

MAPPING AGRIBUSINESS OPPORTUNITIES IN THE MENA

Exploring favorable conditions and challenges for
agribusiness in the Middle East and North Africa





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MAPPING AGRIBUSINESS OPPORTUNITIES IN THE MENA
EXPLORING FAVORABLE CONDITIONS AND CHALLENGES
FOR AGRIBUSINESS IN THE MIDDLE EAST AND NORTH AFRICA

The Hague Centre for Strategic Studies (HCSS)

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TABLE OF CONTENTS

1	INTRODUCTION	9
2	GENERAL ASSESSMENT OF INVESTMENT OPPORTUNITIES	13
	2.1 Methodology	15
	2.2 Assessment of opportunities	18
	ANNEX	37
	Case study 1: Morocco	40
	Case study 2: Egypt	51
	Case study 3: Saudi Arabia	62
	ENDNOTES	73

1 INTRODUCTION

1 INTRODUCTION

Opportunities for agribusiness in the Middle East and North Africa (MENA) abound. A steady stream of bad news is casting a long shadow over prospects, however. As one study notes, “political authoritarianism and instability have forced many investors to think twice about their plans in the short term.”¹ Indeed, there is no shortage of investment bottlenecks like conflicts, challenging climatological conditions and corruption. Yet many other factors make the MENA region an interesting place for agribusinesses to invest. With over 300 million people, and high population growth figures, the region has many mouths to feed. People have increasingly more to spend, with wages rising and the middle class expanding in many countries. Due to population growth and rising income, demand for food is rising, and food security is increasingly a concern for governments in the region. Overall, the business climate is improving. In short, as an *Economist* study concludes: “the region [...] represents opportunity that businesses around the world are keen to grasp. Given the trends in global trade and investment, it is more than likely that the attractiveness of the opportunities will outweigh the risks over time.”²

Western agribusinesses are well suited to capitalize on these prospects. This is all the more so, because they generally have more advanced technologies and business models that may provide an answer to some of the problems for the agricultural sector in the region. For example, large parts of the region remain perched, and climate change is expected to even further decrease rainfall. 85% of all water in the region is used for irrigation, with often very rudimentary techniques amounting to inefficiencies.³ Conversely, this opens up opportunities for companies providing technologies to improve irrigation.

This report helps agribusinesses by identifying the risks and opportunities, associated with agribusiness investment in the MENA region while looking at the many structural factors that influence return on investment. We view these ‘returns’ from a broad

perspective. Profit is a primary, but not the sole impact business activities may have. Investments can pay off in many ways. It may yield jobs and profits that benefit individuals and states alike. Particularly in poorer countries, economic growth can help to tackle pressing economic, social, and security issues. Such spin-offs are increasingly worth considering in light of the recent revolutions and the negative spillover effects on Europe, from refugee streams to energy security concerns. Jobs are key to provide stability, especially in countries in the throgs of a regime change like Tunisia. This project takes these broader benefits into account.

Commissioned by the Ministry of Economic Affairs of the Netherlands, this report zooms in on the 11 focus countries in the MENA region: Morocco, Algeria, Tunisia, Libya, Egypt, Saudi Arabia, Oman, Qatar, UAE, Bahrain and Kuwait. This report summarizes the main findings of this research. It accompanies a series of maps available on the HCSS website.

The report consists of two parts. First, we provide a general overview of investment opportunities for the agrifood sector in 11 MENA countries. Per structural factor related to potential opportunities for agribusiness and inclusive growth, we provide a map with a brief explanation. In the Annex to this study, we give a more detailed analysis of investment opportunities by providing country studies of Morocco, Egypt and Saudi Arabia.

2 GENERAL ASSESSMENT OF INVESTMENT OPPORTUNITIES

2.1 Methodology

15

2.2 Assessment of opportunities

18

2 GENERAL ASSESSMENT OF INVESTMENT OPPORTUNITIES

This chapter provides a bird's-eye view of agrifood investment opportunities in the MENA region by looking at several 'structural factors'. Setting up or expanding your business abroad depends on a range of things. Some are difficult to assess and predict. The decision to develop a dairy farm in Morocco, or expand sales of healthy food products to the Gulf region, will depend on many short-term developments. Diplomatic rows or fresh trade deals may all of a sudden color business prospects by opening up, or closing doors. Other opportunities may be related to the particular situation of a company. Patented innovations and good business contacts may lead to very specific opportunities available only for one company that possesses these patents. Yet many other factors are more structural in nature. The size of the population, the business climate, and many other determinants of return on investment change only incrementally. The pages below illustrate how these structural factors influence opportunities in the region for agribusinesses. We look at related indicators (data and indices), which we visualize in a series of maps.

2.1 Methodology

The potential benefits of agribusiness activities are manifold.⁴ In line with the broader ambition of the Dutch government to stimulate sustainable and socially responsible economic relations, we look at the benefits both from a company perspective and from the perspective of the country of investment.⁵ From the view of the company, the predominant goal of investment is profit. Viewed from a societal and developmental perspective, increasing agribusiness activities can also lead to broader beneficial effects, by improving the economic, ecological, social and security situation in a country (see Figure 1). For example, agribusinesses can create jobs or provide education for a given country's labor force. In addition, improving the economic conditions of people in a country may improve stability.

We refer to these as ‘inclusive investments’. As the World Bank notes, the concept of inclusiveness, “encompasses equity, equality of opportunity, and protection in market and employment transitions.” Agribusiness investments can contribute to inclusive growth, which is “broad-based across sectors, and inclusive of the large part of the country’s labor force.”⁶ These factors are mainly, but not exclusively, of interest for policy makers. Yet increasingly companies also include such factors into their business strategies.

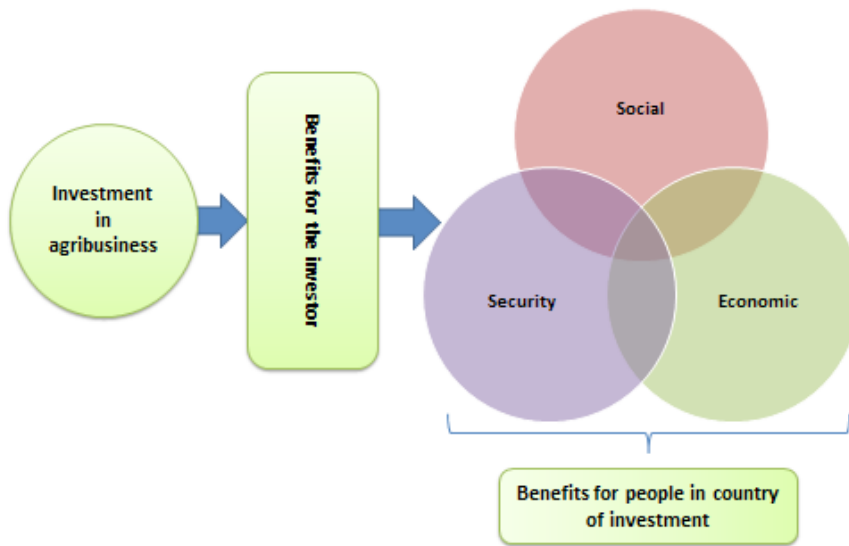


FIGURE 1. POTENTIAL BENEFITS OF AGRIBUSINESS INVESTMENT.

To analyze which of the MENA countries offer the most opportunities for inclusive investment, we will look at both *enabling factors for investment* and *factors showing the potential for inclusive growth*. The first refer to “sets of policies, institutions, support services and other conditions that collectively improve or create a general business setting where enterprises and business activities can start, develop and thrive.”⁷ With the potential for inclusive growth, we refer to the potential impact that investments may have on the (socio-)economic situation and stability of a country.

We assess these investment opportunities in each MENA country by looking at indicators that reflect the enabling environment and potential for inclusive growth (see Figure 2).⁸ For example, the enabling environment is a function of the size of the market, or ‘market potential’, which is in turn measured by looking at the amount of

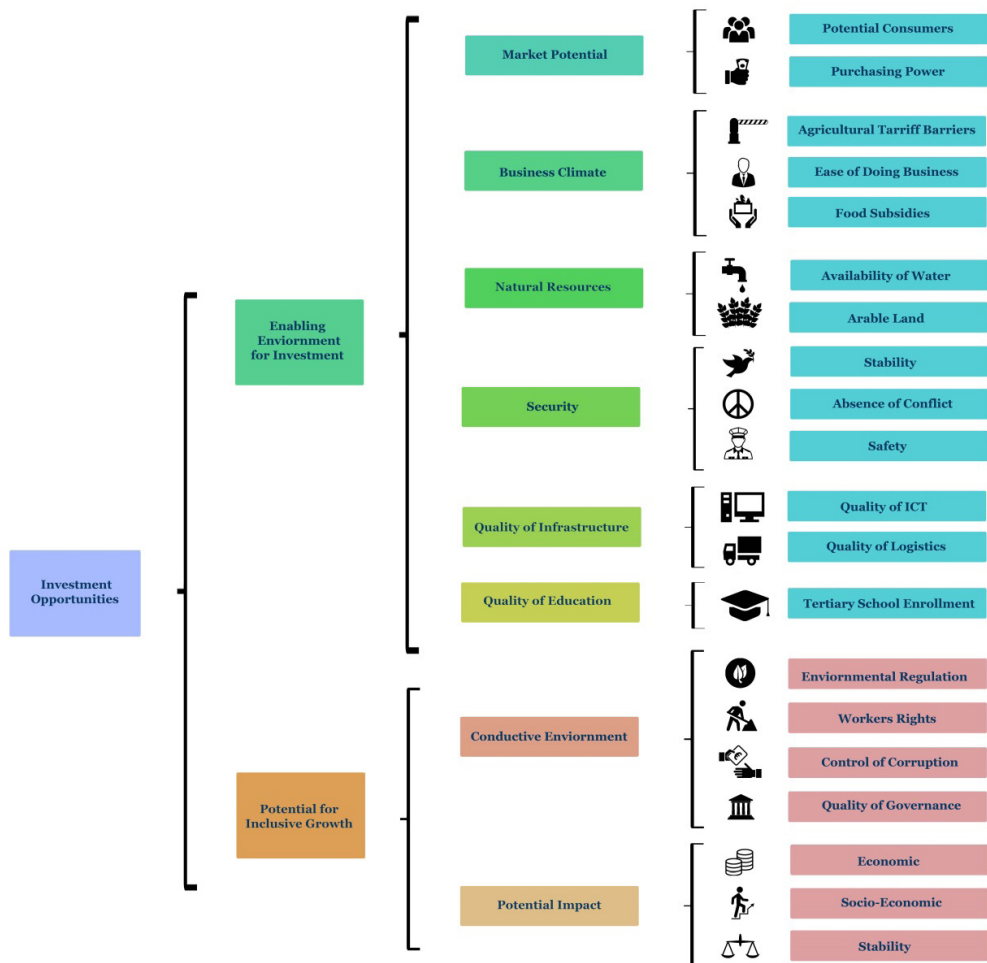


FIGURE 2. OVERVIEW OF FACTORS CONTRIBUTING TO ENABLING ENVIRONMENTS FOR INVESTMENT; AND POTENTIAL FOR INCLUSIVE GROWTH. A FULL LIST, INCLUDING A DEFINITION AND ALL CORRESPONDING INDICATORS, IS PROVIDED IN THE ACCOMPANYING INTERACTIVE MONITOR (AVAILABLE AT GEORISQ MONITOR).

people living in a country ('potential consumers'), and the money they have to spend ('purchasing power'). In general, countries with a large and growing population, who have a sizeable and growing income at their disposal, offer good opportunities for sales of agrifood products. Based on how countries in the region score on these factors, we assess their attractiveness for agribusinesses in the following pages.

