved higher from already high levels. In Egypt 31 of 32 crops had yields higher than the world average, one was highest in the world, and several were second or third. Yields of animal products increased more slowly. The research and extension system has been focused on helping the

farmer, with less attention to upstream and downstream problems that are important to agribusiness.

2.11 Vegetable Crops Policies

Licensing of the private sector to import seed potatoes has accelerated investment in this subsector. Private companies now work with tissue culture and rapid multiplication facilities, contributing to the dissemination of these techniques. Potato processors have imported their own seed and have integrated the farming of potatoes in their operations.

The informal price agreement between the MOS and wholesalers has not succeeded in keeping prices down, except during peak seasonal periods when there is abundant supply. In other periods, market forces play their role in determining prices. Retailers sort and grade products to achieve better quality and obtain higher prices. Lower-quality products have sold at lower prices without any government intervention.

Liberalizing the marketing of onions (as part of the general liberalization of agricultural output marketing) may have had a positive impact on onion production. From 1987 to 1992, the area cultivated in onions increased seven percent, while yields increased 18 percent. The removal of the monopoly on the marketing of onions and other horticultural crops has increased the flexibility with which private firms can operate in these markets.

2.12 Key Policies and their Effects on Employment, Trade, Investment, and Technology Transfer

The following policies in Egypt are now very favorable to agribusiness firms' creating more employment, increasing trade, investing, and acquiring new technology:

- Unification and liberalization of the exchange rate and liberalization of access to foreign exchange
- Liberalization of agricultural product pricing
- Replacement of most investment licensing with registration
- Transformation of PBDAC from a parastatal input delivery and output marketing organization into a commercial and development bank
- Liberalization of international trade in agricultural products
- Tax incentives for investment in the New Lands and New Cities

The following policies are currently very unfavorable toward the four impact variables:

- Labor policy, especially restrictions on hiring and firing employees (and the residual impact of previously guaranteed government employment for graduates)

- Higher education policy

A key policy that could be having a major impact on the entire economy but is not is privatization. The favorability of policies affecting agribusiness are depicted for easy comparison in Figures 1 through 7 (Figure 1 is in the Executive Summary).

Key changes in the exchange rate regime include the elimination of multiple rates, the elimination of overvaluation, provision to firms and individuals of easy access to foreign exchange, and allowing easy repatriation of foreign exchange earned in Egypt. The net effect of these changes is to open the economy and facilitate trade at appropriate, often competitive, prices. With the rationalization of the exchange rate and domestic interest rates, there is no longer a significant bias in favor of capital over labor.

The liberalization of agricultural trade in this more open context has created many opportunities for importers and exporters to take over in areas where the Government had reserved monopolies for its trading organizations. The remaining limitations on such trade are in the process of being removed. Duties are being reduced and are generally low on agricultural products. The openness to trade manifested by the new exchange rate regime and the liberalization of agricultural imports and exports (and accession to the new GATT agreement) also results in faster inward transfer of new technologies for production, handling, and processing. One of the subsectors that responded fastest to the opportunities for agricultural exports is fruits and vegetables, where many jobs have been created.

Figure 2: **ECONOMY-WIDE POLICIES FAVORABLE AND UNFAVORABLE TO AGRIBUSINESS TRADE IN EGYPT**

	Fiscal Policies	Monetary/ Financial Policies	Trade/Pricing Policies	Regulatory Policies	Labor/Human Capital Policies	Other Factors and Services Policies	
Favorable							**Favorable**
+2	Corporate taxes, Investment Incentives		Exchange Rate Liberalization	Investment Licensing and Registration			**+2**
+1	Fiscal Balance; Sales/ Value-Added Tax	Deregulation of Credit	Accession to GATT Agreement (Exports)	Privatization of Agribusiness Hold'g Cos.; Financial Sector Regulation and Reform		Availability of Transport Facilities	**+1**
0	Individual Taxation	Creating Treasury Bill Market; Development of Capital Markets	Duty Drawback System; Liberalization of Energy Prices; High Council of Trade	Incorporation Laws			**0**
-1			Accession to GATT Agreement (Imports)			Private, Public Infrastructure Investment	**-1**
-2					Labor Policy; Higher Education Policy		**-2**
Unfavorable							**Unfavorable**

Figure 3: **ECONOMY-WIDE POLICIES FAVORABLE AND UNFAVORABLE TO AGRIBUSINESS INVESTMENT IN EGYPT**

	Fiscal Policies		Monetary/Financial Policies			Trade/Pricing Policies		Regulatory Policies		Labor/Human Capital Policies		Other Factors and Services Policies	
Favorable													**Favorable**
+2	Corporate taxes, Investment Incentives					Exchange Rate Liberal-ization		Investment Licensing and Registration					**+2**
+1	Fiscal Balance	Sales/ Value-Added Tax	Dereg-ulation of Credit	Creating Treasury Bill Market	Develop-ment of Capital Markets	Accession to GATT Agreement of 1994		Financial Sector Regulation and Reform				Availa-bility of Transport Facilities	**+1**
0	Individual Taxation					Duty Drawback System	High Council of Trade	Privatization of Agribusiness Holding Cos.	Incorpora-tion Laws				**0**
-1						Liberal-ization of Energy Prices						Private, Public Infrastruc-ture Investment	**-1**
-2										Labor Policy	Higher Education Policy		**-2**
Unfavorable													**Unfavorable**

