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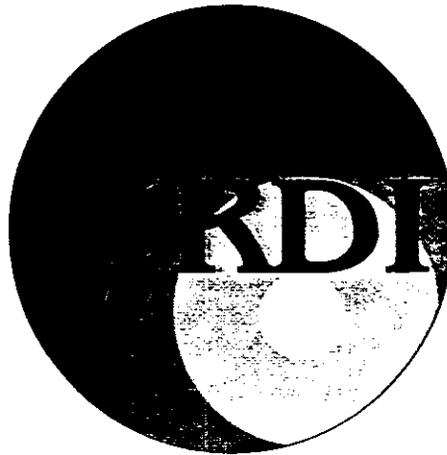
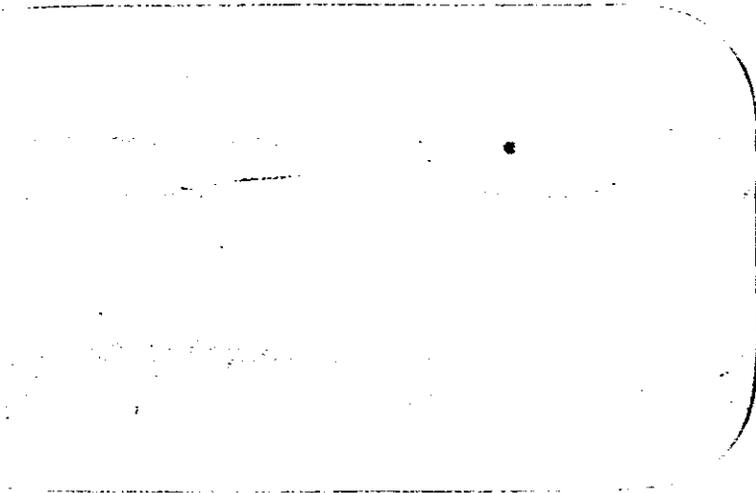
وزارة الزراعة واستصلاح الأراضي
الوكالة الأمريكية للتنمية الدولية
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وحدة تصميم وتنفيذ السياسات

Ministry of Agriculture and Land Reclamation

AGRICULTURE POLICY REFORM PROGRAM

Reform Design and Implementation Unit (RDI)

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APRP

Reform Design and Implementation Unit

Development Alternatives Inc. Group: Office for Studies & Finance, National Consulting Firm Development Associates, Cargill Technical Services, The Services Group, Training Resources Group, Purdue Universities, University of Maryland

RDI REPORTS

A

Report No. 144

***REPORT ON A MISSION TO
EGYPT ON THE FUTURES OF
US-EGYPT COLLABORATION IN
AGRICULTURE PREPARATION
FOR A NOVEMBER 2001
WORKSHOP IN
SHARM-EL-SHEIKH***

by:
Dr. Max Goldensohn

July 2001

Report on a Mission to Egypt
On
The Future of US-Egypt Collaboration in Agriculture
Preparation for a November 2001 Workshop
In Sharm-El-Sheikh

Dr. Max Goldensohn

APRP/RDI

Note: this assignment is undertaken on the condition that there be no conflict of interest in re any future work undertaken by USAID in agriculture in Egypt. The consultant will not provide any input for the design any future USAID-funded agricultural activity in Egypt.

As APRP comes to its end, the GOE, USAID and the Technical Assistance Team (TAT) have begun to think about the agricultural economy in Egypt and what the future holds for those who make that economy work: farmers, processors, exporters, shippers, traders, private associations; and technical and managerial staff from the GOE Ministries which support them. The APRP experience has covered all of the major sub-sectors of the Egyptian agricultural economy and has ranged from input supply through production and productivity to processing, transport and exports of all key raw and processed Egyptian products.

This experience has also led APRP to work closely with a number of GOE Ministries and with Governorate officials throughout the country. From the project's home in the MALR, APRP has collaborated closely with the Ministry of Economy and Foreign Trade, the Ministry of Supply and Home Trade, The Ministry of Water Resources and irrigation, the Ministry of Public Enterprises, the Ministry of Transport, the Ministry of the Environment, and The Ministry of Culture, as well as the full range of private sector producers, processors, transporters, exporters with whom they work. Private associations, such as ESAS, the ACC and its sub-committees, HEIA, EAGA, the Dairy Union, and the Rice Union have played a major role in APRP work and in the successes the project has achieved.

With this background and nearly five years of successful agricultural policy reform efforts, APRP finds itself well situated to help the GOE and USAID think about a vision for the future of Agriculture and the agricultural economy in Egypt.

The GOE has a planning and strategy function which constantly looks to the future, and any USAID and TAT efforts to think about agriculture's role in Egypt's next decade should start from documents which the MALR has prepared to help think about where it wants to go, how it wants to use its resources and what future it sees for agriculture in Egypt. The GOE regularly prepares five-year plans, under the auspices of the Institute of National Planning (INP). These documents are basically investment plans, which include

agriculture. The MALR's contribution to these plans comes from the Economic Advisory Service (EAS), directed by First Undersecretary, Engineer Mohamed Shahed. The latest plan, 2002-2007 is under preparation. The team preparing this report was not able to see it, but Eng. Shahed summarized it for us. It reflects quite precisely the priorities and directions noted in the MALR's *The Strategy of Agricultural Development until the Year 2017*.

Prepared with support from the FAO and UNDP and in collaboration with advisors from GTZ, APRP, the EC and other organizations, the MALR has assembled a comprehensive document which details both the history of agricultural development in Egypt and the MALR's strategy to continue that development for the coming two decades. Work on this very complete and detailed report began in 1997 and the second draft is now completed. This is the document which was made available for review.

While the MALR worked on its Strategy, which concentrated, quite naturally, on the role of the MALR and its responsibilities for protecting and promoting the agricultural economy in Egypt, it asked the World Bank to undertake a more comprehensive look at the country's agricultural development. In the late 1980's the World Bank had worked with the MALR to produce an agricultural strategy for the 1990's. Initially, the MALR had requested that the WB produce a similar document for the first decade of the 21st Century.

In the past ten years the World Bank has changed its priorities and its resource allocations and no longer develops basic sectoral assessment assessments in middle-income countries like Egypt. The Cairo office of the WB so informed the MALR and they agreed that instead, the WB would oversee the preparation of a report called: *Toward Agricultural Competitiveness in the 21st Century: Egypt Agricultural Export-Oriented Strategy*. This document remains a draft, dated 10JAN01, as prepared by the Rural Development, Water and Environment Department of the Bank's Middle East and North Africa Region. The leading participants in the preparation of this document were Jean-Francois Barres and A. Valdes, both of the World Bank. In their work, both relied heavily on documents and written contributions from the USAID-funded RDI, MVE and ATUT projects.

While the MALR *Strategy* concentrates on the role of the MALR for all crops and animal products, the Bank's *Competitiveness* approach takes into account the full range of participants in the agricultural economy but concentrates on those crops which have significant export potential: cotton and high value horticulture. While the *Strategy* deals primarily with the government role and with increasing production and productivity, the Bank's *Competitiveness* report includes issues of concern to other ministries and deals more extensively with products made from agricultural products.

Both documents are of high quality and must form the basis for developing a vision for the future of agriculture and the agricultural economy in Egypt. Both deal directly with the four key areas which will define the future of Egypt's agriculture

- a. Competitiveness;

- b. Employment;
- c. Production and productivity; and
- d. The roles of the government and the private sector

Brief Review of the Draft *Strategy of Agricultural Development until the Year 2017*

The preparation of this document was guided by a set of instructions given by H.E. President Hosni Mubarak to the MALR via the People's Assembly and the Shoura Council on 14NOV98 (p.144). These instructions made clear the purpose of the *Strategy* document. The strategy is to develop MALR capacity to:

- 1. Increase production and improve services to farmers;
- 2. Support the development of the mega-projects;
- 3. Encourage private investments;
- 4. rationalize water use;
- 5. improve agricultural administration at all levels;
- 6. protect the environment; and join international blocs to help promote exports.

The *Strategy* provides a comprehensive summary of agricultural development in Egypt from the early 19th Century through the 1990's, describing basic policy reforms and the achievements of research and extension in generating notable increases in production and productivity for many crops and for animal products.

The strategy details research approaches to **achieve increased production and productivity**, including:

- a. The development of high-yielding varieties, with resistance to pests and diseases and, with low water requirements;
- b. Expanding the use of bio-technology and of hybrids
- c. Expansion of inter-cropping and relay cropping to maximize land and water use;
- d. Emphasizing short-season varieties of all crops to move to a 3-crop rotation, increasing the national cropping intensity from 1.8+ to over 2.5.
- e. Upgrade cattle and buffalo genetics and yields
- f. Improve crop and veterinary extension services to meet the needs of the modern farmer, with an emphasis on marketing.

A major emphases in increasing production is the development of the mega-projects in Toshka, East Oweinat, and Sinai. Here and in the old lands, the MALR will emphasize productivity both per unit of land and per unit of water.

The *Strategy* deals with **employment** generation in a cursory way. By improving the services offered by the MALR, including participation in joint public-private research, the private sector will generate new jobs in agricultural and processing labor. It calls for upgrading the skills of MALR staff and improving the role of women in rural agriculture.

The *Strategy* deals with **competitiveness** through reference to MALR support to the private sector. It calls for maximizing both comparative and competitive advantage and

details the MALR strategies of research which will help the private sector produce more and better output, more cheaply, to capture both export and domestic markets. The *Strategy* describes in some detail collaborative research efforts between the public and private sector and use of crop-based price stabilization funds to ensure that production of strategic crops (e.g. cotton, wheat, sugar cane and beet, ETC.) continue at acceptable levels without compromising Egypt's ability to export, say, cotton.

The *Strategy* also proposes import substitution in the areas of oil-seeds, grain production and animal protein. It calls on the Ministry to help cooperatives produce more and better quality goods for export and to promote investments in post-harvest processing infrastructure. This is not described in detail.

The *Strategy* deals directly with the issue of **public-private partnership** for agricultural development. It endorses an increased private role in agricultural development but also seeks to protect poor farmers and farm workers from negative impacts of development. The *Strategy* concentrates on the services the MALR will provide the private sector: research, highly-trained MALR staff, market information, retraining redundant public sector workers, subsidizing loans to new enterprises of all sizes, and providing rural infrastructure. The MALR will retain and augment its role in licensing, inspection and certification for agro-chemicals and seeds, and will provide extension services to all who need them. But production will remain entirely with the private sector. The *Strategy* presents Cooperatives in the light of support they receive from the MALR and says the Ministry will promote their role in the development of the agricultural economy.

In summary, this very useful document pays most attention to issues of production and productivity. It assumes, with good reason, that these are the foundation for increased employment, improved competitiveness, export development, and a fruitful public-private partnership. There is little discussion of future policy reform, beyond issues of crop stabilization funds, subsidized lending, and an increased role for the private sector in general.

Brief Review of the Draft *Toward Agricultural Competitiveness in the 21st Century: Egypt Agricultural Export-Oriented Strategy*

The World Bank document concentrates on two sub-sectors in the agricultural economy: cotton and horticulture. Rice enters as a brief after-thought at the end of the report (pp.64-6). While issues of production and productivity enter the discussion, especially for horticulture, the World Bank analysis concentrates, for cotton, on policy reform to allow private sector management of the cotton economy and free market mechanisms to determine pricing, variety choice, export markets etc. In horticulture, the World Bank praises the efforts of ATUT to bring new technology to the private sector and emphasizes the technical and logistical constraints which handicap efforts to develop exports of fresh fruits and vegetables.

For both sets of products, the World Bank deals with both primary and processed goods: yarn and cloth and ready-made garments from cotton; and processed (frozen, dried, tinned, etc.) fruits and vegetables.

As per the title of the report, the World Bank pays most attention to issues of **competitiveness**. For cotton, while productivity and variety selection are important in increasing returns to investments in cotton lint production, the main constraints seem to come from inappropriate GOE intervention in cotton marketing, both domestic and international. The Bank offers a series of recommendations, based mainly on APRP analyses, to alleviate these constraints and allow cotton to flourish. Their analysis shows that in the absence of protective measures on the part of the Egyptian government for importable crops and of significant explicit and implicit taxes on exports of cotton, Egypt's 'white gold' would be the most profitable single entry in the crop rotations both in the Delta and in Middle and Upper Egypt.

Horticultural competitiveness is constrained more by issues of **production and productivity**, but less in the field than in post-harvest handling and transport. The report presents a long list of constraints (pp. 49ff) which reduce the competitiveness of Egyptian fruits and vegetables on the international market. This analysis is based on reports from APRP and ATUT. The World Bank concentrates on those crops which ATUT has identified as having significant export markets in Europe at specified times of the year. As these are primarily non-traditional crops, such as grapes and strawberries, the issues of yields and varieties are less dramatically important than for cotton or for other, more traditional horticultural exports, such as citrus, potatoes, onions, and beans.

The World Bank report recognizes horticulture as a significant generator of **employment**, both in the field and in pack-houses. It notes that women are often a main beneficiary of the jobs created in horticulture (pp. 51f). It also notes that cotton processing generates large numbers of jobs, but that the dominance of state-owned, inefficient processing facilities makes it difficult to estimate the real numbers of required jobs in the sub-sector. It may be that cotton employment will decrease as the sector improves its competitive position.

The World Bank report is very clear on the respective roles of the **public and private sector**. Like the *MALR Strategy* it states that the MALR should provide research, regulation, licensing and inspection, as well as some extension services for food crops. But the World Bank makes a series of very specific policy recommendations to get the GOE out of cotton marketing and to leave it out of the horticultural production and marketing cycle. The report emphasizes the role of private organizations like HEIA and the ACC in representing producers and processors in policy dialogue with the GOE and in self-regulation of their sub-sectors. It complains that there is no such organization for cotton. Since the World Bank report was written, ALCOTEXA has been taken over by the private sector, which elected ten of twelve current board members in the last election. The Chairman of ALCOTEXA is now a leading private sector cotton trader, ginner and spinner.

Achievements of Agricultural Policy Reform since the mid 1980's under APCP and APRP

USAID has funded two major agricultural policy reform efforts in Egypt. The Agricultural Production and Credit Project (APCP) provided eight Tranches of funding in return for policy reforms within the Ministry of Agriculture and the principal Bank for Development and Agricultural Credit (PBDAC) between 1987 and 1996. From 1996, the Agricultural Policy Reform Project has funded 5 Tranches to encourage policy reforms in 5 Ministries which work together to develop the country's agricultural economy: MALR, MEFT, MWRI, MPE, MSHT. In addition, the Ministry of International Cooperation oversees project implementation.