2.2 Assessment of opportunities

This section assesses the attractiveness of MENA countries for agrifood business based on the indicators in Figure 2. We first list the main results. Then we zoom in on how countries score on the separate indicators.

Main results

Countries in the region have many favorable conditions that make agribusiness investments attractive. Market potential is generally high, quality of infrastructure is improving, agricultural tariff barriers are low and dropping, and despite regional conflicts, many countries are relatively stable and safe. Yet large differences remain. The Gulf countries have more inhospitable climatological conditions than other countries in the region, such as Morocco. Conversely, setting up and conducting a business is in many respects easier in the Arab Peninsula. These and other observations are based on the scores summarized in the table below. It shows the scores on all six dimensions that together paint a picture of the enabling environment for agrifood businesses in a given country.

COUNTRY / DIMENSION	MARKET POTENTIAL	BUSINESS CLIMATE	NATURAL RESOURCES	SECURITY	QUALITY OF INFRA-STRUCTURE	QUALITY OF EDUCATION	TOTAL SCORE
Saudi Arabia	10	8	5	7	6	7	42
United Arab Emirates	9	9	0	7	7	6	38
Qatar	7	8	1	8	7	6	36
Morocco	7	6	7	6	4	4	33
Tunisia	6	6	6	5	4	5	33
Bahrain	5	7	1	6	6	7	33
Kuwait	6	6	1	7	6	5	31
Oman	6	7	0	7	5	4	30
Algeria	9	3	2	6	4	5	28
Egypt	9	3	1	4	4	4	26
Libya	6	3	1	5	5	6	25

TABLE 1. AGGREGATE SCORES ON DIMENSIONS INFLUENCING THE ENABLING ENVIRONMENT FOR AGRIBUSINESS IN THE MENA REGION. SCORES WERE CALCULATED BY TAKING THE SIMPLE AVERAGE OF THE SCORES ON THE CONSTITUTING INDICATORS, AS LISTED IN FIGURE 2. FOR THE BUSINESS CLIMATE DIMENSION. FOR EXAMPLE, WE AVERAGED THE SCORES ON THE CONSTITUTING INDICATORS 'TARIFF BARRIERS', THE 'EASE OF DOING BUSINESS INDEX' AND 'FOOD SUBSIDIES'. ON EACH INDICATOR, A COUNTRY COULD SCORE BETWEEN 1-10 BASED ON ITS GLOBAL RANK. IF A COUNTRY SCORED IN THE TOP 10% GLOBALLY, IT SCORES A 10, IF IT RANKS BETWEEN 80 AND 90%, IT RECEIVES A 9, ETC.⁹

It should be noted that these scores provide a partial indication of business opportunities. For example, if a country scores “8” on business climate, this is not to say there are no serious bottlenecks to setting up and conducting a business. It does mean that if we look at agricultural subsidies, the ease of doing business index, and agrifood import tariffs combined (i.e. the constituting indicators of the category ‘business climate’), this country ranks in the top 70-80% of all countries worldwide. And it may well be that for some sectors the specific regulations are more favorable than can be expressed in this macro-overview. This table thus provides a bird’s eye-view that serves to show the relative attractiveness of MENA states compared to other countries worldwide. Other factors, such as cultural differences, are more difficult to quantify and thus are omitted from this overview. We account for these elements in three case-studies in Chapter 4.

Our analysis yields several observations. We note that:

- Overall, three Gulf states – Saudi Arabia, the UAE and Qatar – and two North African states – Morocco and Tunisia – score best on the selected range of factors enabling agribusiness investments.
- Many countries in the region show a sizable and growing market potential for agrifood products due to large and expanding populations and steady economic growth. Particularly Egypt and Saudi Arabia, and the UAE and Algeria offer good prospects.
- Market potential falls roughly in two categories. For bulk goods, populous but poorer countries – Egypt, Algeria, and Morocco – provide opportunities. Richer Gulf countries are interesting markets for high-quality food products.
- Morocco and Tunisia indicate a potential for more land and water intensive agriculture. Their geographical position, close to Europe, is a further advantage.
- Throughout the region, natural resources are a bottleneck. Conversely, the region offers opportunities for agribusinesses that are less land and water intensive. And there is a large market for innovations that lead to more effective use of water resources, and companies with water efficient means of production.
- Security concerns vary throughout the region. Libya suffers from recurrent conflict, while the political transition in Egypt remains difficult to foresee. Developments in Tunisia are more hopeful. We note that even in countries that have conflicts within their borders, these are often confined to specific regions, with little to no impact on other areas. In addition, everyday safety in the region is very high, even by international standards.

- ICT infrastructure and logistics in most MENA countries are improving, but remain average in many states when compared to other countries worldwide. Gulf states generally have better roads and ports at their disposal, and well-developed ICT infrastructures compared to North African countries.
- Education is average to good in most Gulf countries, but poorer in North African countries such as Egypt and Morocco.

Agribusiness investments in the MENA region also provide a leverage to influence the social, economic and security situation in a country. These potential spin-offs in terms of inclusive growth agribusiness investments are summarized in the table below. It also shows how 'conductive factors' that can make such impact more likely – i.e. quality of governance and regulation – vary throughout the region. The higher the score, the more potential agribusiness has to contribute to inclusive growth. Countries that import most of their food from abroad, and where people spend a large share of their income on food, thus rank high on the socio-economic dimension. Agribusiness investment in these countries can greatly improve food security.

DIMENSION/ COUNTRY	Conductive Environment		Potential Impact			TOTAL SCORE
	REGULATION	QUALITY OF GOVERNANCE	ECONOMIC	SOCIO-ECONOMIC	STABILITY	
Tunisia	6	5	6	5	8	30
Egypt	5	4	6	5	8	29
Morocco	5	4	6	5	6	27
Algeria	4	4	5	6	6	25
Saudi Arabia	5	5	2	4	6	22
Bahrain	4	6	2	4	6	22
Libya	2	2	4	4	8	21
UAE	6	8	1	4	3	21
Oman	3	5	2	4	5	19
Kuwait	6	4	1	3	3	17
Qatar	4	7	0	3	1	16

TABLE 2. AGGREGATE SCORES ON FACTORS INFLUENCING INCLUSIVE GROWTH IN THE MENA REGION. SCORES ARE CALCULATED BY TAKING THE AVERAGE SCORES ON ALL INDICATORS PER DIMENSION. FOR EXAMPLE, IN THE CASE OF THE REGULATION DIMENSION, WE AVERAGED THE SCORES ON THE CONSTITUTING INDICATORS: 'ENVIRONMENTAL REGULATION' AND 'WORKER RIGHTS'. FOR EACH INDICATOR, A COUNTRY COULD SCORE BETWEEN 1-10 BASED ON ITS GLOBAL RANK. IF A COUNTRY SCORED IN THE TOP 10% GLOBALLY, IT SCORES A 10, IF IT RANKS BETWEEN 80 AND 90%, IT RECEIVES A 9, ETC.¹⁰

The global comparison on inclusive growth in the table above indicates a few opportunities:

- Agribusiness has greatest potential for inclusive growth in Tunisia, Egypt, Morocco and Algeria.
- Throughout the region, potential benefits of agribusiness are particularly large in terms of reducing food import dependency and poverty.
- Benefits in terms of contributing to job growth are high in more unstable countries, particularly, Egypt, Libya and Tunisia.
- With the exception of Tunisia, Gulf countries provide an easier environment for inclusive investments than North African countries. Employee rights are generally poor in all countries in the region, again with Tunisia being the exception. Some countries, particularly the UAE, rank comparatively high in terms of environmental protection (around 50th from a total of 180+ countries). The situation in Libya and Oman, and to a lesser extent Algeria, Tunisia and Morocco is more troublesome. Looking at quality of governance, most Gulf countries, with the exception of Kuwait, score well. Both in terms of control of corruption and the quality of government regulation, Qatar and UAE perform above average.
- Interestingly, Morocco, Tunisia, and to a lesser extent Saudi Arabia, both rank high in terms of inclusive growth and enabling environment. These three countries both enjoy a relatively attractive environment for agribusinesses, and a high potential for improving the social, economic and security situation.

Enabling environment

Market potential

One of the major assets of the MENA region is its market potential. In general, the more people live in a country, and the more money they have, the larger the possibilities to sell agrifood products.¹¹ As the FAO writes, “The demand for food is primarily a function of population and income” (P. Koohafkan and M. Salman, Investments in Land and Water).¹² With a population of well over 300 million people, there are many **potential consumers** of agrifood products – i.e. mouths to feed. Egypt alone has over 80 million inhabitants, all of whom are potential consumers of agrifood products (see Figure 3).

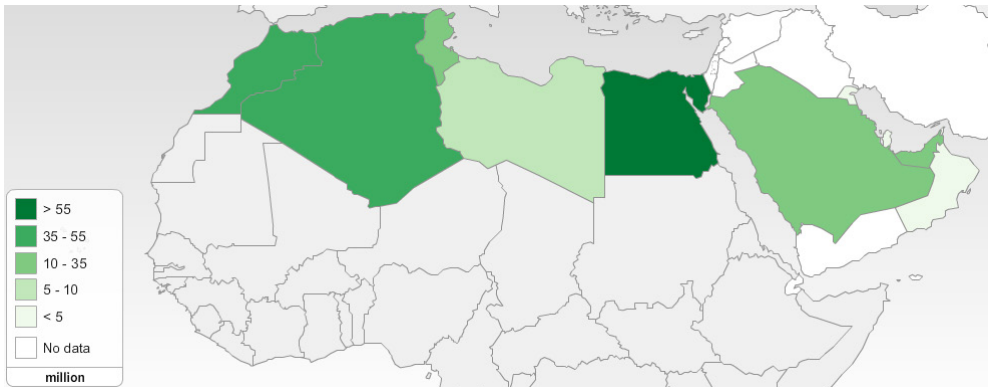


FIGURE 3. POPULATION (IN MILLIONS) PER COUNTRY IN 2014. (UN, 2014)

Looking at **purchasing power**, the Gulf countries show great market potential for high quality food products (see Figure 4). Saudi-Arabia, Qatar, Kuwait and the UAE have GDP per capita figures from over USD 46,000. It should be noted that even in poorer countries like Morocco and Egypt, GDP per capita has risen steadily over the years, tripling in the first (from around USD 1,000 in 1990 to 3,500 in 2014) and almost doubling in the latter (from USD 1,800 in 1990 to USD 3,300 in 2014). This indicated an increasing middle class.



