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The Structural Adjustment Programmes in Egyptian Agriculture: Reservations on Policies and their Impact

Mohamed Abou-Mandour
Faculty of Agriculture, Cairo University

Abstract. Monitoring the effects of stabilization policies and Structural Adjustment Programmes in the light of the peculiar characteristics of Egyptian agriculture and medium-term speculations indicates that these policies will not realize their set objectives. On the contrary, the slow rate of economic development, signs of inequality, and the risks of deterioration in the agricultural environment have come to the surface and may possibly express themselves more clearly in the future.

This chapter introduces many of these issues and the arguments that support this conclusion which include the following:

- 1) market failure;
- 2) negative effects on poor holders;
- 3) deterioration of landless farmers' daily pay;
- 4) high increase in the prices of production inputs beyond the means of smallholders;
- 5) remarkable decrease in the value of agricultural exports;
- 6) private sector's tendency towards monopoly;
- 7) dangers of adulteration in production inputs specially in seeds and pesticides as a result of the absence of an effective quality control system;
- 8) negative effects on agricultural environment, productivity and water distribution due to the elimination of the cropping pattern;
- 9) deepening inequality in land tenure and ownership and the increase in the number and proportion of landless farmers due to the liberalization of the cultivated land market;
- 10) difficulties of increasing productivity under the current agricultural research, extension and co-operative systems which lack organic linkage and efficient performance;
- 11) expected inability of privatized (formerly state-run) companies to attain their objectives.

It is rather expected that state resources would be wasted out, and that a tendency towards concentricity of wealth and ownership in lands and capital assets is now emerging.

Keywords. Market – Stabilization policies – Pricing policies – Liberalization – Privatization

Résumé. L'analyse des effets des politiques d'ajustement structurel à la lumière des caractéristiques de l'agriculture égyptienne montre que ces politiques ne réussiront pas à atteindre leurs objectifs. En revanche, on observe un ralentissement de la croissance économique, une augmentation des inégalités et des risques de détérioration de l'environnement agricole.

Ce chapitre présente un certain nombre de thèmes et d'arguments qui appuient ce point de vue, à savoir : l'échec du marché, les effets négatifs sur les petits exploitants, la détérioration des conditions de vie des ouvriers journaliers, la forte augmentation des prix des intrants agricoles, la baisse de la valeur des exportations agricoles, la tendance du secteur privé vers une situation de monopole, le risque d'une surutilisation des intrants, les effets négatifs sur l'environnement, les conséquences de la libéralisation du marché foncier sur les petits exploitants, les mauvaises conditions actuelles de la recherche agricole et de la vulgarisation. Par ailleurs, on s'attend à un gaspillage des ressources et à une tendance vers la concentration des biens et des propriétés (terre et capital).

I – Motives of the Economic Reform in the Agricultural Sector

The motives of economic reform in Egyptian agriculture are a group of overall or sectoral imbalances (within the agricultural sector) which are defined as follows:

- the increase in the foreign debt volume, estimated at about U.S. \$46.1 milliard in 1989–90;

- ❑ deficit in the balance of payments, estimated at about 11.4% of the total value of the Gross National Product (GNP) in 1989–90;
- ❑ deficit in the trade balance, estimated at about U.S. \$8.3 milliard in 1989–90;
- ❑ deficit in the state budget, estimated at almost 20% of the value of the Gross National Product during the period 1986–87 to 1991–92;
- ❑ a low economic growth rate as compared to the rate of population growth (2.7% annually) during the second half of the 1980s;
- ❑ the tangible decrease in the rate of growth in the agricultural sector, as it reached about 1.7% in 1989–1990 (IMF 1992);
- ❑ the indirect taxes that were borne by the sector, which reached L.E. 5.5 milliard in 1985 (World Bank 1992). These taxes were a basic factor of refraining from investing and cultivating the strategic crops (cotton, rice, corn, etc.);
- ❑ the excessive subsidizing of fertilizers, pesticides and farming machines, either by reducing their real prices or by malvaluation of currency and subsidizing the interest rate. This excessive subsidizing of production inputs led to their misuse and bad distribution;
- ❑ the deterioration of the trade and agricultural balance;
- ❑ the decrease in the rate of self-sufficiency;
- ❑ the imbalance of cropping pattern in disfavour to the major crops (food, industrial and export crops) in view of their low local prices compared with world prices (Beshay 1989);
- ❑ the state's intervention and its monopolization of the major input and product markets as well as its interference in foreign trade and the resulted inefficient management; and
- ❑ the state owning and managing—with low productivity—of about 10% of the cultivated lands in addition to its involvement in many production and marketing institutions.

