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The political economy of food price policy in Egypt

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Working Paper No. 2012/96

The Political Economy of Food Price Policy in Egypt

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November 2012

Abstract

The study focuses on the period 2004–09 during which Egypt experienced food crisis. The political economy context on how the government responded to the crisis is analysed while pinpointing to what extent there was a pass-through effect from international to domestic prices. The complexity of food price policy issues and their entanglement with poverty, agricultural, and economic policies in Egypt together with the structural aspects of the food subsidy policies are discussed and evaluated from a political economy perspective. Prospects for reform or lack thereof are also analysed in the context of the 25 January 2011 revolution and new political set-up.

Keywords: food price policy, political economy, efficiency of subsidies, food crisis; Egypt

JEL classification: H12, I38, P48, Q18

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1 Introduction

The global food crisis that hit the world in 2006 and reached its peak in 2008 revived the interest in food policy formulation and implementation in both developed and developing countries. By December 2007 there were around 37 countries that faced drastic effects of the global food crisis (UNDP 2009). The dramatic increase in prices of food products was not uniform, with prices of grains and oilseed increasing the most, rice being the most expensive at the peak, whereas prices of cocoa and coffee increased to a lesser extent (Farm Foundation 2009). Starting mid-August 2008 until February 2009 the upward trend in prices started to be reversed downwards, however another price peak, relatively harsher than the former one, took place in 2011 (Khor 2011) where food commodity prices rose with different rates. OECD-FAO (2011) identified that feed costs as well as other resource costs have also been on a rising trend. The effect of the 2006–08 surges in food prices differed from one country to another. The pass-through effect of international prices was highly evident in developed countries, whereas in the case of developing countries and due to several reasons (including the poor market integration, border barriers, etc.) the pass-through effect was less evident (Abbott and de Battisti 2009; World Bank, FAO, and IFAD 2009). The impact of such changes on countries differed while affecting poverty, balance of payments, and government budgets, etc., in different ways and magnitudes. Such dramatic shifts in food prices and their significant impact on many variables implied that the countries have been experiencing a new situation where the interaction of economic and social policies will need to be altered to face this new challenge. The political economy context in which such policies are formulated including how, why, and to whom such policies are addressed became the centre of attention for both policy makers and researchers.

This study elaborates on the aforementioned changes in the Egyptian context, focusing on the period 2004–09, while highlighting the main features of the period of food crisis of 2006–08 and how it affected the different socio-economic variables. The study's main focus is on the political economy context of the food price policy formulation. The effectiveness of policies adopted is also evaluated, and the study touches upon the 25 January 2011 revolution in relationship to food price policy by trying to identify whether food price policy has contributed to the revolution or not and anticipating future prospects.

The study focuses on the political economy aspects. It utilizes a mixture of data analysis and a number of selected interviews with senior government officials and other main stakeholders to try to understand the political economy dynamics of setting the food price policy in Egypt. The paper starts in Section 2 by providing a general overview of the Egyptian economy and political systems as well as the importance of the agriculture sector and a short historical review of food policy formulation and implementation. Section 3 portrays what happened to food prices during the food crisis (2006–08) while trying to investigate whether there has been a pass-through effect and whether there have been urban/rural differences in terms of being affected by the crisis. Section 4 analyses the effectiveness of food price policies undertaken in the aftermath of the crisis, and investigates to what extent food price policies have affected other economic policies. Section 5 explains the political economy dynamics of food price policies undertaken in light of the food crisis. Conclusions and policy implications follow in Section 6.

2 Setting the scene: an overview of the economic and political set-ups, agriculture sector, and food policies

2.1 General socio-economic overview

The shift towards market economy in the recent history of Egypt can be traced back to 1991 when Egypt embarked on major economic structural reforms after adopting an economic reform and structural adjustment programme (ERSAP) designed and implemented jointly with the World Bank and the International Monetary Fund (IMF).¹ Since 1991 the government of Egypt has adopted a number of free market reform measures including the devaluation of the Egyptian pound, the lowering of trade barriers, the initiation of an ambitious privatization programme, the reduction of subsidies on some strategic commodities and energy, and the upgrading and expanding of physical infrastructure. Several external shocks disrupted the functioning of the economy during 1997–2003 and negatively affected its performance. A new cabinet was appointed in 2004 which undertook several reforms that helped the economy to get back on track by restoring the macro-economic imbalances. However, the reforms undertaken focused mainly on economic policies whereas effective institutional and social dimensions remained lagging. As a result, the general impression among the public was that the reforms did not trickle down to them. Inflation increased significantly as well as unemployment rates, whereas under-employment and the informal economy (often estimated at one third to one half the size of official GDP) have been heavily relied on as an informal social safety net. Moreover, crucial institutional pillars of a market economy were absent although some, such as the competition law and the consumer protection law were introduced in 2005 and 2006, respectively. Even when such laws were introduced they remained highly ineffective which led to the rising of monopolistic powers and corruption (Amin 2009).

One of the main elements that lagged in terms of reform was the subsidy system, and especially the energy and food subsidies. The Government of Egypt has extended subsidies, especially in the energy sector, as a means to protect the population against rising living costs. During the period 2001/02–2010/11, subsidies represented more than 20 per cent of total government expenditures. During the period of the study (2004–09) fuel subsidies reached skyrocketing amounts accounting for EGP 70 billion in 2007/2008 (the exchange rate to the US\$ is shown in Annex 1) (Ministry of Finance 2011). This in effect has led to a sharp increase in the budget deficit. The food subsidy system, relatively less in terms of fiscal burden, also remained a significant element of the subsidy system in Egypt. The government has been considering reviewing its whole subsidy system to better target the poor. The food subsidy system has been suffering from increasing inefficiency associated with corruption, waste, and lack of right targeting. Yet, the piecemeal reforms undertaken to fix it remained incomplete and insufficient to tackle the roots of the system inefficiency.

Poverty in Egypt has remained high and vulnerable to changes in GDP growth rates. By February 2009, it was estimated that almost 21 per cent of the population (approximately 13.5

¹ ERSAP was not the first initiative by the Egyptian government to undertake reforms. In fact, Egypt signed three standby agreements with the IMF in 1976, 1978, and 1987. These entire standby agreements followed the same line of policy recommendations, advocating to different degrees tight fiscal and monetary policies, liberal exchange rate, and trade policies along neo-classical lines. However, with the exception of the ERSAP, the other three agreements were discontinued for social, political, or economic reasons (Korayem 1997).

million) was below the national poverty line (120 EGP per capita per month).² The situation has not changed much since the early 1990s where 24 per cent of the population falls below the national poverty line (UNDP 2010). Yet, according to World Bank (2009), the incidence of poverty decreased between 2004/05 and 2008 whereas the poverty gap and the severity of poverty increased slightly. Poverty in Egypt has been concentrated in Upper Egypt and in rural areas where Upper Egypt accounts for more than two-thirds of the ultra-poor, mostly concentrated in rural areas. Moreover, there is a high sectoral concentration of the poor (40 per cent) in agricultural activities, construction, and the informal sector (World Bank 2009). The food subsidy system represents an important pillar in the social safety net. While the subsidy programme has been costly and inefficient, it still provided an important indispensable safety net to the poor (Ahmed et al. 2001; Aboulenein et al. 2010).

2.2 Political set-up

The political scene in Egypt has remained stagnant over the last 20 years. The remaining of ex-President Mubarak in power for more than 30 years, the revolving of the whole governing regime around one person (the president who has many powers granted by the constitution), and the increasing domination of power by the ruling party (the National Democratic Party—NDP) implied that there is a high and increasing degree of concentration of power, and little room for real democracy (despite the existence of 24 parties before the January 2011 revolution). The domination of power of the NDP was increasing in the last ten years carrying the seeds of the succession procedures of the son of the ex-president and trying to enforce the hegemony of the NDP on both the legislative and local council elections. Such signals implied less trust in the role of the parliament holding the executive branch accountable (ECA 2008; Transparency International 2009). The creation of the policies committee in the NDP in 2006, headed by the son of the ex-president, signalled a new era where this committee was dictating policies to the government and influenced all aspects related to economic, social, and political life. The 2010 parliamentary elections were viewed to be a fraud as the NDP won 81 per cent of the 420 seats (Wikipedia 2011), despite the fact of heavy and significant presence of other political powers in the streets, namely the Moslem Brotherhood. Such political turbulence under the surface, accompanied by the increasing level of corruption where Egypt's rank in Transparency International worsened from 72 (out of 158 countries) in 2005 to 111 (out of 180 countries) in 2008 (Transparency International 2005; 2008) and the feeling of an increased level of poverty and lack of fair income distribution have been among the main reasons that ultimately led to the January 2011 revolution. The fear from social unrest and the desire to push forward with the ex-son of the president as the future president of Egypt implied, at least during the course of our study, that any serious reforms to the food subsidy system (e.g. by better targeting, or reduction) cannot be undertaken. Food subsidy remained extremely important for enhancing political stability in Egypt constituting a powerful symbol for the social contract between the population and any governing regime (Ahmed et al. 2001).

Among the most important political developments that have a strong relationship with the focus of this paper is the land tenure system. Since Nasser's socialist era (1954 to 1970), the

² World Bank (2009) puts the figure of poor in Egypt at 28 million people in 2005 representing 40 per cent of the population. World Bank (2009) considers 13.6 million (19.6 per cent) in absolute poverty or ultra-poverty (spending than the minimum to cover their basic food requirements or less than EGP 1,423 per year per capita) and 14.5 million (21 per cent) in near poverty (spending between EGP 1424 and 1,854 per year per capita).

land tenure system experienced several drastic changes starting with the introduction of the Agrarian Reform laws in 1952 and 1954. Political bias for equal distribution and access to land resources among actors in rural areas led to a prevalence of small and fragmented farms, which was reinforced over time by the inheritance aspect that helped to further divide small plots of land. With the change of political regimes into more open ones, amendment to land tenure laws was undertaken in 1992 to liberalize the relations between owners and tenants which was fully implemented in 1997. The law, on the one hand, left hundreds of thousands of previous tenants landless, unemployed and highly prone to fall into the poverty trap. On the other hand, the law helped to slightly restore the unity of many tiny rented and fragmented old plots of land that belong to same ownership. This law did not affect much the situation in the new areas of land (that have been allocated by the government starting in the 1980s) which was kept out of such fragmentation (caused by the agrarian reform laws) due to the tendency of the government of Egypt to allow large scale farms since the early distribution of the new areas of land among beneficiaries (IAAM1 2009). The status of fragmented land has affected the ability to expand the production of some food crops which could benefit from economies of scale.

2.3 The agricultural sector and its role in the Egyptian economy

Agriculture contributes around 15 per cent of GDP and provides 27 per cent of employment. However, the contribution of growth in agriculture is not likely to generate sizable additional employment due to limited land and traditional methods of production (Abou-Ali and Kheir-El-Din 2010). Nevertheless, enhancing growth in the agriculture sector has an important role to play in poverty reduction due to the concentration of poor in this sector (El-Ehwany and El-Megharbel 2008).