FIGURE 4. GDP PER CAPITA IN USD IN 2014. (IMF, 2014)

In most MENA countries, the middle class is set to expand in the near future. This means that demand for high quality food products will likely also increase. Population growth will continue. The number of people living in Egypt, for example, will grow in the next two decades to over 100 million potential consumers. In addition, IMF GDP-growth forecasts are positive (see Figure 5), indicating that the market for agrifood products is expected to expand.

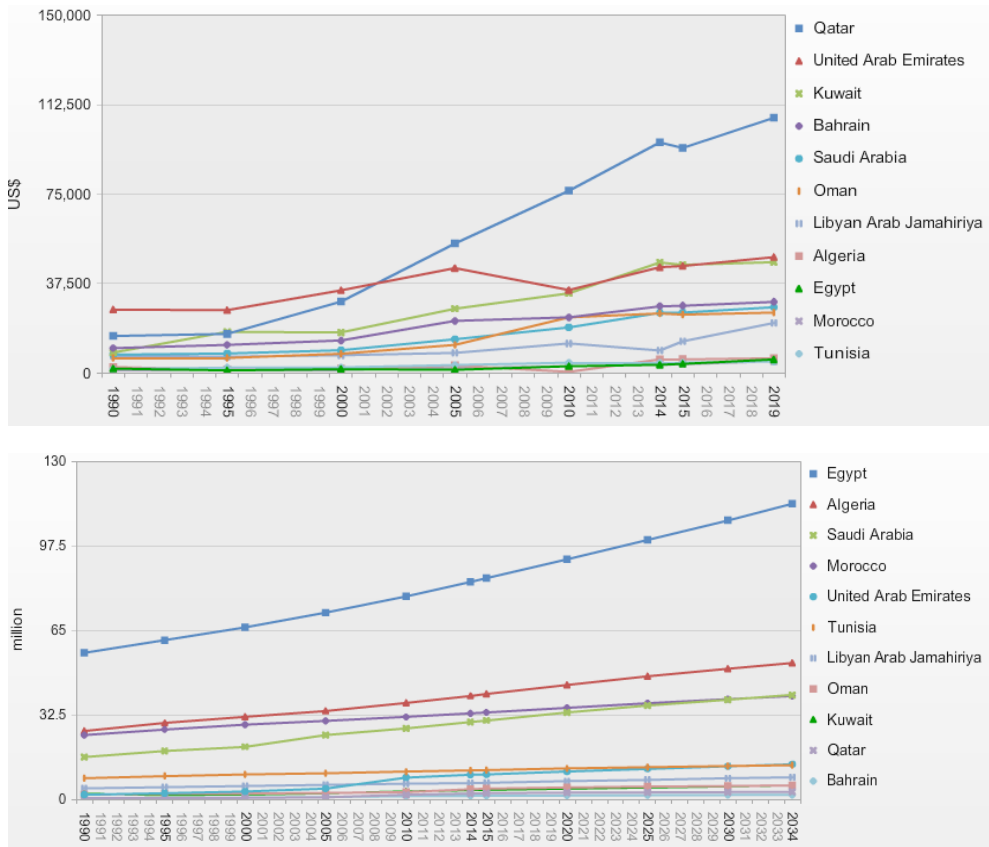


FIGURE 5. TOP: GDP GROWTH IN USD FROM 1990-2014 AND PROJECTIONS FROM 2014-2019. BOTTOM: POPULATION GROWTH IN MILLIONS FROM 1990-2014 AND PROJECTIONS FROM 2014-2034. (IMF, 2014; UN, 2014)

Business climate

In deciding to invest in a country, the business climate is key. To what extent is the state making it easier for companies to conduct their business? In answering this question, we look at two indicators. Generally, GCC countries have a favorable environment for conducting business. These countries score high on the **Ease of Doing Business Index**¹³, which provides a good overall picture of how easy it is for a company to set up shop and conduct business.¹⁴ Tunisia, and to a lesser extent Morocco, show a more mixed picture, with severe obstacles in acquiring credit, but more favorable conditions in other fields, such as starting a business and resolving debt (Morocco) and getting electricity (Tunisia).

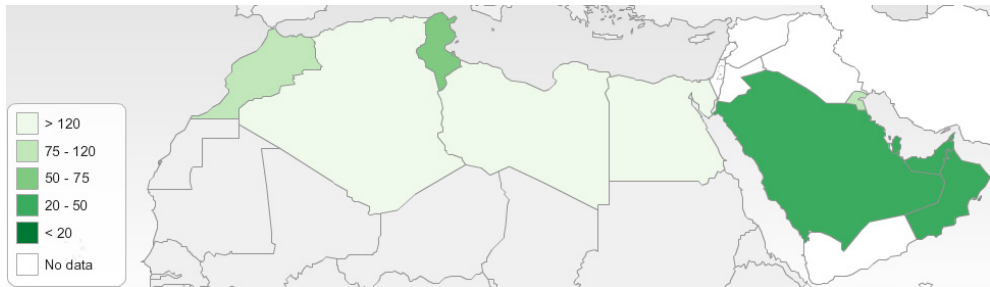


FIGURE 6. EASE OF DOING BUSINESS INDEX, RANK AMONG 189 COUNTRIES. SCORES REFLECT HOW EASY IT IS TO SET UP AND CONDUCT A BUSINESS BASED ON 10 RELATED INDICATORS, SUCH AS TAX ENVIRONMENT AND EASE OF ENFORCING CONTRACTS. (WORLD BANK, 2014)

Another factor reflecting opportunities for agribusiness in the region is **agricultural tariff barriers**, or the average tariffs on agricultural imports for a country.¹⁵ Such barriers increase the costs of imported agrifood products, thereby making it less attractive for companies relying on such imports. But they may also incentivize businesses to ‘jump the border’, circumvent duties and set up a company in the country itself. In many countries in the region, such tariffs are low, most notably in Libya and the GCC countries (see Figure 7). In Algeria, Tunisia, and Morocco, taxes on agricultural products are over 18%, and in Egypt the average tax is highest, around 66%.

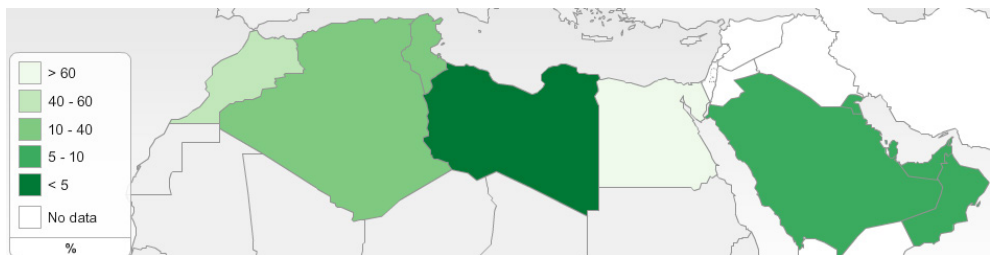


FIGURE 7. AGRICULTURAL TARIFF BARRIERS. AVERAGE APPLIED MOST FAVOURED NATION (MFN) TARIFF ON ALL AGRICULTURAL IMPORTS. DARKER SHADES CORRESPOND TO LOWER TARIFF BARRIERS. (WTO, 2014)

One final factor that influences the business climate in a country is **food subsidies**.¹⁶ If agrifood products like bread, sugar, cooking oil, and milk are subsidized, these products are more difficult to be competitively produced within a country. This often means more has to be imported from abroad. Egypt, Algeria, and Tunisia have relatively high food subsidies, leading to high imports of milk, for example (see Figure 8).¹⁷

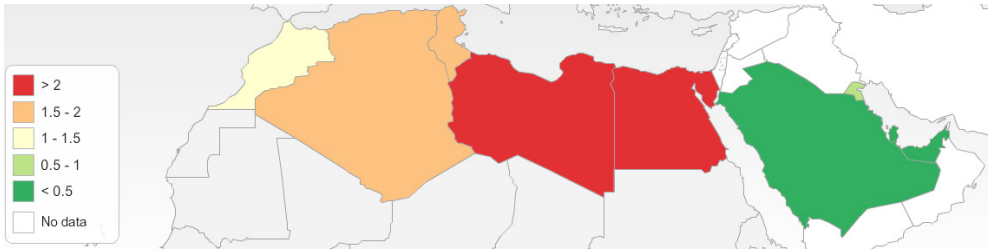


FIGURE 8. FOOD SUBSIDIES AS PERCENTAGE OF GDP IN 2011. (IMF ,2014)

Natural Resources

Although arable land and water is scarce throughout the region, some countries have more favorable conditions for land-based agriculture. With around 4% of all land being arable, the MENA region scores well below the worldwide average of around 10%.¹⁸ But some countries fare relatively well. In Morocco and Tunisia, over 18% of all land is arable (see Figure 9). And looking at total available arable land, Algeria scores high, with over 7.5 million hectares (see Figure 10).

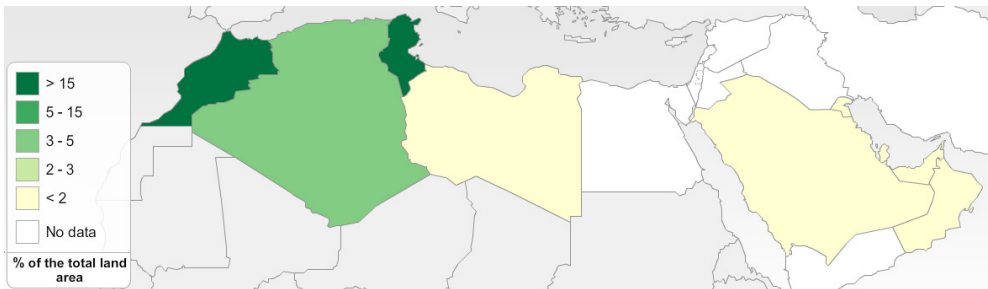


FIGURE 9. ARABLE LAND PER COUNTRY IN 2012 (% OF TOTAL LAND AREA). (FAO, 2014)

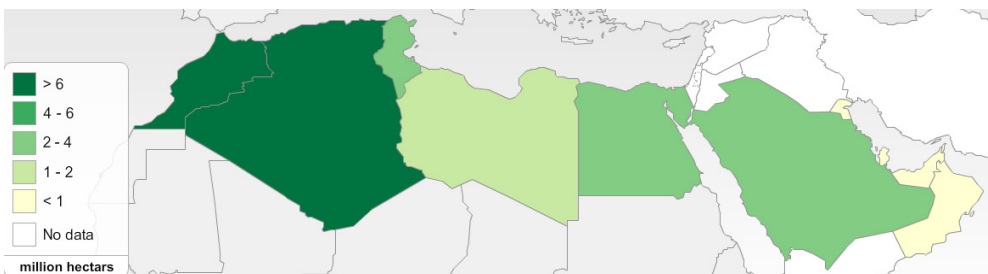


FIGURE 10. TOTAL ARABLE LAND PER COUNTRY IN 2012 (MILLION HECTARES). (FAO, 2014)

Countries situated between the Nile Delta and Morocco, offer the highest concentration of land suitable for intensive agriculture. Compared to other MENA countries, Morocco, Tunisia and to a lesser extent Oman, have more water at their disposal per head of the population (see Figure 11). Thus all three offer the most opportunities for land-based agriculture. Still, in these countries too, water availability varies throughout the year, particularly due to irregular rainfall. In addition, water shortages are under 1000 cubic meters per capita, generally considered the threshold for water stress. Conditions in GCC countries and Egypt are much less favorable.^{19 20}

