

The Political Economy of Food Price Policy in EGYPT

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The Egyptian food system has been affected by both global food markets and domestic factors. During the recent global food price crises, an estimated 30–40 percent of the price fluctuations in the global food market were transmitted to Egypt's food market. Domestically, government subsidies for agricultural inputs (such as irrigation water and fertilizers) and a wide array of food products have put downward pressure on the prices of food staples and sometimes caused supply bottlenecks and created black markets. The existence of these subsidies for many foods has pushed retailers and wholesalers into non-subsidized food products such as fruits and vegetables. At the same time, fragmented markets, anticompetitive behavior, and inefficiencies in the subsidy system have tended to put upward pressure on prices. These domestic factors have contributed to the relatively low price transmission between the global and the domestic markets.

Food policy has taken on increasing importance in Egypt during the past 10–15 years.

Declining real wages, increasing poverty, and inefficiencies in the social safety net, accompanied by increasing media attention, have placed pressure on the government to focus on food policy. Until early 2011 the governing regime was dominated by the president, backed by the National Democratic Party, implying little opportunity, if any, for other

political parties to compete. Nonetheless, the increasing emergence of opposing parties and opinions represented a real threat. Other factors also forced the governing regime and the party to pay attention to food policy. In 2005 the process of choosing the president changed from national referendum to open elections, implying that there would be competition among political forces and hence a greater need to pay attention to social issues, especially given the ruling regime's desire for the president's son to succeed his father. In addition, the institutional setup governing domestic food trade was fragile. Until 2005, Egypt had no law prohibiting anti-competitive behavior, and even when the law was enforced in 2006, it remained largely ineffective. As a result, anti-competitive behavior prevailed.

Food policy became the core of the government's policy and was at the forefront of policy debate.

The government's reactions to the food price crisis were deeply embedded in Egypt's socioeconomic context, where the food subsidy system centers on bread availability and prices. Given that a large number of poor people in Egypt are vulnerable to any increase in food prices, the government rapidly took steps to make bread available and control its price. It also changed the commodity mix in the ration card system and increased the number of ration card beneficiaries, to reduce the vulnerability

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The complete paper is available at http://www.wider.unu.edu/research/current-programme/en_GB/Political-Economy-of-Food/

The policy briefs can be found at: <http://www.foodpolicy.dyson.cornell.edu>

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of the poor to price increases. In addition, the government increased wages for public sector employees. It made changes to trade policies, reducing tariff rates on a number of commodities and banning the export of rice. These trade policies may have helped solve the bread problem, but their impact on rice exports and on the stability of domestic rice prices is questionable. The reduction of tariffs on food items had little effect because tariff levels were already generally low.

The government succeeded in lessening the impact of the food crisis on the poor, but this success came at a high fiscal cost.

The government's policy changes affected the country's monetary, trade, and fiscal policies. The drawbacks of the policies on Egypt's fiscal stance and trade are likely to continue for a long time, especially after the January 25 Revolution and the accompanying social demands. This situation raises concerns about the macroeconomic sustainability of such policies for current and future governments. Food subsidies are relatively small compared with fuel subsidies, perhaps implying that the government expects to continue food subsidies for a while, especially given its focus on achieving social equity and lessening poverty. Hard budget constraints could, however, require reform, at least to prevent leakage and attain better income and geographic targeting.

Various food policy stakeholders have been collaborating to reform food policy and address

these concerns. Yet efforts to address food policy still suffer from a lack of coordination and little exchange of data and information. Widespread poverty and food insecurity and the absence of political leadership to drive national reform have resulted in a plethora of poorly coordinated programs and projects. The debate on food policy issues has been left to technocrats with competing arguments.

The political will to support serious reforms remains absent.

The political economy of food policy in Egypt is highly complex. In spite of the creation of a few ministerial committees and political slogans announcing reforms, there is little movement toward reform. Because any serious economic reforms can have negative social and political repercussions, the political leadership has favored the status quo. Despite the high fiscal cost of the current policies, reform is difficult because a relatively large portion of the population is vulnerable to falling into poverty if food prices rise. Lack of political will, weak coordination among stakeholders (including governmental agencies), proliferation of corruption, an inefficient pricing system, modest logistics, and a market heavily distorted by subsidies all increase the difficulty of reforming the food system. The combination of inefficient subsidy policies and wrong price signals has led to a huge amount of waste and leakage at all stages of the food value chain, resulting in food security problems and a low self-sufficiency rate.

THE POLITICAL ECONOMY OF FOOD PRICE POLICY

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