Figure 4: **ECONOMY-WIDE POLICIES FAVORABLE AND UNFAVORABLE TO AGRIBUSINESS TECHNOLOGY TRANSFER IN EGYPT**

	Fiscal Policies		Monetary/ Financial Policies		Trade/Pricing Policies			Regulatory Policies				Labor/ Human Capital Policies	Other Factors and Services Policies	
Favorable														**Favorable**
+2								Investment Licensing & Registration						**+2**
+1	Fiscal Balance	Corporate taxes, Investment Incentives	Sales/ Value-Added Tax*	Deregulation of Credit	Accession to GATT Agreement of 1994	Exchange Rate Liberalization								**+1**
0	Individual Taxation		Creating Treasury Bill Market	Development of Capital Markets	Duty Drawback System	Liberalization of Energy Prices	High Council of Trade	Privatization of Hold'g Cos.	Financial Sector Regulation & Reform	Incorporation Laws	Labor Policy		Availability of Transport Facilities	**0**
-1													Private, Infrastructure Investment	**-1**
-2												Higher Education Policy		**-2**
Unfavorable														**Unfavorable**

* Sales tax is a fiscal policy.

Figure 5: **AGRICULTURE/AGRIBUSINESS POLICIES FAVORABLE AND UNFAVORABLE TO AGRIBUSINESS EMPLOYMENT AND INVESTMENT IN EGYPT**

	Fiscal Policies	Monetary/ Financial Policies	Trade/Pricing Policies		Regulatory Policies		Labor/ Human Capital Policies	Other Factors and Services Policies			
Favorable											**Favorable**
+2		Transforming PBDAC	Liberalizing Agricultural Trade	Liberalizing Agricultural Product Pricing				New Lands Policy			**+2**
+1			Liberalizing Agricultural Input Pricing		Liberalizing Product Production, Marketing Regulations	Liberalizing Input Production, Marketing Regulations		Provision of Marketplaces	Research and Extension	Fallow, Brickmaking Policies	**+1**
0								Settlement of Graduates			**0**
-1					Water Policies	Food Safety, Agricultural Quarantine		Provision of Market Information			**-1**
-2											**-2**
Unfavorable											**Unfavorable**

Figure 6: **AGRICULTURE/AGRIBUSINESS POLICIES FAVORABLE AND UNFAVORABLE TO AGRIBUSINESS TRADE IN EGYPT**

	Fiscal Policies	Monetary/ Financial Policies	Trade/Pricing Policies		Regulatory Policies		Labor/ Human Capital Policies	Other Factors and Services Policies		
Favorable										**Favorable**
+2		Transforming PBDAC	Liberalizing Agricultural Trade	Liberalizing Agricultural Product Pricing	Liberalizing Product Production, Marketing Regulations			New Lands Policy		**+2**
+1			Liberalizing Agricultural Input Pricing		Liberalizing Input Production, Marketing Regulations			Research and Extension	Fallow, Brickmaking Policies	**+1**
0								Settlement of Graduates	Provision of Marketplaces	**0**
-1					Water Policies	Food Safety, Agricultural Quarantine		Provision of Market Information		**-1**
-2										**-2**
Unfavorable										**Unfavorable**

Figure 7: **AGRICULTURE/AGRIBUSINESS POLICIES FAVORABLE AND UNFAVORABLE TO AGRIBUSINESS TECHNOLOGY TRANSFER IN EGYPT**

	Fiscal Policies	Monetary/ Financial Policies	Trade/Pricing Policies	Regulatory Policies		Labor/ Human Capital Policies	Other Factors and Services Policies		
Favorable									**Favorable**
+2		Transforming PBDAC	Liberalizing Agricultural Product Pricing				New Lands Policy	Research and Extension	**+2**
+1			Liberalizing Agricultural Trade	Liberalizing Product Production, Marketing Regulations	Liberalizing Input Production, Marketing Regulations		Fallow, Brickmaking Policies		**+1**
0			Liberalizing Agricultural Input Pricing		Food Safety, Agricultural Quarantine		Provision of Marketplaces		**0**
-1							Provision of Market Information	Settlement of Graduates	**-1**
-2				Water Policies					**-2**
Unfavorable									**Unfavorable**

The recent bold reforms in domestic agricultural prices have rationalized prices for most agricultural products sold domestically or exported. The reforms eliminated considerable implicit taxation of producers. Now proper investment and production signals (market prices) are sent to farmers and others in the food and fiber system. When combined with the elimination of crop delivery quotas, this means that farmers are free to choose their output mix and technology based on market-determined prices.

PBDAC was the Government's main instrument of intervention in the agricultural sector under the old set of policies that attempted to dictate to farmers which crops to grow, how to grow them, and where to deliver the output. With the shift to a premier rural banking institution, PBDAC will meet an important need of farmers, leaving operations like fertilizer marketing to the private sector. Substantial investment has occurred in these areas, bringing with it new employment as well. At the same time, substantial subsidies on agricultural inputs have been removed, again correcting distorted price signals and leading to use of appropriate amounts of fertilizer and other inputs. By relieving the Government of the fiscal burden it bore, this reform frees up investment capital that the Government can use in human or physical capital formation.

The shift from investment licensing to registration in most cases means that potential investors in agribusiness are not hampered by required approvals. With reasonable exceptions, investors are free to make their investments in whatever field and whatever location they desire. Income tax incentives for investment in the New Lands and New Cities have had a dramatic effect on land use in Egypt, particularly for modern agricultural production, and on the establishment of food processing operations in the New Cities. The scarcity of irrigation water made land reclamation a key objective. Concentration of population and economic activity in the Cairo area made diffusion to new areas another important goal. Protected agriculture uses substantial amounts of both labor and capital, and the most modern types of technology are often employed. Investors in the New Lands tend to be sensitive to the demands of the market, so they are often involved in exporting their produce. Firms that depend on the transport system to move their perishable or fragile produce to market in Egypt or abroad find a reasonable network of roads and ports to support them.