APRP prepares, each year, a summary of the Benchmarks included in all Tranches to date. This is done after the signature of the Memorandum of Understanding between the USG and the GOE. The most recent such summary was done in October 1999 (RDI Report No. 81), as the MOU for Tranche 4 was signed in September of that year. The Tranche V MOU has not been signed yet (June 2001).

Agricultural policy reform in Egypt began in 1982, when Dr. Youssef Wally became Minister and launched a program to make the most important part of Egypt's economy more dynamic and productive, through liberalization. Since that time, the MALR, with USAID support and encouragement, has led Egypt into the free-market era and into an acceleration of development that has transformed the country.

APCP and APRP Tranche funding with associated technical assistance have played an important role in supporting and guiding this liberalization. While other donors have made significant contributions to increased production and productivity in the agricultural sector (see below), none have directly intervened in promoting policy reform. The FAO has a policy unit which concentrates on comparisons among agricultural policy conditions in different countries of North Africa and the Middle East. The World Bank has depended on APRP for policy directions and recommendations. Other donors with important agricultural programs have invested in improving production and productivity and in working with government services such as extension, research, on-farm water management, and cooperatives management. These include: GTZ, Dutch aid, Canadian aid, DANIDA, FINNAID, EC, IFAD, AfDB, etc.

Through Tranche IV of APRP, the two projects had concentrated on 15 policy areas and 9 commodity sub-sectors. Progress to date is briefly summarized below:

POLICY AREAS:

Farmer freedom of Choice: APCP offered eight BM in this area and APRP one. Farmers are now entirely free to choose what crop to plant, how and where to plant it, to whom they sell their crop and at what price. The final areas of GOE intervention are in cotton: pest management is finally moving to the private sector for the 2001-2 growing and marketing season; farmer and trader input into variety choice is established following

major advocacy efforts in the last two years; and a Tranche V Benchmark calls on the GOE to allow farmers and traders to compete for cotton in all marketing rings. If this is achieved, farmer freedom of choice is achieved.

Free markets: APCP proposed four BM in this area, while APRP proposed eleven. In general, markets for agricultural inputs and outputs are now entirely free in Egypt. APRP policy reforms in this area have concentrated on issues of tariffs and non-tariff trade barriers which distort markets, rather than impose official restrictions on them. This area requires work in the areas of tariffs on imported spare parts for agricultural equipment, inputs for export products, and on refrigeration equipment for transport and storage.

Information Policy: APCP proposed four BM and APRP seven in this domain. Tranche V has additional BM aimed at improving transparency in the process of policy formulation and in providing GOE statistics and analysis to traders and farmers. APCP had concentrated on information to support the reform process. APRP has moved to working on information to support accelerated agricultural development and increased efficiency of resource use.

Land Policy: APCP proposed four BM and APRP 6 in this area. With the successful implementation of Law 96/1992, the issue of land titling has become urgent to promote the availability of capital for agricultural development and to increase investment in land. Without a land market, even the recent passage of the mortgage law through the People's Assembly will not release the value now tied up in agricultural land.

Pest Management: APCP had four BM and APRP has had five in this area. With the recent decree enabling the private sector to take over cotton pest management, the only areas remaining have to do with licensing and registering pesticide dealers and applicators. Coordination of pesticide registration protocols with the Ministry of Health remains critical as well.

Credit: APCP had seven BM on credit, APRP has had none. This was a primary focus of APCP which worked almost exclusively with the PBDAC. However, rural credit for production, for micro and small enterprises, for agribusiness investments remains a major problem in most areas, and the PBDAC has retained its near-monopoly on rural credit markets. Policies to attract private credit institutions to rural areas are needed badly.

Cooperatives: Each of the projects has had two BM on Cooperatives, with the purpose of making them into real, representative, private sector organizations to promote the participation of small-holding farmers in the modern, free-market agricultural economy. APRP has concentrated on eliminating the final vestiges of formal GOE participation in the management of the Cooperatives and has found them an excellent and independent, private sector partner in many implementation activities. A new Law for Cooperatives has sat in the People's Assembly for the entire life of APRP and is needed. But most of most important provisions of such a law, which would complete the formal emancipation of the Cooperatives from MALR control and influence, have been achieved through a series of measures implemented by the MKALR and the Cooperatives themselves.

PBDAC Restructuring: APCP presented ten BM about the PBDAC, while APRP has had only one, and that in Tranche I. Restructuring the PBDAC was a main task of APCP and they completed their assigned objectives. Much work remains to be done, if the PBDAC is to become a real bank and not a tool for implementing MALR agricultural policies, but this has been outside the scope of APRP.

Water: APCP did not deal with water, which has been of central concern to APRP with 27 water-related BM. These have ranged from improved coordination between MALR and MWRI to improve water allocations and effect water savings to changes to systems for dealing with drainage water, waste-water, irrigation management transfer, etc. The MWRI has been very active in planning and implementing reform programs. Much remains to be done and one of the main reform areas – water pricing – have not been attacked under APRP.

Agricultural Sector Institutions: Except for the PBDAC, APCP did little work in this area and had no BM on institutions other than the PBDAC. APRP has had 17 dealing with research and extension, water users' associations, seeds, agro-chemicals, private associations and councils, and so on. Policy reforms in these institutions have begun and in some cases, (e.g. extension) implementation is well-advanced. In others, such as GOE seed production, reforms have stalled. This is an area where more work is needed.

Agribusiness: APCP did not deal with agribusiness except as a potential market for their main client, the PBDAC. APRP has proposed 15 BM for policies to support and promote private agribusiness. In close collaboration with Associations and Councils (ESAS, HEIA, ACC and its sub-committees, EAGA, etc.), APRP has proposed an on-going series of micro- and meso-level reforms required to complement Egypt's program of macro-economic reforms. These reforms have had a direct impact on the competitiveness of Egyptian agribusinesses. The identification, articulation, advocacy and implementation of these reforms depends directly on the ability of the private agribusiness sector to see the policy issues which impede their ability to compete in both domestic and international markets. Strengthening these Associations through technical assistance and advisory services is critical to the future of these reforms.

Private Sector Associations: APCP did not work with these associations and APRP, which proposes policy measures which the GOE has to enact and implement cannot directly call upon associations to carry out any measures. However, APRP has proposed three BM in past Tranches and has several more in Tranche V which engage the GOE to support and listen to private associations. This work requires further strengthening in the future.

Food Security: APCP did not work on Food Security issues directly. For its first three years, APRP's Food Security policy initiatives came from a special research unit (FSRU) which dealt with issues of subsidy reduction and targeting. They had eight benchmarks included in the first four Tranches of APCP. APRP has moved away from a concern with

the Egyptian food subsidy program to concentrate on issues of food safety and hidden hunger (malnutrition).

Transport: As APRP began to work more in the areas of institutions and public administration and export development, the project met with a number of required reforms based in the domain of transportation policy. The project has proposed four such BM, which the Ministry of Transport has supported and tried to have implemented, even though this Ministry is not part of APRP. Transport constraints have been identified by many analysts (World Bank, HEIA, DEPRRA, ACC and sub-committee, RDI) as a major obstacle to competitive exporting of fresh and processed agricultural products. This area requires much more work.

Women in Development: APRP undertook a two phase analysis of the role of women in the agricultural economy and identified five areas where policy reforms would support MALR's stated objective of increasing women's participation in agriculture and agribusiness. One BM was included in APRP Tranche IV, with one indicator reserved for Tranche V. These BM covered the disaggregation of data on women in agriculture as collected and analyzed by the MALR and the availability of services aimed at women at agribusiness promotion centers established by the MALR and the donor community throughout Egypt. The remaining three areas of reform should be considered in future activities.

COMMODITY-SPECIFIC POLICY REFORM

Cotton: Cotton has received more attention than any other sub-sector in APRP (31BM) and APCP (29 BM). APCP reforms concentrated on cotton production and pricing. APRP continued, filling in the areas APCP had not finalized. APRP included only one cotton BM in Tranche IV and has three in Tranche V – showing that the overall program of reforms has had a significant effect, though the sector is the one in which state influence is still felt most strongly. Most APRP cotton activities now have to do with ensuring competitiveness for international cotton marketing.

Meat and Animal Products: APCP had four BM on meat, while APRP has had one. APRP has carried out several studies to better understand the poultry sub-sector and has worked with other projects (Expo-link, ACDI) on dairy and leather policies. But this important sector has not had the attention it deserves. APRP has concentrated on strengthening a nascent Dairy producers and processors Union. This highly protected sector represents a major policy challenge for the future and the Egyptian Dairy Union, like the Egyptian Poultry Union are critical elements in the reform process.

Livestock feed: APCP concentrated on this area and had 14 BM. APRP has had one only. Growing or importing yellow corn for feed is a major policy issue. Protection for domestic producers in another.

Fertilizer and other inputs: APCP concentrated much effort and energy in this area, especially on the PBDAC's role in fertilizer distribution (39 BM). In general, reforms in

this area have been successful. Private investment in fertilizer production has made Egypt into a net exporter, private distributors have ready access to the output of all fertilizer companies, agricultural inputs are no longer subsidized in a systematic way. No further BM are required in fertilizer though APRP has continued to work on issues to do with agro-chemicals (see above), where the issues have to do with safety and handling, rather than with free market access and pricing.

Rice: APCP had three BM for rice sub sector while APRP has had nine. The earlier project concentrated on free market pricing and mandatory deliveries. APRP has worked more on water allocations, and on processing and marketing issues, including privatization via Employee Stake-holder Associations (ESA). The remaining issue with rice very basic: should Egypt continue to grow large areas of rice as water shortages grow?

Seed: APCP had 12 BM for seed, which APRP has had 12. This remains an important area where much progress has been made. APCP dealt mostly with the PBDAC role in seed distribution and storage. APRP has worked on the difficult issues of private and public sector roles in seed production, research, registration, distribution, and variety control. While many reforms have been accomplished and the ESAS is now a recognized and respected private interlocutor with the GOE for seed policy, the GOE still controls the multiplication of seed for several key commodities, such as hybrid maize. APRP has done a major study for the privatization of the GOE seed production and processing capacity, but action remains to be taken.

Wheat: Wheat remains the crop sub-sector which needs the most reform. APCP stayed away from wheat policy entirely, while APRP has had 3 BM related to the bread subsidy program. Wheat cropping is free, but the domestic market enjoys significant GOE price supports and milling is strictly controlled, with a heavy SOE presence in the market.

Sugar Crops: APCP did not work on sugar. APRP has worked only to reduce water allocations for sugar cane (one BM). Further policy reforms depend on GOE macro-policy decisions about the nature of the agricultural economy. The GOE is encouraging the cultivation of sugar beet on new lands, while controlling the acreage for sugar cane. The cultivation of this crop is free, but the SOE mills are the only market for the crop and prices are thus fixed by the GOE.

Horticulture: With their attention exclusively on the PBDAC and the areas in which the Bank intervened in the agricultural economy, APCP had no horticultural BM. APRP has had six through Tranche IV. Horticultural production and exports, supported by ATUT and ALEB, represent a major potential area of expansion for Egyptian agricultural exports of both fresh and processed products. Working closely with the private associations in horticulture (HEIA, the ACC and its sub-committees, ESAS for seed-related issues) and in coordination with ALEB and ATUT, APRP has identified, designed, and implemented a wide range of reforms. In this growing area, the private sector identifies new constraints regularly, and combined technical and policy-based efforts combine to solve them.

SOME ISSUES FOR CONSIDERATION FROM THE DOCUMENTS UNDER REVIEWED AND FROM PAST TRANCHES

Agriculture is the mainstay of Egypt's economy. Production, processing, transport, handling of agricultural products accounts for more than half of employment and output in Egypt. As the employment and GDP share of agricultural on-farm production shrinks (though its absolute numbers rise), agriculture's contribution to the manufacturing and services sector expands markedly. Increases in agricultural income have been shown to have a dramatic multiplier effect on rural economies. New shifts in cropping patterns bring to the fore activities which generate new jobs, both on and off the farm.

Policy reform has had a vital role to play in the revitalization of the Egyptian agricultural economy. Technology has played an equally vital part in increasing production and productivity in agriculture and related industries. The two are inextricably linked and joint USAID and MALR activities have supported both.

Needed improvements in production and processing technology are detailed in both the MALR *Strategy* and in the World Bank competitiveness report. Below are some policy issues which may prove important for the future of agriculture. This report is meant to be a *think-piece* and not an in-depth analysis, so these issues are only briefly described. They are not meant to be in order of priority:

The principal objective of the agricultural economy: In France the Government wants to preserve a life style and production capacity which they value. In the US, the government wants to ensure that farm incomes remain high enough to generate significant food and fiber production. In Morocco, the government wants to maximize wheat self-sufficiency while generating maximum income from exports. What does Egypt want most from its farming economy: Maximum employment? Maintenance of small-holders and a valued, time-honored life style? Food security? Maximum revenues from exports and participation in the global economy? Self-sufficiency? Policy choices might seem more consistent and transparent if the GOE could state its main objectives clearly.

The Mega-projects: what are they for? Statements from different GOE agencies and in the press are contradictory. Are they for food production and self-sufficiency? Are they for export production? Will large investors get the land or will portions be reserved for small-holders and an expansion of the (failed to date) Graduates Land Distribution Program? Will the projects generate thousands of jobs or will farmers mechanize? What social and economic infrastructure with the GOE provide and what will large and small investors have to provide?

Rice: Should Egypt continue to produce an exportable surplus of rice in an era of growing water shortage? Should the GOE implement policies to ensure that farmers pay the real cost of growing their crops – through pricing water? Through basing land taxes on cropping patterns instead of simply on area cultivated (i.e. shifting to an income-based tax in rural areas)? Exporting rice is basically exporting water. But is this

necessarily bad? One exports what one has cheaply and in abundance to those who do not have it. As long as the importers pay well, why not export water? Can the rice industry survive by milling imported paddy in the future?

Wheat: Should Egypt continue to support wheat prices to farmers well above border prices for imported wheat? Should the area devoted to wheat be made available to other crops which are more competitive globally? Or is food security important enough to continue to distort the cropping pattern and the internal market with these subsidies? Can the subsidy system be made simpler by applying it at the bakery rather than at the mill?

Berseem and livestock: About 10-15% of Egypt's croplan goes for fodder crops, mainly berseem. Does it make sense for Egypt to produce cattle and buffalo products? Or should this land be used for food crops or export and cash crops? Egypt, with limited land resources, cannot grow all the food and fiber items it needs. Is berseem a good crop?