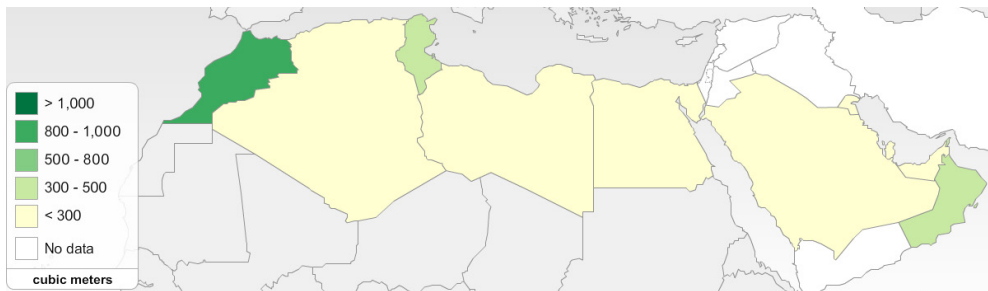


FIGURE 11. RENEWABLE INTERNAL FRESHWATER RESOURCES PER CAPITA IN 2013 (CUBIC METERS). (WORLD BANK, 2014)

Security

The security situation in the region varies greatly. Several countries are relatively tranquil, with little or no conflict (see Figure 12). Morocco and GCC countries face few problems, with stable prospects and low levels of **current conflict**. Large-scale public investments have succeeded in ‘buying off’ protests following the Arab Spring revolts.²¹ Other countries experience more serious conflicts, such as Libya, Egypt, Tunisia and Algeria.

Such conflicts can impact investors’ choices, because violence negatively affects “physical security, undermines macroeconomic stability, threatens the rule of law, dries up access to credit and financial services, destroys infrastructure, distorts labor markets, disables the regulatory framework, and dismantles the tax system.”²² Yet conflicts do not necessarily hamper business operations. In Tunisia, for example, conflicts are often concentrated in specific parts of the country. Terrorist attacks on the border with Libya are unlikely to affect agribusinesses in the northeast part of the country. The same holds for many conflicts in other countries in the region. An agribusiness company in the north of Morocco is likely to be unaffected by the long lasting conflict between the central government and the Polisario-movement over the Western Sahara.

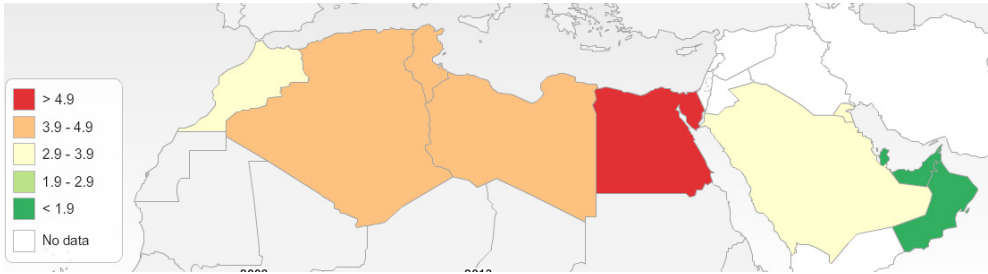


FIGURE 12. PRESENCE AND INTENSITY OF CONFLICT IN 2013. LOWER SCORES/GREENER SHADES REFLECT A BETTER SITUATION. A SCORE OF 1 IS A (NON-VIOLENT) "DISPUTE". A SCORE OF 2 REFLECTS A "NON-VIOLENT CRISIS", COUNTRIES WITH A SCORE OF 3 HAVE A "VIOLENT CRISIS" WITH MEDIUM INTENSITY WITHIN THEIR BORDERS. A SCORE OF 4 REFLECTS A "LIMITED WAR", AND A SCORE OF 5 IS A WAR.²³ [HIIK, 2014]

In addition, Morocco and the GCC countries seem relatively stable (see Figure 13). These countries score quite well on the **Political Stability and Absence of Violence** index of the World Bank, which "measures perceptions on the likelihood of political instability and/or politically-motivated violence, including terrorism"²⁴ And although in the throgs of a regime change, peaceful developments in Tunisia are a cause for optimism. Libya, Egypt and Algeria are more fragile.

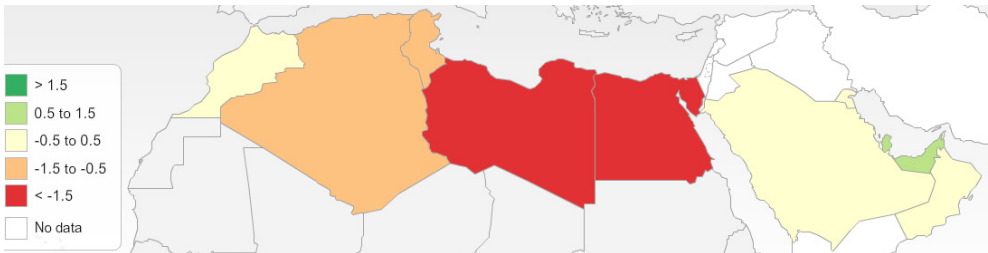


FIGURE 13. POLITICAL STABILITY AND THE ABSENCE OF VIOLENCE AND TERRORISM IN 2013. HIGHER/POSITIVE SCORES REFLECT A HIGHER DEGREE OF POLITICAL STABILITY AND AN ABSENCE OF VIOLENCE AND TERRORISM. [WORLD BANK, 2014]

Finally, it merits looking at the **everyday safety** situation in a country. For many businesses, what matters most are levels of crime and the sense of conducting business in a safe environment. Interestingly, crime rates in the MENA region are one of the lowest in the world (see Figure 14). When looking at homicide rates, most countries have a very low score. In Egypt, the worst performer in the region, around 3 in every 100,000 people die due to homicide. Still, from a global perspective this is quite low.²⁵

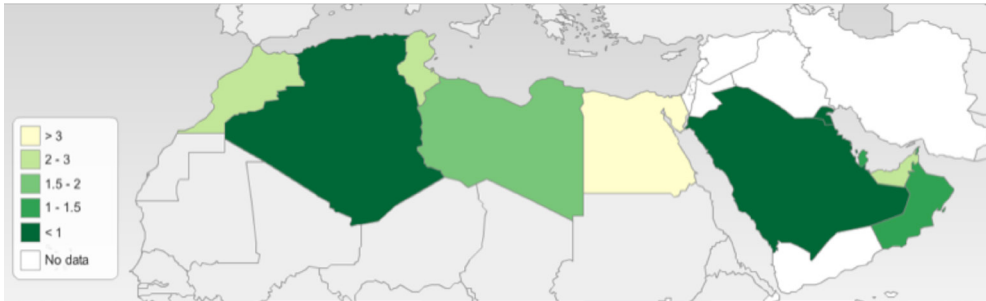


FIGURE 14. HOMICIDE RATE IN 2012 (OR LATEST AVAILABLE YEAR) PER 100,000 CITIZENS. LOWER SCORES INDICATE A BETTER EVERYDAY SAFETY SITUATION IN A COUNTRY. (WORLD BANK, 2012)²⁶

Quality of infrastructure

Another important factor in doing business in foreign countries is the quality of infrastructure. The better the roads, railways, and ports, the easier it will be to move around, and import and export goods. This is particularly important for agribusiness, where value chains are often stretched over large distances. **Logistically**, most GCC countries (the UAE in particular) and Morocco and Tunisia are well positioned (see Figure 15). The latter two have several good harbors, roads and railway systems. Still, in the latter two countries, infrastructure connecting urban with more remote areas is often lacking.²⁷

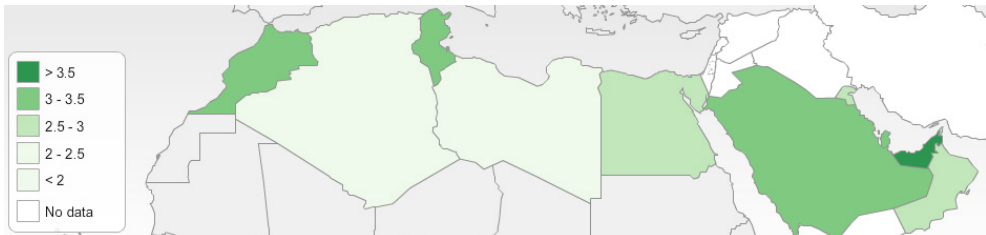


FIGURE 15. LOGISTICS PERFORMANCE INDEX. SCORES ARE FROM 1 (LOWEST) TO 5 (HIGHEST). THE SCORES ARE CALCULATED BASED ON SURVEYS IDENTIFYING QUALITY OF LOGISTICS ON 6 DIMENSIONS: THE EFFICIENCY OF CUSTOMS AND BORDER CLEARANCE; THE QUALITY OF TRADE AND TRANSPORT INFRASTRUCTURE; THE EASE OF ARRANGING COMPETITIVELY PRICED SHIPMENTS; THE COMPETENCE AND QUALITY OF LOGISTICS SERVICES - TRUCKING, FORWARDING, AND CUSTOMS BROKERAGE; THE ABILITY TO TRACK AND TRACE CONSIGNMENTS; THE FREQUENCY WITH WHICH SHIPMENTS REACH CONSIGNEES WITHIN SCHEDULED OR EXPECTED DELIVERY TIMES.²⁸

Access to broadband in remote rural areas can also be an important factor in determining investment opportunities. In the map below we look at the **ICT Development Index**, which compares ICT performance within and across countries.