The main agricultural products include cotton, rice, maize, wheat, beans, fruits, vegetables, poultry, cattle, water buffalo, sheep, and goats. Self-sufficiency rates (SSR) are extremely low for some products as lentils, soybeans, other oil crops, and fodder crops (5 per cent) except *berseem* (Egyptian clover), where it reaches 70 per cent. The SSR is 50–60 per cent for wheat, beans, and maize, and about 30 per cent for vegetable oils. In other products, the SSR are high, reaching 70 per cent for red meat, 75 per cent–80 per cent for barley and sugar cane, and over 90 per cent for milk. There is full self-sufficiency in rice, sorghum, and onions. The low SSR for some crucial food products, namely wheat, resulted in Egypt becoming the largest wheat importer in the world.

The growing encroachment of urbanization on agricultural land over the last 20 years resulted in losing 1.2 million *feddans*³ which could have produced over 100,000 tons of wheat and 128,000 tons of maize (UNDP 2009). Such developments resulted in a limited size of arable land in Egypt constituting only 3.4 per cent of total land area (3.5 million hectares (ha) equivalent to 8.4 million *feddans*). Given the fact that Egypt has two growing seasons (summer and winter), the total cropped area amounts to about 6.3 million ha.⁴ Smallholder-based mixed farming is the dominant production system (about 80 per cent of farms are smaller than two acres) (IAAM3 2009).

³ One *feddans* is equivalent to 1.038 acres or 0.42 ha.

⁴ This is not that the total available agriculture land which is 3.5 million ha. But due to having two growing seasons the cropped area increased to 6.3 million ha.

The food trade balance has been continuously in deficit, averaging 3.5 per cent of GDP between 2002 and 2006 and widening to 4.8 per cent in 2007. Egypt remains highly vulnerable to international food price risk as it relies on food imports for around 50 per cent of domestic consumption and food accounts for more than 15 per cent of all imports (Aboulenein et al. 2010). Agricultural products represent around 12 per cent of total exports and 20 per cent of total non-oil exports. The export-import coverage in food items has improved over time yet remained relatively low revolving around 30 per cent (implying that Egypt exports food with what is worth of 30 per cent of its food imports). Major agricultural exports include cotton, rice, onion, fruits, and vegetables, while main imports include wheat, corn, and edible oil.

There are several key challenges facing the agricultural sector that have a significant impact on food policy in Egypt including the following: agriculture is almost entirely dependent on irrigation; agricultural land being lost to urbanization and windblown sands; fragmentation due to the small size of land holdings; increasing soil salination; desertification; water pollution from agricultural pesticides, raw sewage, and industrial effluents; limited natural fresh water resources away from the Nile, which is the only perennial water source; and rapid population growth straining the Nile and the country's natural resources (IAAM3 2009).

Among the important crops for Egypt, are wheat, rice, and maize (especially after being mixed with wheat in baladi bread production). Their importance arises from playing a paramount role in the diet of Egyptian consumers as well as their economic aspects (e.g. significant impact on government budget, exports' proceeds, etc.).

2.4 Short historical review of food price policies

The history of the Egyptian food subsidy programme dates back to the mid-1940s when the first programme was initiated after the Second World War to provide everyone (not just target groups) with necessities such as sugar, kerosene, coarse cotton textiles, edible oil, and tea. Since then, the food subsidy system has passed by several changes and partial reforms, yet remained an integral element of the Egyptian political, social, and economic systems. During Nasser's regime, budget allocations for food subsidies were modest, and the ration card system aimed at protecting all Egyptians, without targeting, from commodity shortages. The system grew during Sadat's era where more commodities were introduced to the subsidy system reaching 18 products. The budget allocations for the food subsidy programme increased significantly, and its share in government expenditure soared in the 1970s. In an effort to reduce expenditures, the Government of Egypt, following the recommendations of the IMF and the World Bank, announced a drastic reduction in food subsidies, including the baladi bread subsidy, in January 1977. This measure resulted in massive popular riots, and as a result the measure was reversed. By 1980/81, total expenditures on food subsidies jumped to almost 14 per cent of total government expenditures, compared to only 0.2 per cent in 1970/71. During Mubarak's era several reforms were undertaken, yet while avoiding any type of political or social unrest similar to the one that took place in 1977 (Ahmed et al. 2001). The reform measures included the reduction of the number of commodities on the ration cards, introduction of two tier ration card systems (fully subsidized, and partially subsidized), and other reforms which continued until the time of the crisis (World Bank 2010). However, reforms remained of piecemeal nature and were never able to tackle the roots of inefficiency. As put by the WFP (2008b: 7), 'It is therefore important to understand that the subsidy system represents a core feature of the entire economy and that removing one element of it can create a very dangerous domino effect, politically, socially and economically'. Moreover, the nutrition aspects of the food policies have not been explicitly considered even though

malnutrition was widespread with 26.7 per cent of children suffered from stunting and 10 per cent suffered from wasting in 2007 (WFP 2008a).

The procurement policy is also one of the main policies adopted by the government to preserve food security and reduce vulnerability to food price fluctuations. In fact, the government has been the largest buyer of wheat (around 30 per cent of wheat production) and hence the price it sets is a leading price for other buyers. The General Agency for the Supply of Commodities (GASC), affiliated with the Ministry of Social Solidarity is the key body in the procurement process. It is also responsible for the importation of a number of key food commodities. In the case of wheat, it procures wheat from local producers based on the pre-determined announced government price as well as issuing tenders to traders who import wheat and provide it to GASC (WFP 2008b). Yet, such practice has suffered from corruption. It was found that influential people (e.g. the secretary of the ex-president) had his private companies which was engaged in such tenders and was involved in manipulating prices of imported wheat.⁵ The amount of wheat purchased by GASC increased over time. Most of the wheat purchased by the government is milled in public mills. However, the government also depends on private mills for baking baladi⁶ flour, especially in the governorates where no public mills exist, and for the military whenever there is a shortage. The baladi flour is then sold to bakeries (the majority of which are public) at a subsidized price, and should not be on sale in open markets. Yet, there are considerable leakages in different stages including at the mills and bakeries due to the large differences in prices of wheat bran, which is sold at public mills at US\$218/ton and the processed animal feed sold at US\$575/ton and the huge differences in prices between subsidized and non-subsidized flour. The price of non-subsidized flour can reach 15 times the price of subsidized flour (Kandil 2010). As a result, the wheat bran is used as a substitute for processed animal feed (WFP 2008b), and corruption in terms of smuggling subsidized wheat and flour has been evident, especially in times of shortages and crises. Estimates of the waste and leakage resulting from the subsidized bread and flour ranged from 31 per cent in 2010 (WFP 2010) to 41 per cent in 2004/2005 (World Bank 2010). The government of Egypt also applies a stocking policy where the government policy is to have an amount equivalent to 5–6 months of wheat consumption as strategic reserve stocks to buffer against disruptions of imports or sudden price changes (WFP 2008a).

The government does not only subsidize food commodities, but also production inputs such as irrigation water, which is provided free of charge and subsidized or price controlled fertilizers (mainly through subsidizing energy requirements for public factories producing them, and ensuring that they sell them at certain prices). The government provides each farmer with a certain entitlement of subsidized fertilizers, which in turn has affected positively the agricultural output and sustained the living of many poor farmers who own small plots of land (WFP 2008b). The subsidized fertilizer scheme has always been suffering from problems associated with distribution bottlenecks, lack of sufficient fertilizers' entitlements to farmers, and selling in the black market.

According to the World Food Programme (WFP) and based on the multi-dimensional poverty index set by the Global Human Development Report (2010) and complemented by other measures of WFP, it was found that around 20 per cent of the Egyptian population in urban

⁵ See *Youm El Sabia* newspaper, 12 February 2012.

⁶ The baladi bread has a 82 per cent extraction rate, where extraction rate refers to the rate at which white flour is produced and the rest is left for bran.

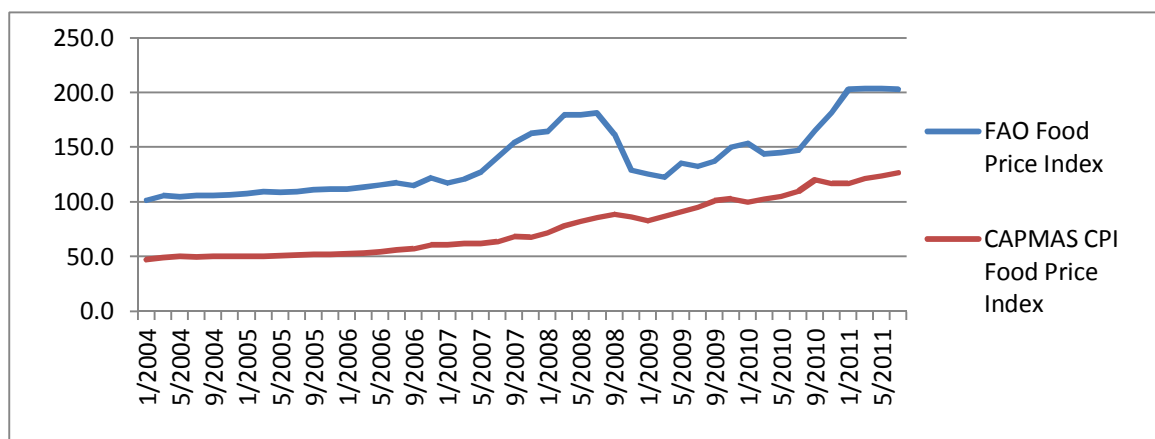
areas and 24 per cent in rural areas are food insecure (WFP 2011). The highest percentage of poor people who are vulnerable to food insecurity was found in rural areas. Following the latest available household budget survey of 2008/2009 it was found that the budget share for food is around 53 per cent for the lowest decile and 33 per cent for the richest decile, with an average of 44 per cent. This corresponds to a 40 per cent weight allocated to food in the consumer price index. Poverty, and hence vulnerability to food insecurity, is concentrated in rural Upper Egypt where more than 50 per cent of the poor and two-thirds of the extreme poor were concentrated in 2008 according to the poverty map developed for Egypt in 2007.⁷ Moreover, although there are no reliable data, it appears that there is a high prevalence of poverty in urban slums.

3 Food price trends (2004–11)

Figure 1 below reveals that there is a relationship between food domestic prices in Egypt and international prices. In general, the spikes (downturns) in domestic prices are preceded by significant increases (decreases) in international prices. The correlation is relatively high (correlation coefficient is equal to 0.83), yet there remain some differences and especially when comparing FAO prices with domestic prices where the international prices have seen higher levels than those observed in the domestic economy. Moreover, the extent of decrease in prices following international price reductions is low. Such differences in trends have a number of reasons as explained below, however the differences in methods of calculation between the FAO and the Central Agency for Public Mobilization and Statistics (CAPMAS) indices used could also be a reason.

At the domestic level, food inflation increased by 47 per cent between 2005 and 2008 whereas the overall Consumer Price Index (CPI) increased by 31 per cent (IAAM1 2009). The extent of integration with the world market through prices remains evident despite not very strong where we show in Figure 2 the increase in the prices of imported food.