II – Objectives and Strategies of the Economic Reform in the Agricultural Sector

The main objective of the economic reform in Egyptian agriculture was to provide the sector with sufficient incentives and liberalize it to increase investment. The purpose was to enlarge the area and increase production and productivity as well as to realize the comparative advantage of Egyptian agriculture to help increase its growth rates.

To achieve this objective, the agricultural sector represented a major part of the overall policies of economic reform at the macro level through applying “stabilization policies” and “structural adjustment programmes”. The first (“stabilization policies”) is concerned with the quick redressing of the distortions in the indicators of the overall balance (budget deficit, balance of payments deficit and trade balance deficit), as well as limiting foreign debts and high inflation rates.

“Stabilization policies” have depended upon the traditional package based on a group of monetary and fiscal policies that are embodied in: currency devaluation, raising the rate of interest, putting credit ceilings, phasing out subsidy, raising local prices to the level of world prices, etc. “Structural adjustment programmes” focus on market liberalization and privatization.

In the agricultural sector, the most important policies that have been followed so far (IMF 1992) are:

- ❑ phasing out area quotas and the arbitrary delivery of crops, with the exception of cotton and sugarcane;
- ❑ ending state interference in crop pricing, except in the case of cotton and sugarcane, together with raising cotton price to 66% of the world price in 1992–93;
- ❑ phasing out subsidies to fertilizers, pesticides, seeds and farming machines as well as interest rates, with a tendency to phase out the remaining subsidy to cotton pesticides in 1994;
- ❑ the elimination of PBDAC's monopolization of the market of most of the basic production inputs;

- ❑ handling state lands and companies through the privatization process;
- ❑ the liberalization and privatization of foreign trade; and
- ❑ the liberalization of the cultivated land market in 1997 and raising the rental value from 7 to 22 times the land tax as from the Crop Year 1922/93.

III – Reservations on the Reform Package in the Agricultural Sector

It can be fairly said that the economic reform policies have achieved some positive effects on the overall balance indicators, due to external reasons, the most important of which are the Gulf War and the consequent debt relief, as well as the debt relief as a result of the state's commitment to the economic reform programme. Among the internal reasons are the currently operative monetary and fiscal policies.

These effects are namely the noticeable decrease in state budgetary deficit from about 20% of the value of GNP in 1990–91 to about 6.5% in 1991–92 and to a projected decrease of 3.5% in 1992–93.

A remarkable improvement in the deficit of the balance of payments has been achieved, as it positively shifted from about U.S. \$634 billion in 1989–90 to a surplus of about U.S. \$1.4 milliard in 1990–91 and U.S. \$3.8 milliard in 1991–92.

Among the overall success indicators is the decrease in inflation rate from about 26% in 1991 to about 10% in 1992 (American Embassy 1993). This improvement, on the macro-economic level, was not reflected, as expected, on the agricultural sector. This can be proved by a group of basic reservations about the effects of the package of policies on Egyptian agriculture in the light of the achieved results, specially during the years 1991–92 and 1992–93. These are:

1. Reports of the World Bank and the U.S. Embassy on Cairo's attempt to correlate the agricultural growth rate to the percentage of self-sufficiency and the increase in the production of some major crops, specially wheat, maize, rice and cotton, to agriculture liberalization policies (World Bank 1992; U.S. Embassy 1993).

We are of the opinion that this improvement was caused, firstly, by the state's positive role in fixing a floor price that ensures the producer a marginal profit exceeding that of several competing crops; secondly, by the state's role in producing high yielding varieties and supervising their distributions. Accordingly, the market forces are not the cause of these improvements as the reports of the World Bank and the U.S. Embassy claimed.

It is worth mentioning that the state turning away from receiving production from the producers against a good price—as was the case with maize in the summer season of 1992—was a slash to producers that caused a large number of them to refrain from planting in the following year (the summer season of 1993). The state turning away from buying the rice crop at a fairly good price in the summer season of 1993 was yet another problem, aggravated by a tendency to reduce the price allowing companies to procure rice at a lower price than that agreed upon, in view of the reduced price in the world market. The same problem was encountered by cotton producers in the 1993 season when the prices of the extra-long staple cotton were reduced from the declared prices due to the exporting companies' inability to export and to the fact that the local market price was higher than the world price. This analysis is the opposite of the views mentioned in the reports. Because leaving the price to the market forces has harmed the producers and, eventually, led to the decrease of their revenues and to their subsequent choice to abstain from growing the less lucrative crops. Such a state of affairs would negatively affect other factors conducive to high productivity.

2. Despite the unavailability of analytical studies on the effect of economic reform policies on farmers according to the size of their holdings, the World Bank sees that the economic reform policies will have a negative effect on poor holders (of less than two feddans) because their real revenues will decrease as a result of carrying out these programmes (World Bank 1991). We may imagine the number of unprivileged holders whose proportion is approximately 57.5% of the total number of holders according to the results of the latest agricultural census published (Ministry of Agriculture 1981/1982).