The Index shows access, use and skills of information and communication technology, looking at indicators related to availability and intensity of ICT infrastructure, and available ICT capabilities and skills.²⁹ As Figure 16 indicates, ICT infrastructure is particularly good in the more wealthy GCC countries. In other North African countries, ICT use is rapidly spreading. In Egypt alone, Internet subscriptions rose over 44% in 2013.³⁰



FIGURE 16. ICT DEVELOPMENT INDEX IN 2014. SCORES FROM 0-10, WITH HIGHER SCORES INDICATING BETTER PERFORMANCE. SCORES ARE CALCULATED ON 11 INDICATORS IN THREE CATEGORIES: THE ICT INFRASTRUCTURE, USE AND SKILLS.³¹ (ITU, 2014)

Quality of Education

Most Western agribusinesses make use of some form of skilled labour and technology. Countries with higher education levels generally have more skilled agriculture workers available. The level of training and education of the workforce is also an important factor in determining productivity. As one report by the International Labour Organisation notes: “By increasing productivity through improvements to agricultural practices, rural communities can increase yields and thereby offer better livelihoods, including improved employment opportunities and higher farm incomes.”³²

Looking at the scores on the HDI education index, Saudi Arabia and most of the other Gulf-countries show moderate to good education levels. That said, the agricultural skills in these countries are not comparable to those in more developed parts of the world. The level of agriculture training and education is poorer in other parts of the region. On a positive note, these levels have been steadily increasing, and have doubled since the 1980s in most countries. Still, especially in poorer rural areas, education-levels are often low, which leads the World Bank to note that “MENA governments need to invest in rural education and professional training, both formal and informal, to help them [i.e., farmers] adjust to the managerial and technological complexities of producing for the modern urban market and to help other family members to access better off-farm income, or to be better equipped to migrate to cities.”³³

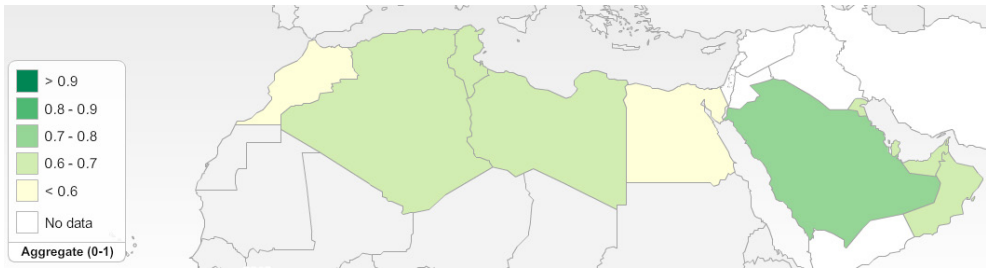


FIGURE 17. EDUCATION LEVEL BASED ON SCORES ON THE HDI EDUCATION INDEX IN 2013, BASED ON THE MEAN AND EXPECTED YEARS OF SCHOOLING. (WORLD BANK, 2013)

Potential For Inclusive Growth

In assessing the potential benefits agribusiness may have for the people in the country of investment, we first look at factors that are conducive for inclusive growth. In a country with high corruption rates, for example, it will be more difficult for investments to ‘trickle down’ to the people. Second, we look at potential benefits, both in terms of economic (i.e. jobs), social (i.e. increased food security) and stability (i.e. reduced conflict potential) factors.

Conducive factors

In most MENA states, **employee rights** are generally poor, although in some countries the situation is slightly better (see Figure 18). Tunisia is the exception, with improvement in protection of labor rights since the fall of Ben Ali. Figure 18 shows scores on the *Workers Rights Index* by the International Trade Union Confederation (ITUC), which looks at standards of fundamental rights at work, in particular the right to freedom of association, the right to collective bargaining and the right to strike.³⁴

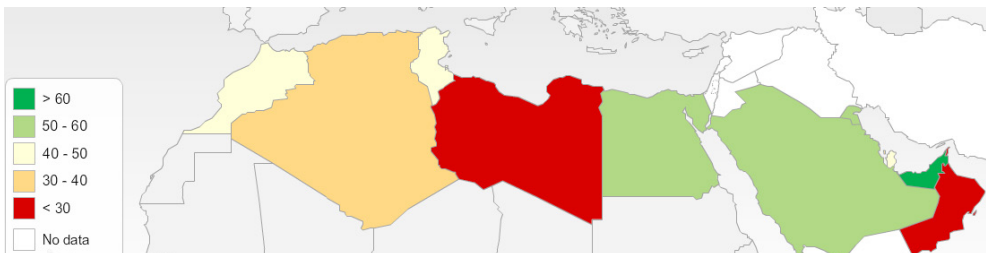


FIGURE 18. WORKERS RIGHTS INDEX SCORES FOR 2014. THE INDEX “REVEALS THE VARYING DEGREE OF COLLECTIVE LABOUR RIGHTS ENJOYED BY WORKERS ACROSS THE WORLD” BASED ON SURVEYED INFORMATION AND NUMERICAL RATINGS. THE ITUC GLOBAL RIGHTS INDEX “COVERS VIOLATIONS IN 139 COUNTRIES.” SCORES FROM 1 (BEST) TO 6 (WORST). (INTERNATIONAL TRADE UNION CONFEDERATION, 2014)

Strong government regulation on environmental and employers rights indicates the extent to which business activities can improve the social and environmental situation in a country. **Environmental protection** in the MENA region varies. The *Environmental Performance Index* produced by Yale University ranks how well countries perform on high-priority environmental issues on the protection of ecosystems (see Figure 19).³⁵ Although scores on the EPI have been improving and some countries, m.n. the UAE, rank comparatively high (i.e., the UAE, which ranks around 50 from a total of 180+ countries), the situation in Libya and Oman, and to a lesser extent Algeria, Tunisia and Morocco is more troublesome due to poor pesticide regulation and limited concerns over biodiversity, for example.³⁶

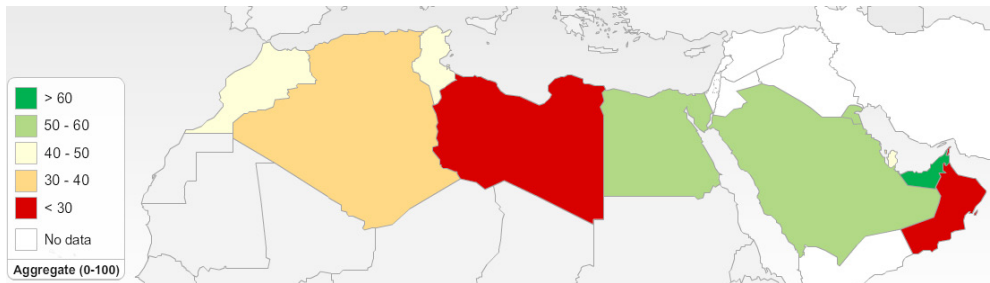


FIGURE 19. THE ECOSYSTEM VITALITY OF COUNTRIES IN THE MENA REGION (2014). SCORES ARE BASED ON THE ECOSYSTEM VITALITY INDEX THAT IS PART OF THE ENVIRONMENTAL PERFORMANCE INDEX. (EPI, 2014)

With regards to quality of governance, most Gulf countries, with the exception of Kuwait, fare relatively well. Both in terms of **control of corruption** and the **quality of government regulation**, or ‘government efficiency’, Qatar and UAE perform above average (see Figures 20 and 21).



FIGURE 20. CONTROL OF CORRUPTION IN 2014, BASED ON THE WORLD BANK CONTROL OF CORRUPTION INDEX. THE INDEX SHOWS THE “EXTENT TO WHICH PUBLIC POWER IS EXERCISED FOR PRIVATE GAIN, INCLUDING BOTH PETTY AND GRAND FORMS OF CORRUPTION, AS WELL AS “CAPTURE” OF THE STATE BY ELITES AND PRIVATE INTERESTS”. SCORES RANGE FROM -2.5 TO 2.5, LOWER SCORES REFLECT HIGHER LEVELS OF CORRUPTION. (WORLD BANK, 2014)

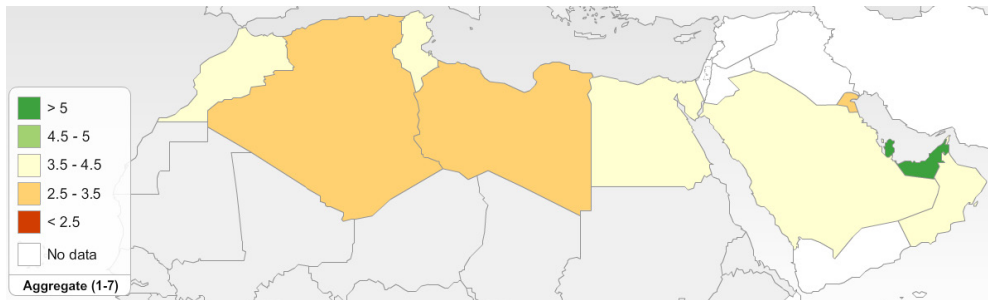


FIGURE 21. QUALITY OF GOVERNMENT REGULATION IN 2014. SCORES RANGE FROM 0 TO 7, WITH HIGHER SCORES REFLECTING BETTER PERFORMANCE. SCORES ARE BASED ON THE “BURDEN OF BUREAUCRACY” INDEX OF THE WORLD ECONOMIC FORUM, “WHICH SHOWS HOW BURDENSOME IT IS FOR BUSINESSES TO COMPLY WITH GOVERNMENTAL ADMINISTRATIVE REQUIREMENTS, SUCH AS PERMITS, REGULATIONS, REPORTING IN A CERTAIN COUNTRY.” (WEF, 2014).

Inclusive growth potential

Investments in the agrifood sector hold great promise from a developmental perspective. If profits do not remain in the hands of a few, but benefit the rest of a society, this may positively impact the (socio-) economic and security situation in a country. These benefits overlap to a large extent. Job creation is positive for the economic position of people in a country, while it may also lead to positive social impact, via better access to food (‘food security’) and simultaneously raise the bar for people to participate in protest or other forms of political violence.

Economic situation

The agrifood sector in poorer countries is especially well suited for pro-poor development. Large parts of the population in the MENA region live in rural areas with little other source of income than farming. As a World Bank report notes, “overall GDP growth originating in agriculture has proven to be two to four times as effective in raising incomes of the poor as growth generated in nonagricultural sectors.”³⁷ For poorer North African countries (i.e. Egypt, Morocco, Algeria and Tunisia), the benefits of job provision and rising wages are significant (see Figure 22). Job insecurity is often high, with a large informal economy and low wages. As noted before, since many of the poorest people live in rural areas where the primary source of income is agriculture, increasing agribusiness activities in these countries has a high potential for improving the economic situation of the poor.

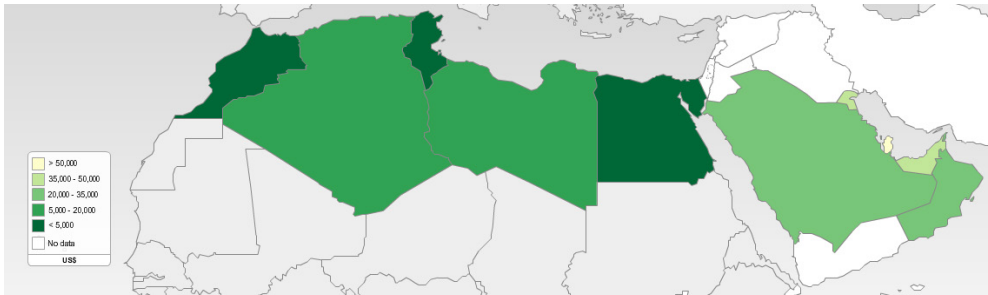


FIGURE 22. POTENTIAL ECONOMIC BENEFITS OF AGRIBUSINESS INVESTMENTS, BASED ON GDP PER CAPITA SCORES IN 2013. THE LOWER THE GDP PER CAPITA, THE HIGHER THE POTENTIAL OF AGRIBUSINESSES CONTRIBUTING TO IMPROVING THE ECONOMIC SITUATION IN A COUNTRY. THE LOWER THE GDP PER CAPITA, THE LIGHTER THE COLOUR. (IMF, 2013)

Socio-economic situation

In several MENA states, people spend a large amount of their income on food, which is furthermore imported, making them vulnerable to price shocks. This is exacerbated by the fact that domestic food production in the region is low in general, meaning that most countries import a sizable share of agrifood products. Conversely, investments in the agrifood business could contribute to stability in easing the stress of basic food needs. If the economic position of people in a country improves, they have to spend a lower share of their income on food. And if agribusiness leads to greater food production in a country, this generally means fewer foodstuffs need to be imported, thereby lowering the vulnerability to price shocks on the global market.