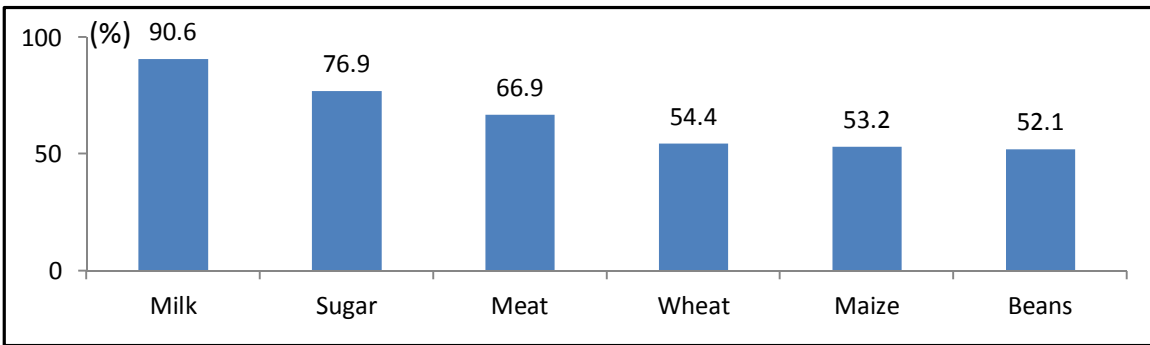
Figure 1: Food inflation in domestic and international markets



Notes and source: FAO food price index data is available at: <http://www.fao.org/worldfoodsituation/wfs-home/foodpricesindex/en/>, while CAPMAS CPI Index data is calculated by the author from CAPMAS disaggregated CPI data. Data available at: www.capmas.gov.eg.

⁷ The poverty map is based on 37 indicators reflecting different socio-economic conditions.

Figure 2: Increase in Egypt's food import prices (percentage change, over the period July 2006–June 2008)



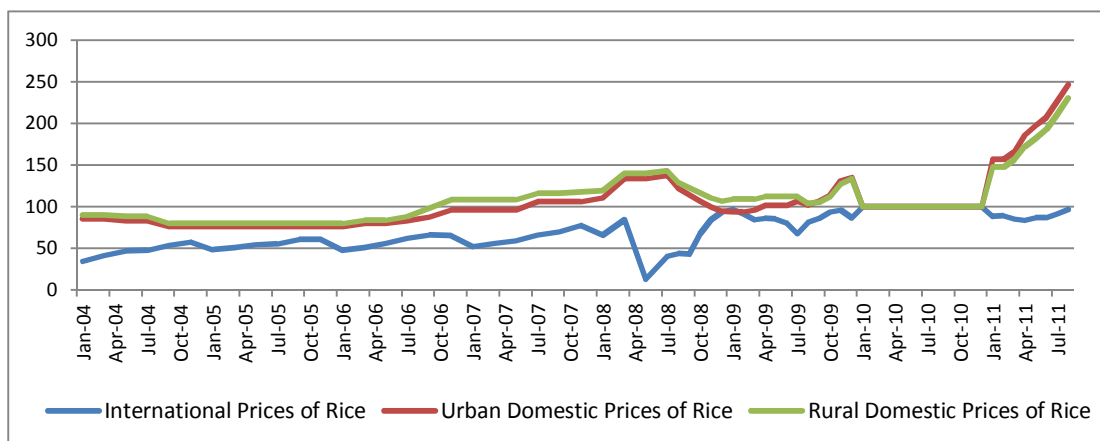
Source: Abouelenien et al. (2010).

Yet, domestic price changes are not caused solely by changes in international prices as there are other factors that have contributed to the change of prices in the domestic market. The existence of highly concentrated markets with anti-competitive behaviour prevailing in some markets could have resulted in higher prices at the domestic level. The fact that the pass-through effect is evident in the upturns of prices but less evident in the downturns (Figure 3) suggests the prevalence of anti-competitive behaviour and supply bottlenecks⁸ (for a similar argument see McCorriston 2011). The heavily subsidized system for a large number of food crops (due to government monopoly in their supply chain) forced the retailers and wholesalers to operate mainly in non-subsidized food products as vegetables and fruits, and the fragmented nature of the local markets implied significant differences in price levels. Moreover, the government subsidies for inputs (e.g. irrigation water), controlling prices of fertilizers, as well as subsidizing a wide array of food products, has also affected the price of food staples in the domestic markets sometimes positively by lowering prices of final products and sometimes negatively where inefficiency in the system caused supply bottlenecks and created black markets. Hence, we find that there are two opposing forces, one which contributes to price increases on the domestic level including the fragmented markets and anti-competitive behaviour, and one that could have helped to lower prices such as subsidies for food staples, water, and fertilizers. These forces have contributed to a lower price transmission between international and domestic prices and between urban and rural prices in the food market as shown in Figure 3. Figures 3a and 3b point out that (a) there is an extent of pass-through effect as revealed by the steepness of the increase in price level domestically in 2008 for wheat flour when compared to the periods before; (b) the government policies undertaken in the case of rice have been effective to a large extent in lowering the announced domestic price level; (c) there are other elements that have led to an increase in the domestic price level when compared to the international price level which have been evident in the case of wheat (attributed to mark-ups arising from profit margins, but as well anti-competitive behaviour, and fragmented markets); and (d) there is a strong relationship between urban and rural price levels. The price variation between rural and urban areas depends highly on transport costs as well as the specific nature of each governorate in terms of crops produced.

⁸ For example, the Minister of Social Solidarity announced in September 2011 that trade in a number of food products including rice and oil has been controlled by a handful of traders. This has been also confirmed by interviews with senior government officials.

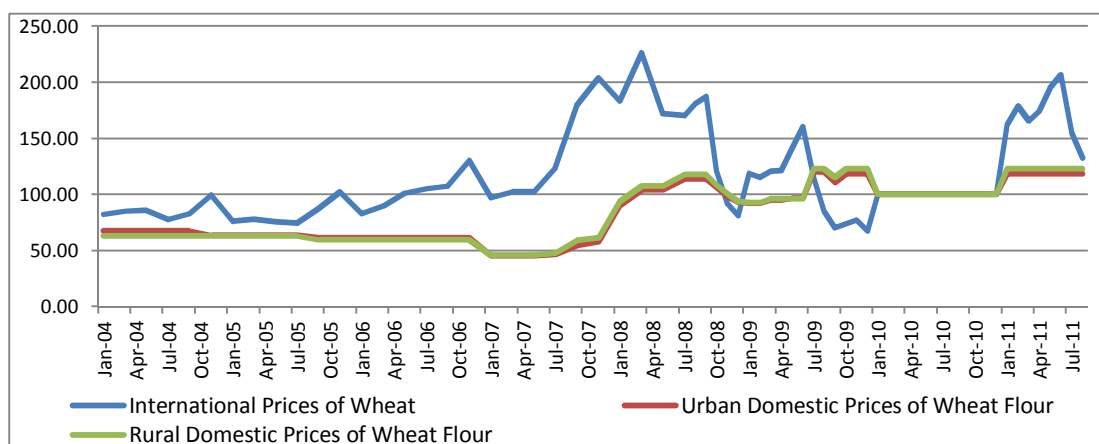
When focusing on the period of the crisis we observe also the same aforementioned trends as shown in Figures 3a and 3b. The figures show that there is a correlation between international and domestic prices, however not *very* strong, and that there is a strong correlation between urban and rural prices. For example, in the case of rice, during the crisis while world prices were increasing (April 2008) domestic prices were decreasing while rural and urban prices followed the same trend. This has not been the case of wheat where international prices increase was followed by domestic prices increase, although with a lesser extent, in rural and urban areas. Yet, in all cases, the increase in food prices in the aftermath of the crisis has significantly affected the Egyptian society. The risk of *extreme* poverty (inability to meet basic food needs) increased by almost 20 per cent in February 2008 as a result of the food crisis and affected about 6 per cent of the population in Egypt (World Bank 2009), hence emphasizing the importance of food prices and its crucial importance in affecting the level of poverty in the country, especially that there has been a limited scale of protests in the aftermath of the crisis, yet with some severe injuries and fatalities (BBC News 2008).

Figure 3a: Monthly urban and rural consumer prices of rice and monthly international prices of rice over the period 2004–11



Notes and source: Rice international prices are nominal monthly prices using 2010 prices as a base year and is calculated by the author from: www.indexmundi.com, while rice domestic prices are nominal consumer prices calculated from CAPMAS data using 2010 as a base year available at: www.capmas.org.eg

Figure 3b: Monthly urban and rural consumer prices of wheat flour and monthly international prices of wheat over the period 2004–11



Notes and source: Wheat international prices are nominal monthly prices using 2010 prices as a base year and is calculated by the author from: www.indexmundi.com, while wheat domestic prices are nominal consumer prices calculated from CAPMAS data using 2010 as a base year available at: www.capmas.org.eg.

To sum up, the pass-through effect although simple to observe is however difficult to measure (Richard and Pofahl 2009) which is evident in the case of Egypt due to the existence of several variables that could have affected the price level in the domestic market. This is in line with what other studies identified where World Bank (2011b) showed that Egypt is considered among the group of countries in the Middle East with the highest vulnerability to international prices with a pass-through coefficient of 0.4, and Al-Shawarby and Selim (2012) identified that the pass-through effect is between 12 and 36 per cent. Moreover, and as argued by Abbott (2009) the policy measures adopted by any government could break the link between the international and domestic prices which has been the case for Egypt where the wide use of price controls, kind subsidy, and other policy measures have relatively shielded the Egyptian consumer from a full pass-through effect (UNDP 2008). There are also other reasons not specific to food that could have contributed to increasing food prices including high population growth as the annual population growth rate reached 1.84 per cent on average for the period 2004–09, the increasing level of GDP per capita (as the average GDP per capita annual growth rate reached 4.1 per cent during the period (2005–09), increasing urbanization rate (1.92 per cent average of urban population growth rate for the period (2004–09), limited availability of water resources where the total renewable internal freshwater resources reached 1.8 billion m³ and renewable internal freshwater resources per capita reached 22.5 m³ in 2007, and limited arable land as explained before (World Bank 2011b).

4 Policy responses to the crisis

We classify the policy responses undertaken by the Government of Egypt to overcome the food crisis effect into five types including (a) policies adopted to change agricultural production; (b) trade policies, e.g. export bans, import tariffs, exchange rate policies; (c) safety nets, e.g. bread subsidies, cash transfers, ration cards; (d) procurement and stocking policies; and (e) other policies e.g. monetary and fiscal policies. We also identify the timing in which such policies were adopted. We devote specific focus to the three products identified above, namely wheat, rice, and maize.

4.1 Agricultural production policies

There is one main policy that the government adopted in light of the food crisis, namely strict monitoring of land cultivated rice. In general, as explained above, the government has set a maximum ceiling on the area of land that can be cultivated due to the high water intensity used in its production. The government set a maximum area of 1.2 million feddan where production of rice requires a permission from the Ministry of Water Resources and Irrigation, however, in practice, before the crisis, the area actually cultivated reached 2.2 million feddan (0.92 million ha) since it is a highly profitable crop and there has been lack of effective monitoring. In the aftermath of the food crisis the cultivated area of rice was reduced by 18 per cent between 2009–10 as farmers shifted to other crops due to the ban on rice exports, and the enforcement of a regulation setting a certain quota of water for rice farms. Domestic prices decreased when the government first interfered in the aftermath of the crisis by restricting exports, at the time when international prices were increasing, but soon started to reverse trend and increase, and in some cases the rate was higher than the rate of increase in international prices (Figure 3a). As explained by WFP (2008b), this is mainly due to traders holding stocks, which happened in October 2008 when international prices started to decrease, anticipating that prices would rise again and hence they could profit more by restricting supply.

