UNLOCKING THE POTENTIAL OF THE AGRICULTURAL SECTOR IN EGYPT

Promoting Sustainable Investment in Egypt’s Food Security Conference
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WORLD BANK GROUP
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- **Relevant global trends**: What are the opportunities?

- **Transforming the agriculture sector**: What will it take to boost private investment?
  
  - Improve investor certainty to reduce policy ‘surprises’ for the private sector
  - Expanding land-titling to unleash the power of collateralized lending in agriculture
  - Targeted value-chain strengthening and spatial solutions to drive value-addition and exploit economies of scale
  - Food Quality and Safety System to build market reputation & margins
  - Access to agricultural finance to improve to facilitate domestic investments in the sector

- **Prioritized Action Plan**
EGYPT’S AGRICULTURE AND AGRIBUSINESS:
CURRENT STATE OF PLAY
EGYPT’S AGRICULTURE AND AGROBUSINESS

Current State of Play

Negative agricultural trade balance
- Is about US$ 11 billion; 2014
- About 40 percent of total (ag and non-ag) export revenue is spent on ag imports (largest importer of wheat)
- Processed ag export has increased from 46% to 53% of total ag exports between 2002/03 and 2014/2015

Agriculture’s Contribution
- 13% of GDP (35% of agribusiness is added)
- 23% of the employment
- 2.5% of the total merchandise exports; almost 20% if the entire food system is included
- Production: Cereals (wheat, corn and rice), fruit and vegetables, sugar, cotton, dairy products, livestock and fish.
- Self-sufficient in most agricultural products except for wheat, oil and sugar

Agribusiness Exports
- Have grown from US$1.3 to US$4.5 billion in the past decade
- Vegetables are second top export product in Egypt, with 14% of the ag. export value

Two farming systems
- Small-scale (80% of up to 3 Ha) and irrigated in the old lands, and state-of-art large farms (up to 15% of farm economy) in the new lands

Agriculture Water Usage
- It uses 86% of the country’s water resources (only 2.6% is used by industries)

Government’s Subsidies
- For food and agriculture were significant (6% of GDP in 2014), but have been reduced during recent reforms
EGYPT’S EXPORT MARKET POTENTIAL

- The total untapped export potential of Egypt reaches at least US$15 billion equivalent
- Fruits and vegetables are among the ag products with large untapped export potential

Source: [http://exportpotential.intrace.org](http://exportpotential.intrace.org)
EGYPT’S DOMESTIC MARKET POTENTIAL

• Egypt has a large and fast growing domestic market

• Total household consumption estimated to reach around US$300 billion by 2021 (up by 36% from 2016)

• Assuming food represents on average 30% of the consumption expenditures, the total food market size is estimated around US$90 billion equivalent
EGYPT’S AGRICULTURE AND AGRIBUSINESS

Summary of Opportunities

- Egypt’s geographical location provides easy access to major markets in Europe, the Arab countries, Africa, South America and Asia
- Relatively developed port and sea transport infrastructure network
- Extended & multiple growing seasons
- Consistent climate and rich natural endowments
- Expanding domestic market of around 100 million people, growing by 2 million annually.
- Membership of multilateral and bilateral free trade agreements and harmonization
- Competitive advantages identified in dairy, horticulture, poultry and fish.
- Recent floating of the Egyptian pound has increased the competitiveness of the sector
- Subsidy reform has reduced distortions in the sector (but also increased production costs)
- Reforms to investment and licensing processes have improved business environment
- Historic name recognition
EGYPT’S AGRICULTURE AND AGRIBUSINESS

Summary of Challenges

- No longer seen as a low-cost producer, another value proposition is needed
- Constrained water resources
- Jobs created mostly in the informal sector, supporting lower quality jobs with low-skilled workers
- Inconsistent transport infrastructure, constrained market information systems, and poorly developed quality and safety standards
- Lack of innovation in the sector, low new product development rate
- High losses in agriculture sector, averaging 30% depending on the product, including about a half of that from logistics (e.g., grape, tomato, onion, green beans and capsicum value chains aggregate losses of EUR 266 million annually)
- Unclear land rights discourage investments, particularly, in fixed assets
- Access to finance, in particular for small-scale domestic investment is severely constrained
- Factor markets do not operate in accordance with market mechanisms.
GLOBAL TRENDS IN THE AGRICULTURE AND FOOD SECTOR
Jobs and Incomes in agriculture created from the direct value chains, but also from the associated industries growing around the agriculture sector.
### An Example of an Integrated Ecosystem – Agriculture and Food Sector in California

The total economic impact of the agriculture sector in California is over US$300 billion annually and almost 3 million jobs (800 job titles), including 206,000 directly working in production on 81,000 farms.