Sugar crops: How much does the GOE have to pay to maintain its prior investment in major manufacturing infrastructure now owned by the state. This question applies to sugar refineries, yarn and textile mills, wheat milling and other areas where state investment serves as a justification for continued spending on production to feed the mills.

Credit: The PBDAC has a near-monopoly on rural credit. Would policies to attract private bank and non-bank lender to rural areas work? Can the PBDAC be decentralized or even broken up? Can Cooperatives play a role in rural credit in competition with the PBDAC?

Employment: Most studies of employment in agriculture show that the sector generates a very large number of jobs for relatively small investments. The *Strategy* and the World Bank agree. But most of this discussion is of unskilled manual jobs in the field or in primary processing. Egypt is now facing a relative shortage of unskilled labor – many farmers in many parts of the country face labor shortages at critical times. But Egypt has significant unemployment among graduates of technical schools and universities. Can agriculture contribute to absorbing these graduates? How can the government support this attempt?

Cotton: what does it mean that cotton (or wheat or sugar cane or anything else) is a strategic crop? Does this mean the country needs it desperately? That the GOE has enormous sunk-costs in processing plants and lots of redundant employees to keep occupied for political reasons? That world markets are unstable and Egypt needs the production to protect against possible short-falls? Cotton is a high-potential crop for Egypt, both for exports and for adding value through processing. But how should Egypt best exploit its advantage in high quality cotton? By imports of cheap short-staple cotton for local industry? By banning exports of certain varieties? By producing only (or mostly) ELS? Can the mega-projects grow upland cotton economically? Can it grow elsewhere?

Food subsidies: Egypt now spends a significant sum on subsidies for bread, cooking oil and sugar. No other foods are subsidized. Should the country switch to a monetary welfare system, paying a specified amount to poor families and leaving price mechanisms to set their own levels for bread and other commodities? Is there any way to better target the poor with the bread subsidy without causing a major political upset? Or should policy reform simply leave the subsidies alone? As no new ration cards are issued for oil and sugar, these will eventually wither away. If the bread subsidy is maintained at its present level or with small increments, it, too, will diminish as a portion of GDP or of tax revenues. Should policy interventions worry about this? Most countries subsidize basic food for the poor.

Water pricing: Should the GOE make farmers pay for their water? If so, how would they do it. Volumetric charges seem impossible in an irrigation system like that of Egypt. Can water be treated as a public good, paid for through normal taxes (income taxes, land taxes, etc.) This is the system in effect, *de facto*, at this time, though farmers, in fact pay few if any taxes, beyond the very small land tax. Much of the burden is transferred to landlords who pay income tax on their land rents. Is the socio-religious position that an Islamic government cannot charge for water tenable?

The foregoing do not by any means exhaust the areas where major policy issues await decisions and reforms. Without the reforms achieved earlier by APCP and APRP, these issues might not have emerged with any clarity and the policy alternatives might have been blurred by other reform priorities. Just as technological innovation never ends, so also does policy reform never really end.

RDI GROUP: Agricultural Sector Support Services; Marketing & Agribusiness; Privatization & Investment Promotion; Resource Economics; Public Awareness; Training; Chief of Party/Office Administration

TOR STATUS:

Draft Edited Final

ACTIVITY: 7.4.04. Vision For the Future of Agricultural Policy Reform in Egypt

**Agricultural Policy Reform Project
REFORM DESIGN AND IMPLEMENTATION UNIT**

Proposed Terms of Reference

Preparation for Strategic Vision Workshop - Year 2017

Justification for these terms of reference:

The RDI Unit, in cooperation with the MALR, other ministries and USAID, intends to hold a large workshop in September to agree upon Vision of Agriculture - 2017. The RDI Unit intends to include a wide range of stakeholders, including farmers, government officials, private sector representatives as well as technical experts or managers from other donor agencies working in Egypt.

The purpose of the workshop will be threefold:

1. To build a common understanding among ministries participating in the workshop preparation and delivery on a Vision 2017 for Agriculture in Egypt.
2. To produce a Vision 2017 for Agriculture in Egypt document that will be useful to the MALR and others.
3. To reach broad consensus on steps and intermediate targets to achieve this 2017 vision.

The workshop will focus on four main areas of discussion: exports, employment, the role of the public and private sectors, and production and productivity. This list of issues areas is tentative and subject to further discussion with collaborators in government and the private sector.

We propose to convene four task forces, one for each issues area to reach preliminary agreement on the vision for each area. Each task force will be composed of stakeholder leaders from the private sector or government, and one person will be selected as manager of the task force. The task force leaders eventually will be charged with presenting the visions for 2017 at the workshop.

Objective of this short term assignment:

The objective of this assignment is to convene the task forces for the vision workshop, and set out a plan for them to reach consensus on a vision for 2017.

Outputs:

Four task forces initiated, and trip report

Timing:

June 8 to June 23

Team and resources:

Short term technical assistance, RDI Unit
MALR staff to help with convening task forces

RDI Unit Responsibility:

Jane Gleason

Tasks:

Workshop - Nov

THE FUTURE OF US-EGYPT COLLABORATION IN AGRICULTURE
Preparation for November 2001 Workshop
In Sharm El-Sheikh

Revised Tasks for Dr. Max Goldensohn
June 2001 Trip to Cairo

Overview: For the past few years, Egypt has been working in close collaboration with the World Bank and the International Community to develop an extensive agricultural sector strategy. This Strategy is now in draft and donors are commenting on the draft. This is an opportune time, in light of the Agricultural Policy Reform Program (APRP) and the Agriculture Technology Utilization and Transfer (ATUT) Projects coming to an end, for USAID to look at how we can contribute to Egypt's priorities for Agriculture in the future. We are proposing to organize a workshop to be held sometime in November to discuss how USAID can best contribute to help the Government of Egypt (GOE) bridge the gap between the present situation in agricultural policy and technology transfer and the desired outcomes spelled out in the GOE Agricultural Strategy.

Task #1: Review the GOE Draft Agricultural Strategy and the World Bank report on the strategy of the horticulture, cotton and rice exports

*APRP
ATUT*

Outcomes: to identify from these documents and provide commentary on the areas of common interest to GOE and USAID that relate to private sector competitiveness, production and productivity, employment and the roles of the government and of the private sector.

The contractor is expected to prepare a think piece on the GOE Draft Agricultural Strategy, and identify how it relates to USAID program strategy and objectives as well as to past and present interventions to strengthen the agricultural private sector in Egypt.

Task #2: Review Agricultural Policy Reforms Accomplishments since the mid 1980s.

Outcomes: a) review the policy reform component under APCP (Tranches I to VII); b) Review the policy reforms under

Handwritten note: need to check

APRP (Tranches I to V); and b) review the efforts by other donors in agricultural policy reforms in Egypt.

The contractor is expected to summarize the policy reforms and identify other donor-sponsored reforms in close consultation and cooperation with Dr. Saad Nassar, other MALR staff, as well as the RDI unit.

Task #3: Review the experience with agricultural research and technology transfer provided through NARP and ATUT in the Agricultural Sector since mid 1980's.

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2/17/91

Outcomes: a) review research accomplishments in agriculture under NARP; b) Review the technology transfer under ATUT; and b) review the efforts by other donors in the area of agricultural technology transfer in Egypt.

The contractor must consider what NARP and ATUT are about, what they have accomplished and make suggestions on what work still has to be done to arrive at the outcomes specified in the GOE Strategy for Agriculture. In this regard, the Contractor should propose what the proper roles of the public and private sectors should be to achieve these outcomes. This commentary should be prepared in close consultation and cooperation with Dr. Saad Nassar and other MALR staff, as well as the RDI unit.

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Task #4: Propose an approach and an agenda for the November Workshop.

Outcomes: In preparation for the November Workshop, identify and analyze the areas of interest for the Government of Egypt in the area of employment, increased competitiveness, production and productivity. Identify the gaps between the present situation in agricultural policy and transfer and the desired outcomes spelled out in the GOE Agricultural Strategy.

The contractor is expected to engage in extensive consultations to gain a thorough perspective on the issues most important to the future of agriculture in Egypt. Consultations should include: Dr. Nassar and his peers in parts of the Government of Egypt, as appropriate; key "influence" leaders in the private sector such as the leadership of the Egyptian Exporters Association,

Horticulture Exporters Improvement Association, members of the APRP/PPC, APRP/RDI, and the World Bank.

The contractor is expected to meet with the Coordinating Committee for the Workshop at least once at the beginning and once at the end of the TDY. The Coordinating Committee members are Ms. Jane Gleason, Mr. Gary Ender, Mr. Nour, Mr. George Condos, Mr. Steve Joyce, Mr. Mohamed Omran and Ms. Anne Williams.

June 12, 2001

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Persons consulted:

USAID:

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Dawn Thomas, Division Chief
Dr. Ann Williams, Agricultural Economist

PMU

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George Kondos, Human Resources
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Lawrence Kent, Agribusiness Policy
Dr. Amr Saleh, Agribusiness Policy
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Dr. Mohamed Zaki Gomaa, Agribusiness Policy
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Dr. Saad Nassar, President, ARC; Director APRP
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Dr. Magdy Madkour, Director, AGERI
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Private Sector:

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Hamed Shiati, Shoura Co., Chairman, EBA Agriculture Committee

Samir El-Naggari, Fresh Fruit Exports Co.

Amin Abaza, Chairman ALCOTEXA, Modern Nile Co.

Mohamed Hashem, RMG Exporter

Dr. Faroug El- Shobaki, Medicinals Exporters, Chairman Medicinal and Aromatics CC

Yeyia Hashem, RMG Exporter

Fatma Khattab, Trade and Privatization Expert

Other Projects and Donors

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Steven Lee, Export and Market Development Advisor, PSDP (EC)

Dr. Conrad Fritsch, COP, ATUT

James Purcell, DCOP, ATUT

Antonio Lizana, Production Advisor, ATUT

Kelly Harrison, Advisor, HEIA

Agriculture Committee of Egyptian Businessmen's Association (EBA)

Fouad Abu Hedb - MALR Chief for New Projects

Nabil Marsafawy, Chairman, Southern Valley Holding Company (and Trade Holding Company)

Eng. Hamed Shiati, Chairman EBA Agricultural Committee and member APRP PPC

Nagy A.M. Saeed, CFO, KADCO (for El Mamlaka Company of Prince Talal)

Eng. Ali Mahmoud Warour, Chairman, Regwa Co (well drilling)

Hany Makram Ebeid, Chairman, Volcano Group (contractors)

Eng. Ahmed El-Barrawy, Board Member, SamTrade

Ayman Korra, Chairman HEIA, Pres. CONSUKORRA

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Mr. A.S.G. Ahmed, Chairman (ret) of large poultry company (637-0001 or 012-281-7610)

Dr. Sherif Al Gabbaly, Chairman, Fertilizer Co., Chairman, East Oweinat Co.

Dr. Dia El Din El Quasy, Chairman, Horizontal Expansion, MWRI
Eng. Hussein el Atfi, MWRI, Under-Secretary

MEETING/INTERVIEW NOTES

**Eng. Hamed Shiati, Shoura Co.
PDG, Shoura Co.
21 Giza St, 24th Floor
APRP
06/09/2001**

JG, MN, Max

Purpose: Discuss Vision of Agriculture for 2017 - Hamed Shiati

Meeting:

After a short introduction, Mr. Shiati agreed to participate on at least one task force for the preparation of the Vision Conference. He then offered some ideas for the future of the agricultural economy:

- **Water is the first element for the future of agriculture.** Water is needed for horizontal expansion and for increasing production on lands now in use. If we do not use our water wisely and conserve it, there may be water wars in the near future.
- Water quality and quantity are critical.
- A good model is RDI work on Sugar Cane and Rice: improving infrastructure, increasing yields, saving water. Also saving antiquities.
- The work to match irrigation supply and demand is also critical to the future.
- The Ministry of Agriculture needs better regulations for waste water use and standards: which crops with what kind of waste water. Now sewage goes directly into irrigation canals. This is dangerous.
- Surface irrigation should be transformed into modern irrigation techniques such as gated pipes or drip irrigation, if continuous flow is available. Better irrigation leads to more productivity and creates more real, permanent jobs. As the workers in these jobs produce more, their real wages will rise and the multiplier effect of their wages will also grow.
- Labor productivity must increase - raising efficiency is the only reliable path to increased real wages.
- **The second critical issue is legislation for land ownership.** For example, we need a better leasing law, the mortgage law, easier and clearer titling to permit easy sales and other transfers of land. The country needs land to become a commodity like any other, with financing options. The same goes for agricultural land, in the Delta or in the desert.
- Investors need real ownership of the land. This should be established simply and easily with reliable, legal documentation.
- There is now more or less no market for buying and selling agricultural land. This is

badly needed.

- Land is now a productive asset but not an investment. Why can't private surveyors support the land titling efforts? The MWRI seems to fear that the Ministry of Justice will use private surveyors.
- If land is to become a living asset it needs to be sold, mortgaged, leased. Now it is a dead asset.
- Land costs are very high 40-50,000LE/fd in the Delta. You can get a better return on such an investment but putting your money in a savings account at the bank. If you could mortgage your land you get finance to invest in high value production, post-harvest infrastructure, etc.
- **what will be the cropping pattern after WTO/GATT is fully implemented?** This will happen between 2007 and 2010.
- Will wheat remain a reasonable crop for Egypt? Or should we just import our wheat and grow higher value crops where we have a better competitive advantage? After GATT the wheat producers will have full access to our markets. Perhaps we should concentrate on beans?
- Egypt needs formal markets - commodity exchanges for cotton, other crops. Futures markets, too. This goes with good contracting with farmers. Before nationalization, farmers would contract to sell their cotton crop even two years in advance. The buyer would provide credit and some inputs. If the farmer sold to another buyer, he had to repay the loan with interest. With futures markets, the exporter knows what he is getting into and can build his strategy. The farmer, too. Even the MEFT can make better predictions.
- Thus, three big issues: **water, land ownership, better marketing structures.**
- **Crops for the future: cotton!** It requires a lot of labor, fits with Egypt's labor force.
maize 90-day varieties of yellow maize - for both human and animal nutrition.
wheat has no value unless we can get spectacular yields above 20 ardeb/fd.
potatoes for industry, not for export. Potatoes have most potential in the new lands. There the soil is clean and we can use mechanization. We have to keep up with new varieties which the industry needs. For old lands, **beans** may be the best bet, though there is a major problem with the weed known as orabanca. **Flax** will likely diminish because of the environmental problems with processing and soil exhaustion. **Vegetables** will also probably be mostly for processing..
- Fresh vegetables and fruits for export have no great future. We should concentrate on freezing, drying, other processing. The problem for fresh exports is the regulations and facilities/logistics. We should concentrate on sea freight.
- **jojoba?** This has export potential - lubrication for nuclear plants and airplanes; cosmetics, medicinals, etc. But, like cotton, it can only prosper if clusters develop: industries for processing near the fields. They need to contract for production and need faster propagation of best varieties: need tissue culture and cuttings. Now they grow from seed which is very slow.
- **berseem:** now we grow 1.5m fd of berseem per year - about 10-12% of the and area. This is for animals: meat and milk and traction. We need better varieties of berseem and better breeds of animals to make the best use of the fodder: more production. Our animals have too many parasites. In summer, production flags in the heat - the animals just survive. For example, in Italy, Egyptian buffaloes

produce 4-6 times what they produce here.