4.2 Trade policies

Two main trade policies were adopted by the government to deal with the crisis: an export tax followed by an export ban on rice and tariff reductions.

In the case of rice, several decrees by the Minister of Trade and Industry were issued by the end of 2006 and during 2007 and 2008 to impose export taxes (levies) (starting with EGP 600 and reaching EGP 2000 per ton) which helped to reduce rice exports. The aim of export taxes was to shield the local market from the soaring world prices, and to reduce the costs incurred by GASC when purchasing rice. When such export taxes proved to be ineffective as it was circumvented by traders, a ban was imposed in April 2008, initially for six months, and later the ban was extended for another 6 months to April 2009. In fact, prices in the domestic market went down after the decision of rice export ban and then tended to rise again. The reason was that traders decided to store rice until the export ban ended by the end of October and then exporting what they had stored at the international prices which at that time were almost double the domestic price even after the imposition of the export ban (Al Ahram Newspaper of 2 June 2008; Ghoneim 2008). In 2009 the decision of banning exports of rice was relaxed on a conditional basis where exports were allowed, based on the condition that an equivalent amount of rice is provided by rice exporters to GASC. Such a system was manipulated by rice exporters, and hence the government introduced a heavy export levy (1000 EGP/ton) and then a license auction system for exporters depending on the type of rice. Finally the system of license auctioning was abandoned in 2011 and a ban was imposed again until October 2012. The few exceptions made to allow for rice export were usually associated with specific purposes such as humanitarian food assistance to the Western Bank and Gaza. Such exceptions had to be approved by the Minister of Trade and Industry, and have been highly restricted in quantities (e.g. 50 tons). Up until 2012 the ban was not lifted as the harvest of rice that was supplied to GASC through the Principal Bank for Development of Agricultural Credit (PBDAC) was not enough to cover the needs of the food subsidy programme in 2011.

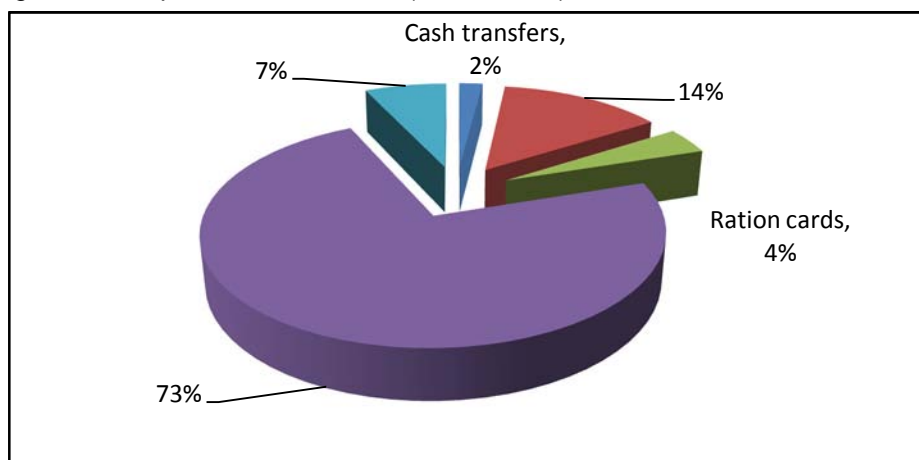
The export ban had negative repercussions on the production and trade of rice since many large private rice mills have specialized in the production of export quality rice, and could not profitably switch to the milling of local rice. Traders also reduced their supply and held large inventories to keep domestic prices high (WFP 2008b). The continuation of imposing such an export ban reduced the incentive for producing rice.

The government also abolished tariffs in April 2008 on a number of food items including soybean oil, cheese, rice, milk for infants, and milk substitutes, and reduced it to 5 per cent on butter and dairy products. Egypt is not the only country which has undertaken such measures, as Morocco, Nigeria, Peru, and Senegal did the same (Von Braun 2008; IFPRI 2008). In the case of Egypt, such tariff reduction measures did not have a significant impact on prices which continued to increase. This was mainly because tariffs were marginal (2 and 5 per cent) before they were abolished or reduced.

4.3 Safety nets

The government of Egypt has maintained different social safety nets schemes for food security and nutrition. The schemes ranged from bread subsidies to ration cards to school feeding programmes, to cash transfers, to other community support type of schemes as shown in Figure 4. In general, in light of the crisis, there has been an increase in government allocations of food subsidies entitlements for bread subsidies and ration cards; the widening of beneficiaries from ration cards, and increase in cash transfers and governmental wages and salaries.

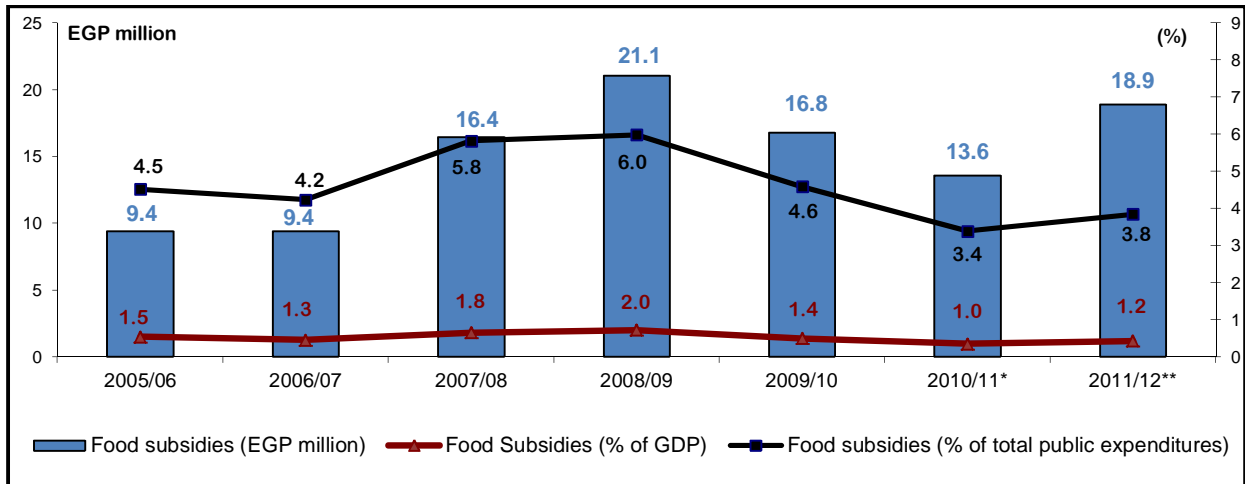
Figure 4: Composition of subsidies (FY06–FY08): % subsidies and cash transfers



Source: Ministry of Finance, as in IAAM1 (2009).

In light of the crisis the government allocations for food subsidies increased dramatically as shown in Figure 5 whether in absolute terms or as percentage of total public expenditure or GDP.

Figure 5: Food subsidies in Egypt during the period 2005/06–2011/12



Note: * Pre-actual, **budget

Source: Ministry of Finance (2010), Monthly Statistical Bulletin, October 2010, Section Four Fiscal Sector, available at: <http://www.mof.gov.eg/English/publications/Reports%20and%20Indicators/Pages/TheFinancialMonthly-October2010.aspx>.

There was a sharp increase in food subsidy expenditures during 2007/08, from around EGP 9.5 billion originally planned in the budget to actual spending of EGP 16.4 billion. This amount continued to increase in the following year, exceeding EGP 21 billion in 2008/09, representing almost 5.8 per cent of total public expenditures and 2 per cent of GDP for that year⁹, with baladi bread absorbing almost three quarters of food subsidy allocations in Egypt (Table 1) (WFP 2010). Such figures compare with EGP 3 million in 1970/71 (only 0.2 per cent of total government expenditure) to EGP 1.4 billion in 1980/81, which accounted for 14 per cent of total government expenditure, to EGP 2.5 billion in 1996/1997 representing 5.6 per cent of total government expenditure (Ahmed et al. 2001).

⁹ The significant increase in global prices since mid-2006 raised the food subsidy ratio to GDP from 0.9 per cent in the period 1996/97 until 2001/01 to 1.3 per cent in 2006/07 to 2 per cent in 2008/09 (ECES 2010; World Bank 2010).

Table 1: Food subsidies in Egypt: quantity and value by commodity (2004/05 and 2008/09)

	Quantities (,000 tons)			Subsidies (million EGP)		
	2004/05	2008/09	Change (%)	2004/05	2008/09	Change (%)
Baladi bread wheat flour	7,344	8,281	13	6,328	13,338	111
Cooking oil	176	412	135	699	2,287	227
Cooking oil, additional	189	387	105	288	1,252	335
Sugar	470	747	59	633	2,147	239
Sugar, additional	-	498	-	-	-	-
Rice	374	971	160	422	561	33
Tea	18	10	(41)	(23)	6	(127)
Lentil	84	-	-	142	-	-
Macaroni	472	-	-	330	-	-
Bean	106	-	-	68	-	-
Ghee	91	-	-	57	-	-

Source: World Bank (2010) based on GASC (unpublished data).

Beginning in 2004, that is prior to the crisis, several reforms of the ration cards were undertaken (Table 2). They aimed at reducing fiscal costs. A massive revision to the ration card system was undertaken in light of the food crisis in January 2008, where additional allocations were provided to overcome the negative impact of the food crisis (a significant retreat from the reforms that started in 2004). The government added the people who were born between 1989 and 2005 (estimated to be between 15 and 22 million new beneficiaries) to the ration card eligible beneficiaries (who reached approximately 64 million in July 2011, representing nearly 79 per cent of the total population in Egypt in 2008). The government also issued several decrees to adjust prices and increase quantities of food items offered on the ration card as shown in Table 2, unified the quota provided for a number of commodities across different geographical areas, and added new eligible categories of beneficiaries. In fact at this stage and other stages several vulnerable groups were allowed to benefit from the ration cards system including the recipients of government cash transfers (social solidarity pension), widows, divorced women, female headed households, and chronically sick persons) (IAAM2, 2009).