On the other hand, many private firms are constrained by the impacts of the labor and educational policies that the Government has pursued. Firms that try to capitalize on opportunities in the new market-based economy find that there is still significant government interference in hiring and firing, and that it is difficult to find qualified agricultural and business graduates.

Severe restrictions on hiring and firing employees are a very substantial damper on investment. The obligations to employees created by existing laws and especially their interpretation by courts are onerous. The policy is counterproductive: protection of workers' rights is undoubtedly the objective of the laws, but in the end, unemployment and disguised unemployment (much of it in the Government due to previously guaranteed employment of graduates) have been the result. These restrictions apply both in hiring employees, which

has a direct impact on investment, and on firing employees, which limits the ability of firms to exit from certain types of production and to acquire new technology. Decreased labor mobility may also induce firms to invest more heavily than otherwise in more capital-intensive technology, which is socially inappropriate given the large supply of labor in the country. The creation of new trading firms, which are often labor-intensive, is also hampered by existing labor regulations. The existence of many redundant employees in the Government affects labor discipline in the private sector as well. Another impediment to investment is the lack of those kinds of information that are needed for analysis of the feasibility of an investment. These include price and quantity information on agricultural products as well as pricing and technical information on potential equipment or processes that might be used in agro-industrial or marketing enterprises.

The system in place for channeling high school graduates to colleges and universities exerts a considerable bias toward law, medicine, and engineering. Fields like agriculture and business are unlikely to receive top-notch graduates. This affects both enterprises engaged in modern agricultural production and new businesses, e.g., in agro-industry, requiring graduates with expertise in areas like feasibility analysis and management. Neither can easily find Egyptian graduates with current knowledge and practical experience.

The Government has announced a major sell-off of its assets, but in agribusiness only the former Coca-Cola and Pepsi-Cola enterprises have been privatized. Nearly all public companies have been brought under stricter financial discipline and reorganized under law 203. With so much at stake, it is not surprising that the Government is moving with what some say is understandable caution and others say is undue slowness. There are at least three major kinds of impact of gradual implementation of privatization. One is the negative impact on the firms not privatized: their lower efficiency and profitability, higher level of disguised unemployment, and more limited use of modern technology. Firms that compete with previously subsidized public companies, on the other hand, are likely to experience a positive effect. The third impact is that of perceived delays on other potential investors. If they believe that the Government is not serious about privatization, they are likely to delay their investments as well, partly for fear that preferential treatment for public companies and unfair competition might return.

2.13 Other Policies Affecting Employment

The set of policy interactions described above are the main ones that affect agribusiness employment. In addition, it is worth pointing out that another set of fundamental prices that are in the process of being rationalized are energy prices. They have increased greatly because they had been seriously distorted. Cheap electricity and petroleum products undoubtedly led to more capital-intensive investments than otherwise would have been the case. Thus the raising of these prices should lead to a more appropriate balance in the use of labor and capital, with the potential for many more jobs to be created.

2.14 Other Policies Affecting Trade

In addition to those impacts mentioned above (section 2.12), agricultural trade has been given a major impetus by the liberalization of crop production and marketing regulations. With the lifting of delivery quotas and acreage controls, farmers are free to sell to whom they choose. The export marketing system has been responding to these new opportunities, although considerable development remains for many commodities. One specific market that has been opened considerably is in potatoes and seed potatoes. High-quality seed potatoes are now being exported by several private companies, and the output from some of these seeds become potato exports. Timely, reliable, and appropriate international market information has constrained agricultural exports. The Trade Representation Office is now establishing a new international trade information system, which will maintain access to international trade information centers like the Market News Service for horticultural products of the International Trade Center. An impediment to agricultural imports has been the numerous inspections that delay shipments and cause importers to carry larger inventories.

2.15 Other Policies Affecting Investment

Investment, like employment, is affected mainly by the policies described in section 2.12. In addition, the liberalization of energy prices mentioned above has a depressing effect on investment, i.e., the amount of capital put into service. This may be part of what appears to be a hesitancy on the part of the private sector to respond to the overall macroeconomic and specific agricultural incentives that the new policy regime has provided. In fact, this slower pace of capital formation could be consistent with significant job creation were it not for the restrictive labor policies currently being enforced.

2.16 Other Policies Affecting Technology Transfer

In many ways, the policies influencing technology transfer interact differently from those affecting the other impact variables. Law 230, which includes income tax incentives that have had a strong effect on investment, employment, and trade, also contains local content provisions that result in a less significant impact on technology transfer. Liberalization of the exchange rate and agricultural trade by themselves also have a smaller effect on technology transfer, but in combination with policies like registration of investment (in lieu of licensing) and high-quality agricultural research, the impact should be substantial.

Labor laws have offsetting impacts on technology transfer. Restrictions on both hiring and firing employees limit the total amount of technology-embodying investment, the former in new projects and the latter in retooling. At the same time, the disincentives to hiring new labor may also lead companies to invest in more capital-intensive technology, which is also likely to be new.

Another major obstacle to technology transfer in agriculture is the water rationing and pricing system. This system supports the cultivation of significant amounts of rice and sugarcane, crops that consume disproportionately large amounts of water. If water were valued at its shadow price or rationed with the same effect, many less water-consuming crops would be planted on this rice and sugarcane land. The lack of change in the water system retards the inflow of new technologies that could better make use of Egypt's limited supply of irrigation water.