- **buffaloes:** in rural households, the buffalo is more important than the mother. They get food and cash from milk/butter/cheese and calves are sold for cash. They also produce manure. But as grocery stores spread through the country, buffalo use is declining. It used to be a sign of wealth and of a good family.
- **cattle** are used only for their calves. The calves drink their mother's milk. Cattle are for meat only. Even buffalo calves get cow's milk. Buffalo milk is more expensive and healthier - lower cholesterol.
- **donkeys:** we have 2m in Egypt. They are the family vehicle. Donkeys will continue in importance as long as we have flood irrigation and few roads to farms. They eat anything.
- **road infrastructure:** if irrigation patterns change, we will need better roads. Especially if we mechanize.
- **Land consolidation** will be a desirable outcome of changes in legal rules for land ownership, titling and transfer.
- **Fresh vegetables and fruit:** we need regular reefer shipments to Europe by sea. Egypt is served only by 'on-call' freighters. We need more quantity and better coordination among growers to get regular service, such as they have in Israel, where two or three ships call every day. Air freight is too expensive for most products. Landing fees are too high, freight costs are too high. We need a sea-land combination. A group of growers is now shipping by sea to Yugoslavia, from where trucks take the produce throughout Europe. The group, which includes Sherif Maghrabi, Ayman Qorra, Sherif Beltagui and Shiati, ship together and can get their product into Europe in 5 days. They have shipped 12KT of grapes this year, up from 8.5KT last year. They are now paying royalties on the *Superior* grapes they export, to the US owner of the variety (Sunworld). About \$0.05/kg of \$0.25/box. This is for export sales only. Domestic sales are exempt. SunWorld wanted \$0.07 but they bargained and agreed.
- **Post-harvest handling facilities** are urgently required, especially cooling and freezing. They need cheaper cold transport from farm to ship.
- **regulatory changes:** The Ministry of Finance must encourage exports through broad-minded policies. The harbor/port authorities must help. Drawback problems should end. **taxation** is another problem. Firms pay 38-40% on profits via the Commercial and Industrial income tax; up to 10% sales tax for inputs (5%), machinery (10%) and spares (10%). Customs charges on spare parts can go from 20-50% of value. Higher input costs lead to lower margins and an inability to compete. The GOE says they want exports, but they do not do enough to promote exports.
- **EIAs:** these can only be eliminated or controlled through transparent rules, clear and non-conflicting authorities, limits of competence.
- **The exchange rate:** the question really is whether we have a free market or a directed market. The LE should be a commodity like any other - freely sold and bought at a market price. The GOE says they fear enemies would manipulate the pound from outside, so they cannot free it.
- **MALR regulatory changes:** change variety registration rules to allow varieties in easily and quickly. Stop the silly competition between imported and

MALR-developed varieties. Allow seed producers to sell seeds to grow varieties to satisfy European customers.

- We need **container lines heading South** from the Suez canal to service markets in South Africa, Asia.
- **Citrus:** we produce 7T/fd compared to 15-20T/fd in Morocco, Israel, Spain etc. We need new varieties, virus free plants, better techniques.
- **Fruits and vegetables:** we have a surplus but our cost of production for export is too high. Yields are low and quality is low. Costs rise when the portion of export quality output is low. When expert farmers grow F&V for export, quality is good and costs per unit go down, profits up. HEIA has encouraged *expert* production for exports. Specialized companies like MAFA (Maghrabi), and Americana which have post-harvest facilities can do expert production. Small-holders cannot do it on their own. Strawberries, green beans, other crops respond well to expertise: special varieties, good management, higher quality.
- But vegetables and fruits will never make a big dent in the balance of payments. You need crops with big quantities: semi high value crops like **onions and garlic**. These can be mechanized in new lands for large volume production. They can be exported fresh or dehydrated. Egypt can recapture the onion and garlic market which we used to have. In Upper Egypt these crops grow well and there is lots of labor available.
- One needs profits to do expert agriculture. Perhaps a voluntary (or involuntary) **cess on exports** to help cover the costs of investments like land fumigation.
- **Private extension Services** are needed for groups of larger farmers. They also need shared post-harvest facilities. When these are operative for large farmers who can afford them and still make profits, then small farmers can participate. Big farmers are usually ready to help their neighbors with inputs, post-harvest facilities, phytosanitary controls, etc. They will profit from the added high quality production.
- **Sugar cane:** if we implement water savings technologies as per the RDI model, sugar cane becomes like an average crop using 7-8,000 m³ per year. Farmers like it because they save money on land preparation 6 or 8 times as Egyptian varieties ratoon 4 or 5 years. This helps the balance of payments through import substitution. Sugar cane fits Upper Egypt well - it reduces the heat and requires less labor than other crops.
- **Rural finances:** If the market is really free, then banks might go into rural areas. Private buyers will get loans from their own banks. If we have transparent prices and markets, commodity exchanges, then financial institutions can assess risk and participate. Futures contracts could include production costs as advances/loans. But bankers are now frightened of the agricultural sector. They take no risks. Especially the PBDAC. They are store-keepers, not bankers.

If Hamed Shiati heads a task force, he would like to have with him:

Ayman Qorra

Amin Abaza

Abu Bakr el Bassel

Bahi El-Din Baroudi (Roda Farm - biggest grape exporter)

Khalid Abu Ismail (potatoes and oranges)
Samir Naggar
Shwerif Beltagui
Sherif Maghrabi
Osama Kheir El-Din
Hussein Al-Aguizi.

ACTIVITY:

7.4.04. Vision For the Future of Agricultural Policy Reform in Egypt

MEETING/INTERVIEW NOTES

Dr. Saad Nassar
President ARC; Director APRP
ARC, Giza
ARC, Giza
06/09/2001

JG, MN, Max

Purpose: Discuss Vision - Dr. Saad Nassar

Meeting:

Also present: Magdy Madkour, Director of AGERI, Ali Sa'ada, former head of Agricultural Services, now retired.

Dr. Magdy said how happy he was with Phil Stanwood (Genetic Resources Storage and Preservation) and Hector Quemada (GMO regulations). Both are returning via RDI in June. He also said that the MSU ABSP project is getting a final evaluation from 9-14JUN01. Teams will come to Egypt and Indonesia during that time.

- For the Vision Workshop: Dr. Saad needs to know the difference between the vision conference and the USAID assessment. We explained that the assessment is an internal USAID undertaking, independent of RDI, while the Vision Conference is a USAID undertaking with the support of RDI.
- Dr. Saad said the four topics of discussion for the Vision Conference should be vetted with the PPC.
- The MALR has done a draft strategy for 2017 with the collaboration of FAO, UNDP, World Bank and RDI. Dr. Saad will get us a copy.
- Dr. Saad said that USAID has requested a letter from HE to ask to have the assessment done for the future work of USAID in agriculture in Egypt. He needs to understand better what they want to do before he asks HE to do this. He first needs to figure out the relationship between the vision and the assessment.
- Dr. Saad asked for a meeting with USAID and RDI/MN to figure this out. We scheduled it for 10h00 on 11JUN01.

ACTIVITY:

7.4.04. Vision For the Future of Agricultural Policy Reform in Egypt

MEETING/INTERVIEW NOTES

USAID

RDI
06/10/2001

JG, Max

Purpose: Discuss Vision Scope of Work - Ann Williams, Mohamed Omran

Meeting:

- Present: Ann Williams, Mohamed Omran from USAID
- We discussed the scope of work - no changes required. We may not be able to have all the task forces meet while Max is here but we will establish a methodology and Amr Moussa and RDI can continue after Max's departure.
- The task force composition does not need higher-up approval from USAID.
- RDI will get Task Force and leadership approvals from Dr. Saad
- Ann W is in charge. RDI in support.

MEETING/INTERVIEW NOTES**Vision Committee**

APRP
06/10/2001

MN, AM, SJ, JG, Max

Purpose: Discuss Vision Workshop/Conference - Vision Committee

Meeting:

- Present: **USAID:** Omran, Williams; **MVE:** Ender; **PMU:** Nour, Kondos; **RDI:** JG, AM, SJ, Max
- RDI distributed copies of the SOW, the draft agenda for the conference.
- USAID would like to have the head of IFPRI, Per Pinstrup-Anderson (sp?) give a speech about IFPRI's 2020 vision. Who will pay, asked RDI? USAID had assumed RDI could bring him, like Tyner (from Purdue, a DAI sub-contractor) or Mellor (an Abt employee), or E.T. York (a retired professor and thus an independent consultant). We cannot give a sub-contract to IFPRI, so we will have to ask them to send Anderson at their expense.
- MO suggested that we change the title of the 'exports/marketing' task Force to competitiveness. This was immediately accepted by all as logical and more in line with USAID programs.
- For employment, we all agreed that we are not interested in GOE programs but in private employment: e.g. the role of SMEs in rural areas. This will be the hardest Task Force: Dr. Goweili will work with John Mellor on this one.
- Each Task Force will draft a vision for its domain and the TF leader will present this during day one of the conference.
- Should we bring the foreign experts (Tyner, Mellor, York) twice - once to work with the TFs, once for the conference? All agreed this is a good idea. RDI and MVE will check budgets, sub-contracts, availability.
- Dr. Tyner will work on competitiveness and the role of the GOE/Private Sector
- Dr. Mellor will work on employment and productivity
- Dr. York will provide an overall perspective, building on his 1981 and 1991 assessments.
- Max asked if we should include a presentation of the MALR vision for 2017. If so, Dr. Saad should do it. The Committee agreed to ask him about this.
- SJ agreed to produce a more detailed schedule for the conference.
- Should the IFPRI speech be on the last day instead of the second evening? No one will come to an evening speech on the first full day of the conference. Will anyone

come to the second say in any case?

- GK asked forcefully about the relationship between this conference and the MALR 2017 strategy.
- Omran suggested that this conference is happening because agriculture is back on the screen for USAID and we want to call attention to it.
- MN suggested that we differentiate our vision from that of the MALR by going for a shorter time period: 10 years or 2010, for example.
- Ann Williams will propose the dates for the next committee meetings.
- The committee asked RDI to proceed with mobilizing the task forces under the agreed TF leaders (Hamdy Salem for Competitiveness; Hamed Shiati for Public/private roles; Abd El-Wahab Allam for Production and Productivity; Ahmed Goweili for Employment.

ACTIVITY:

7.4.04. Vision For the Future of Agricultural Policy Reform in Egypt

MEETING/INTERVIEW NOTES

Hamdy Salem
Director, EEPC

EEPC, Mohandessin
06/10/2001

SH, Max

Purpose: Discuss Vision for Future of Agriculture - Hamdy Salem

Meeting:

- Dr. Hamdy agreed to be the Chairman of the Competitiveness Task Force
- He asked that the following people be on the TF:
 1. Mohamed Hashem
 2. Khaled Abu Ismail
 3. Samir El-Naggar
 4. Ismail Sabry
 5. Fatma Abd El-Hamid
 6. Dr. Farouq el Shouaky
 7. Said Abou el Komsan
 8. Nabil El-Shimi
 9. Ahmed Ghoneim
 10. Sherif el Maghrabi
 11. Amin Abaza
- Rice is not in the future for Egypt. We do not need a rice exporter on the TF.
- We have to concentrate on low-water crops with good markets in Europe.
- We have to concentrate on the technical possibilities
- We have to bring all the GOE promotional agencies together into one.
- Concentrate on clusters of Small and micro-enterprises. These generate employment. Dr. Hamdy did a study for the PBDAC (Dr. YAR) but it got put on the shelf.

The TF will meet Wednesday 13JUN01 at RDI at 19h00. Dr. Hamdy's office will make the invitations.

MEETING/INTERVIEW NOTES

Abd El-Wahab Allam
Deputy Director, ARC
ARC, Giza
ARC, Giza
06/10/2001

SH, Max

Purpose: Discuss Vision of Future - Abd El-Wahab Allam

Meeting:

- Abd el-Wahab participated in an exercise for the vision of the future after the end of the NARP. This led to the ATUT project.
- With liberalization, the cropping pattern in Egypt is not clear. Farmers do not know what to grow. Prices vary, marketing is a problem
- Egypt needs minimal production of strategic crops: grain, cotton, sugar, oil seeds.
- Oil seeds are a major lack now - Egypt should try to concentrate on oilseeds in new lands. Canola is a good prospect.
- Horticulture - we need higher quality for export
- Sugar beet is the future for domestic sugar: cane will remain within its current acreage limits. New lands are good for sugar beet: its water requirements are low, delivers cash, it fits in the rotation, as it is seasonal, not like permanent sugar cane.
- We should increase production of ELS cotton in the delta to capture a larger share of the international market. LS and MLS can be grown for the domestic market.
- Mechanized *hirsutum* cotton can be grown on new lands. The danger of hybridization can be avoided with buffer zones. Even Aswan and Qena in the Valley can grow *hirsutum* varieties as long as there is an adequate buffer zone. Cotton used to cover 1.2m fd. Now it is 740K fd. Egypt needs to stabilize at about 1m fd.
- We need policies to encourage the farmers to grow the right crops. Profit should not be the only determinant. The GOE can offer subsidies or tax breaks or other prizes.
- Extension should be of the advisory type and should be from the private sector.
- In horticulture, we need to emphasize crops like onions and garlic and citrus. In all of these we were competitive, but have lost our advantage. Diseases and insects have hurt us, but Egypt still has a good reputation in these crops - like in cotton. Citrus, mangoes, watermelons, grapes are all possibilities for export expansion.
- Our costs of production are too high, even with lots of cheap hand labor. But agricultural labor is becoming rarer and more costly. No one wants to do it.
- We need better farm management and consolidation of functions: through cooperatives or other farmer organizations. Fragmentation of production, input supply, marketing, processing means low productivity and high unit costs. We need

citrus). Annual crops are easier, faster to work with.