Table 2: Measures affecting the ration card system (1997–2009)

	Decree #	Date	Description
1	488 for 1997	3 December	The quota of subsidized sugar is 1 kg/person/month. The price of a 1 kg pack is EGP 0.6 for high-subsidy ration cards and EGP 0.85 for low-subsidy ration cards.
2	168 for 1999	24 April	The quota of subsidized oil is 0.5 kg in cities and 0.3 kg in villages (per month, per person). The prices of these packs are EGP 0.5 and EGP 0.3 for high-subsidy ration cards and EGP 0.75 and EGP 0.50 for low-subsidy ration cards.
3	75 for 2004	16 March	The quotas of additional subsidized commodity items are as follows: 1 kg of rice/person/month, with a maximum of 4 kg for each card, for EGP 1/kg, 1 kg of macaroni/person/month, with a maximum of 4 kg, for EGP 1.5/kg, 0.5 kg of oil/person/month, with a maximum of 2 kg for each card, for EGP 3.5/kg, 0.5 kg of lentils/person/month, with a maximum of 2 kg for each card, for EGP 3/kg, 0.5 kg of beans, with a maximum of 2 kg for each card, for EGP 2/kg, 2 kg of vegetable ghee/card/month, for EGP 9/pack, 0.05 kg of tea /person/month, for EGP 0.65 according to the number of people.
4	82 for 2004	24 March	The prices of additional subsidized commodities are reset (for both kinds of cards) as follows: EGP 1.75 and EGP 3.5 for 0.5 kg and 1 kg, respectively, of additional subsidized oil, EGP 9 for additional subsidized vegetable ghee, EGP 1 for additional subsidized rice, EGP 0.65 for 0.05 kg pack of additional subsidized tea, EGP 1.5 and EGP 3 for 0.5 kg and 1 kg, respectively, of additional subsidized lentils, EGP 1 and EGP 2 for 0.5kg and 1 kg, respectively, of additional subsidized beans, and EGP 1.5 for 1 kg pack of additional subsidized macaroni.
5	56 for 2006	22 April	Four additional subsidized commodities are removed from the ration cards (macaroni, beans, lentils, and ghee) and 0.5 kg of additional free sugar was offered to each person with a ration card (both kinds), with 2 kg maximum per card, for EGP 1.50/kg.
6	69 for 2007	24 June	High-subsidy cards are issued to all people eligible for cash-transfers (social solidarity) who do not have rations cards.
7	7 for 2008	28 January	Those born between 1988 and 2005 are added to the ration card system.
8	50 for 2008	25 May	The prices of additional subsidized commodities no.2 have been determined as follows: EGP 3/kg for sugar, EGP 5/kg for oil, and EGP 2/kg for rice.
9	62 for 2008	4 June	High-subsidy cards are issued to all citizens with current ration

			cards so they and their families can get fully subsidized commodities.
10	63 for 2008	6 June	The quota of oil is unified across governorates to 0.5kg/person, for EGP 0.5.
11	79 for 2008	9 August	Additional amounts of rice, sugar, and edible oil are distributed via ration cards as follows: 1 kg of sugar/person/month, with a maximum of 4 kg for each card, for EGP 1.75/kg; 1 kg oil/person/month, with a maximum of 4 kg for each card, for EGP 4.25; 2 kg of rice/person/month, with a maximum of 8 kg for each card, for EGP 1.5.
12	63 for 2009	28 April	The system is opened to specific categories: all recipients of social cash assistance from the government; widowed, divorced, or family-supporting women; chronically ill and those with special needs; temporary seasonal and occasional workers, street vendors, and drivers; craftsmen, professionals with income lower than EGP 400/month; underage children with no breadwinner or fixed income; and non-government and non-public sector pensioners with pensions less than EGP 400/month .
13	84 for 2009	9 September	In addition to the categories stated in decree #63 for 2009, the system is opened to unemployed; those under investigation with educational qualifications but no work; government, public sector, or private sector pensioners with pensions less than EGP 750/month; and government or public enterprise sector workers with salaries less than EGP 1000/month.

Source: based on IAAM2 (2009).

The extent of reduction in prices and amount of subsidies provided in light of the crisis were substantial as shown in Table 3.

Table 3: Subsidy rates for individual food items

		Sugar	Oil	Rice	Tea
Main quota before 2006	Main quantity per person per month	1 kg	0.5 kg	Maximum 2 kg per family	0.05 kg
	Subsidized price EGP per kg (paid by beneficiaries)	0.60	0.50	1.00	11.20
	Subsidy rate	20.00	5.00	30.77	50.91
	Quantity per person per month	0.5 kg (max. 2 kg per family)	0.5 kg (max. 2 kg per family)	1 kg (max. 4 kg per family), added in 2004	
Additional quota from July 2006 to May 2008	Price EGP per kg	0.75	1.75	1.00	
	Subsidy rate %	25	17.5	30.77	
	Quantity per person per month	0.5 kg (max. 2 kg per family)	0.5 kg (max. 2 kg per family)	1 kg (max. 4 kg per family)	
New additional quota after May 2008	Price per kg	1.00	2.50	2.00	
	Subsidy rate %	33.33	25	61.54	

Source: WFP (2008a).

Subsidies allocated to ration cards do not constitute more than 25 per cent of food subsidies entitlements (including sugar, rice, and edible oil) in Egypt and less than 4 per cent of total subsidies provided (ECES 2010; El Laithy and Armanios 2011) (see Table 1 and Figure 4 for the allocation of food subsidies). From a food price policy perspective, the increase of the commodity basket for subsidized food as well as the additional beneficiary registration has effectively shielded poor households from the impact of rising international food prices (World Bank 2010). Yet, the system suffers from massive leakages. The poorest quintile gets less than its proportional share (less than 20 per cent) in subsidized products, with the exception of wheat. Since the poor consume more bread, especially in Upper Egypt where they consume both home-baked and bakery bread. In general, the system of subsidized food products has been considerably inefficient in terms of targeting the rural poor. For example, as put by WFP (2010), 33 per cent of subsidized baladi bread is distributed to low expenditure rural households as compared to 31 per cent to middle and 36 per cent to high-expenditure households. Similarly, only 28 per cent of the ration card commodities are allocated to low-expenditure rural households compared to around 31 per cent allocated to middle expenditure and around 41 per cent allocated to high expenditure households (WFP 2010). WFP (2008a) found also that 15–20 per cent of the poor do not benefit from the existing system. World Bank (2010) found that in 2008/09 Cairo and other metropolitan governorates received about 38 per cent of bread subsidies, while their share of the poor population was only 14 per cent. Adding to that corruption associated with the value chain of bread production and distribution has been a major concern due to the failure of the subsidy system adopted.

There are several other reasons for the inefficiency of the food subsidy system including the lack of cash among the poor which implied that not all the commodities considered in the

ration cards are bought. Moreover, as mentioned above, the system suffers from weak targeting and lack of coverage where a substantial number (no exact figures available) for poor and vulnerable groups to food insecurity do not possess ration cards due to their inability to obtain the necessary documents to obtain such government assistance. According to El Laithy and Armanios (2011) and following the system adopted by the Ministry of Social Solidarity in identifying the poor who deserve the ration card, 23 per cent of the people who deserve to hold the ration card according to the criteria set by the Ministry of Social Solidarity do not have one, whereas 64 per cent of the people who do not deserve it have a ration card. World Bank (2010) argues that around 28 per cent of food subsidies (EGP 5.5 billion) in 2008/09 did not reach intended consumers, with baladi bread accounting for 68 per cent (EGP 3.7 billion) of the leakage and cooking oil for 20 per cent (EGP 1.1 billion). Table 4 shows that the richest quintiles benefit more from subsidies when compared to the poorest quintiles, especially in bread, rice, oil, and sugar. Finally, the inefficiency of logistics in terms of transport, storage, and handling has been considered a major culprit accused of leakages and waste. It was estimated that between 15–35 per cent of wheat and grain losses are associated with inefficient logistics, and the estimates were even higher as put by the government reaching 70 per cent for some perishable products.

Table 4: Distribution of total benefits across quintiles, 2008/09

	Per capita expenditure quintile (%)					Total
	1 (poorest)	2	3	4	5 (richest)	
Subsidies for baladi bread	16.69	18.30	19.93	22.31	22.77	100.00
Rice	17.08	19.66	20.49	21.10	21.67	100.00
Wheat	39.02	25.83	16.64	11.81	6.70	100.00
Oil	15.99	18.75	20.40	22.15	22.70	100.00
Sugar	18.26	19.72	20.65	21.15	20.22	100.00
All subsidies	18.66	19.29	19.85	21.19	21.02	100.00

Source: Aboulenein et al. (2010).

The government introduced new type of ‘smart cards’ in 2008. Those cards contain embedded chips with data on the household head’s monthly quota of subsidized goods, as well as other household information. The new cards allow the government to trace the distribution and consumption of subsidized goods by recording transactions electronically, hence reducing the inefficiencies associated with the system. By December 2010 smart cards replaced paper cards all over Egypt (World Bank 2010; UNDP and MOED 2010).

While school feeding programmes and other social assistance programmes did not experience any significant change in response to the food crisis, cash transfers and governmental and public sector wages did. Regarding cash transfers, the number of beneficiaries¹⁰ of social pension schemes has increased from 650,000 beneficiaries in 2005 to 1 million beneficiaries in 2007 and its value increased from EGP 80/month per family to EGP 160/month per family. Moreover the value of the cash transfers provided to families as an education grant increased in 2008 to become EGP 40/month per child instead on EGP 20/month per child with a

¹⁰ Ministry of Social Affairs programmes available at: www.mss.gov.eg.

maximum ceiling of EGP 200 per family. In addition, in general governmental and public sector employees usually get an annual increase of 10 per cent in their salary at the beginning of each fiscal year. As a reaction to the food crisis, and specifically in 2008 the annual increase was 30 per cent and took place in May of 2008.

4.4 Procurement and stocking policies

The wheat price GASC used to offer to farmers was less than that offered by private traders, however in 2008 it increased the price over that offered by private traders with a premium of EGP 20 (US\$3.6) per ardeb (150 kg) reaching a price of US\$497/ton in the delta region. This policy of GASC has helped to increase the prices of wheat produced domestically due to the competition with private traders, however, many of the farmers still preferred to sell to local traders for three main reasons. The first reason is that private traders collect wheat at the farms whilst in the case of GASC farmers are required to deliver it to the mills. Adding to that the absence of nearby places for collection from farmers set by PBDAC had lowered the positive impact of the announced policy. The second reason is related to the cheap loans for production provided by the traders (WFP 2008b). In October 2008 wheat prices started to fall rapidly in the world market. As a result, private traders tried to restrict their imports and their market supplies in order to maintain higher prices for what they have imported which further increased the fiscal burden on the government. The third reason is related to the delay in announcing the purchasing price by the government which always took place during the harvest or growing seasons, and not before the planting season. The complexity of determining the purchase price has led the government to announce a guarantee price at the beginning of the planting season, while deciding the exact price after many of the variables are counted for, which happened only during the harvest. In addition, the prices announced have not been always favourable compared to world prices. The farmers' decision-making on crop area planted with wheat has been determined by the previous season's purchase price or by a purchase price announced by government during the harvest season, in addition to own consumption needs¹¹ (which has changed according to prevailing market prices). The planted wheat area in 2007/08 (7 per cent higher than in 2006/07) was influenced by the purchase price for the 2006/07 marketing season, which stood at a EGP 220 per ardeb (or approximately US\$267/ton). Then, following the dramatic increase in international wheat prices in late 2007 and early 2008, during the actual growing season for wheat in Egypt, the government increased its purchasing price substantially by 73 per cent, and in April 2008 offered EGP 380 per ardeb.¹²

The stocking policy did not change in light of the crisis, due to the limited availability of silos used for wheat storage. Yet the government began building new silos in 2010 to allow it to handle more volumes of stored wheat.

¹¹ It has been pointed out by one of the interviewees that the decline in the level of production for own-consumption by farmers was mainly one of the reasons behind the increasing pressure on importing wheat, which has been substituted for maize in the production of bread. The increasing growth rates and bad habits of food consumption are also among the main reasons behind the problems associated with food security and especially cereals, oil, and sugar.

¹² The decision raised the delivery price of wheat to between 350-360 EGP per ardeb depending on wheat quality and degree of cleanliness.