Finally, one of the most important factors in the technology area is research and extension. Superior research activities in combination with agricultural price liberalization have led to continued increases in agricultural yields from already high levels. Research has been oriented to agricultural production. Much of the technology developed is embodied in seeds, which do not necessarily generate investment by farmers. Some seed companies are beginning production. Nor does research have a major impact on employment, although higher yields are certainly essential to support a larger population and labor force.

3. POLICY RECOMMENDATIONS

This chapter sets out the study's policy recommendations and its advice with respect to a potential agribusiness project. It also highlights potential policy reform benchmarks.

3.1 General Recommendations

Before making specific recommendations, we set out some general principles on which our recommendations are predicated. They are by and large the same principles that are behind the ongoing policy reforms. In some cases they go beyond what the Government has decided to implement. These principles should promote both general growth and also that of agribusiness. The order of the recommendations follows the order of the policy groups in the main report; it is not a priority ordering.

Continue fiscal policies that attempt to raise additional tax revenue from non-commodity-related taxes. This is consistent with the evolving tax structure, in which mostly direct (e.g., income) and some indirect (e.g., trade-based) taxes are replacing implicit taxation (e.g., low farm prices). It is important to maintain equity of the tax system—both its intended incidence and its implementation—to encourage tax paying.

Continue monetary and financial policies that make the financial sector in Egypt safe, equitable, and market-responsive. Bank privatization is one key program that will reveal whether these criteria are being met.

The Government should also **continue to eliminate subsidies and other price distortions, and redirect resources to permanent investments in human and physical capital.** The lifting of rent control on new apartment buildings, e.g., could lead to significant construction and therefore significant employment. This could enlarge the supply of jobs at a time when there are many people leaving the Government under privatization.

Privatization is a very important economic policy question at this time. The outline of privatization has already been included in the policy reform benchmarks of the World Bank and USAID. It would be very useful if the Government were to **enunciate and take a viable approach to privatization.** Then the private sector could take up its expanded role with confidence and energy, and the full benefits of the previous reforms could be realized. Besides a series of technical valuations and sales (for which some assistance is already being provided), privatization will include a very significant institutional change. During the transition period, the Government should ensure that the public and private sectors function in a cooperative rather than antagonistic fashion.

In the long run, labor in the Egyptian economy needs to move from the public to the private sector. This could be facilitated both by privatization and by improvements in the labor laws and regulations to allow the private sector to connect wages with productivity.

Labor policies that are presumably implemented to protect the interests of workers are depriving them of more opportunities for productive employment. This reflects the advanced state of reforms in the pricing area, where the Government has accepted the notion that the market can allocate resources better than a central authority. The same notion needs to be applied to the labor market. There are appropriate roles for the Government in protecting workers' rights. Making any change in employment difficult, however, prevents the market from matching workers with jobs. If the Government is no longer going to guarantee jobs to graduates, as it should not, then it must **allow the market to do the best possible job of finding employers for employees.**

The Government should **devote more attention to the dissemination of information and the development of analytical skills.** The need for wide dissemination of information in a market economy is much greater than under centralized planning. There are many more agents making decisions, and information is crucial for good decisions. This requires both facilitation through investment in communications and other facilities and also direct efforts to provide basic economic information and disseminate it widely. Analytical skills among farmers, businesspersons, and the general population are also very important for good decision making.

3.2 Specific Recommendations

As with the general recommendations, the order of the specific recommendations below follows the order of the policy groups in the main report; it is not a priority ordering.

3.2.1 Economy-Wide Policies

Fiscal Policies. The Government should **eliminate the local content provisions of the existing policies (law 230/1989)**, which discriminate in favor of local manufacturers and producers of key inputs, including machinery and equipment. These slow the adoption of technologies most appropriate to make reclaimed land productive.

The Government should **phase out the income tax exemption for interest income, including that on the new Treasury bills.** This would prevent new distortions from creeping into the macroeconomy. It would also raise more revenue. Perhaps most importantly, it would create expectations among taxpayers that all forms of income would be treated equally, avoiding the experience of some other countries, where taxpayers make economic decisions that maximize their after-tax income but may not maximize social welfare. Expectations of equal treatment are important to those running agribusinesses, just as they would be to any entrepreneur. The exemption should be phased out rather than eliminated immediately because it also helps keep interest rates down, which is important right after the deregulation of the credit market.

The Government should eliminate the **exemption of dividends from taxation or tie the exemption to actual listing of shares for sale not just registration on a stock**

exchange. The capital market law currently favors larger, existing firms over smaller, new ventures by giving them this exemption simply for registering. A more favorable environment, especially for agriculture and agribusiness, would be one in which access to the capital markets and benefits of the tax code treated firms, regardless of their size, on an equal basis. This means either modifying or eliminating the tax preferences extended to joint stock companies on the stock exchanges or extending the same tax benefits to partnerships, limited liability companies, as well as sole proprietorships.

Monetary/Financial. Enhance ongoing financial reforms. The main focuses of action in the financial sector should be to: 1) Eliminate any discrimination by the regulatory machinery (i.e., CBE, etc.) in favor of public sector banks; 2) Strengthen the existing institutional infrastructure for the financial sector such as, the legal framework, prudential control and supervision; 3) Deepen the money markets to develop a reliable reference rate and promote the development of variable rate instruments; 4) Ensure that commercial banks and the PBDAC develop into efficient and autonomous institutions; and 5) Promote the development of markets for long-term funds.