- Wheat is a political crop. It does not seem to be suitable for the desert, e.g. in East Oweinat. Egypt is 55% self-sufficient in wheat and we import the rest. This should be no problem. We can increase yields: Monsanto has developed a high-yielding transgenic wheat. But farmers have to be free to make their own decisions about what to grow.
- A key to success for agriculture in the future is the combination of science with business. Technology transfer agencies and rules are keys to this success.
- Medicinals have lots of potential: getting the best varieties is the key to success. We need large quantities of high quality production to justify investments in processing and packaging and marketing. AGERI can help a lot with this.

ACTIVITY:

7.4.04. Vision For the Future of Agricultural Policy Reform in Egypt

MEETING/INTERVIEW NOTES

Amin Abaza
Chairman, ALCOTEXA; Chairman, Modern Nile Co.
68 Gamat El-Dowel Arabeya St., Mohandessin
Modern Nile Co.
06/11/2001

JG, Max

Purpose: Discuss Vision for Future of Agriculture: Amin Abaza

Meeting:

Present: **GTZ:** Heinz and Helmut; **PSDP/EC:** Steven Lee; **Context Inc.:** Amal El Malla and Karim Shafei (Managing Partners)

- The initial subject of discussion was the cotton logo in Egypt. GTZ wants to get the logo in use in Europe as it is in the US. Steven Lee, the Marketing and export development Advisor for the PSDP, attended to see how PSDP can help.
- Jeff Silberman is managing the marketing of the logo in the US. GTZ had wanted to use Martin Kaiser but he has fallen quite ill and cannot do the work.
- PSDP has six sectoral groups which work on exports and market development. Each has an Egyptian consulting company to support it. *CONTEXT* is the name of the company which does the management for the garments and home textiles. This includes sheets, towels, etc. but not curtains or upholstery fabrics. Their goal is to increase exports of these products to Europe (only). PSDP also has representatives in Europe whose job it is to push sales. Steven supervises them. Their only performance criterion is sales.
- PSDP is due to end in DEC01 but they expect an extension through SEP02. They hope then to transfer all their activities to the Industrial Modernisation Project (IMP), also with EC funding.
- The continuation of EC assistance depends partially on the signature of the EU/Egypt agreement. This is now scheduled for 23JUN01.
- For PSDP, *CONTEXT* and the European representatives to help sell Egyptian cotton goods, they need to know what we want to market and to whom; what mechanisms will we use; and what does the business plan entail.
- Amin explained the logo program: Egyptian cotton; users have to pay to use the logo, though there will be waivers; the target is retail customers; in the US we target large market segments; in Europe we will target large and elite market segments; in the US our partner is paying for trade advertising while the GOE is supposed to support retail advertising. This has not happened yet.
- Amin is to see Dr. YBG on Tuesday and will ask him about the funding and about

the coordination with the Ministry of Tourism to show off the logo in their ads.

- While Jeff is here in July, he will meet with Steven and with CONTEXT, to develop the business plan for penetrating the European market. Amin noted that we have such a plan for the US, including the proposed budget from the advertising agency.
- Major issues for the future:
 1. Private investment will drive the public sector out of the business of cotton as soon as the GOE ceases interference in the market. This has happened in RMG and is beginning in Spinning, is happening in ginning.
 2. Prices are now in line with world prices for exports and even for domestic cotton. But the over-valued pound hurts our ability to capture the market share we should get.
 3. We need free imports of cheap cotton; more availability and quality for exports: ELS, LS and even MLS.
 4. Need contracting mechanism to ensure that exporters can meet obligations, improve price stability, ensure steady supply from farmers and fair returns to farmers. The issue is not the content of the contract but the mechanism for ensuring that both sides respect the terms.

MEETING/INTERVIEW NOTES

Samir Naggari
Chairman, Fresh Fruit Exports
14 Iran Street, Mohandessin
Fresh Fruit Offices
06/12/2001

SH, Max

Purpose: Discuss Vision for Future of Agriculture: Samir El-Naggari

Meeting:

- This season rice prices were low in Egypt. Egypt captured almost the entire Turkish and Arab rice market for the year. Other countries were not happy about this.
- The GOE paid a subsidy for export rice this year: 200LE/T for G-178; and 100LE/T for other varieties. In return the exporters promised to export 400-450KT. To date they have shipped about 350KT.
- G-178 has been very successful in exports to Africa, especially to Tanzania.
- As rice from Pakistan, Vietnam, China is usually less expensive than our rice, the GOE subsidy was very effective.
- But 3 weeks ago, things got confused. A Lebanese rice buyer, well known in Egypt came in and approached 3 or 4 companies to buy 100KT of paddy (cargo rice). All these firms tried to contract for the 100KT and thus prices have gone up dramatically. Companies already had export contracts, with prices calculated on the normal range of prices, so when prices rose unexpectedly, they have had to sell at a loss to meet their obligations. Unfortunately, the request for 100KT was not real. The Lebanese buyer had even asked the Egyptian companies to buy without the subsidy, which drove the prices even higher. He asked Samir to present the offer to the rice sub-committee of the ACC, which Samir did. But he explained the real story: the proposed buyer has a mill in Romania and his main markets are in Romania, Bulgaria, Albania. He had made a contract to buy Chinese rice and had promised to buy 50KT and import it to his mill in Romania. With Egyptian rice underselling Chinese rice, he was going to lose a lot on his 50KT of Chinese rice. So he tried successfully to manipulate the price of Egyptian rice. The price for G-178 was 390 LE/T and it rose to 475 LE/T. For G-177 and G-100, the price was 440-450 LE/T and it has risen to 520-525 LE/T. These are paddy prices, about 2/3 of milled rice prices.
- The GOE subsidy had been exhausted very quickly. Exporters made very good profits, then went back to the usual margin of profit of \$5-6/T.
- The companies snookered by this scam included some of the biggest ones, such as Fustat, which had been one of the biggest exporters before. They had dealt with

this buyer for exports to Eastern Europe, especially Romania. They were No 5 this year. Wakil was No. 1, Fresh Fruit No 2 this year. Wakil and Fresh Fruit have many of the same clients in Turkey and Syria, including all the major buyers.

- Egyptians now own 8 rice mills in Romania. Mabrouk had the first one but now has lots of competition.
- For the next three years, Samir sees no major changes in the rice market. There are no major political events pending, so perhaps the GOE will implement the measures to limit rice acreage to save water. The water shortage is definitely coming. The GOE is aiming for 1.05m fd next season. Last season there were 1.6m fd. Even if overages lead to 1.2m fd, this is a 25% reduction in area, or about 400,000 fd of paddy or about 1.2 million tons. Prices will rise. In addition, foreign growths seem promising for the coming year: US, Australia, Italy, Spain all expect good yields. So the market will be tight. Syria just imported 25KT from the US (California medium grain rice) for a good price.
- For the long run, at 1m fd per year and a water shortage, exports will be scarce. But the rice economy will continue to prosper. The mills will work for the domestic market and the miller will import cheap paddy to mill and resell. Egypt's location will help here, as we can ship easily to Europe and the Middle East after milling imported paddy. We will probably be able to generate significant re-exports: if the mills can produce the quality needed.
- This rice industry should be good for at least 20 years more: Samir will build a new mill in Kafr El-Sheik next year. He manages 9 mills now, but wants his own. Clients want pure white rice, totally clean and in retail packs, right from the mill. Samir laughed at the idea of buying an existing mill: he wants top quality. His new mill will be for special orders cleaned by SORTEX and in retail packs for the client.
- Many existing millers will fail and those who only export, without milling, packaging or producing will also fail.
- Fresh Fruit has partners in Saudi, Koweit, Jordan, UAE. They own shares in Fresh Fruit and he ships them rice and sometimes fruits and vegetables, though this is not his speciality.
- These same companies buy iceberg lettuce and strawberries from MAFA: they are the best but are still making losses
- Samir does not do domestic trade yet. But there are 2.7m T of rice consumed in Egypt each year. For now most is bought from street merchants and bulk sellers in villages and neighborhoods. But the role of supermarkets is growing in Egypt. Their clients want clean, well packaged rice. This means the role of modern industrial rice milling and packing can only grow as Egypt grows and prospers.
- Long grain rice? Some buy it *because* it is expensive: jasmine rice, or basmati rice. It is a small part of the market. But if it is at the right price, Egyptians will eat it. They will get used to the taste.
- To get into new international markets is entirely a matter of price. The GOE should be able to continue some subsidies for rice exports because of the grandfathering provision in the GATT/WTO.
- The private sector in Egypt needs to get organized. Samir and RDI had tried hard to get a Rice Union law into parliament, but Dr. Wally feared it would work against the farmers so it got nowhere. Millers and exporters now look only at their short-term

gain. They have no idea of building the rice sub-sector for the long run. The GOE competes against the private sector, the private sector tears itself apart with competition. The ACC has not succeeded in stopping this behavior, though it does get the sub-sector participants together regularly.

- There is a desperate need for futures markets and contracts, so that exporters and importers can plan their supply chains for the coming months. The futures market needs to be set up by private traders, but the GOE needs to regulate and control it.
- Samir gets Market Information from all over the world. He subscribes to the Jackson and Co bulletin from London, gets USDA data from ERS, etc. He can know future prices for all grades and types of rice from all over the world - except for Egypt.

ACTIVITY:

7.4.04. Vision For the Future of Agricultural Policy Reform in Egypt

MEETING/INTERVIEW NOTES

Dr. Ahmed Goweili
Director; Arab Fund for Economic Development
Corniche el-Nil near Nile Hilton (NDP Offices)
NDP Offices
06/12/2001

SS, SH, MN, Max

Purpose: Discuss Future Vision for Agriculture: Dr. Ahmed Goweili

Meeting:

Present: **USAID:** Mohamed Omran; **RDI:** SH, SS, Max; **PMU:** MN

Omran introduced the group and explained why we were there. He had already spoken to Dr. G about the Vision conference and explained the change now to November/December and to a narrower focus on a vision for policy and technology transfer in the future, to guide USAID support to agriculture here. He introduced our four areas of concentration: employment, private/public roles, production & productivity; and competitiveness. Max then initiated the interview by asking Dr. G for his views on future policies to promote employment in and from the agricultural economy

- Employment is the most important issue in Egypt and the Arab world today.
- John Mellor has done seminal work on the way agricultural growth drives employment in rural areas - both on and off -farm. Farm income leads to major increases in rural services provision employment. Recent increases in agricultural incomes have led to real increases in off-farm employment in Upper Egypt. But how can we further promote this growth? What policies are required?
- Richard Adams of IFPRI has written a good paper on non-farm employment in rural areas and the impact of this effect on poverty alleviation. Unemployment and poverty are closely linked and urgently need a solution in Egypt. The solution is driven by increased demand for goods and services from increased agricultural incomes.
- Is the role of agriculture declining in Egypt as the service sectors grow? No, on the contrary. A lot of studies at the U of Zagazig have covered the issues of non-farm employment in rural areas. There has been no follow-up.
- Another major requirement for increased employment in agriculture and non-farm rural areas is improved rural institutions. When Dr. G was with the MTS, Samir Shehata helped to organize voluntary procurement of wheat and

maize through the cooperatives.

- There is now a partial vacuum in rural areas, with no effective institutions to help farmers and off-farm workers. One cannot make good technical progress for small-holders and small enterprises without institutions. This is particularly true for marketing and input supply.
- We need to learn how to improve our rural institutions. Are there models from abroad that we can try? Institutions are the bridge leading to increased productivity for both local and export markets.
- Marketing institutions are in very short supply: many investors have quit agriculture entirely, after big losses, because of marketing problems. Marketing institutions are a natural link to non-farm rural activities and employment.
- India is a good example of new models for rural institutions and marketing. For example, their dairy industry has done well at this.
- Credit is also a key. In Morocco, the rural banks make loans to all rural enterprises, not just to farms. Non-farm enterprises are also eligible for loans. When Dr. G was the Governor of Damietta, he worked through the National Development Bank (NDB, not the PBDAC) to offer micro-loans to small enterprises. He modelled the program on those he had seen in Tunisia and Bangladesh. The key was very low transaction costs to the borrowers: very little paper-work, no long trips to the bank, hours lost in waiting. Loan agents went to villages to make the loans. Barbers, wood-workers (e.g. Damietta furniture shops) etc. got the loans. Repayment was nearly 100%. The interest charges were very high - over 25%: commercial interest rate + administrative costs + insurance cost. But the borrowers were happy to pay back, as long as they did not have to spend days and days on paperwork and bank visits. The process was far more important to the borrowers than the interest rates.
- In addition, USAID had provided a line of credit for a revolving fund of about \$500K. This was in Damietta, as well. They turned this around 3 or 4 times a year. They offered incentives for early repayment of the loans - reduced interest rates, for example. They established lending agencies in all districts of the Governorates and trained young people to administer the loans. The NDB was initially very reluctant to do this program. They were afraid of losses. But in the end, this turned out to be more profitable than their loans to big clients, who repay much less well.
- Later. Pres. Mubarak saw the program and liked it. He offered LE 5m via the Industrial Development Bank for a similar program at a highly subsidized 6% rate. They made no loans at all because the process was too complex and costly. People just did not come in to ask for the loans.
- Salah El-Shafei ran this program. He is now retired.
- They also tried micro-finance through cooperatives. Samir remembers this program. The Alexandria program is still operating through a cooperative. The man in charge is named Mohamed Ragab.
- Micro-finance is necessary for employment generation as small enterprises, including farms are the most effective generators of large numbers of jobs.

- Dr. summed up the three main points
 1. Non-farm activities driven by Demand generated by rising agricultural incomes
 2. Rural Institutions
 3. Credit
- For productivity, we need to reach the next plateau, especially for the returns per unit of water. We need to examine the issues of genetically modified food and crops. This includes consumers' attitudes.
- We need to concentrate on using higher technology to access the international marketplace: varieties, post-harvest infrastructure; investment policies, government role. For example, seed research and production is private all over the world. Not here.
- Egypt is finalizing now the Arab Free Trade Area agreement with Libya, Syria and Iraq - the main Arab agricultural countries. This will include provisions for the free movement of labor. This will generate employment in all the countries. But they are working on the mechanism to enable and control this free movement of labor.
- Dr. G. is preparing two conferences: an Egyptian conference on GM food; and an Arab conference on water use.