<table>
<thead>
<tr>
<th>Support Industries</th>
<th>Production Industries</th>
<th>Processing &amp; Packaging Industries</th>
<th>Distribution</th>
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<tbody>
<tr>
<td>• Waste management</td>
<td>• Farmers and producers</td>
<td>• Slaughtering</td>
<td>• Wholesalers</td>
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<td>• Machinery repair</td>
<td>• Animals</td>
<td>• Sugar processing</td>
<td>• Stores &amp; retail outlets</td>
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<td>• Crop harvesting</td>
<td>• Grains</td>
<td>• Cooking</td>
<td>• Markets</td>
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<tr>
<td>• Machinery manufacturers</td>
<td>• Bees</td>
<td>• Cheese making</td>
<td>• Freight</td>
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<tr>
<td>• Seed and agrochemical distributors</td>
<td>• Tree fruits</td>
<td>• Confectionery</td>
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<td>• Researchers</td>
<td>• Cotton</td>
<td>• Diary products</td>
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<tr>
<td>• Warehouse storage</td>
<td>• Pulses</td>
<td>• Pasta</td>
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<td>• Transporters</td>
<td>• Flowers</td>
<td>• Flour</td>
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<td>• Veterinary services</td>
<td>• Aquaculture</td>
<td>• Bakeries</td>
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<td>• Nurseries</td>
<td>• Mushrooms</td>
<td>• Canning</td>
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<td>• Training facilitator</td>
<td>• Vegetables</td>
<td>• Specialty foods</td>
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<td>• Advisory services</td>
<td>• Etc.</td>
<td>• Seafoods</td>
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<td>• Finance</td>
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<td>• Etc.</td>
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GLOBAL TRENDS

Agriculture and Food are increasing in scale and complexity

- **Growth**
  - Growing global population
  - Consumers becoming better off and demanding higher quality safe food

- **Globalisation**
  - Export opportunities are increasing
  - Local producers face competition from imports

- **Consolidation**
  - Share of formal retail is on the rise
  - The power of supermarkets is becoming more pronounced
  - Larger volumes fetch higher prices

- **Technological Development**
  - Need to invest in R&D and innovate to stay competitive

- **Regulation**
  - Increased reliance on international standards for export
  - National standard requirements for domestic consumption also becoming more strict
  - Ethical standards: against animal cruelty, poor labour practices, and for natural resource sustainability are also on rise
AN EXAMPLE OF CHANGING CONSUMER DEMAND FOR FOOD - INDIA

- Consumer demand on average grows at 5.5% p.a.
- Little growth in staple crops but expanding demand for animal proteins, high value crops & processed foods

![Aggregate Demand by Production in Billions of Rupees](chart)

- **CAGR % (Compound Annual Growth Rate)**
WAY FORWARD: TRANSFORMING THE AGRICULTURAL SECTOR
TWO MAIN DIRECTIONS AS THE WAY FORWARD

- **Egypt as a Highly Efficient Agricultural Producer and Supplier**
  - Apply resource- and climate-smart precision agricultural production and logistics to existing lands to maximize agricultural productivity, improve sustainability of the use of natural resources, and ensure timely response to markets.
  - Develop strong value chain linkages and spatial solutions (agri-industrial hubs) in the sector, reduce losses and waste and improve efficiencies along the value chains, including smallholder value chains.
  - Cross-sectoral synergies, such as integrated agriculture-aquaculture systems, could further improve smart utilization of scarce natural resources and open new market opportunities.

AND

- **Egypt as an Agribusiness Transformation Hub, which**
  - Adds value to imports as well as domestic production, and re-exporting, capitalizing on its proximity to major markets, and emerging markets such as Africa.
  - Alleviates the strain on its natural resources (in particular, water).
  - Ensures more permanent jobs and higher incomes from the value addition.
  - Increase Egypt’s potential as a key transport logistics hub for regional and international markets access.
PROPOSED AREAS OF EFFORT

To achieve the vision, further investment in agriculture and agribusiness sectors is needed

Implementing the following set of measures would encourage the first round of investments:

- Improve clarity, predictability and communication of government policies
- Complete land titling to unlock lending using land title as a collateral
- Drive local value-addition and exploit scale economies through targeted value-chain strengthening and spatial solutions
- Build market reputation & margins by improving Food Quality and Safety Systems
- Improve access to finance in agriculture
MEASURES TO IMPROVE MOBILIZATION OF COMMERCIAL FINANCE

Improve clarity, predictability and communication of government policies

- Define the role of the state as creator and facilitator of an enabling environment and develop and adopt a streamlined, consistent, and transparent policy development and promulgation process.

- Ensure the new Investor Service Center benefits from regulatory streamlining and harmonization of its constituent regulatory processes, and has the capacity and authority to effectively resolve disputes and serve investor needs.

- Boost public-private dialogue (PPD) through a strengthened institutional structure facilitating inter-governmental cooperation and private sector dialogue, heightened accountability, and effective reporting directly to senior decision-makers.

- Improve coordination between the various structures as stated in the Investment Law, i.e. the Supreme Council for Investments (overall level), the General Authority for Investment and Free Zones at the investment level and linked to the relevant national Ministries and Agencies.

- Create a multi-stakeholder dialogue forum to ensure transparency and increased response to solving any arising issues that impede investments.
MEASURES TO IMPROVE MOBILIZATION OF COMMERCIAL FINANCE
Land Cadaster and Titling

- **Improve tenure security of the new land** by either: (i) issuance of free hold land titles; or (ii) issuance of long term leases (at least 25 or 50 years).