Trade/Pricing. Shift the quality control system—regulatory policies that have their major impact on trade—**toward a quality assurance system.** Regulations need to be reviewed for current relevance. The Government and the private sector need to work together better to further the legitimate objectives of the system. The Government should become more accountable for the regulations it makes and the way it enforces them. It should continue to reduce to a minimum the multitude of regulations and procedures for inspection and certification. Ports should be equipped with the required facilities; inspection should be consolidated in one building housing technicians representing the various agencies and ministries.

Improve the duty drawback system. Since technology is unlikely to change every year, it seems unnecessary to make certificates good for only one year. The Government might issue certificates with an indefinite validity and check the amounts of inputs used on a random basis. Firms could be required to report when the ratios of inputs and outputs changed. Fines could be levied on firms that did not comply properly. Personnel enforcing such regulations should be reminded that their primary purpose is to facilitate exports.

Define specific functions for the High Council of Trade, which has the potential to positively affect Egypt's trade performance. In light of the structural reforms that have taken place, the Council's functions should include: 1) Conducting or commissioning studies on the potential of various foreign markets for Egyptian imports and exports, 2) Advising importers and exporters on the impact of the GATT agreement signed in April, 1994 (This would include providing information about expected changes in world prices for Egyptian agricultural imports and exports), and 3) Monitoring the effects of Egyptian trade policies and working with the private sector to find solutions to problems facing traders. As the EU modifies its agricultural policies in the wake of the GATT agreement, it will also be

important for Egypt to try to secure agreements for preferential access comparable to those of its competitors.

Regulatory. Eliminate the requirement that limits affiliated companies from disposing of assets as the managers of those firms see fit; it seems overly restrictive and counterproductive. If a majority of the shareholders, i.e. the Government, does not approve the way in which the managers are operating affiliated companies, they can replace them. Likewise, the law should be amended so that it is the board of directors that is responsible for evaluating any assets or lines of business to be sold and not an outside "valuation committee." These changes should force the managers of affiliated companies to act more like their private sector counterparts and hasten the privatization of their firms.

The policy of investment registration instead of licensing does not require any major revisions. It is important, however, to **monitor the actual performance of those government agencies with licensing and registering responsibilities.** The overall efficiency of these procedures might be improved by adapting some existing measures. For example, Article 52 of Law 230 gives GAFI twenty days from the date complete documents have been submitted to the Authority" for the Board of Directors to make a decision. It does not specify what happens if the board does not respond within that time frame. The law should state more clearly that if the board finds no reason to reject an application, and so informs the applicant within the twenty-day time frame, that constitutes approval of the request.[5]

Labor/Human Capital. Change labor regulations to allow employers to respond to changing market conditions, to induce labor mobility, and to encourage labor-intensive activities: 1) Over the medium term, private firms should be permitted to lay off workers after just compensation, and dismiss them if they violate disciplinary rules. 2) Labor regulations should do away with the discretionary power of the Stoppage Committee in cases of closure. Firms should be able to cease business permanently by fulfilling their existing contracts with workers or by paying a specific compensation (e.g., up to three months' salary) without prior approval. For partial or temporary stoppage, firms could be required to pay salaries up to a specified period on a descending scale. 3) Labor regulations should provide for the right to strike and collective bargaining power, which do not exist in any meaningful sense. 4) For new government employment, a long-term program should be developed and applied to relate salaries to tasks required and performance, not to diplomas held.

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[5]This is the approach taken by Law 159, governing the regulation and registration of private companies. Article 19 of Law 159 gives the committee assigned to review an application for incorporation sixty days to complete its task. "If the Committee does not object within this period . . . by a written letter to those concerned . . . the application will be considered accepted . . ."

The Government should **replace the existing university admissions preference system**—which does not serve national needs for educated individuals—**with a new system that includes no bias toward any field of study.** In a market-based economy, the supply of and demand for educated persons will determine rewards for pursuing different careers. If the Government continues to feel that certain careers are for some reason in its strategic interest to encourage, it can continue or stengthen special scholarship programs or continue to pay such individuals higher salaries. The existing system does not make the best use of many colleges—especially those in agriculture and business—by sometimes supplying them with lower-quality students. Agricultural education in Egypt should be modernized to cope with the unprecedented changes taking place as a result of the economic reforms.

Other Factors and Services. The Government should **allow and encourage the private sector take some of the burden off the public sector to make infrastructural investments and operate some of the new facilities.** Some examples include: 1) The new state-of-the-art container terminal being constructed at El Dikheila (just west of Alexandria), 2) Contracting for road construction, 3) Provision of trucking services, and 4) Provision of loading/unloading and related services in existing ports. The provision of trucking (and possibly port) services by the private sector would require reducing the subsidies currently being provided and/or some positive steps to divest or remove other barriers. Another general area where the private sector could be involved is in the field of communications, where experience has shown that, with appropriate policies and regulations, operations tend to be more efficient and investment can be self-financing when the private sector is involved. Finally, the Government should make it easier for the private sector to make investments to provide air cargo services. The protection of EgyptAir's position through its landing rights at airports and its monopoly on refrigerated services at airports does not serve the public interest.

The Government should **modify the rules on the use of road maintenance funds** to ensure that adequate funds are available for expenditure. It might also attempt to select areas for maintenance with particular purposes in mind, for example, to better support the less damaging transport of horticultural and other products. It would be a service to the economy if a way could be found to enforce truck weight limits without merely creating more rents for the enforcing officials. The Government should not restrict exporters' choice of airline for air cargo shipments.