ACTIVITY:

7.4.04. Vision For the Future of Agricultural Policy Reform in Egypt

MEETING/INTERVIEW NOTES

Dr. Hamdy Salem
Director EEPC, PPC Member

APRP
06/13/2001

SS, MN, AM, Max

Purpose: Discuss Future of Agriculture - Export Competitiveness Group

Meeting:

Present: MEFT: Hamdy Salem, Chairman EEPC; Nabil El-Shimi, FTS; Ahmed Ghoneim, Foreign Trade Advisor to the Minister; one trainee; Ms. Fatma, Advisor to dr. Hamdy; **Private:** Mohamed Hashem, RMGs; Farouk el-Shobaki, medicinals and aromatics; Yeyia Hashem, RMGs & textiles; **RDI:** SSm AM, Max; **PMU:** MN

- **Medicinals and herbs and aromatics, mostly essential oils have become Egypt's second leading agricultural export** (not counting cotton). Rice exports were worth LE 240m last year. Medicinals, aromatics and herbs were worth LE 220m.
- Our **cost of production for exports is very high**. This keeps our volume down. High costs come from: high taxes, high interest rates, high rates for sea freight and internal transport, high banking fees and charges, expensive packing amterials.
- But **world demand for herbs and spices** is over \$15b, while our exports are about \$60m: 0.4% of world trade. We could easily double our share. Egypt provides 85% of the US imports of fennel and 65% of US imports of basil. We should fight to add other products. The **US is the biggest market** in the world for herbs and spices. Germany is second.
- Dr. Hamdy introduced the subject to the group: APRP and USAID want a look at the future of agriculture in Egypt. They would like to discuss a **new approach to support for Egyptian agriculture**. In November or December of this year, there will be a workshop on this Vision for the Future. This vision will center of four themes:
 1. exports and competitiveness,
 2. employment and job creation,
 3. public/private sector relationships, and
 4. production and productivity
- Dr. Hamdy introduced the MEFT staff and businessmen present at the meeting.
- Ms. Fatma of the EEPC and Nabil El-Shimi of the FTS will summarize the discussions from this discussion and have a document ready for the next meeting of

the group.

- The **vision will look to 2010**: policies, legal framework, procedures, technology required to promote agricultural development.
- The vision has to take into account **Egypt's obligations under bilateral and multi-lateral trade agreements**.
- Mahmoud Nour spoke of the history of USAID support to agriculture in Egypt, saying the USAID project's have always fit with the MALR/GOE strategies and priorities. APRP has included other Ministries to help them catch up with the liberalization under the MALR. USAID will continue to support agriculture if we have good ideas for that support.
- Dr. Max said we need first to get the ideas of the Egyptian participants in the agricultural economy on the table, to show that there is a future for Egyptian agriculture. This is the Vision for 2010.
- Dr. Hamdy offered that we need to see what the problems are and how to solve them. This includes legal and procedural changes as well as technological innovations.
- Mohamed Hashem said that the **MALR and the private sector are in good agreement** about what has to be done in agriculture. The most important idea is support for marketing. We need to **define markets**; identify the products we need to enter and stay in those markets, see how to get revenues and profits from those markets. This should include **traditional and non-traditional crops, markets and products**. Examples are cut-flowers, ornamental plants, medicinals, herbs, aromatic oils. These have become very important.
- We need products beyond cotton and rice for exports.
- **Fruits and vegetables can compete** with the output of other North African and Middle Eastern countries. But our market share is very small. We need **new marketing methods (non-traditional) to penetrate and dominate the EU and Gulf markets**.
- High costs and low returns is the issue. Our manufacturers and exporters should look to **building long-term relationships for their industries and sub-sectors, not just to short-term, even one-off profits**.
- Flax is an example: we grow flax, but there is no industry for fine flax products here. Much Irish linen is made from Egyptian flax. We need to **process and add value here in Egypt**.
- Europe suffers from livestock diseases. We can produce and **export disease-free livestock and meat**. The situation in Europe will probably last 15 years: we can benefit from this. By increasing fodder crops' place in the rotation with rice/cotton, we can combine livestock and crop incomes to increase returns to farmers.
- Dr. Hamdy: the GOE has sold all of its agricultural production lands (n.b. - This is not exactly correct). **For agricultural exports we need non traditional products: flowers, medicinals, aromatics, herbs. Many traditional exports, such as citrus suffer from low productivity and high costs**. This makes them less competitive. We get 7T/fd here while other competing countries get 25-30T/fd. We need **new technology to generate higher productivity** for these crops. ATUT has done some of this but we need a more practical approach to expand what they have done with a small group of rich farmers.

- Mahmoud Nour reminded the group to keep in mind that we need **productivity per unit of water in addition to per unit of land and per unit of cash investment.**
- Dr. Farouk suggested that the medicinal and spice export crops have been ignored by the MALR until very recently. The ARC has recently begun to appreciate the value of these crops: **85% of medicinals is exported, only 15% consumed domestically. Of aromatic oils, 98% is exported.** The high export value of these crops (220m LE last year) comes from **only 40-60,000 fd.** The rice export value of E 240m came from over 1.5m fd. **Only 6.7% of the rice crop is exported. Rice uses a lot of water** compared to medicinals and aromatics. By expanding the acreage under medicinals and spices, we can maximize the benefit to the country and to the farmers. **This expansion of cultivation can help expand our very small share of international market.**
- **International demand for herbs and spices and medicinals rises 5-6%/year.** The main markets are the US and Germany, followed by France and the rest of the EU, and Japan.
- **Why can't we expand our market share?**
 1. **High cost of production:** we are sometimes 50-90% higher than competitors. Our quality is also very high, but not enough to offset price differentials of this magnitude.
 2. **pesticide residues:** this has been under discussion since 1984. Things are much better now. We have a much better law and the pesticides we use are recognized as legitimate and safe. But many pesticides which are officially banned are still smuggled and used. The MALR is taking more effective measures all the time. Overall pesticide imports have gone from 35KT/year to 4 KT/year. Air spraying has stopped.
 3. **Rigid export bureaucracy** makes it hard to and expensive to ship. Safety measures and SPS measures are useful, but should be applied fairly and swiftly. Other inspections and controls (and associated payments) should be ended.
- **Herbs and spices could become a 'second cotton'**
- We need to reduce the cost of production and export and to **improve production and post-harvest techniques.** We need to add more value in Egypt through packaging and presentation.
- Other agricultural crops are very different. Potatoes for example, require big areas, large bulk of production. **Herbs and spices require small areas and small fields, with lots of attention to high quality.**
- Most exporters of herbs and spices have processing stations, but many lack key elements: many still use methyl bromide for treatment. Many markets no longer accept products treated with methyl bromide, especially for comestibles.
- For high bacterial counts we need **irradiation.** But this is now available only from the Atomic Energy Commission in Egypt. It is very expensive. But many buyers insist on irradiated product. There should be food irradiation units in Alexandria and in Cairo, providing this service at a reasonable cost. **As most production is in Fayoum and Beni Soueif, these areas need more post-harvest investments.**
- The **ARC scientists should meet regularly with growers** to help improve quality standards. For example, Egyptian caraway has 1.5% oil. Dutch caraway gives 3.5 to 3.7% oil. This is a major price factor. **The private sector can help fund the**

research and most herb and spice growers have their own research underway. But with ARC support, much more could be done.

- **Bureaucratic procedures hamper exports** a lot. The GOE talks of export promotion but those charged with implementing export promotion policies work against exports.
- Mohamed Hashem agreed. If exports are the life of the economy, as the GOE says, then the GOE must ease procedures, reduce the cost of the state bureaucracy.
- The Minister YBG often agrees with the exporters but says laws prevent him from acting. But **laws can and must be changed**. They are the work of man, not God.
- Ahmed Ghneim of the MEFT called for a **matrix of exportable commodities, target markets, and competitive advantage**. We need to know the demand in each market, vis-a-vis Egypt's competitive advantage. If there is no demand, our competitive advantage is meaningless. Monitoring of international demand is necessary.
- But by **using non-traditional marketing techniques we can help generate demand**. Now we depend on the **Commercial Attaches** - single individuals of varying skill and dedication levels, who have no real incentive to help exporters enter and dominate new markets. We need more than these people.
- The ACC and other CC's have called for price stabilization funds. By regularizing exports through price stabilization we can link commodity production to job creation. We can support commodities which generate more jobs, like cotton.
- For **non-traditional crops, we need to organize**. We can help capture markets by **avoiding windfall exploitations** of occasions, in favor of **generating stable markets**.
- Egypt needs **standards to define organic production and certify it**.
- Egypt needs a way to **hear and support small and medium growers, manufacturers and exporters**. We need someone to do **match-making**, for supply and demand. Business brokers can consolidate supplies and identify markets for small producers and processors.
- **Transaction cost reduction** is crucial. The cost of bureaucracy, of transport, of storage, of post-harvest handling must be reduced. This needs coordination among MALR, MEFT, MoF, MoT, Customs service, Interior, etc.
- The GOE agencies working on exports need **capacity building for proper implementation of laws, regulations and procedures**. Exporters and producers need consistent and transparent implementation of laws and regulations.
- Dr. Hamdy pointed out that we need to have a vision for the future, not just criticize the present. High cost of production is a major obstacle. How can we reduce it? We might try to **concentrate areas of export production** to reduce collection and transport costs and ease technology transfer, better utilize post-harvest investments. Research could also concentrate in these areas. Spain has special horticultural areas and wine areas; Italy has whole cities centered on one group of products of another. Egypt has not developed these **clusters**.
- **Reducing costs for export will also reduce them for local market penetration**.
- Egypt is a period of economic transition from State control to a free market. The GOE had created SOE's to implement state policies for production and exports. Now the policies and objectives are very different. Exporters need very different

institutions to support their drive to capture and keep profitable markets. The private sector has to build its own institutions and the GOE needs to create institutions to support them.. For example, there is an Association for Medicinal and Aromatic plants. What do they need? Research? Technical Assistance? Market studies? Lots of exporters are competing with each other. Most of them operate on a small scale. They need an Association to coordinate their actions and save them from duplication of efforts. They need a unified voice for policy advocacy.

- Dr. Mamdy emphasized the need for **coordinated export promotion**. This is a **shared private/public sector function**. Now it is done by individuals only. For example, when there is a fair or exhibition abroad is Egypt's participation random or planned? There are no clear criteria for when we should participate, who should go, what products should we promote. The EEPC sends trade missions. So do other agencies. But these need a professional approach. Not everyone can organize a successful trade mission. But everyone tries.
- We need to redefine institutional roles: this means **re-engineering the GOE's promotional activities**: EEPC, Fairs and Exhibition; Trade Point; Commercial Representation - all of these should be together. These institutions should have a special, non-bureaucratic status and charter: private board members, for example. They should have to act like private agencies.
- Both **public and private institutions need strengthening** and capacity building.
- We need to **build the domestic market at the same time** that we build the export market. We will never produce 100% export quality goods. Aromatics, poultry, flowers, fruits and vegetables need grading and sorting for export standards. The remainder has to be sold locally for fresh or processed consumption. Producers need to make a profit from this part of their output as well. The GOE and the private sector must **defeat those who wish to control the domestic market** ('domestic market mafia'). We need **new market mechanisms**: auctions, marketing agencies, internet sales.
- We need to link demand with supply and work to generate new demand. Products with heavy investment requirements need special efforts to penetrate new markets. Egypt's **export incentives** are inadequate: *we will slap you once instead of twice* is the message. Other countries such as Tanzania, Singapore and India have real incentives which have succeeded.. Our incentive structure much fit our resources, meet our international obligations and support our competitive advantage. The incentives must pay for themselves in increased GOE taxation revenues and in the balance of payments account.
- The GOE's **international marketing organizations** have generally failed: they end up promoting imports. Why have they succeeded in SE Asia and failed in Egypt? For example, in other countries, the government will cover 50% of the cost of marketing studies. They cover the overhead of market development.
- HEIA has succeeded, with APRP and ATUT help in providing a needed service **at the airport: a cold transit terminal**.
- Dr. Hamdy is forming a group to **organize cut flower exporters to ship under a logo** which will represent a guarantee of quality.
- Such associations should provide solutions to exporters problems: as volumes of exports rise, costs of production should decline, through economies of scale. The

GOE should help the private sector establish institutions which can provide technical, institutional and financial support to their export promotion efforts.

- **Nabil El-Shimi (MEFT/FTS): one major problem with our exports is the exporters themselves.** They lack the will to export. They used to depend on the GOE to identify markets in the Eastern Bloc at fixed prices with state partners. They export only when it is easy to do so. They are opportunistic: **they ship abroad when they have a surplus**, do not produce specifically for export. An example was a shipment of shirts that went to West Africa. They were prepared with steel pins, which rusted in the humid climate. The shirts were stained and there was never a repeat order.
- **Costs of production and transport costs are important, but we do not add value here.** We ship raw goods, such as leather. Our leather could be of upholstery quality but we lack the technology to produce and process the leather. Too much of our leather has holes. The local manufacturers say that only the bad leather is left in Egypt for them to process. The good goes out 'blue' or raw. The local manufacturers call for export bans on raw leather. . But their production is not exportable. When our costs of production were low, and we protected the leather goods industry with tariffs and other barriers, our producer/exporters sat complacently and sold in the domestic market. But when imported shoes came in, people saw the defects of the local production and bought the imports. The local manufacturers even lost the local market: **the lesson - do not blame it all on the government.**
- **For transport, the situation is also more complex than is said: there is lots of room on the planes and ships leaving Egypt and our costs are competitive with all our neighbors** except Israel, which uses military air transport for exports. The problem is that the exporters fail to make their delivery dates; they do not live up to the contract conditions for quality, packaging, phyto-sanitary rules. They fail to state the grades of the produce. Transport is a problem, of course, but it is not just transport. *We do* have room on planes and ships; and *we do* have competitive air-freight costs.
- **For Africa & RSA we use only 41% of available air-freight space for exports and 44% for imports.** With **COMESA**, this is a duty-free market with easy access for Egyptian goods. We need to find out what these countries need and send it.
- **The GOE must act to improve things, but the exporters must act, too.**
- **For example, Egyptian exports of electrical appliances to Africa have no after sales service at all.**
- **Mr. El Shimi has attended ACC meetings where exporters talk about the high cost of post-harvest infrastructure and of credit.** But not one single exporter has applied for the **special credit privileges available at the Export Promotion Bank.** Why not?
- **Dr. Max asked about public and private institutions and how they should work together.**
- **Mr. El-Shimi spoke about the Commodity Councils and Decree No. 502, which states that the Councils bring together the producers, manufacturers, exporters.** The Councils are supposed to **seek mechanisms to identify and then solve the problems of the exporters.** When they come to the GOE, the **Ministers listen.** If the Council members are in harmony, then the public private issues are easily

solved.