Their proportion was expected to increase for 1993 in view of fragmentation that resulted in a greater number of small holdings on account of inheritance factors.

3. The sharp reduction in the pay of landless agricultural workers revealed by the findings of the World Bank's study on *The Strategy for Egyptian Agriculture in the Nineties*. The study points out that the sharp reduction in the real pay of the agricultural workers is about 60% during the 1985–91 period. It also points out that this reduction is made within the process of re-distributing the income in favour of the landholders and at the expense of labourers (World Bank 1992).

4. The high increase in the prices of agricultural production inputs during the past years (i.e., the prices of chemical fertilizers have been increased during the period 1987–93 by 350%–667% as indicated in Table 1).

Table 1. Changes in the Price of Fertilizers (L.E./ton)

Type	1987	1993
Urea	149	505
Ammonia	58	301
Gypsum	48	250
Potassium	57	380
Superphosphate	75	400

Source: El-Din, 1993.

As to the seeds, their prices have noticeably increased, from 1988 to 1992, from a minimum of 32% (for soybeans) to a maximum of 400% (for cotton seed). The prices of pesticides and farming machines have increased as well (Ali 1993). The causes of price increase are numerous. However, the most important of them are the elimination of inputs direct subsidization, devaluation the Egyptian currency, high price of raw materials and phasing out subsidies to the agricultural credit.

The most important direct effects of production inputs price increase are the shrinkage in loan requests, for 1991–92, by 28% in comparison with 1990–91. It was expected that this would continue to increase in the following years (Ali 1993).

The shrinkage in agricultural loan requests has led to an obvious shrinkage in the distributed quantities of the major production inputs, most importantly the nitrogenous and phosphorous fertilizers and seeds, with proportions that reached 44%, 48% and 40%, respectively (Ali 1993).

The agricultural credit market has been affected by the high increase in production inputs prices that caused a shrinkage in loans repayment rates. This shrinkage is expected to increase as long as these factors continue to exist (Ali 1993).

The aforementioned conclusions are supported by what is mentioned in the World Bank's report, namely that the interaction of production price increases and the unavailability of a cheap credit may lead to several risks the poor producers who constitute a big proportion of Egyptian farmers as mentioned before. The most prominent risk is the producer's financial inability to respond by changing their cropping pattern towards the more lucrative crops and making full use of the new technologies.

In the light of these results, there are many risks engulfing the increase in the prices of production inputs, liberalized interest rates, the separation of the credit market from the production inputs market, the uncertainty of getting a good price and the state's relinquishing its commitment to fix a floor price. These risks are:

- a) the inability of the producers, specially small-scale producers, to buy the necessary quantities of production inputs and the consequent increase of the negative effect on their productivity which would probably deteriorate;
- b) discouraging investment in agriculture, specially in the new lands—this manifests, *prima facie*, the inability of small- and medium-scale producers to bear the high cost of reclamation and cultivation, in

view of the increasing cost of energy needed, particularly in the new lands, for irrigation and other agronomic practices.

5. If the structural adjustment programmes are seeking to realize the strategy of promoting exports in the direction of enhancing the relative advantage of Egyptian agriculture, under the current trend towards market economy, this objective seems to be out of reach in the near future and the point of view is supported by many arguments, enumerating the following difficulties facing the proposed strategy:

- a) Cotton, the first export crop in Egypt, suffers from a crisis represented in the existence of a brought forward stock from the year 1992, in addition to that year's proper production. This crisis is due to the fact that the prices of the extra long staple cotton, declared by the Egyptian government, are much higher than those declared in the world market (as the United States subsidized its cotton in the world market).
- b) Vegetables and fruits exports—for which, according to many reports and studies, Egypt has a potential advantage (because of its unique climate and location)—are lacking many competing factors in the world market, the most important of which is the backwardness of the handling and storage techniques before and after harvesting, in addition to the fact that the Egyptian fresh produce lacks certain quality standards required in the world market.
- c) As most of the Egyptian imports include commodities characterized by low elasticity of demand (wheat, sugar and plant edible oils) while most of its exports are marked by elasticity, the monetary policies may not cause a high leap in exports in the existence of a stagnant production and marketing structure, unable to cope with the current changes in the fiscal and monetary policies. This was manifested in the decrease in the value of agricultural exports from about U.S. \$407 million in 1989–90 to about U.S. \$355 million in 1991–92 (U.S. Embassy 1993).

6. State's divestiture from the production input market, to provide a more competitive atmosphere, has not been fully accomplished. The disorganized inputs market accounts for the emergence of an oligopoly of fertilizers market by five private sector companies that lack adequate experience (El-Din 1993). The Government is so far unable to resolve the consequences of such an oligopoly.