As Figure 23 shows, increasing food production can have the benefit of reducing the amount of food that has to be imported ('food import dependency') or the share of income that is spent on food ('food dependency'). Saudi Arabia, Kuwait and the UAE have one of the highest import dependency ratios worldwide, importing almost all their foodstuffs from abroad. Reducing such dependencies is thus a policy priority for most countries in the region. Although the food import dependencies for North African countries are lower, these countries are poorer than their Gulf counterparts, with people spending a higher share of their income on food. This renders them more vulnerable to food price increases. In addition, these countries have less means to pay for these imports and cushion price shocks via subsidies. This renders reducing food import dependency rates as key priority for countries in the region.

People in North African countries are most vulnerable to increases in food prices, reflected in high food dependency scores. Tunisia, Morocco, Egypt and Algeria have

food dependency scores of over 30%, meaning that on average, around a third of every dollar earned, is spent on food. It should be noted that food subsidies play a major role in how price shocks impact people. Protests frequently erupt where governments are no longer willing or able to provide enough subsidies to cushion price shocks. In Egypt for example, people went out on the streets to protest government inaction in the face of a 30% food price rise over 2010. In contrast, although Moroccans spend an average of 37% of their income on food, government intervention kept consumer price increases below 3%, eliminating one reason to protest.

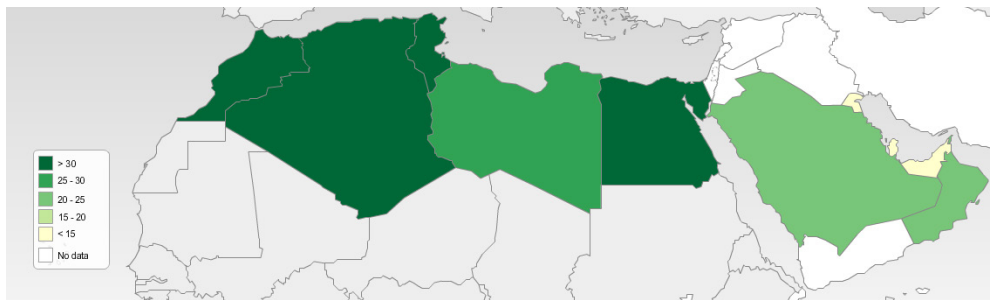


FIGURE 23. FOOD DEPENDENCY, OR THE SHARE OF HOUSEHOLD INCOME SPENT ON FOOD IN 2013. A HIGHER SCORE/DARKER COLOUR REFLECTS A HIGHER POTENTIAL FOR AGRIBUSINESS TO CONTRIBUTE TO LOWERING FOOD DEPENDENCY. (WORLD BANK, 2014)

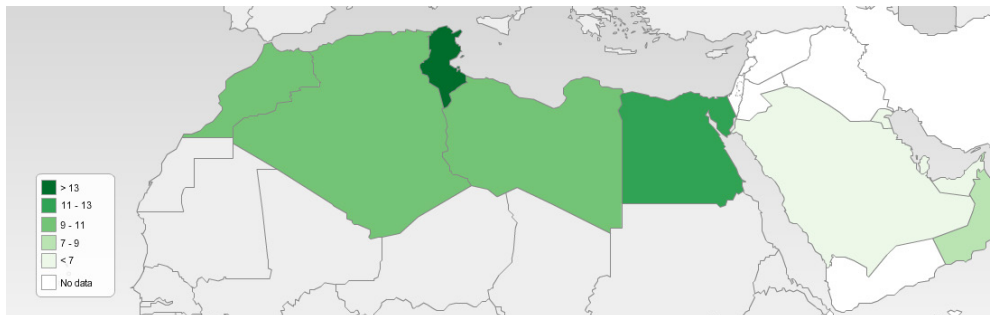


FIGURE 24. IMPORT DEPENDENCY, OR THE SHARE OF TOTAL FOOD CONSUMPTION IMPORTED, IN 2013. A HIGHER SCORE/DARKER COLOUR REFLECTS A HIGH POTENTIAL OF AGRIBUSINESS CONTRIBUTING TO IMPROVING THE FOOD SECURITY SITUATION IN A COUNTRY. (WORLD BANK, 2014)

Stability

Job creation isn't just beneficial in terms of improving the (socio-)economic situation of people. The economic situation in a country also influences stability. When the economic situation improves, the chances of a country experiencing violent or non-violent conflict decreases. Conversely, protests have sometimes been sparked by a

worsening economic situation, for example when governments were no longer able to provide subsidies to cushion food price shocks. In Egypt, for example, revolts were fuelled by government inaction in the face of a 30% price rise over 2010.

In poorer countries, especially in times of political change, economic growth is particularly important. Job creation in democratizing countries such as Tunisia may provide a more solid basis for the democratization trend. For European countries such considerations are pertinent, because they are both well situated to capitalize on opportunities, and similarly prone to spillover effects from instability in the region.

By providing jobs, economic growth, increasing wages, etc., investments in agribusiness can increase stability in a country. Countries with current conflicts within their borders and high unemployment, such as Egypt, Tunisia and Libya, are thus well suited to benefit from agribusiness investments (see Figure 25 and Figure 26). GCC countries have much lower unemployment figures, larger state coffers to buy off protest and struggle less with actual violent conflict. The possible stability spin-off is thus smaller.

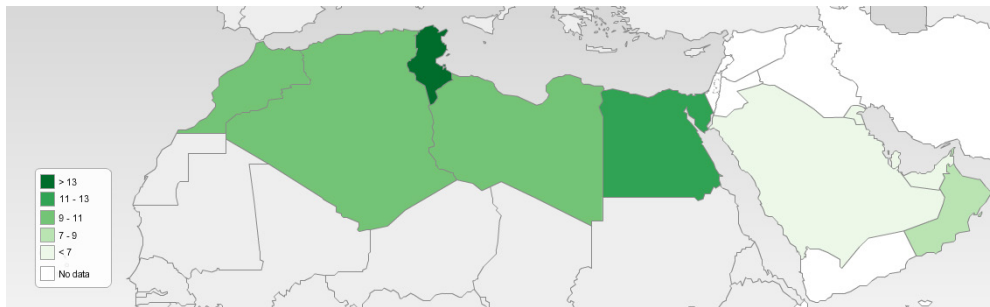


FIGURE 25. UNEMPLOYMENT RATE, IN PERCENTAGE OF TOTAL POPULATION. GREENER SHADES REFLECT HIGHER UNEMPLOYMENT, THUS MORE OPPORTUNITY FOR AGRIBUSINESS TO HAVE A POSITIVE IMPACT. (IMF, 2014)

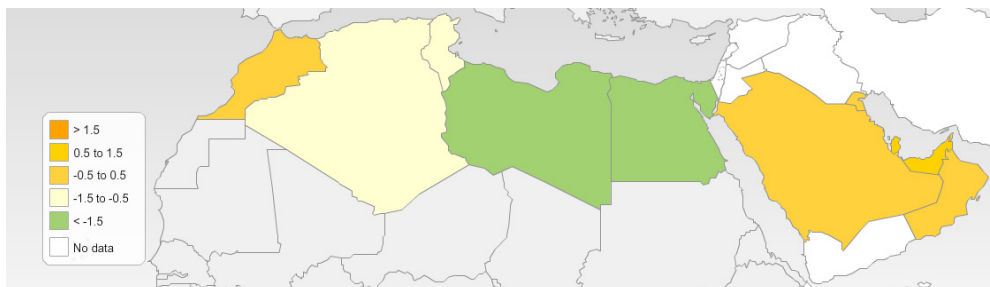


FIGURE 26. POLITICAL STABILITY AND ABSENCE OF VIOLENCE AND STABILITY, REFLECTING PERCEPTIONS OF THE LIKELIHOOD OF POLITICAL INSTABILITY AND/OR POLITICALLY- MOTIVATED VIOLENCE, INCLUDING TERRORISM. GREENER SHADES REFLECT MORE INSTABILITY, THUS MORE OPPORTUNITY FOR AGRIBUSINESS TO POSITIVELY INFLUENCE THE SECURITY ENVIRONMENT. (WORLD BANK, 2014)

ANNEX

Case study 1: Morocco	40
Case study 2: Egypt	51
Case study 3: Saudi Arabia	62

ANNEX: THREE CASE STUDIES

In this Annex, we provide a first look at opportunities for agribusiness in three selected MENA countries. Building on the bird’s-eye picture we provided in the previous chapter, we perform a preliminary in-depth case study of opportunities in Morocco, Egypt and Saudi Arabia. For each country, we analyze the same elements as discussed in chapter 2 (i.e., the respective ‘dimensions’ that determine the enabling environment for investment and the potential for inclusive growth) and discusses these in more depth, for example by including information on financial infrastructure and geographical position, and looking at a range of sources, such as policy agendas.³⁸ Under quality of education, we also include technological developments. Each case study starts with a summary of investment opportunities that could be relevant to Dutch agribusiness.

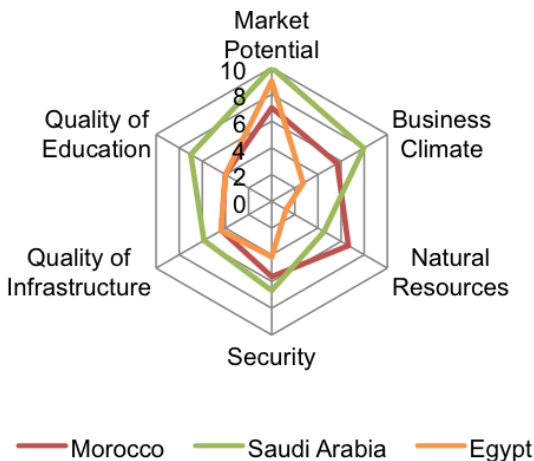


FIGURE 27. COMPARISON FOR ENABLING ENVIRONMENT SCORES FOR MOROCCO, SAUDI ARABIA AND EGYPT.

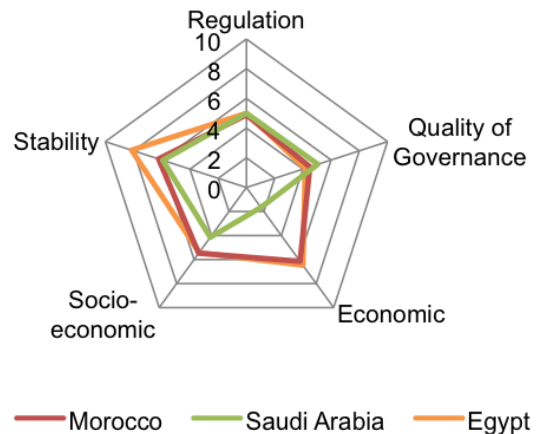


FIGURE 28. COMPARISON OF POTENTIAL FOR INCLUSIVE GROWTH FOR MOROCCO, SAUDI ARABIA AND EGYPT.

Case study 1: Morocco

Of all countries in the MENA region, Morocco stands out as one of the most promising for agribusiness investment and inclusive growth spin-off. In this section, we investigate these opportunities in more detail.