- But in the CC for Leather, for example, there is a conflict between the producers and the manufacturers. In the CC for Intellectual Property (not sure of real name) there is a conflict between publishers and movie producers. **The private sector needs to solve its internal problems and then go the GOE for help with other problems.**
- Mohamed Hashem asked if there is really an exportable product in Egypt. If yes, then the exporter can work. If not, and the exporter sees a demand, then we have to work on production. **Do we need to be self-sufficient before we export? No.** Leather is a good example. All our hides have holes in them from diseases and handling. If we want to be major exporters we need to improve production and handling first. **Most Egyptian export goods have production issues** - even cotton. Could we not add value to our cotton by **processing more** of it here? But the state-owned mills do poor quality output. More and more private spinners are starting and a lot of European spinners are now interested in bringing their manufacturing closer to the source of the commodity. Olives are another example. The product has a thousand uses. Do we use our olive potential?
- Dr. Hamdy agreed with Mohamed Hashem - **for many potential markets there is either no production or poor production.** This has been the case frequently as revealed in seminars held jointly by the EEPIC and the Al-Ahram Iktisaad Magazine.
- Mr. El-Shimi talked again about **leather**: we produce 58 m feet of leather from cattle, 24m from buffalo, 16.8m from small ruminants, 13.5m from camels. The total value is about LE 8.4m. We export 18% of the total production. In 1998 we shipped for 15m LE. In 2000 we shipped for 2.7m LE, a dramatic decrease. In 1992 we imported 0.9m LE worth of shoes. In 2000 we imported 9.3m LE of shoes. In 1992 we imported 3.3m LE of leather. In 2000 we imported 43.5m LE of leather.
- **The Leather CC has an action plan for target markets and a promotion plan.** But the Chinese charge \$6-10 for a pair of shoes, while we charge \$30. We had a contract to ship shoes to Yemen via Aqaba in Jordan. Our exporter missed the shipment date by a month. His price was \$21/pair of shoes. The importer canceled and imported from SE Asia for less and on time
- Egyptians shipping oranges to Saudi were caught weighing the boxes with metal and stones. We need enforcement and modernization of Law 118 of 1975 which calls for punishments for trade offenses like this. The offender is supposed to be deleted from the list of registered exporters and pay a fine of 100-1000LE. This fine is miniscule and the exporter changes the name of his company, puts his cousin in charge and starts again. **These bad exporters hurt Egypt's name.** We sent fennel to Singapore. The 25 kg bags only weighed 20 kgs. There was lots of foreign matter. The exporter was arrogant, brought 3 police generals to his hearing to testify for him. He paid the maximum fine of LE 1,000 from his pocket change and went on doing business.
- Dr. Hamdy agreed that we need stronger deterrents to bad exporters. Self-discipline and review by the private sector is crucial. The flower exporters are getting together to export under one logo, that will certify quality and reliability.
- Ahmed Ghoneim cited **Expolink** in re the problems between exporters and the GOE. Exporters like to go to Expolink, rather than to GOE agencies, because they get a more sympathetic hearing there. Expolink has a big funding source to help

exporters, but they also have credibility and the sympathy of the exporters.

- Dr. Hamdy agreed that the **GOE trade support agencies** have problems: they have no flexibility, no incentives for the staff to do good work. But even with incentives, they remain rigid and arrogant, often unhelpful. They need **good people, good regulations and procedures and good management.**
- Dr. Ahmed Ghoneim stated that both exporters and GOE trade promotion staff need to be able to **deal with international organizations** to which Egypt belongs and to understand the **rules and requirements of the bilateral and multilateral agreements** to which Egypt is a signatory.
- Dr. Max pointed out that Egypt has to know enough about the rules to use them to the country's advantage.
- Dr. Hamdy agreed: Egypt has joined the WTO following the Uruguay Round. We have agreed to reduce our agricultural subsidies. But Italy for example, has replaced agricultural subsidies with authorized environmental subsidies which have the same effect of the prices of agricultural exports.
- Dr. Hamdy thanked all the participants and said we will have another session soon and will invite others to join us.
- Dr. Max pointed out that we cannot really separate the four areas of interest for the Vision. We are concentrating on competitiveness for exports but have to deal with production, productivity, employment and public/private relations as part of our analysis.
- Dr. Hamdy will prepare the synthesis of this discussion and the next one and will submit it to the members for approval.

ACTIVITY:

7.4.04. Vision For the Future of Agricultural Policy Reform in Egypt

MEETING/INTERVIEW NOTES

Kelly Harrison
HEIA Advisor; former COP, ATUT

Ma'adi
06/14/2001

Max

Purpose: Discuss Vision for Agriculture - Kelly Harrison

Meeting:

- Kelly did a number of studies for NARP before moving to Egypt on ATUT.
- NARP's biggest contribution, in his eyes, was to introduce to the MALR a new understanding of agricultural extension and its link to research.
- The MALR absorbed these concepts and applied them in horticulture with funding from ATUT. Research and extension have become integrated as never before. They sought and developed ways to make the link stronger.
- Kelly asks still if the extension service has really changed or is the application of the new approach only through ATUT?
- The NARP approach built on the village extension worker, who was backed up by subject matter specialists (SMS). These SMS were meant to be resources for the village extension workers. Then came research teams to generate and obtain new technology to get to the extension people. Universities, ARC and SMS joined on the research teams.
- The Research teams would normally include: plant pathology, soil science, plant nutrition, entomology, etc.
- The approach became an integrated one by commodity group: e.g. grapes. These could then extend the ATUT technology which began with large growers and exporters ('fat cats') to smaller exporters and farmers.
- NARP provided a lot of physical infrastructure and degree training. This may not have been cost-effective but the results are there now. The Ministry's approach which emphasized spreading the benefits across the country, across the MALR administrative entities and among individual scientists and agents kept NARP from full efficiency and cost-effectiveness. But the infrastructure is in place and the trained scientists are at work.
- The main ATUT contribution was working with 'Channel Captains': big exporters and large growers: the rich farmers and exporters. These could take the risk and expense of innovating with new technology, new crops, new post-harvest investments, better and better-paid management, new business contacts and management systems. They could afford to try capital-intensive methods.

- In general, these 'fat cats' are ready to help small-holders and smaller exporters. They see that if they share their lessons and technology, they will all benefit: increased quantity of high quality produce to provide through-put for infrastructure; increased high-quality, export-product to satisfy their importer-partners, etc.
- This approach is working with high value vegetables as growers buy from small holders to increase their volume and provide the growers with seed, other inputs, and advisory services (extension). This works for green-beans, spring onions, etc. But it has not yet begun to effect grapes and strawberries.
- USAID, in the ATUT design, was courageous to undertake the work with 'channel-captains'. Both USAID and the GOE have a prejudice in favor of working with small-holders and the poor farmers.
- The other significant ATUT achievement is the creation of HEIA. Kelly recognized how important APRP has been to the development of HEIA, as well.
- HEIA is now a mature organization with a good executive director (Hani el-Kholali) and a Chairman who understands how to work with an Executive Director (Ayman Qorra). As a result both the technology transfer and policy advocacy sides of HEIA are working well.
- But where will the funding come from in the future? Perhaps from the airport terminal. HEIA got the LE6m loan from the NDB yesterday. The design is complete and HEIA has hired an engineering firm to review it. They will issue an RfP for construction immediately after the review.
- GTZ has offered to hire a foreign manager for the terminal, as long as HEIA pays the equivalent of an Egyptian salary. GTZ will top it up to cover the costs of a German manager.
- MSSP/EC is paying for HEIA publications and a web-site.

ACTIVITY:

7.4.04. Vision For the Future of Agricultural Policy Reform in Egypt

MEETING/INTERVIEW NOTES

Egyptian Businessmens' Association Agriculture Committee

21 Giza Street, 16th Floor
EBA
06/14/2001

Max

Purpose: Future Vision for Egyptian Agriculture - EBA Agriculture Committee

Meeting:

Attendees:

Fouad Abu Hedb - MALR Chief for New Projects

Nabil Marsafawy, Chairman, Southern Valley Holding Company (and Trade Holding Company)

Eng. Hamed Shiati, Chairman EBA Agricultural Committee and member APRP PPC

Nagy A.M. Saeed, CFO, KADCO (for El Mamlaka Company of Prince Talal)

Eng. Ali Mahmoud Warour, Chairman, Regwa Co (well drilling)

Hany Makram Ebeid, Chairman, Volcano Group (contractors)

Eng. Ahmed El-Barrawy, Board Member, SamTrade

Ayman Korra, Chairman HEIA, Pres. CONSUKORRA

Alphonse Shokralla, , Asst.SG, EBA

Eng. Salah Dewedar, General Mgr., Egyptians Abroad for Investment & Development

Mr. A.S.G. Ahmed, Chairman (ret) of large poultry company (637-0001 or 012-281-7610)

Dr. Sherif Al Gabbaly, Chairman, Fertilizer Co., Chairman, East Oweinat Co.

Dr. Dia El Din El Quasy, Chairman, Horizontal Expansion, MWRI

Eng. Hussein el Atfi, MWRI, Under-Secretary

- **Fouad Abu Hedb will be moving the the 8th Floor of the Companies Building in about 2-3 weeks. APRP should be certain to go see him.**
- **Hamed Shiati chaired the EBA meeting on Toshka.** The EBA visited Toshka with Fouad Ebu Hedb and many members have decided to invest there. They chose a committee of three to prepare a working paper: Hani Makram Ebeid, Samir Allam, Salah Dewedar. They need more information to proceed thus this meeting.
- **The EBA Agricultural Committee receives lots of inquiries about Toshka.** People want to know about the overall **GOE vision for Toshka.** What will the future there looklike. What volume of investment is required, what social infrastructure will be provided, what are the future boundaries of the project, etc. There is lots of

contradictory information in the press, from different Ministries, in different reports.

- The EBA went to the **MWRI, which is implementing the development of Toshka** to ask for the real vision. All the EBA Committees: agriculture, customs, finance, banking, exports, tourism, industry are interested in Toshka.
- The EBA is prepared to help develop policies, regulations, procedures and a general constitution to promote investments in Toshka and to protect those investments. **The GOE has to be clear and definitive in establishing policies, procedures, regulations. Once investors go in, the policies etc. cannot be changed frivolously.**
- The EBA can bring comparative perspectives from their **link with Businessmen's Associations in other countries:** Korea, USA, France etc. They have 9 such relationships. They can also **use these links to attract FDI.**
- The **MWRI** welcomed the EBA proposal to do a report on the overall framework for Toshka and offered to help. Dr. Goweili, the Chairman of the **Mamlaka Co.** also offered full cooperation.
- The Southern Valley HC offered documentation but this was not available. **All GOE files should be open and available** to potential investors.
- Toshka is the future: for agriculture and water and agro-industry. **Agriculture is the foundation of the future community of Toshka.**
- Fouad Abu Hedeb: **The Southern Valley HC will reclaim and cultivate 1m fd in Toshka.** The first phase is 540,000 fd. Then extensions will be based on soil studies and water availability. This community will make up **1/8 of Egypt's arable land.** But other activities will go along with agriculture: industry, trade, tourism will all be there.
- During 40 years in the old valley there has been enormous agriocultural and agro-industrial development, generating exports, employment, production, organization. **Agriculture plays the key role in the economy of Egypt. Toshka has to build on these successes.**
- **Agricultural investments in Toshka will generate profits** for investors. In addition to income, the **value of agricultural land and infrastructure will increase, not depreciate.** Investments for post-harvest handling of fruits, vegetable, animal products, and for cotton - ginning, spinning, weaving - will also pay off. The **Mamlaka Co.**, with an American company (Sunworld?) has analyzed the **post-harvest investment requirements and made marketing studies for fresh and processed products, for both the domestic and the international markets.** The US company, hired as a consultant, decided to become a major investor.
- The required infrastructure for PH handling will require **cooperation and integration among growers and processors.** They will need to achieve **economies of scale** to be cost competitive.
- An example would be for **oil crops:** to justify a processing facility of economic scale, many growers may have to consolidate their cropping patterns.
- Growers will have to work on their cropping patterns to ensure that **processing and other PH facilities can have through-put all year.**
- Investors should submit their **questions to this committee in writing.** Then they can get answers in writing. We can then discuss these questions and have several

iterations of the process to ensure clarity.

- Nabil Marsafawy, Southern Valley HC: The **SVHC has Branch No 2 of Toshka's four branches**. The infrastructure is in place and looks good. The **pumping station is supposed to begin delivering water in August**. Branch 2 has 100,000 fd. The SVHC has prepared 6,500 fd for cultivation in August. The Regwa Co. (Eng Ali Mahmoud) has established a pilot farm with two pivots. This will later be for sale to the private sector. The SVHC will **develop their land in units of 600 fd**. **Private buyers can take as many units as they want**. All will have irrigation and drainage facilities.
- Toshka **City does not yet have the urban services** it needs for industrial, social and tourist development.
- The Mamlaka Co has done a study of all of this, with the Arab Bureau. They covered soils, cropping patterns, investment levels. All investors are welcome in Toshka. **Investors are not required to be agriculturalists: this is modern farming which needs management** more than anything else. Agriculture is an economic activity for which one has to hire expertise. But the management of the investment is like any other.
- Eng. Ali Mahmoud, Regwa Co: There are already lots of good studies of Toshka. They show good IRRs for investments. **Agricultural investments will profit in Toshka, but will take some time**. The **value of agricultural land will rise** with time in Toshka. Agriculture is not the same as industry: the basic resource increases in value, if treated well. Traders and labor will come - this even happened in East Oweinat, which is much more isolated. When the harvest was advertised, traders showed up to buy it.
- Hamed Shiati asked about **credit**. **Banks like tourism and industrial projects, not agriculture**. The investment laws need improvement to facilitate land titling to ensure access to credit.
- Eng Salah Dewedar: his company **invests funds for Egyptians abroad**. They invest in housing, trade, agriculture, environmental projects, tourism. They are wary of investment in new areas where they have not done an evaluation themselves. For social and environmental projects there are problems with infrastructure. For example, decentralizing waste-water treatment needs better laws, which people will be certain will last. Land rents are high and it is **very hard to buy land**.
- **Contradictory policies and policy statements discourage investors**. Investors need laws, which cannot be changed by government officials at will.
- We should **study the other new cities to avoid making the same mistakes** we made there.
- Dr. Dia El Din, MWRI: The **problem in Toshka is management**. In the Valley and the Delta we have 8m fd and 10m land units (parcels). Each land parcel is tiny. Toshka needs a new and different community.
- Eng Salah D.: **Everyone is confused** about the strategy for Toshka. We need a clear idea. Newspaper stories confuse the investors. We remember the High Dam. It had its own **National Authority** which spoke with one voice. We need the same for Toshka. Toshka needs **one voice to do advocacy** for the idea of the development and to **promote investments**. Toshka is really Phase II of the High Dam project. Phase I was to improve irrigation and agriculture in the Valley and

Delta. Phase II is to use excess water for production.