3.2.2 Agriculture/Agribusiness

Fiscal. In the new policy environment, the Government does not have the implicit taxation of agriculture as a source of potential revenue. It may feel a need for a more direct, efficient, equitable, and administratively simple means of taxing agriculture. Income tax is such a vehicle. Agricultural income is subject to tax in Egypt, but there is a ten-year income tax holiday under both Law 230/1989 (for "projects") and the Unified Tax Law 187/1993 (for individuals) for those investing in the New Lands areas. The profitability of cultivation in the New Lands might attract investment even in the absence of this incentive. With the

marked reduction in implicit taxation of agriculture through the price mechanism, two reasonable options are to: **1) Bring farmers owning less than 3 feddans** (exempted now from land tax) **within the purview of the land tax system, and 2) Raise the land tax** should also be considered, since it is very low, and the Government should make adjustments in the land tax more frequently.

Monetary/Financial. PBDAC should stop subsidizing loans of any kind, including its current loans for land reclamation and irrigation systems.

Trade/Pricing. The Government may want to **impose a countervailing duty on imported subsidized beef** to level the playing field for local producers. Completely fair play would require a duty that would bring the price of EU beef up to the unsubsidized world market price. On the other hand, many poor consumers in Egypt are benefiting from these imports, so it may be more appropriate to apply only a partially equalizing duty.

The Government should **phase out textiles from the import ban list**.

Avoid subsidizing consumer prices, except in the case of carefully targeted subsidies for which a need can be shown and the incidence of which is carefully monitored.

There are a number of measures the Government could pursue to **encourage more efficient on-farm use of the country's scarce water resources.** It could: 1) Encourage farmers to invest in water-saving technologies like laser devices for land levelling, 2) Encourage the use of sprinkler and drip irrigation in some areas in the old lands, and 3) Promote the use of meters to measure the quantities of water used. However, short of a pricing system to reinforce these policies, they would be difficult to implement in a meaningful way.

Regulatory. The Government should **investigate problems reported with respect to implementation of Law 230.** Investors in the New Lands apparently have significant difficulty in acquiring clear title to land purchased from regional authorities. This restricts their ability to get credit.

To encourage maximum flexibility in the feed milling industry, the Government should **remove the required approval for new feed formulations**, or institute a program of "fast-track" approval.

There is a need to **develop two separate and distinct sets of quality assurance policies**, one covering the broad issue of food safety and consumer protection and the second directed to enhancing the competitiveness of Egyptian agricultural and food products in international trade. The Government should investigate the possibility of beginning a program that will help agricultural and agribusiness exporters meet the ISO 9000 standards.

The Government should **review the licensing requirements for fertilizer distributors**, especially the one requiring membership in the Association of Agricultural Engineers. Unless it can articulate a clear purpose for this requirement, it should be dropped.

Other Factors and Services. The Government should **disseminate widely cost/benefit data** like those in the New Lands Development Study. This will support the establishment of both efficient farms and supporting agribusinesses and agro-industries. The Government should also reexamine its infrastructure policies and their implementation in the New Lands to ensure that adequate irrigation, electricity, roads, markets, and market information systems are established to facilitate the efficient production and marketing of agricultural products.

With the reduced role of the Government in the marketing of agricultural products, the Government may feel the need to protect farmers from "exploitation." One way the Government can reduce the opportunities for traders to exploit farmers through monopolistic practices is to **provide good physical infrastructure (market places, roads, communications) and good market information.** These will facilitate competition, which is an excellent remedy for monopolistic practices. The Government could also **investigate whether there are any other barriers to the entry of small traders and processors, like access to credit.** If there are, the Government might consider facilitative—as opposed to administrative—solutions to these problems. Floor prices for strategic crops might also be continued during transition periods. If so, the Government should declare floor prices well before planting, based on market analyses.

Farmers, traders, and processors need regular, detailed, and reliable information if production and marketing systems are to be efficient. Studies like G20, G44, and G46 and others like them have undoubtedly begun to fill the information gap. The Government should **ensure adequate budget and training for agencies collecting and disseminating such information.** Two recent studies, G44 (pp. 78ff.) and G20 (p. 130), make various specific recommendations about market information systems. The Government should consider these and implement the most effective system. It should also try to minimize the obstacles to the wide availability of the information necessary for new investments in agribusiness.

The low yields of small farms **in the New Lands** may point to a need to **strengthen agricultural research and extension** in these areas. There is also a need for better information on feasibility analysis: it may be that there are economies of scale in production on the New Lands that small farmers can not take advantage of. Where it is economically possible to develop a more diversified cropping pattern, MALR should facilitate farmers' efforts through better research and extension, creation of pilot farms, and/or other appropriate measures.

The recent evaluation of NARP makes many fairly specific recommendations to **continue to improve the research system.** One specific recommendation that has particular merit is the "check-off," which would raise funds for research by attaching a small tax to agricultural inputs or outputs, with an earmark for their expenditure. This system seems to work well, e.g., where road tolls in Egypt are used for transport development. This study makes three additional recommendations. The first is that farmers and agribusiness representatives should have greater representation on the RRECs, which include only two representatives from the private sector, all the rest being civil servants. The second is that the People's Assembly should pass a new seed law. If the private sector is to get involved in seed production, it must have certain protection and proprietary rights. Finally, research should devote more resources to solving upstream and downstream crop- and livestock-related problems, and not only focus on production.

3.2.3 Vegetable Crops

Trade/Pricing. Abolish the fruit and vegetable price-setting committee. The MOS should be re-tasked to perform activities like emergency food stockpiling and distribution, not the administration of prices or the normal supply of foodstuffs.