Detailed analysis of enabling environment

The figure below summarizes the scores on all indicators we looked at in the previous chapter. It shows that Morocco has a relatively stable regime compared to other countries in the region. The business climate seems to have not much to fear from every day crime or large-scale political instability. Income levels are rising and the population is still growing, which means a growing consumer market. A comparatively large amount of arable land is also available.³⁹

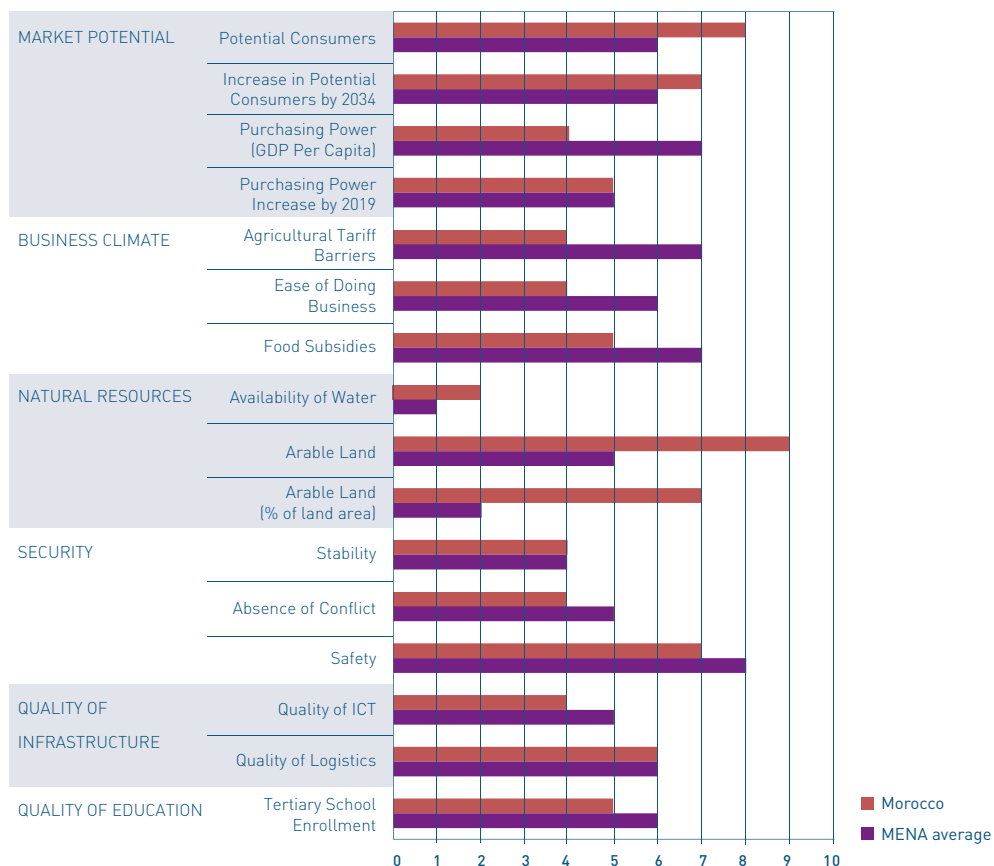


FIGURE 29. ENABLING OPPORTUNITIES FOR MOROCCO COMPARED TO THE MENA AVERAGE. HIGHER SCORES REFLECT BETTER PERFORMANCE.

A more detailed evaluation of the factors influencing investment opportunities is summarized in Table 3. It shows a large market potential, with a sizable and increasing population and an expanding middle class – although poverty is still a key concern, especially in rural areas and among the large proportion of unemployed youth. The business climate is improving, with reforms leading to new agricultural investment plans, lowering of food subsidies and macro-economic reforms. This is hampered by the highest import tariffs in the region, and residual bureaucratic obstacles. Compared to other countries in the region, Morocco has much more water and land available for agricultural purposes. That said, water and land remain stressed, availability is declining and erratic precipitation is a concern for the agricultural sector. In some parts of the country, climatological conditions are much more favorable for land intensive agriculture, and the agricultural sector can benefit from the fact that Morocco harbors the largest phosphate mines in the world. The country furthermore continues to enjoy a sustained period of stability, as it emerged unscathed by the Arab Upheavals, and everyday safety is high. The conflict in the Western Sahara is largely a local concern, with negligible impact on the rest of the country. Although roads and infrastructure are not optimal for agrolistics, government investments are aimed at improving the situation. Yet as we will see, there is still room for improving agricultural production levels, for example by introduction of ‘best practices’ by foreign investors.

FACTOR	FAVORABLE CONDITIONS	CHALLENGES
Market potential	<p>Large and growing population means high and increasing number of potential consumers.</p> <p>Rising GDP per capita indicates increasing demand for (higher quality) agrifood products.</p> <p>Business relations with European Moroccans.</p>	<p>Rural poverty implies lower purchasing power of rural populations.</p> <p>Youth unemployment hampers consumption levels of young people.</p>
Business climate	<p>Ease of doing business improving.</p> <p>Trade agreements with various countries and economic zones.</p> <p>Green Morocco Plan to expand agricultural production.</p> <p>Low levels of food subsidies.</p> <p>Low inflation levels.</p>	<p>High import tariffs.</p> <p>Residual bureaucracy makes it difficult to enforce contracts and ensure prompt payment of invoices.</p> <p>Small, inefficient agricultural firms.</p>
Natural resources	<p>Ideal geographical position for global trade.</p> <p>Good water and land availability compared to other countries in the region.</p> <p>Sun hours and warm temperatures beneficial to crop growth.</p> <p>Phosphate mines are a major asset for agriculture globally, and important in international trade.</p> <p>Atlantic coastline provides large fishery areas.</p>	<p>The amount of arable land decreased over the last decade.</p> <p>Many micro-farms with sub-optimal performance.</p> <p>Erratic precipitation, water shortages.</p>
Security	<p>Constitutional reform leading to gradual change instead of large upheaval.</p> <p>Little fear of political instability/large scale violent conflict.</p> <p>High levels of everyday safety.</p>	<p>Conflict over the Western Sahara (but somewhat subdued and local).</p>
Quality of infrastructure	<p>Internet connectivity on the rise.</p> <p>Governmental investments to improve infrastructure.</p>	<p>ICT and logistics Infrastructure still suboptimal for efficient agrologistics.</p>
Education and Technological development	<p>Large potential to improve agricultural productivity via technological improvements.</p> <p>Low but improving levels of education.</p>	<p>Relatively low agricultural productivity.</p>

TABLE 3. SUMMARY OF OPPORTUNITIES AND CHALLENGES THAT INFLUENCE THE ENABLING ENVIRONMENT FOR AGRIBUSINESS INVESTMENTS IN MOROCCO.

Market potential

Market potential for agrifood products in Morocco is high. With over 33 million people, it offers a sizable market, which is furthermore steadily expanding. Population growth rate is above replacement level, and expected to remain around 1% annually. The population is relatively young, with almost 30% at the age of 14 years or younger, and

only 9% of the population over 60.⁴⁰ The Moroccan economy has continued to grow at around 5% over the past couple of years, despite the global economic slowdown.⁴¹ This is partially due to high agricultural output and favorable weather conditions.

Government policies aim at increasing the country's competitiveness on international markets and reduce unemployment.⁴² As part of this effort, the government is reducing macro-economic imbalances, for example by reducing its fiscal deficit.⁴³ This could also affect investments needed to boost agricultural developments.

Despite these improvements, with a GDP per capita of little under USD 3,500, poverty is a continuing problem. It is predominantly a rural phenomenon, with the economic situation in richer urban areas being three times higher than in the rural regions.⁴⁴ It also affects the young disproportionately, with youth unemployment remaining over 19% (compared to a general unemployment level of around 9% in the region).⁴⁵

Finally, many Moroccans from the rural Berber areas have family ties to Moroccans living in Europe. Second and third generation Moroccans in Europe still speak local languages. This is an advantage in business relations and collaboration with rural communities.

Business climate

Morocco is improving its business climate by removing bureaucratic barriers and delaying factors. In the World Bank's 2014 'Ease of Doing Business' report, Morocco has risen 8 places for the general rank of doing business (to 71 out of a total of 187), and has risen 14 points for starting a business (to 39). This is predominantly due to reforms by the Moroccan authorities, which have improved the ease and speed of starting a business, for example. Yet other hurdles remain, such as difficulties surrounding the enforcing of contracts and prompt payment of invoices.

To facilitate international trade, Morocco has signed a number of important trade agreements not only with neighboring countries, but also with partners from other continents, including the EU and the US.⁴⁶ For instance, the 'Free Trade Agreement' with the EU in 2012 is helping Morocco export citrus products, among others.⁴⁷ Nevertheless, tariff barriers on imports of agrifood products remain high, with over 40% charged on average for agricultural imports. Morocco is among the four countries with the highest agricultural import tariffs in the world, which it justifies as a means to protect the sector, which provides considerable employment.⁴⁸ With little over 1% of GDP, agricultural subsidies are lowest out of all North African countries.

In addition, Moroccan labor market policies focus on inclusion and formalization of its large informal economy. Also encouraging for the business climate is the country's Central Bank, which was quite successful in controlling inflation. According to the World Bank data, this was on average less than 1.5% during the past 5 years.⁴⁹ Furthermore, the Moroccan government attempts to modernize its agricultural sector through a specialized Agency for Agricultural Development. This agency's role is to help the implementation of the 'Green Morocco Plan'. The plan is striving to increase agrifood production. Although coupling extra production with market demand is not always working well, total agrifood production has doubled over the years. On the downside, this has sometimes occurred at the expense of the availability of water resources, despite the innovative, sustainable irrigation techniques that are being applied by supporting agricultural sectors.

Natural resources

Compared to other MENA countries, Morocco has a lot of land and water available for agricultural purposes. About 15% of the land is capable of growing crops or pasture, with the more mountainous and arid parts of the country inhospitable to agriculture. Yet the climate in a number of its regions is well suited for agriculture due to high fertility of soils, favorable temperatures and long daylight hours.⁵⁰ Mild winters give rise to longer production seasons.

With an average 879m³ available per capita, water availability is still stressful. Availability has declined from 1.06m³ in 1996, mainly due to population growth.⁵¹ And because groundwater reserves are decreasing, the total area of arable land has also decreased from 9.1 million hectares in 1996 to 7.9 million hectares in 2011. All this serves as a limiting factor for crop yields and leads to fluctuations in annual productivity levels.⁵² Agriculture is furthermore challenged by erratic precipitation.⁵³ 15% of the land is under irrigation, and for an economy so dependent on its agricultural sector, this means that about 75% of the year-to-year variability in Moroccan GDP is due to the annual fluctuation in rainfall.⁵⁴ In the long run, climate change is expected to increase these fluctuations.