4.5 Other related policies

To overcome the leakage problem of wheat bran which is highly evident in the aftermath of the food crisis and has been highly associated with corruption (where the bakeries sell their assigned quotas of subsidized flour from the government in the black market), the government adopted a new system of separating production of the subsidized bread from its distribution. It established a new company (Al Masreeien Company) to distribute baladi bread in greater Cairo, while in other governorates home delivery for baladi bread is done by NGOs where households can subscribe to the service and pay EGP 5–7 as delivery fees for daily delivery of 20 loaves of baladi bread to his home (WFP 2010). The home delivery of baladi bread has been assessed to be a successful trial in many governorates, while the operation of the Al Masreeien Company in greater Cairo was not viewed to be efficient. The distribution outlets experienced long queues, the matter that necessitates revisiting the distribution plans of the company in light of population density in greater Cairo. No reforms have taken place to the system adopted in greater Cairo, which could be due to limited resources and the relative urgency of other matters including availability and importation of wheat when compared to the problem of Al Masreein Company. Moreover, the monthly fees paid for home delivery increased the financial burden on poor households and hence has resulted in decreasing the benefits associated with home delivery. In addition, the government established new automated bakeries with capacities reaching more than 1 million loaves per day to increase supply. The military had an important role to play in this crisis where its bakeries were used to increase production to overcome increased demand and supply shortage.

The monetary policy was also geared to achieve food policy objectives. In light of the food crisis and its negative impact on the trade balance and balance of payments and given the adoption of a flexible exchange rate regime, devaluation could have taken place to restore the balance of payments. However, the fear from inflationary pressures, which were already significant at that time made the Central Bank of Egypt reluctant to undertake any devaluation. The fiscal policy was adjusted to count for the increase in allocations of food subsidies and increase in wages and salaries, where the sources of financing such outlets were financed through reduction of some energy subsidies, increase of taxes on cigarettes, seizing tax exemptions on energy intensive industries in free zones, etc (Kandil 2010).

Finally, the government during the crisis has asked for the help of military to help it in distribution, hence avoiding distribution bottlenecks, while at the same time increasing the capacity of bakeries managed by the military (but owned by the government) to face the increasing demand on bread.

5 Political economy dynamics of food policy in light of the food crisis

There have been different stakeholders associated with food policy in Egypt, which have shaped the political economy context of food policy. The key players in this field remained mainly governmental institutions, particularly the Ministry of Social Solidarity. However, there are other governmental institutions whose mandates overlap with that of the Ministry of Social Solidarity in regards to the setting and implementation of food policy including the Ministry of Agriculture and Land Reclamation, Ministry of Trade and Industry, Ministry of Irrigation and Water Resources, Ministry of Health, and Ministry of Finance.

The Ministry of Social Solidarity¹³ was the main responsible governmental body during the food crisis mandated with food subsidies as it oversaw the ration card system, baladi bread subsidy, cash transfers and other consumer subsidy programmes, other than fuel subsidy (with the exception of liquefied gas cylinders which fell under her mandate). The two main food subsidy policies (baladi bread subsidy and ration card) were handled by this Ministry and its affiliated GASC. The Ministry of Agriculture and Land Reclamation also played an important role in handling the policy of fertilizers' subsidy, together with the Principal Bank for Development of Agricultural Credit (PBDAC) which is affiliated with the Ministry. The Ministry of Irrigation and Water Resources played an important role regarding some crops such as rice where it sets the quota of water per cultivated area as well as other irrigation-related rules and regulations. The Ministry of Trade and Industry has a role in affecting inputs' prices as fertilizers when sold from public firms to the farmers, and finally the Ministry of Finance has an important role in determining the amount of subsidies allocated in the budget whether to consumers or producers. The interaction between such ministries, the level of co-ordination, and the political influence of their ministers have played a paramount role in formulating and implementing food policy, especially during and after the food crisis.

The other stakeholders dealing with food policy include public companies, co-operatives, and export commodity councils. Several holding companies and public companies exist, which play an important role in the production of fertilizers and chemicals, and in commodity trade and storage. Any inefficiency in their role has negative consequences on food policy targets as the amount of output they produce is just sufficient to cover the needs of the farmers, with no surplus available to be sold in the free market. The cases of the shortage of fertilizers produced by the public firms and the quota system where every farmer is assigned a limited amount of subsidized fertilizers prove the inefficiency of the system as it led to black market and smuggling. Wheat and maize procurement, as well as fertilizers and certified seeds provision are functions that co-operatives (semi-governmental institutions) play an important role in and can play an effective role in overcoming the related marketing distribution problems. Such organizations represent the link between the Egyptian farmers and government policies. Finally, so-called export commodity councils exist, which are semi-governmental entities financed mainly by exporters and their secretariats and are hosted by the Ministry of Trade and Industry. There are export commodity councils for several commodities which reached 18 (including for example one for textiles, one for ready-made garments, one for chemical products, etc.), one is for agricultural crops and another for processed food products. The members of those commodity councils are major exporters and representatives of small and medium exporters of the products. This second tier of stakeholders have affected food policy implementation mainly through undertaking (or the lack thereof) of their expected roles. In many cases, such agencies did not perform their role as expected because of the proliferation of inefficiency and rent-seeking activities. The final result was waste, inefficiency, and corruption.

Among the other stakeholders associated with food policy are many think tanks and research institutions (Handoussa et al. 2009). Among the most important research institutions is the Egyptian Food Security Information Centre, which was established in 2007, with the support of FAO and WFP, and has been affiliated with the Ministry of Agriculture and Land

¹³ The Ministry of Social Solidarity was established by a presidential decree in 2005 where its main role is to take care of the most needy families and NGO's through its social solidarity section as well as supervising the food subsidy programmes (baladi bread and ration card systems), in addition to the distribution of subsidized liquified petroleum gas cylinders and Nasser Social Bank .

Reclamation. The co-ordination committee of the Food Safety Information Center consists of representatives from several related ministries and agencies. Moreover, related donors are invited on a regular basis to the meetings of the co-ordination committee of the center.¹⁴ Also among the important research bodies dealing with food security is the Information and Decision Support Centre of the cabinet (IDSC).¹⁵ IDSC established the Egyptian Food Observatory which provides tools for monitoring and evaluating the situation of a list of agricultural crops and main food commodities to the Egyptian citizen. In addition, the Observatory develops early warning tools which project future food crises whether they are triggered domestically or international. This observatory is the result of a joint collaboration between WFP Egypt and the IDSC¹⁶. Food security information is collected also by the Ministry of Social Solidarity. The ministry has been using Geographic Information System to create vulnerability maps with WFP support. These maps are focused on vulnerability to food insecurity, where wheat quota allocated to bakeries, bakeries locations, as well as population relative distribution to the village level are mapped in several layers, which provides useful information that helps in reforming the baladi bread system (Handoussa et al. 2009).

There is also a series of international food-related organizations dealing with food policy that operate in Egypt. The most important of which are the World Food Programme (WFP), and the Food and Agriculture Organization (FAO), in addition to bilateral and multilateral donors as USAID, World Bank, UNDP, World Health Organization (WHO), the International Fund for Agricultural Development (IFAD), United Nations Population Fund (UNFPA), etc. (Handoussa et al. 2009). It is worth noting that donors and international organizations have not exerted pressures on the Government of Egypt to abolish the food subsidy programme (Ahmed et al. 2001) due to the complete understanding by those organizations of the importance of this system from an economic, political, and social perspective in Egypt. The role of the think tanks and international organizations in formulating and influencing food policy has remained substantial yet not always recognized. Different ministries have depended mainly on the studies undertaken by such organizations, which in many cases have tackled the political and social sensitivity of the needed reforms in this field.

Finally, several NGOs, local and international, work in many activities related to poverty, and food security in Egypt. Such NGOs play an important role, though not highly publicized, in addressing issues of food security. A large number of local NGOs are also active in this field providing help either to farmers (through some sort of facilitating finance, or helping children to avoid undernourishment, etc.) (Handoussa et al. 2009). NGOs operate on a very small scale, namely implementing pilot projects in a number of villages for big donors. NGOs have been effective in reaching a wide number of farmers helping them in different means related to capacity building, public awareness, technical support, supply of inputs, and marketing. They helped farmers to increase their output and hence reducing the food shortages as well as increasing exports. They also played an important role in replacing the traditional role of co-operatives which have been inactive and inefficient in undertaking its mandate.

¹⁴ <http://www.efsic.com/index.html>.

¹⁵ The IDSC is an influential research institute as it feeds data to the cabinet, and accordingly helps in shaping the decision-making process.

¹⁶ Egyptian Food Observatory issued only one report available at this link in Arabic <http://www.eip.gov.eg/upload/media/news/294/Issue-1.pdf>.

Food policy has gained increased importance in Egyptian policy-making circles over time, and especially in the last 15 years. Such increased importance has been mainly due to a number of socio-economic and political reasons, the rising absolute level of poverty being the most important. The declining real wages and the inefficiency of the social safety net, accompanied by increased media attention created pressure on the government. Although the governing regime was dominated by one person backed up by the NDP, implying weak possibility, if any, for any political parties to compete, the increasing rate of opposing parties and opinions to the governing regime represented a real threat. There were also other important reasons that forced the governing regime (both the government and the party) to pay greater attention to food policy. Among such reasons have been the change of the process of choosing the president from national referendum to open elections in 2005 (Transparency International 2009), which implied competition among political forces, and hence there was a need to pay more attention to social issues, and the desire of the ruling regime for succession of the son of the president to his father. For example, the Ministry of Finance, though heavily burdened with the increase in subsidies allocation in the aftermath of the crisis as well as wage increases, did not try to ration the subsidies. The sensitivity of the food subsidies and the alarming signals of long bread queues in streets (associated with violence) did not leave any room for the Ministry of Finance to reduce the allocations. In other words, the fear of the governing regime from the political and social consequences of any substantial reform made it always prefer status quo, while undertaking small adjustments that in fact added to the fiscal burden and dealt with the occasional symptoms of the food price policy problems, but never tackled the roots.

As for the role of co-operatives, we find that while their potential was large, especially for small farmers (who represent the majority of farmers in Egypt), their role has been disappointing for several reasons including the lack of appointed employees by the governments, the lack of awareness among the farmers involved in its functioning, corruption, the existence of black markets (employees in some cases insist on selling additional fertilizers for farmers in order to allow them to obtain their entitlements of modestly priced fertilizers),¹⁷ and the extremely insufficient capital needed to allow such co-operatives to function properly. In other words, in theory the co-operatives have an indispensable role in terms of outreach to the farmers, yet in reality their role has remained to a large extent idle.

The export commodity councils have been highly effective in participating with the government in overcoming obstacles associated with exporting and in convincing the government in changing some of its positions and policies which affected negatively their export prospects. In the case of banning rice exports the export council had to accept the decision for two main reasons, namely the overriding national security aspect of the associated bread problem, and the misuse of the different systems that preceded the export ban by some rice producers and exporters. Yet, during the period of study (2004–09) the private sector in general was heavily influential in affecting policy-making. Nevertheless, favouritism was highly evident in the selection of donors' projects that serve the interests of the private sector (with little attention for its impact on consumers) as well as the lack of enforcement of competition law. Favouritism was also evident where a number of wheat flour mills were owned by members of the parliament which throws doubt on having a strong legislative body that monitors such important policy as food security. Moreover, influential

¹⁷ *Al Ahram* newspaper, 19 December 2011.

people (e.g. the secretary of the ex-president) owned private firms which handled the importation of wheat. In other words, there was a clear conflict of interest where members of the legislative and/or executive bodies also acted as traders.