Regulatory. The recent trend towards potato growing in the New Lands may have temporarily halted the problems with brown rot in export shipments. MALR should, however, **consider programs to keep uncertified potato seed from being transferred and grown in these new desert lands.** Otherwise in a few years, the problem will surface again.

MALR should consider programs to **establish isolated certified seed potato growing areas** with strict monitoring of production of certified seed potatoes. Egypt may be in a very favorable position to supply its own certified young F generation seed potatoes. The country might also be able to establish a "world class" certified seed potato export business, supplying southern hemisphere countries with young "F" generation seed potatoes.

Other Factors and Services. The Government should **consider seriously any requests to operate a refrigerated facility in the new Al Obour market.** This might be feasible for the accumulation of pre-packed, pre-cooled produce for export. Thus the Government should leave the space that is set aside for exporters and processors free until an interested party makes a request to use it. The Government should also ensure that the electricity supply to the marketplace is adequate to support refrigeration equipment.

3.3 Agribusiness Project-Oriented Recommendations

A recent USAID study on agribusiness projects worldwide[6] included the following lessons learned:

- USAID missions should **determine the constraints** to the development of agribusiness and formulate a strategy **before undertaking projects.**

- The main focus of USAID's efforts to promote the development of agribusiness should be to **improve the policy, regulatory, and institutional environment for agribusiness**.

- It is very important to **take a flexible approach to project design**, and design should follow the lead of the private sector. Both traditional and non-traditional products and exports should be supported, as appropriate.

- USAID should **support selected direct technical assistance to firms**, particularly in the cases of technology transfer for production and linking domestic firms to international trading partners.

Besides activities that flow from these general recommendations, some activities the authors recommend for inclusion in a potential agribusiness project, but not necessrily in order of priority, are:

1. **Training in loan appraisal and feasibility analysis (for bankers and businessmen)**.

2. **Training in agribusiness management.**

3. **Improvements in the systems that collect, analyze, and disseminate price, quantity, and other relevant economic information** for decision making.

4. **Incorporation into a project of a component that allows the Government to perceive the problems of private entrepreneurs** in a confidential way. This would presumably lead to the investigation of serious rent-seeking behavior by officials and the removal of other obstacles to efficient operations.

These recommendations stem from both conditions found during field visits and the likely needs of agribusiness as policy reforms proceed. Because it is based on agricultural production, agribusiness is often risky. Irrigation tends to reduce the volatility of agricultural production, but the responses of farmers to changes in prices can magnify the fluctuations in production. For these reasons it is particularly important for farmers and investors to make

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[6]Kumar 1994 PRELIMINARY DRAFT.

informed decisions about their output mix. There are techniques that can be taught for analyzing investment options. These require timely and reliable information.

The team also found that some agribusinesses were failing because they probably had weak management. Besides improving the educational system in general, as recommended above, an agribusiness project might target specific types of training to existing or potential entrepreneurs.

As the Government begins a changeover to a collaboration with the private sector, it is likely to have difficulty ascertaining the day-to-day problems faced by those in agribusiness. This is natural, since under the longstanding previous system, the Government took the lead; national priorities and objectives were considered more important than the problems of the private sector. If the full impact of the reforms is to be realized, however, the private sector must be in a position to contribute fully, and the public and private sectors must collaborate to solve problems.

3.4 Potential Policy Reform Benchmarks

After major pricing policy reforms, institutional reform becomes more important than it was before. This is because the implementation of reformed policies under a new rubric of public/private cooperation becomes critical to the success of the reforms. Institutional reforms, however, are less amenable to policy reform benchmarks than previous agricultural policies. This is because they tend to involve complex issues and their solutions tend to extend over a long time. Some individual policies affecting agribusiness need to be changed, although some of these are not in the agricultural sector. Overall we believe that the usefulness of agricultural policy reform benchmarks in Egypt is likely to be less than it was before.

The following sections list some of the policy recommendations of the report that might be implemented through policy reform benchmarks. They are not given in order of priority.

3.4.1 Collect Data on Agribusiness

The section on agribusiness performance in the main report of this study is testimony to the inadequacy of data on agribusiness in Egypt. Ideally we should have been able to report the extent of employment, investment, production, and other aspects of private agribusiness. Instead we were only able to describe the public sector's enterprises to a limited extent and speculate on the overall number of agribusiness enterprises and their approximate distribution. The Government of Egypt, like most governments, has not considered agribusiness a "sector." If it is to begin to make policies that promote the development of agribusiness, however, it will need to have better baseline data.

3.4.2 Streamline Inspection of Agricultural Imports

There is a lack of systematic, objective, coordinated inspection by the various agencies involved in the inspection of agricultural imports. Specifications for quality control are broad and vague, thus permitting subjective rejection or acceptance of any parcel by one agency but not by another (standards include, e.g., "free from insects," "free from other seeds," "free from straws and weed seeds").

The quality control system should shift toward a quality assurance system. Regulations need to be reviewed for current relevance. The Government and the private sector need to work together better to further the legitimate objectives of the system. The Government should become more accountable for the regulations it makes and the way it enforces them.[7]

3.4.3 Streamline Agricultural Export Procedures

Exporters are faced with a multitude of complex procedures. Exporters must complete up to 48 steps, deal with several difference agencies, and complete up to 15 documents. In addition, they have to pay more than eight different types of charges in ports, airports, and packing stations, some of which are paid several times for the same services under different names. To encourage exports and the performance of agribusiness, the Government should reduce to a minimum the multitude of regulations and procedures imposed on export activities. Even though several steps have been taken annually to facilitate the execution of such activities, numerous procedures still remain.