- Hamed Shiati: We badly need one reference for all information about Toshka.
- Dr. Dia El Din: we should compare Toshka now with Tahrir 25 years ago. Now Tahrir is part of the traditional agricultural area of Egypt. Then it was the far frontier and people said no one will go there. Until now, we have expanded from 6m to 8m fd of arable land by 'creeping expansion' from the valley and the Delta. But we have reached the limits of this 'creep'. The system can only handle the release of 270m m3 per day and already people complain of water shortages, even when there is enough water. The Valley/Delta system is at its technical limits. The next phase of development for Egypt must be 'leap-frog expansion' to new areas with new irrigation infrastructure: Sinai, East Oweinat, Toshka.
- The population of Egypt today, at 65m has 1/8 fd each (per head) of arable land - 3 qerats or 500 m3. This must provide food, fiber, fodder for all. As the population grows, we will need 3.4m additional fd by the time we get to 100m population.
- Water costs for delivery in Toshka are about LE 400/fd. In the Delta and the valley it is about 1,000/fd.
- In Toshka, the MWRI will provide irrigation and drainage infrastructure to farm gate. Interior systems are up to the investor. The MWRI does not want small-scale development. They do not want investors to develop and then sell off the land to small-holders or even to other large farmers - develop it and farm it.
- Agriculture is part of the economic process for the development of Toshka. Small-holders cannot do this. Toshka needs large-scale farmers, like Mamlaka, of Prince Tala with Dr. Goweili as head of the Board.
- Sherif El Gabbaly, Chairman of East Oweinat Co. What will be the organization of agriculture in Toshka? The US funded a study of East Oweinat. Dr. Sherif gave this study to Dr. Saad. It is available to any who want it. Organic agriculture can give good yields, but you need to follow the rules for 100% organic certification. The prices one gets can be 3-4 times those of normal produce. Sherif has pointed this out several times, but no one pays attention.
- Hamed Shiati: Land is a long-term investment, but one needs to register land and obtain clear, incontrovertible title, to give land its real value. Without a title deed the owner cannot use it to generate capital for his investment in land.

Please note that Dr. Max left the meeting at 15h00, after 3 hours, but before the meeting ended.

ACTIVITY:

7.4.04. Vision For the Future of Agricultural Policy Reform in Egypt

MEETING/INTERVIEW NOTES

Nabil Marsafawy
Chairman, Southern Valley HC and Trade HV

EBA
06/14/2001

Max

Purpose: Discuss future of Agriculture in Egypt: Nabil Marsafawy

Meeting:

- **Nabil Marsafawy:** he has done the only privatization I have heard of this year - he **liquidated three of his companies**. He has **Alexandria Refrigeration** on the block now. The CAA valued it at LE38m. He has an anchor investor ready to pay LE34m. The bid is in from the the PM and the privatization Committee. They can accept or reject.
- Nabil has two bidders for all 82 stores of **Omar Effendi**. A Saudi group wants to buy them outright; a Spanish group wants a five year lease with option to buy. Nabil has already overseen reduction in labor by attrition from 8,000 employees to 5,000.
- Nabil's former **spinning companies** are all with Mo'ataz' HC now. They have **processed only 2.4m kentars to date this year**. They perhaps reach 3m by the end of the season. Nabil said that they should pay investors to take the state-owned spinning companies. They need restructuring desperately.
- Nabil agreed that **liquidation is a form of privatization** as it leaves the market share for the private sector. This is often the only solution as the CAA continues to make very high valuations - excessive and unrealistic. This is even more dangerous now as real estate values are plunging all over Egypt. They are said to have lost 25% on the p, Chairman of ast year and the same the year before. There is no liquidity for purchases, no renters on the market. Everyone wants to sell or rent.
- Nabil will give up the chaimanship of the **Domestic Cotton Trading Committee** in two months (Law 210 committee). Ayad Sharnoubi, a cotton trader has said that Farouq Tellawi, one of our senior RDI advisors, will replace him.

ACTIVITY:

7.4.04. Vision For the Future of Agricultural Policy Reform in Egypt

MEETING/INTERVIEW NOTES

Conrad Fritsch, COP, ATUT
Jim Purcell, DCOP, ATUT
Antonio Lizana, Production Advisor
ARC/Giza
ARC/Giza
06/17/2001

Max

Purpose: Discuss Vision for Future - ATUT TAT

Meeting:

- The main **achievement of ATUT?** Taking advantage of **investment capital available in Egypt to import and use new technology**, relying on ATUT expertise.
- Growers had **capital and good management skills but no knowledge of the technology** they need. If they went to the US and saw the very developed systems there, they became discouraged. But in **intermediate countries like Chile**, they could see the advanced technology in conditions much more like those in Egypt. ATUT decided to start with table grapes because Chile has done very well with them.
- USAID bought into this idea because they saw a private group ready to act, and which had capital to invest and political power to protect themselves.
- After NARP, **USAID was fed up with the public sector** and wanted to work with the private agricultural sector.
- Another **achievement of ATUT: creating HEIA**. This is the only private group doing production agriculture for high value crops. They focus on export production in a single-minded way. They are not distracted, as are many USAID projects, by income distribution, reaching small-holders and the poor. Their only job is to get exports up.
- ATUT has succeeded in getting the new **grape system installed on over 4000 fd** to date.
- For **strawberries**, ATUT brought the buyers here to explain to the growers what was required. They established the quality standards and growers have met them.
- ATUT has gotten good results from using consultants from all over the world, not just from the US. USAID has provided waivers. They cared about the right skills and the right approach, more than about nationality.
- Beneficiaries had **capital and willingness to take risks**.
- **Public/private dialogue** has improved dramatically with help from HEIA. There has not been much (if any) institutional change in the MALR - in research or extension. There has been a lot of friction between ATUT and the MALR. The current DG

scrapped the ATUT system of competitive research grants and substituted working groups for research: participants from Universities and the ARC who came together occasionally to plan and monitor research. If they had been full-time teams they might have worked.

- **Small growers can apply the same technology as the big growers.** But they need the big growers to export and have post-harvest investments.
- In the future, they hope to see **more private organizations.** For example, the growers might have their own association and the exporters or marketers their own, to promote their specific interests.
- Egypt needs **more support-service organizations and industries.**
- Someone has to help **coordinate big and small growers.** This works now for some vegetables like fine beans and spring onions.
- We need to bring in a constant stream of **new varieties** to test and grow. Someone has to do the field testing to show the farmers how to grow them,
- Reviving **targeted research, with a competitive process for funding** will help focus research on real problems.
- Concentrate in the future on **post-harvest handling** and, especially, on **market intelligence.** Prices always surprise our shippers.
- Egypt still needs support for **improving production: quantity and quality.** **Support industries** also need help: **refrigeration** for fruits and vegetables; export quality **box manufacturing.**
- Fruits and vegetables can become a major part of Egypt's export economy, not just a remunerative sideline, benefiting few growers. Horticulture generates lots of employment and lots of employment for women.
- Our exports to Europe can grow without a better agreement with the EC, because of market windows. But we need **better representation in Europe.** The government should be there constantly fighting for access for our products to their markets.
- **Public sector resistance to promoting private exports should end.**
- **Land titles are critical to the long-term success of the agricultural economy.**
- **Continued support and encouragement for large growers** is the best path to a successful HVH future.

ACTIVITY:

7.4.04. Vision For the Future of Agricultural Policy Reform in Egypt

MEETING/INTERVIEW NOTES

**Sahar Mounir, Advisor to the Minister
Dr. Ahmed Ghoneim, Advisor to the Minister**

MEFT, Adly St.

MEFT

06/17/2001

Max

**Purpose:
Ghoneim**

Discuss Vision of Future for Agriculture - MEFT Advisors Mounir and

Meeting:

ACTIVITY:

7.4.04. Vision For the Future of Agricultural Policy Reform in Egypt

MEETING/INTERVIEW NOTES

Dr. Ahmed Ghoneim, Advisor to the MEFT for Foreign Trade
Sahar Mounir, Advisor to the MEFT for Foreign Trade

8 Adly Street, downtown
MEFT, Adly St
06/17/2001

Max

Purpose: Discuss Vision for Future of Agriculture - Ahmed Ghoneim and Sahar Mounir

Meeting:

- Look to **business brokers** for the future of agribusiness, especially to get small-holders and small and micro-enterprises into the export business. Like the consolidators who used to work at the Minar y Bassel Cotton Exchange in Alexandria. Dr. Ahmed would like to bring a couple of people who work in business brokerage to the next discussion meeting: Hisham Farouq and Ibrahim Moustapha. He will contact Dr. Hamdy to get them on the list.
- **Small-holders and small enterprises need help to get into exporting.** They do not have market access and need it. Often they find that **profit margins are higher in the local market** - up to a point when supply overcomes demand. But in spite of this, every small producer still wants to export if he/she can do so. One problem is the **Mafia which controls the local markets for fresh products (fruits, vegetables, fish) and who keep prices to producers low.**
- To expand and export in the future, **small-holders need rural organizations** - cooperatives or any other form.
- Small holders can benefit from **contract-farming, but only if they have organizations** which can help them negotiate.
- We need to support and work with big growers who have a **long-term commitment to agriculture and exporting - not with short-term profiteers.** The Kelala harvesters are often in this second category - they do not care about a long-term relationship, but only about short-term profit.
- **Organic farming?** This has some potential but is **expensive and has a much smaller market**, albeit a more expensive one, than normal crops. Egypt has greatly reduced agro-chemical use (35KT imports in 1992 to 4 KT per year now). So the pollution and residue issue is much diminished for all Egyptian output. But There is a market for organic products, Egypt does have a certification service that is approved by the EC. We are not sure if we have one approved for the US market.
- **Competitiveness matrix:** Dr. Ahmed has suggested this might be useful for the

MEFT to maintain to help exporters. But it would need to be updated constantly and used by the trade, not by researchers analyzing the past. This would require work and an strong institutional commitment to the matrix from whichever entity becomes its home.

ACTIVITY:

7.4.04. Vision For the Future of Agricultural Policy Reform in Egypt

MEETING/INTERVIEW NOTES

Fatma Khattab
former Advisor on Foreign Trade, MEFT

06/18/2001

Max

Purpose: Discuss Vision of Future - Fatma Khattab

Meeting:

- GOEIC is a relic of the past, state-control-oriented economy. It should go or be completely restructured or re-engineered. But the politics of this are complex. If there is no GOIEC, what is left of the MEFT? In many ways the MEFT is not a real ministry - what does the Ministry of Economy do? There is a Ministry for Agriculture, one for Industry, one for Transport, etc. Dr. YBG is a wonderful Minister and a great asset to the GOE, but the MEFT has little real role.
- The MEFT totally lacks 2nd and 3rd level cadre to whom the Minister can entrust decisions and whom he trusts. This is not like the MALR, an old Ministry which has a full complement of cadres whom the Minister has known for years and whom he trusts in their domain. In the MEFT, the Minister himself has to make all the decisions.
- Trade would be better served if it were all together - domestic and foreign trade. It makes no sense to separate them. But the politics of the GOE will probably not allow these to be re-united now.
- The same is true of trade promotion: the EEPC, the Commercial Representation people, Fairs and Exhibitions, and the Trade Point all are related and should work together. But the politics of this move are very hard - who will be in charge, who will name the people who will remain, etc.
- The same question needs to be asked of CATGO: it should be in the MEFT, but the politics of the Cabinet of Ministers would make the transfer from the MSHT to the MEFT impossible.
- Like GOIEC, most of what the FTS does is also done in other Ministries.
- The MEFT has one role which it plays very well: dealing with foreign partners such as the WB, the IMF, USTR and USDA, etc.
- The GOE Privatization Program has to decide on its own future: for now they have nothing left to sell under the win-win conditions of previous sales - profitable companies which could be sold to the private sector for good prices. The MPE will have to be restructured with a transparent process including valuation. Everyone fears accusations now: favoritism, corruption, throwing away national assets, etc.

- The MPE has to forget about the money they will earn from the sales of companies and think only about the contribution to the economy of the privatized enterprise.
- If they do not sell NOW, many enterprises will lose all their value - like the rice mills. When private investment enters, the public companies get driven out of business. This is a good idea, of course. The wheat mills are undergoing this movement. Spinning may be starting. Insurance is happening, too.

ACTIVITY:

7.4.04. Vision For the Future of Agricultural Policy Reform in Egypt

MEETING/INTERVIEW NOTES

Atef Abd El-Halim, Dr. Fadia Noseir
Consultant, MALR International Egyptian Center for Agriculture,
First Under-Secretary International Agricultural Relations, MALR

IECA, Dokki
06/19/2001

Max

Purpose: Discuss Vision for Future - Atef Abd El-Halim

Meeting:

- The Director of the IECA is Mrs. Fatil Khalil. Atef has retired and is now an advisor to the Minister for the future development of the IECA.
- For the future, the IECA will concentrate on short term training to present up to date technology to agriculturists from Egypt and around the world.
- To accomplish this, they need to upgrade their facilities, especially with information technology.
- Courses will not last longer than 21 days, with only 4 or 5 days spent in the Centre in Dokki. The rest will be in the field.
- Atef wants to use his contacts to be sure that trainees get to visit the best private, joint-venture, and public sector practitioners of the most modern available technology.
- Technology will include all of the available phases of agriculture, including processing, marketing and transport.
- The IECA will continue to work with the Ministry of Foreign Affairs which brings groups from less developed countries, here to benefit from training at the IECA. Many of these groups, paid for by the MFA, come from former USSR countries: the new Commonwealth of Independent States (CIS)
- Atef agreed to try to get for me a list of the foreign-funded projects working with agriculture: name, donor, funding level, main objectives.