International organizations have been influential in shaping the food policy in Egypt and helping the government to reform it, while fully recognizing the political economy context of food policy and its associated socio-economic dimensions. They have been influential in two main areas, identifying the main problems and suggesting policies to solve them sustained by enhanced studies; and putting pressure to tackle neglected issues such as the nutritional dimension. The implementation of their recommendations in many cases is undertaken, yet not with the speed expected (due to bureaucracy and slow reactions by the government). Think tanks and research institutions have also been playing an important and effective role in affecting food policy in Egypt. For example in 2007 the Minister of Social Solidarity established a policies committee that acts as an advisory committee in reforming the social solidarity schemes for the Ministry and has issued a white paper on the recommended reforms. Members of this committee were ministry officials as well as representatives from donors and international organizations as WFP and World Bank, and local research institutions. The new social solidarity law and its regulation were one of the recommendations of the white paper which was taken forward by the Minister of Social Solidarity. Members of the committee participated in drafting the law which was passed in 2010. Moreover, there is currently a joint project 'Conditional Cash Transfer Project' between the Ministry of Social Solidarity and the Social Research Center of the American University in Cairo that has started to be implemented since 2008 in the Ain El Sera slum area in Cairo.¹⁸

The media's role has been significant during the food crisis in two respects; namely, intensifying the pressure on the government to take fast action; and pinpointing the corruption cases, especially in terms of smuggling wheat flour. The media has always echoed the voices of urban population more than the rural population. However, the media did not play a role in anticipating the crisis or discussing its causes.

Also the military's role has been evident during the crisis where it has utilized the massive production capacity of the bakeries managed by it to increase its bread production, as well as helping in overcoming distribution bottlenecks. It has been evident that the military was able to handle the crisis, and has always acted as the last resort for the government whenever it faced a crisis.

It seems that despite such significant efforts to address food security, it has remained suffering from the lack of co-ordination and exchange of data and information. The widespread phenomenon of poverty and food insecurity in the different places in the country implies that there is room for everyone to undertake their own programmes and projects without necessarily overlapping with others. Yet, a co-ordinated approach has remained lacking in this regard which has been attributed mainly to the lack of political will to drive the reforms in a certain direction. The debate on food policy issues was left to technocrats,

¹⁸ In phase I 2008–10, 200 families were enrolled in the programme, and they received EGP 240 as a monthly family grant in return for paying a monthly visit to health clinics and children attending after-school activities. Phase II started late 2010 where an additional 200 families were enrolled in the programme. The Ministry of Social Solidarity has provided the fund needed for the cash transfers while the Social Research Center has done all technical and supervised all ground work.

each proving his point and basing it on strong arguments, however the political will supporting serious reforms remained rather absent. As argued by IAAM2 (2009) there is a need to establish one agency that brings all of this information together to ensure that consistent criteria are being used for targeting poverty programmes and those aimed at reducing chronic food insecurity (IAAM2, 2009). During the crisis, some institutional set-ups for enhancing co-ordination emerged including ministerial committees, but the political will remained absent, despite political slogans announcing reforms.

The fragile institutional set-up governing domestic trade where there was no competition law up until 2005, and when it was enforced in 2006 it remained largely ineffective, implied that anti-competitive behaviour prevailed which was even pointed out by the Minister of Social Solidarity in 2011 when he announced that the current competition law is ineffective and enhances anti-competitive behaviour, and that trade of a number of strategic food products is controlled by a handful of persons, including rice which is controlled by five persons.¹⁹ Such circumstances when accompanied by the severity of the food crisis implied that food policy became the core of the government's policy and was situated at the forefront of any policy debate.

The importance of food subsidies arises also from strengthening the Egyptian capability of meeting the Millennium Development Goals, especially those related to poverty and hunger reduction. Relevant food subsidy programmes, if expanded can help to achieve such goals (UNDP and MOED 2010). Yet, increased incidents of corruption, skyrocketing prices of food staples, and the above mentioned inability of the system to make subsidized products available due to weak targeting and leakages problems implied that food policy needs substantial attention. This has been also reflected in the January 2011 revolution where among its main causes and slogans was achieving social equity and overcoming the proliferated corruption. The establishment of food security policy advisory board in 2010, affiliated to the Ministry of Agriculture, with the aim of developing a strategy for food security, which includes senior representatives of the ministries involved in food policy (as well as other related ministries such as the Ministry of Foreign Affairs) and other related domestic and international organizations including FAO and WFP, helped to improve the co-ordination process. A policy advisory board was established in light of the recommendations of the UN Interagency Mission on Soaring Food Prices that was undertaken in 2008 by FAO, WFP, IFAD, World Bank, and the Government of Egypt (IAAM3 2009). The board, since its inception, has been affiliated to the Ministry of Agriculture and Land Reclamation. The first chair of this board had a good understanding of food security, yet the change of the chairman and the affiliation of the board to the Ministry of Agriculture and Land Reclamation resulted in being dominated by agricultural policies versus food security policies. Moreover, the different understanding of food security concept by different agencies and ministries resulted in a lack of mutual understanding of the concept of food security. Lack of representation of other stakeholders (e.g. think tanks and private sectors) could have been a major loophole in setting a comprehensive national strategy for food security.

Finally, the policy advisory board depends on old data for analysis which throws doubt on its ability to draw the right strategy. However, such a board, despite all such negative aspects, still remains a positive step in the co-ordination process. In addition, the prime minister issued a decree for forming a ministerial committee to deal with food policy in 2007. The

¹⁹ *Al-Youm El Sabia* newspaper, 20 September 2011.

Social Solidarity Minister and the Agriculture Minister were on one side whereas the Finance and the Minister Trade and Industry Minister were on another side, which was felt during the crisis when the Social Solidarity Minister and the Agriculture Minister were asking for increasing subsidies' allocation and imposing a ban on rice exports whereas the Finance and Trade Minister and the Industry Minister were against such demands. Contradictory objectives have been evident and in many cases the overriding concern of the negative effects of the food crisis led to the surrender of the Finance Minister and the Trade and Industry Minister. An incident of conflict was also raised where it was found that rice production in 2012 exceeded the domestic market requirements, and hence there was a suggestion to allow exports based on certain conditions. However, such a proposal by the Ministry of Trade and Industry was not highly welcome by Ministry of Irrigation and Water Supply, implying that conflicts of interests prevail, where in many cases the national interest remains missing. Yet, during the food crisis, no conflict arose (despite strong negotiations between different ministries for increasing food subsidies versus reducing budget outlays and enhancing exports), maybe due to the overriding political importance of the issue at that time. Also the governing regime, including different ministries and other stakeholders, had to respond in a faster way to urban consumers, to give the (false) impression of urban consumers being prioritized in the agenda of the government. This has not been the case in reality, however, the relatively stronger bargaining power of urban consumers who can arrange protests, access media channels, and exert pressures on parliament members in a more efficient way when compared to rural producers and consumers, made their voice heard loudly when compared to rural consumers.

The food crisis resulted in food price policy affecting several other policies (agriculture, irrigation, fiscal, monetary, and trade). In the case of agriculture policy, the crisis and focus on food policy did not result in conflicting objectives or measures, at least on the public interest level. In fact the decision to ban rice exports, which was imposed after the crisis coincided with the agricultural and irrigation policies which have for a long while set a limit on the land that can be rice cultivated, yet was not strictly enforced. In other words, at the national level the social and political concerns coincided with the interest of the Ministry of Agriculture, despite the fact that it might have affected negatively growers and traders of rice. Moreover, the desire to increase self-sufficiency from wheat, which intensified during the crisis, has always been one of the main national goals for a long while. It is difficult to find any conflicting objectives or measures between food policy and agricultural and irrigation policies, which even in the case of rice planted area which when reduced did not affect the food security concern due to the over-supply of rice, and its relatively high consumption of water. However, this has not been the case with other policies as fiscal and trade policies. In the case of fiscal policy, the food crisis and the widening of coverage of the ration card system to a larger number of households as well as maintaining the baladi bread price implied additional fiscal burden which has been reflected in the allocations of food subsidies in the years 2007 and 2008 that increased dramatically as aforementioned. Such trend is likely to continue after the revolution where social aspects including achieving social equity remain among the most important indispensable objectives. This has been reflected in the budget set after the revolution for 2011/12 where food subsidies remained high at EGP 18.9 billion compared to EGP 13.6 billion in the 2010/11 budget for food subsidies²⁰ and to EGP 14.1

²⁰ As stated in the suggested project of government budget for the fiscal year 2010/2011, the government introduced for the first time a programme to subsidize food crops including buying domestically produced crops (maize and wheat) from farmers at prices higher than international prices to encourage farmers and support them in order to increase the agricultural production in Egypt. The amount of subsidy allocated was

billion for food subsidies in the 2009/10 budget (Ministry of Finance 2011). Moreover, the reduction of tariff rates on food staples in light of the food crisis affected negatively the tariff revenues, though in an insignificant manner due to the low tariffs imposed on food products and the wide array of free trade area agreements that Egypt has implying the possibility of importing such food staples duty free even before the reduction of tariffs. The possibility of lessening the fiscal burden of food policy in the aftermath of the January 2011 revolution is not likely to take place through a reduction of subsidies by any means, even though the economy is in bad shape and the government has announced austerity measures where real GDP growth rate was negative in the third quarter of the fiscal year 2010/11 (-4.2 per cent) and relatively very low (0.4 per cent) in the fourth quarter of the same year (Ministry of Planning 2011).

The food crisis revealed also the failure of several policies that have been adopted, and despite being inefficient continued to be applied and sustained, yet the food crisis magnified their negative drawbacks. For example, during the period 2006–08 the international prices of fertilizers soared. Such significant increase in the international prices of fertilizers enhanced the fertilizer producers to produce more for export, making use of the cheap energy in Egypt. This raised the level of domestic prices for non-price-controlled fertilizers and caused shortages in the domestic market, which in turn could have affected the prices of agricultural crops in the domestic market. The system adopted by the government in distributing such price controlled fertilizers and inputs through PBDAC showed a high degree of inefficiency due to several supply bottlenecks associated with the lack of human resources needed for distribution as well as the unwillingness of the PBDAC to undertake such a non-profitable role, especially that, as has been revealed, PBDAC was promised in several events to be compensated by the Finance Ministry to provide subsidized loans to farmers which did not take place.²¹ Moreover, farmers have accused the co-operatives for not giving them their entitlements without obligatory buying other type of fertilizers which they do not need, signaling the presence of corrupt behavior.²² Also, the reluctance of the government to include traders in the distribution chain (fearing a misuse and the creation of a black market) has exacerbated the problem.²³ The government had to buy imported fertilizers at a high price to provide farmers with it (IAAMI 2009). Hence, and even though theoretically the price-controlled fertilizers should have shielded food crop prices from fluctuations in fertilizer prices (for a similar argument see Wise 2011), in practice, the subsidy system has not been working as expected and hence there was a certain extent of pass-through effect from fertilizer prices to food crop prices in the domestic market. The heavily subsidized system has had other negative implications on the domestic price level. The massive size of subsidies has had a crowding out effect on private investment in crops, and related infrastructure that are heavily subsidized by the government whether on the production, trade, or processing level. This is mainly due to the controlled prices of food products and/or the control of the value chain which lowered the rate of return on private investments. In some cases investments were made to fill the loopholes in the system. For example, in the case of

EGP 15.5 billion. However, it is worth pointing out that other similar schemes of subsidies used to prevail in older budgets with different names, mainly farmers support which amounted to EGP 876 million in 2007/08, EGP 144.5 million in 2008/09, EGP 362 million in 2009/10, EGP 2.2 billion in 2010/11, and EGP 2.5 billion in 2011/12 (Ministry of Planning, personal communication with the advisor to the minister).