3.4.4 Modify Law 230/1989 and Improve Related Implementation

The local content provisions of law 230 discriminate in favor of local manufacturers and producers of key inputs (including machinery and equipment), which includes the Ministry of Military Production. This could slow the adoption of technologies most appropriate to 1) make reclaimed land productive and 2) start agro-industrial enterprises in the new cities. This provision should be phased out.

Investors in the New Lands experience difficulties in promptly obtaining free and clear title to land purchased from regional authorities. This makes it difficult for them to obtain credit, and generally makes investment less attractive. The concerned authorities should attempt to resolve this problem.

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[7]A complete set of recommendations is given in G19, p. 2-3.

3.4.5 Reorient Ministry of Supply Tasks away from Setting Fruit and Vegetable Prices

The informal price agreement between the MOS and wholesalers has not succeeded in keeping prices down, except during peak seasonal periods when there is abundant supply. In other periods, market forces play their role in determining prices. Retailers sorted and graded the product to achieve better quality and got higher prices. Lower-quality products sold at lower prices without any government intervention.

The price-setting committee should be abolished. The MOS should be re-tasked to perform activities like emergency food stockpiling and distribution, not the administration of prices or the normal supply of foodstuffs.

3.4.6 Improve the Flexibility of Public Business Sector Companies to Sell off Assets and Prepare for Privatization

The Government should eliminate the requirement that limits affiliated companies from disposing of assets as the managers of those firms see fit. If the Government does not approve the way in which the managers are operating affiliated companies, they can replace them. Likewise, the board of directors should be responsible for evaluating any assets or lines of business to be sold, not an outside "valuation committee." These changes should force the managers of affiliated companies to act more like their private sector counterparts and hasten the privatization of their firms.

The policy changes initiated under Law 203 are having a measurable impact on agribusiness. Clearly, the roles of both the public and private sector in the processing of the so-called "strategic" agriculture commodities: maize, rice, and wheat are changing. Nevertheless, the Food Industries Holding Company (FIHC), which comprises over twenty affiliated companies, still is a major presence in the food processing subsector. Two FIHC firms play an important role in the processing of fruits and vegetables. Edfina Company for Preserved Foods and El Nasr for Preserved Food Company ("Kaha") combined for a total fiscal year 1992/93 production of LE 83 million and LE 69 million, respectively.

3.4.7 Increase Private Participation in Infrastructural Investments and Transport Services

Investments in transport and communications and other supporting activities facilitate agribusiness activities like horticultural exports and thereby promote increased employment and transfer of technology. If the private sector were permitted to make some of these investments, it would take some of the burden off the public sector both to invest in and to operate the facilities, and they would be run more efficiently.

Some examples of potential private sector involvement include: 1) The new state-of-the-art container terminal being constructed at El Dikheila 2) Contracting for road construction, 3) Provision of trucking services, and 4) Provision of loading/unloading and

related services in existing ports. The provision of trucking (and possibly port) services by the private sector would require reducing the subsidies currently being provided and/or some positive steps to divest or remove other barriers. The Government should also make it easier for the private sector to make investments to provide air cargo services. The protection of EgyptAir's position through its landing rights at airports and its monopoly on refrigerated services at airports does not serve the public interest.

3.4.8 Privatize the Sugar Industry and Conserve Water

Charging a fee for the irrigation water of the Nile may be the most sensitive technical issue in Egypt. Rationalization of water pricing is the main objective of the Government's agricultural strategy for the 1990s. The sugar industry may also be considered very strategic by the Government. Sugar and water issues are linked, moreover, because of sugarcane's high consumption of irrigation water. As economists and businessmen, it is the authors' duty to point out that the use of water for growing sugarcane and rice in Egypt is often wasteful. The World Bank estimates that the value added from a cubic meter of water applied to tomato production is eight times that of a cubic meter used to irrigate sugarcane and four times that of rice. If the country's farmers do not have the proper incentives to grow the crops for which Egypt has the greatest comparative advantage, agribusiness firms dependent on these crops will operate less efficiently than otherwise. That is, tomato processing plants, e.g., may not be able to take advantage of economies of scale because of restricted output of tomatoes resulting from the unavailability of irrigation water.

This problem cannot be solved in the short run, but a beginning has been made. The Government has begun to shift sugarcane acreage into sugar beets. This effort should be pursued wherever it is economically feasible. The Government plans to make all sugar beet factories private.

The Government has found that rice is a "reclamation crop" the cultivation of which "prevents the spread of salinity." While this may be true, it may also be true that flushing the soil with a smaller amount of water than that required to grow rice would have the same impact on reducing salinity. This should be investigated.

In the new policy environment, it is not consistent for the Government to be running the sugar industry. However, privatization of the sugar industry is a complicated issue about which all parties should exercise due caution. The Government could benefit the economy by letting the private sector operate the sugar cane processing industry and using the proceeds of privatization for other socially beneficial purposes. The Government has conducted a study in this regard, the results of which are currently being reviewed by experts at the World Bank.

Rationalization of water pricing is a very difficult problem. To date technical measures have been favored on the Old Lands, where the problem is concentrated. Some approaches used so far include extension information, breeding for lower water consumption,

and the cultivation of rice, as mentioned above. Another technical measure for conserving water is land leveling, which is being expanded. Charging a full or partial market-based marginal price for water would require water meters, which would be very expensive. In the New Lands and in parts of the Old Lands, farmers lift their water with pumps before applying it to their fields. They thereby incur a cost for using water, which provides some incentive to limit their use. As mentioned above, the cost of electricity for powering these pumps is being rationalized (i.e., raised to its market value).