- **Streamline and accelerate land allocation to potential investors** both for agriculture and agro-business. Government needs to issue clear and transparent guidelines/procedures based on international best practices; publish these guidelines widely to improve transparency.

- In order to encourage private banks to lend to the agriculture sector, government needs to **amend the mortgage law** to allow administrative foreclosure of agriculture land thus reducing the risk for private banks.

- **Initiate a program to modernize Egypt Property Registration and Cadaster System** by establishing a unified agency to be responsible for cadaster mapping, property registration of all land including privately held, state land; leases; property valuation, and provision of land information. This is a global trend and many countries have established unified agencies in recent years.

- **Allow the registration of land leases and rental contracts in the property registry** which will provide more security for both owners and renters, thus, encouraging the rental markets.
MEASURES TO IMPROVE MOBILIZATION OF COMMERCIAL FINANCE

Improving Food Safety and Quality System

- Speed up the build-up of capacity of the Food Standards Agency and develop a sustainable model to ensure its independent existence (with fees being paid by the private sector) in the future.

- Promote adherence to HACCP and GlobalGAP standards to ensure access to the global markets through availability of trusted certification of GlobalGAP standards.

- Adopt and build local capacity for the certification of the organic produce system
MEASURES TO IMPROVE MOBILIZATION OF COMMERCIAL FINANCE

Promoting Value Addition in Agricultural Value Chains

- **Facilitate small farmer cooperation**
  - which will allow their more effective inclusion into value chains and enable agribusiness processors and buyers invest in smallholder production though input supplies, pre-financing, procurement and training/advisory.
  - more efficient primary processing at farm/cooperative level.

- **Develop and apply an appropriate ICT system**
  - to improve the efficiency of production and logistics along value chains.

- **Explore the feasibility of building out new marketing and logistics infrastructure for key value chains**
  - aggregation platforms and/or logistics hubs/requirements for each of Egypt’s key value chains, including inefficiencies within the supply chains and investment solutions such as strategically located agri-industrial parks.

- **Brand Egypt**
  - could be developed if GlobalGap is commonly applied in Egypt as a standard for agricultural production;
  - would support the linkage to smallholder producers and meeting the requirements of international markets and particularly the retail sector;
  - capacity to serve specific market windows; manufacturing/processing capability; locational advantage; backed by historic ‘name recognition’ that Egypt has.
MEASURES TO IMPROVE MOBILIZATION OF COMMERCIAL FINANCE
Improving Access to Agricultural Finance

- Fully commercialize ABE, to ensure more level playing field for other commercial banks willing to finance agriculture.
- Develop microcredit for agricultural production purposes, as the estimated potential demand for microfinance stands at 10 million individuals and micro-entrepreneurs.
- EWalet: use ICT to integrate SMEs, administering loan and input packages and building up credit history (this would help de-risk agricultural lending).
- Promote value chain financing instruments to allow for improved cash-flow into the agriculture sector.
- Structured finance: Assess opportunities/prospects for possible innovative PPPs, such as ‘land for desalination arrangements’, or irrigation.
- Develop credit enhancement products: e.g., a well-designed credit guarantee scheme would further support credit penetration. This could be built on the current credit guarantee framework, which has a clear vision of developing and restructure the company to allow it playing a more active role in financing frontier market.
- De-monopolize credit subsidies. The subsidies programs in the agriculture sector should be well targeted and subject to good monitoring and evaluation. The channeling of these government programs should be open to all banks and NBFIs.
KEY PRIORITY ACTIONS
# Key Priority Actions

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<th>Priority Area</th>
<th>Key Actions to be Taken</th>
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<td><strong>Policy</strong></td>
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<td>• Establish a coordination body/mechanism for review and coordination of policies related to private investments in agriculture (e.g., export bans)</td>
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<td>• Provide access to subsidized loans and other government support programs to a wide range of banks and NBFIs (MFIs, leasing companies)</td>
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<td><strong>Regulatory</strong></td>
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<td>• Undertake a planning/zoning exercise to map the agricultural production, industrial manufacturing/processing zones, logistics hubs, and transport routes/systems</td>
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<td>• Issue regulations on issuance of land titles or long term leases for new agriculture land, as well as on registering land rentals contracts</td>
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<td>• Amend mortgage law to allow administrative foreclosure for agriculture land</td>
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<td>• Revise the regulatory framework to promote use of highly efficient ICT systems</td>
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<td>• Ensure regulatory framework for value chain financing instruments</td>
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<td><strong>Institutional</strong></td>
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<td>• Build capacity of the new Investor Service Center, including a communication strategy</td>
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<td>• Build capacity (budget, clear mandate) of the Food Safety Agency</td>
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<td>• Strengthen the food quality certification system in the country</td>
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<td>• Facilitate smallholder-driven value chain development through farmer cooperation, advisory service development, and market access measures</td>
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<td>• Develop information system/map for investors: water resource availability, soil quality, ICT service and other support service availability</td>
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<td>• Develop framework for water resource management in agriculture using ICT and precision technologies</td>
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<td>• Allow the entry of private investors in the capital of ABE</td>
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THANK YOU