

WHEAT POLICY REFORM IN EGYPT: ADJUSTMENT OF LOCAL MARKETS AND OPTIONS FOR FUTURE REFORMS

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Many developing countries are in transition from a state-dominated to a more market-oriented economy. Because agriculture is of primary importance in most developing countries, the state is usually heavily involved in both input and output markets and in controlling prices and trade. However, concerns that market liberalization will result in higher consumer food prices and hurt the poor means that many countries, such as Egypt, have, at best, undertaken only partial agricultural sector reforms. It has been argued that such concerns are unwarranted and that further market liberalization is not only needed, but achievable without increasing impoverishment.

IFPRI Research Report 115 sheds light on these critical issues through an analysis of wheat policy reform in Egypt. The Egyptian case should be of particular interest to policymakers for two reasons. First, wheat is a strategic commodity in Egypt because of its preeminence in the national diet; it provides more than one-third of daily caloric intake of consumers and 45 percent of total daily protein consumption. It is also the major staple crop produced in Egypt. Second, the Egyptian government embarked on a series of partial agricultural reforms in 1987 that have had important implications for the wheat sector, and further market liberalization.

OBJECTIVES AND METHODOLOGY

Specifically, the authors have two main objectives: (1) to analyze the structure and performance of the wheat sector following market liberalization programs initiated in 1987, and (2) to explore the economywide effects of these programs in three areas critical to wheat policy: (i) consumer subsi-

dies on bread and flour, (ii) producer subsidies aimed at raising self-sufficiency, and (iii) responses of the domestic economy to changes in international wheat prices.

The study uses various types of analysis, including econometric analysis of market survey data, time-series investigation of price behavior, and a computable general equilibrium model of Egypt's wheat economy.

THE PATH TO LIBERALIZATION

In response to a stagnating agricultural sector and projections of unsustainable levels of food imports, the Egyptian government embarked on a series of market-oriented agricultural reforms in 1987. The government began by liberalizing prices, removing production controls, and introducing market forces in the provision of agricultural goods and services. In the wheat subsector, these reforms helped boost domestic wheat production and marketing by the private sector. This transition toward a fully liberalized system of wheat marketing has had significant effects.

In the pre-reform period, wheat producer prices were heavily taxed, whereas the prices received by Egyptian farmers after reforms are approximately at international levels. The introduction of higher-yielding wheat varieties and the resulting improved profitability of wheat relative to competing crops raised local wheat production significantly.

As a result the quantity of domestic wheat procured by the government for its subsidy program for *baladi* (coarse) flour and bread has increased. The liberalization of the more refined *fino* flour market has also induced new private investments in wheat milling, increased domestic produc-

tion of flour, and led to a noticeable reduction in prices, to the benefit of consumers. Wheat sector reforms have also promoted the participation of private traders in the domestic wheat marketing system, resulting in a more open and competitive trading environment. This has contributed to stabilizing wheat market prices and improving market integration.

Despite these changes, the performance of the wheat marketing sector in Egypt is constrained by the current design of the universal consumer subsidy on *baladi* flour and bread and by the continued involvement of the public sector in wheat trading and processing. Although many new private traders have entered the wheat sector, expansion of private sector activities beyond small-scale trading has been more limited. Despite the available access to transport, storage, or information, market integration in Egypt remains low compared with other developing economies.

NEXT STEPS

Four main policy implications for Egypt can be derived from these findings:

1. The goal of increasing wheat self-sufficiency and delivery of domestic wheat to the government using price policy would be expensive and ill-advised. Egypt's wheat production would benefit more from public investment in agricultural research, extension, and market information—all of which could boost yields and productivity.
2. If the government wishes to reduce the costs of the consumer subsidy on *baladi* flour and bread, while protecting the poor, two options can be considered. One is to target the subsidy to the poorest groups. The other is to eliminate the subsidy and compensate the poor through cash or alternative safety nets. Both measures would lead to substantial cost savings, although the administrative costs and feasibility of the options would have to be considered. This not only would free up government resources for more productive uses, but

would also liberalize the wheat marketing sector with strong potential for efficiency gains.

3. Domestic price stability in the face of international fluctuations in wheat prices can be achieved with less distortionary measures than fixed consumer or producer prices by using a flexible import tariff regime.
4. The government should shift its resources from wheat marketing and processing activities toward institutional development. This includes providing rules and regulations regarding market conduct, a system of commodity grading and standards, and policies to foster the development of rural credit organizations for small farmers and traders.

BROADER POLICY INSIGHTS

The findings and policy implications of this study provide useful lessons for other developing countries undergoing similar types of reforms. Egypt's experience indicates that private sector participation in marketing activities leads to more stable and integrated markets and lower retail prices for wheat. Partial liberalization, in contrast, dampens the potential investment response of the private sector and leads to leakage of the controlled commodity into the free market. Furthermore, when the objective of a commodity policy is to protect consumers, targeting the subsidy directly to the beneficiaries is more efficient than controlling the entire marketing channel. Finally, the goal of attaining self-sufficiency is expensive and unnecessary, given the increasing world trend toward globalization and reliance on international markets. Governments, generally, are advised to shift their resources from production and marketing activities that can be conducted more efficiently by the private sector toward more public-good activities. Among these are providing research and extension services, public market information, investing in communication infrastructure, implementing market regulations, and developing safety nets for the poor.

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