²¹ *Akhbar el youm* newspaper, 3 March 2012.

²² *Al Ahram* newspaper, 19 December 2011.

²³ *Al Ahram* newspaper, 13 January 2012.

wheat purchase and due to the limited arable land, GASC competes with the private sector in the procurement of local wheat and rice. To ensure that GASC purchases its targeted quantity it has driven prices up in the free market, which in turn had higher domestic price levels (WFP 2008b). Limited public and private investment (e.g. the absence of sufficient well-managed silos and bunkers) in infrastructure related to food crops has also created bottlenecks in different stages of the value chain (for a similar argument on the international level see FAO et al. 2011). In other words, government policy of investments and purchasing of food staples in many cases made it unattractive for the private sector to invest in the agriculture and food sector.

6 Conclusion and policy implications

The government's response to the crisis is deeply embedded in the country's socio-economic context. The importance of quick actions undertaken to make the bread available and control its price was evident. The responses to the food crisis have certainly lessened the crisis' negative social effect on the majority of the population. But this has been costly as exemplified by the increasing outlays for social safety nets. Aboulenein et al. (2010) found that any removal of food subsidies in light of increasing world prices, without the compensation in other forms (e.g. cash transfers) will result in a substantial increase in the poverty level. The core of government reactions focused mainly on bread availability and prices, which is by nature the central theme of the food subsidy system in Egypt. Other policies were enacted including the change of the commodity mix in the ration card system while increasing the number of beneficiaries. Moreover, cash transfers and wages of government and public sector employees were increased as were pension holders' transfers. Given the high correlation between food prices and the level of poverty in Egypt (Egyptians spend on average 44 per cent of their income on food and the poorest spend on average 53 per cent), the poor in Egypt are vulnerable to any increase in food prices. The increase in the number of beneficiaries was aimed mainly at reducing the vulnerability of the poor to food price increases. Trade policies were changed including the reduction of tariff rates on a number of commodities and the imposition of the export ban on rice. These trade policies, particularly the rice export ban might have helped to solve the bread problem by keeping domestic rice prices lower than they would otherwise have been. Yet, such policies, for sure affected negatively export prospects of rice. For example, for the first time, domestic production declined by around 1.7 million tons in 2010 (El Atal 2010) which resulted in keeping the domestic prices high. But at least at the time of crisis the price of rice was kept stable and below the international price level, which in fact helped to reduce the problem of excess bread demand (being a close substitute). Moreover, the reduction of tariffs on food items was insignificant in terms of its effect as tariff levels were in general low. The drawbacks of the policy were evident also on the fiscal stance, and are likely to continue for a long time, especially after the January 2011 revolution and the overriding social demands. This raises concerns on the sustainability of such policies and whether from a macro-economic perspective the current and future governments are able to carry on with the burden of such policies or not. The relatively small amount of subsidies allocated to food when compared to fuel subsidies could imply that the burden of food subsidies is expected to be contained by the government for a while, especially that the focus of the current regime after the revolution and the future regimes will be on achieving social equity and lessening poverty. However, hard budget constraints could also imply a need for reform, at least to prevent leakage and attain better targeting on income and geographical levels.

The political economy of food policy in Egypt has proven to be highly complex. The negative social and political repercussions that can arise from any serious economic reforms implied a preference of the political leadership to the status quo. The interaction of poverty aspects with food security dimensions and the high vulnerability of a relatively large portion of the population to fall into the poverty trap if food prices increase, added to the difficulty of undertaking any reforms despite the high fiscal costs. Lack of sincere political will, weak coordination among different stakeholders including governmental agencies, the proliferation of corruption, inefficient pricing system, modest logistics, and heavily distorted market because of the subsidy system, all implied more difficulties for reforming the food security system. The combination of inefficient subsidy policies, accompanied by wrong price signals (especially that there is no clear policy for setting prices) have caused a huge amount of waste and leakages in all stages of the value chain which resulted in intensifying the low self-sufficiency rate and food insecurity problems.

A policy towards reducing the waste and leakages resulting from production and distribution inefficiencies and lack of right targeting is highly needed which requires correcting the price signals by setting a well-defined policy that provides both elements of certainty for farmers and at the same time reduce the fiscal burden on the government. This can be achieved by reforming the pricing system and improving the logistics. The government should also start applying hedging for the strategic commodities, which is in fact applied by some of the large private corporations importing directly in Egypt by taking the necessary monetary measures in case of exchange price change. The institutional set-up (laws and regulations) is not conducive for including this type of activities, implying the need for an institutional reform. Changing the mix of commodities considered on the ration cards can help to avoid problems associated with obesity and improve the nutritional requirements (WFP 2011). Yet, there is also a need to simplify the registration process to make the system more effective in terms of reaching the needy people.

Diversification of main suppliers of wheat by relying on other main producers, besides Russia, can help in securing wheat procurement from other countries such as the Netherlands, from which Egypt should increase its wheat imports. However, GASC remained constrained by its organizing law that does not allow it to trade in futures, and hence it has to buy wheat on the spot market (where delivery takes place within two months from the date of purchase). Reducing leakages and shortcomings of the subsidy system cannot be attained by substituting cash transfers for in-kind transfers due to the absence of a full database of poor people, and fear from induced inflation (WFP 2008a; 2010). According to the survey carried out by the WFP (2010) the majority of the surveyed people (98 per cent) prefer in-kind transfers instead of cash transfers. The government, in the aftermath of the crisis initiated this idea and it was open for debate in different media channels. There were several reasons that led to the idea of substituting the in-kind by cash transfers to be abandoned. Among such reasons as depicted by WFP (2010) were the difficulty in targeting the poor (due to the absence of the needed information), the problems associated with adjusting the inflation rate for the cash transfers on an annual basis, and the expected annual increases in prices used by bakeries which cannot be easily controlled by the government. The same reasons were mentioned after the January 2011 revolution by the Minister in charge implying that the shift to cash subsidies might not be a feasible alternative in the short- to medium-term, and that the fixing of the in-kind transfer is the only solution available. There is also an urgent need to tackle anti-competitive behaviour that has prevailed for a long time in staple food markets.

Competition law and competition policy have been absent, and the government might have been a major cause in such absence, when it comes to dealing with food markets. For example, and as a reaction to the action of referring an anti-competitive food products case to the general prosecutor after the January 2011 revolution, some of the firms accused announced in the newspapers that the government is the one that has asked the producers to form committees with formal joint decrees by the Ministers of Agriculture and Land Reclamation and Trade and Industry to agree on a joint policy of pricing. This is against the Egyptian competition law which prohibits collusion among producers and their joint setting of prices.²⁴ The Minister of Social Solidarity announced in November 2011 that he will set a limit on the profits (30 per cent) that can be attained in each stage of the value chain.²⁵ The Minister also announced that he is investigating the possibility of setting price ceilings for basic food products that are sold in the free market.²⁶ Whether this is a retreat from free market policies and how will such a decision going to be implemented remains to be seen. The enforcement of the competition law is a step in the right direction, but whether this is likely to continue or not has to do with two crucial issues, which are the formality of the markets, and the availability of data. In food markets, both are problematic to a high extent. Also the inefficiency of the governmental system and corruption existing in the different stages dealing with procurement, marketing, and distribution of subsidized food staples need to be tackled in an efficient manner.

In order to pursue better co-ordination, some sort of high or supreme council of food policy security should be established. It should not be under a specific ministry, and should have overriding power over related ministries and agencies. It could be headed by the prime minister or his deputy and should meet on a frequent basis. It should also be guided by a serious political leadership providing it with clear signals on directions of reform.

Finally, announcing purchasing prices by the government of major commodities as maize and wheat has always been problematic. For example, regarding maize, the Ministry of Agriculture and Land Reclamation has tried to encourage maize production by expanding its cultivated area through announcing a purchasing price set prior to the plantation time only in 2010 and set in par with the price of rice (the competing crop). Yet such policy suffered from similar drawbacks as those associated with wheat where farmers still preferred to sell to the private sector and not the government due to transport facilities offered by the private sector and avoiding problems associated with PBDAC. Hence, the change of maize policy can be considered a long-term policy in light of the crisis that was enacted after a relatively long while.

The main features of the Egyptian political system after the 25 January 2011 revolution are still unclear. There has been a rising trend of new parties which represent all ideological backgrounds, and the NDP was dissolved. The role of Islamic-oriented parties, and especially the Moslem Brotherhood affiliated party has been evident. Yet, and concerning the focus of this study, it is clear that all parties are refusing the adoption of the free market economy policies as has been the case in the previous era where free market policies were adopted without establishment of the right institutions that monitor anti-competitive behaviour and conflict of interest. Reviving the role of the government in achieving social equality and

²⁴ See Juhayina announcement in *Al Ahrām* newspaper, 1 November 2011.

²⁵ *Al Ahrām* newspaper, 8 November 2011.

²⁶ *Al Ahrām* newspaper, 8 January 2012.

reaching better income distribution is widely discussed, yet without a clear strategy still announced. Despite the fact that the government, as well as the existing parties emphasize such aspects, it is still not clear how the modalities and policies needed to achieve such goals will be designed and adopted. One of the main issues that have been raised lately has been the subsidy system and the need to reform it. More emphasis has been put on energy subsidies and how to ration them to achieve social equality, but less emphasis has been devoted to the issue of food subsidy reform. What is evidently clear is that any political system that will evolve will pay considerable attention to social aspects including equity and income distribution, while creating the right institutions that avoid conflict of interest and fight corruption.

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Annex 1: Exchange Rate between the Egyptian pound and US\$, 1985–2010

Year	Official exchange rate (Egyptian pound per US\$, period average)	Year	Official exchange rate (Egyptian pound per US\$, period average)
1980	0.70	1996	3.39
1981	0.70	1997	3.39
1982	0.70	1998	3.39
1983	0.70	1999	3.40
1984	0.70	2000	3.47
1985	0.70	2001	3.97
1986	0.70	2002	4.50
1987	0.70	2003	5.85
1988	0.70	2004	6.20
1989	0.87	2005	5.78
1990	1.55	2006	5.73
1991	3.14	2007	5.64
1992	3.32	2008	5.43
1993	3.35	2009	5.54
1994	3.39	2010	5.62
1995	3.39	2011*	5.93

Notes: *Average for the period (Jan 2011—Nov. 2011).

Source: Ministry of Finance (2011), Monthly Statistical Bulletin, December 2011. Available at: <http://www.mof.gov.eg/MOFGallerySource/Arabic/Reportes/2011/12/allparts.pdf>; World Bank (2011a).