7. There is also a peculiar risk encompassing the wide privatization of seeds and pesticides sub-sectors which are not integrated with an efficient government agency to survey the quality of imported seeds and pesticides and to monitor their distribution among producers. The consequences of the absence of such an agency are: (i) production-related harms resulting from importing and distributing seeds that are either unguaranteed or do not meet the required production specifications, and (ii) environment-related harms resulting from importing and distributing ineffective and/or environmentally harmful pesticides. (These dangers were raised in more than one symposium held by the Centre of Economic and Agricultural Studies of the Faculty of Agriculture, Cairo University.)

8. Egyptian agriculture possesses certain characteristics that makes it unique. These are:

- its almost total dependence on permanent irrigation from the Nile Water, which deeply affected the cropping patterns in the old lands (the Nile Valley and Delta);
- it is an intensive agriculture, as two crops, on the average, are grown annually on the area unit, which means that the croplands are overused without resting intervals;
- the small holding pattern (not exceeding 1.2 feddans) is prevailing throughout Egyptian agriculture. It even gets smaller as we move down towards the underprivileged holders of less than 2 feddans, with an average of 0.52 feddan (ARE 1989). This situation means that it is hard to prevent or control any damage to the crop or the environment from the adjacent fields;
- the fact that Egyptian agriculture is highly dependent on fertilizers and high-yielding seeds accounts for much of the increase in the yield of major crops.

These peculiar characteristics raise many non-price determinants as well as risks that may result from liberalizing the cropping pattern, in addition to the possibility of improving productivity. Some expected consequences of these changes are as follows:

- a) The liberalized cropping pattern and the absence of consolidation would eventually lead to a heterogeneous cropping system on the adjacent small holdings, which would result in negative effects on irrigation management and pest control. In view of the discrepancy in water requirements for the various crops, certain difficulties in water distribution and irrigation intervals would emerge. Likewise, the liberalized use of various pesticides in the actual context where small holdings prevail would pollute other plots probably cultivated with different crops in juxtaposition.

In view of the foregoing, the agricultural environment would be badly affected by misuse of the water resources, in addition to the possibilities of decreasing agricultural productivity.

- b) The weak response of producers to price-related factors towards raising the productivity; for two fundamental reasons, namely: the increase in the number of the small-scale holders and their doubts concerning the possibility of getting cheap credit, on the one hand, and the deterioration of their economic and social gains, on the other.

9. It is expected that the liberalization of the cultivated land market will entice a large number of tenants to rescind their contracts and leave the land to the landlords. However, the size of holdings will further shrink. The number of holders reached about 925,142 out of which 492,540 are tenants and about 432,602 are holders by tenancy and ownership (according to the *Agricultural census 1981/82*).

This transformation would lead to the increase of landless farmers. The proportion of land tenants that may be affected is estimated at 37.5% of the total number of holders.

Among the most important effects of land market liberalization are also the concentricity of agricultural holdings, on one hand, and the instability of the landlord-tenant relationship and the resort, once again, to the crop sharing pattern on the other. This would discourage long- and medium-term investments in the rented areas, which may lack stability and continuity and, as such, would impede the application of new technologies.

10. The Egyptian agriculture has to fulfil certain requirements to make the reform policies fulfil their objectives. The agricultural research and extension system have to be remodelled to ensure high performance and redress the current low efficiency. A more effective information network has to be created; and an active role has to be entrusted to the co-operatives in both production and marketing. Otherwise, these shortcomings would lead to monopolization in the production inputs market and to limiting the possibility of increasing productivity and the non-recognition of market needs. As a result, there would be a difficulty in planning for the agricultural sector in the absence of an information service to the farmers.

11. In its orientation towards carrying out the economic reform programmes, the state is privatizing the agricultural companies (land reclamation companies, meat and chicken processing companies and the like). The privatization process is faced by a group of major risks, the most important of which are:

- a) The tragic failure in carrying it out if the companies are estimated by their real value in the light of the accumulated debts, hence, the selling process will be carried out against prices that are far lower than the real value of the assets (the land, the buildings and the equipment) and this will represent a great loss to national economy. Moreover, the selling process will imply social problems if the excess workers are dismissed without providing opportunities for work and income.
- b) The selling processes do not necessarily guarantee that these companies will continue their activities or that they will not change their purposes, or will not eliminate investments in production assets with the aim of transforming into another activity (e.g., construction of housing units). This situation also leads to wasting an already scarce production resource (land).
- c) The selling process would, as a result of the weakness of the purchasing ability of most of the citizens, lead to the emergence of some sort of oligopoly which would have a direct bearing on the concentricity of wealth in the hands of the few.

- d) Selling the arable lands owned by the companies will surely exclude the landless and enlarge the scope of concentrating land ownership in the hands of a small percentage of landlords.

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