Due to its great geographical position, Morocco is a crossroad for trade to and from Africa, the Americas, Europe and the Gulf region. It furthermore has an extensive coastline and particularly on the Atlantic coast a fishery industry, including salt production. As the largest fish exporter of Africa, Morocco's fishing industry currently accounts for approximately 500,000 jobs.⁵⁵ The aquaculture sector as a whole provides almost 1.4 million jobs, according to recent FAO figures.⁵⁶

Phosphate mines are one of Morocco's key agricultural resources, and the largest found globally. The Office Chérifien des Phosphates (OCP) is a leading global company in phosphate production, which is an essential mineral for agriculture.⁵⁷ In Morocco it is an employer of significant size, a workforce of over 23,000 recorded in 2012. OCP supports scores of societal developments, such as helping to establish University Mohammed VI. Ex-workers trained by OCP are often well trained and therefore also provide higher quality workers in the broader agricultural sector.

One last obstacle is that many poorer Moroccan farmers own very small plots of land, due to subdivision over generations. Micro farms, smaller than 5 hectares, and landless the rural households account for almost 40% of rural population, while owning only 8% of cultivated lands.⁵⁸ This makes it difficult to organize and coordinate large-scale agricultural projects.⁵⁹ The government is aware of this problem and active in facilitating land consolidation to help agricultural businesses to create larger farms.

Stability

Morocco has experienced only very little disturbance in recent years. While the Arab Spring swept across the region, the monarchy under King Muhammed VI remained popular. Although the constitutional reforms which have been put forward in 2011 have been criticized by some as being cosmetic, it is nevertheless viewed as a sign of responsiveness to peoples needs by many in the country itself.⁶⁰

Concerns for terrorism and instability are relatively low and have little impact on foreign entrepreneurs doing business in Morocco.⁶¹ There have been few terrorist attacks. Authorities have been active in dismantling jihadist cells and have increased online surveillance.⁶² Furthermore, everyday safety is high, reflected by a low and decreasing number of homicides.⁶³ The Western Sahara conflict between the Polisario Front and the Moroccan government has subdued in recent years to a stalemate situation. The conflict concerns self-governance and the control of phosphate mines in the sparsely populated and dry areas in the South. While the Algerian-backed Polisario Front claims to represent and fight for the rights of the indigenous Sahrawi people from the region, others describe the movement as a vehicle for terrorist recruitment and smuggling of illegal goods.⁶⁴ Because the Western Sahara is a remote and sparsely populated area, and the conflict has subdued in recent years, it has little negative impact on the business climate.

Quality of infrastructure

Infrastructure remains a point of concern for agribusiness in Morocco. Logistics and ICT infrastructure are rapidly improving, but remain average when compared to other MENA countries. Recent government investments have aimed at improving roads and railways, with a specific focus on opening up access to rural areas. Improving transportation infrastructure reduces the transportation costs, but also speeds up delivery of fresh products to the market, opening up opportunities for downstream production. That said, the connection between rural and urban areas often remains poor.

ICT performance is average but rapidly improving. In many places there are fast internet connections. More than half of the Moroccan population has an internet subscription, facilitating communication with Europe, the Middle East and other regions of the world. Yet on a worldwide scale, Morocco scores about average. And in the MENA region, many countries, particularly in the Gulf region, still have comparatively much better ICT infrastructure.

The financial infrastructure and the banking system has improved to support investors and the business climate. The financial services for SMEs, which are part of the local business chain and business community, are currently considered relatively weak. The efforts of the World Bank to promote access to microfinance in Morocco may influence this somewhat.^{65,66}

Education and technological development

Technologically advanced agriculture could have a significant impact on Morocco's agricultural sector. There is potential for growth in yields, due to the current under-usage of agricultural soils and because many local farmers still rely on traditional irrigation and land cultivation techniques. In sectors such as olive production, dedicated projects hope to expand yields by stepping away from these traditional techniques. Despite the fact that agricultural production has tripled in constant value during the last 50 years, productivity per capita in Morocco is currently very modest.⁶⁷ This is especially the case in more water stressed areas.

Moroccan workers and their families have received more education than in previous times. Basic education has become the norm, but local people with advanced education are still scarce. Illiteracy rates have been curbed considerably in the last decade. However, a little more than half of all the children go to secondary school. Only small numbers of Moroccans follow higher education. Women and poorer

Moroccans are underrepresented. In recent years, World Bank funded government programs have been initiated to boost school attendance and improve the quality of teaching and school governance.⁶⁸

The biggest need for highly educated workers is in the high-tech sectors, but attention is also being paid to the educational needs in the agricultural sector. Adjustments in the education system are directed towards growth sectors, such as aeronautics and the automotive industry. The policies under the Green Morocco Plan also provide training schemes for farmers.

Detailed analysis of potential for inclusive growth

Our analysis in chapter 2 showed that agribusiness investments can have significant benefits for people in Morocco. Agribusiness can create jobs in a sector already providing work for around 40% of Moroccans, and it can help in reducing poverty in rural areas – where it is most needed. The quality of governance, both in terms of corruption and bureaucracy, is about average for the region. The same holds for labor laws and environmental regulations (summarized in the figure below).

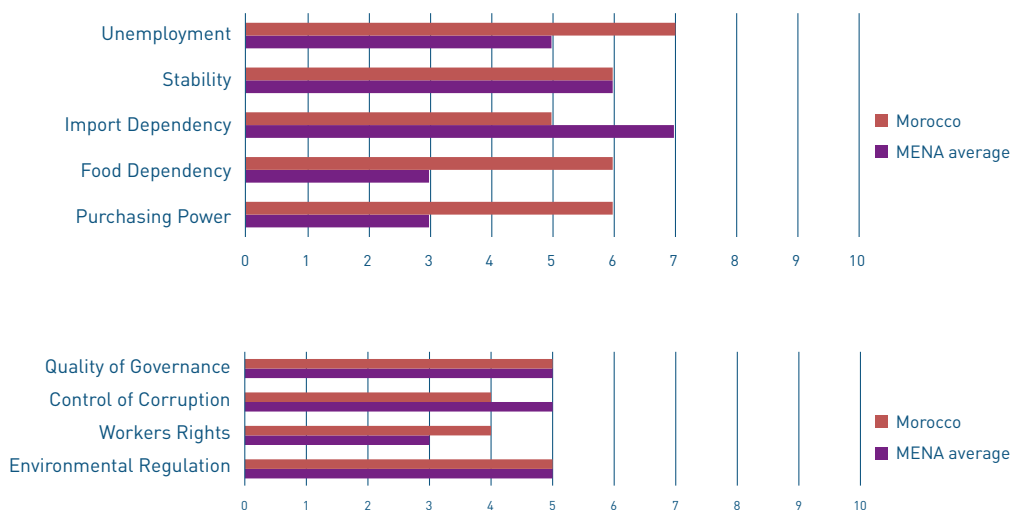


FIGURE 30. TOP: CONDUCIVE FACTORS FOR MOROCCO AND MENA-AVERAGE. BOTTOM: POTENTIAL FOR INCLUSIVE GROWTH FOR MOROCCO AND MENA-AVERAGE. HIGHER SCORES REFLECT BETTER PERFORMANCE.

Table 4 provides a more detailed view of the opportunities and challenges for inclusive growth. It shows that agribusinesses could stimulate Morocco’s economic and social development, in terms of improving income and education levels. At the same time, rural poverty and income inequality between men and women reflects social inequality that may persist despite economic growth and agricultural investments. Moroccan policies aimed at modernizing the economy are improving legal protection of workers and the environment. The country furthermore has taken action to reduce bureaucracy and corruption.

FACTOR	FAVORABLE CONDITIONS	CHALLENGES
Conducive conditions		
Regulation	National and international agreements on environmental protection. Some level of protection of workers regulated by law.	Coordination and enforcement of regulations remains rudimentary.
Quality of governance	Increasing governmental efforts to fight corruption.	Bureaucracy sometimes burdensome. Enforcements of anti-corruption laws and regulation.
Potential impact of agricultural investments		
Economic development	Agribusiness could bring more jobs and thus help to raise household income. Agribusiness could help to reduce food prices, and lead to higher spending on other consumer goods.	Unemployed people have low consumption levels. Female labor participation is relatively low.
Socio-economic	Improving basic education. Active policy on reducing hunger. Poorer rural areas in need of (better paid) jobs.	Lack of general safety nets may affect agricultural businesses as employers or market suppliers. Secondary education still weak and highly educated workforce is scarce.
Stability	Gradual government reforms focused on economic growth.	

TABLE 4. SUMMARY OF OPPORTUNITIES AND CHALLENGES FOR INCLUSIVE GROWTH IN MOROCCO.

Conducive environment

Regulation

Labor and environmental regulation remain average, limiting the ability for agribusiness to contribute to inclusive growth. On paper, Morocco relies on national and international regulation to protect the environment.⁶⁹ But although the country has made some progress towards defining a national strategy for the environment and sustainability, institutional coordination and law enforcement remain weak.⁷⁰ Labour

laws in Morocco are rudimentary too. The country scores better than most MENA countries, with the exception of Tunisia, yet ranks only average when compared to countries worldwide. Workers, including immigrants, have the right to join a union and have the right to go on strike. The workweek is legally limited to 48 hours and the workday to 10 hours, and there is an official minimum wage. All employees have compulsory membership to the social security system, which ensures compensation for illness, accidents and occupational diseases.⁷¹ Yet here too enforcement remains an issue.

Quality of governance

Morocco is working on improving of government bureaucracy, with some success.⁷² Still, bureaucracy remains a major issue. It was singled out as the most often reported threat in a recent report by the World Economic Forum, and said to be responsible for relatively low levels of foreign investments in the agricultural sector in the past.⁷³ The government has also stepped up its efforts to fight corruption in recent years. Anti-corruption laws and regulation has been set up, including an awareness campaign.⁷⁴ Yet corruption is still singled out as one of the major obstacles for foreign businesses.⁷⁵

Economic development

Agribusiness have a large potential to increase the economic situation of people in Morocco. Agriculture and aquaculture are already the most important sectors in terms of employment, providing almost 40% of all jobs in 2011.⁷⁶ The importance of this sector in terms of providing jobs may even increase in the coming years. With over 30% of the population below 14 years old, Morocco will see many new entrants into the labor force. And as we noted already, young people are more often without jobs than their older peers. Providing more high quality agricultural jobs can help in alleviating poverty in a country with one of the lowest GDP per capita figures in the MENA region. This is all the more so, since poverty is mostly a rural phenomenon. The Moroccan government is already aiming at increasing productivity and reducing poverty, particularly through the Green Morocco Plan.⁷⁷

Agribusiness might also contribute to the emancipation of women in the workforce. In 2009, only 26% of all women were working, and those that were, faced considerable salary inequalities.⁷⁸ Women predominantly work in poorer paid jobs, such as agriculture. Their educational level is also lower than that of men, which could partially explain the relative overrepresentation of women in low paying jobs.⁷⁹ Foreign agricultural businesses could help alleviate these conditions and also provide on-the-job training, helping female workers to improve their skills.

Social development

Agribusiness also has the potential to improve the social situation in Morocco. First, improving domestic food production can help alleviate food security issues, especially in poorer rural areas. Although outright hunger is a decreasing problem (undernourishment and malnutrition in Morocco have been successfully reduced during the last decade)⁸⁰ developmental problems remain: in 2010 still 24% of the children in Morocco, mainly in rural areas, are stunted in their growth and 10% are seriously underweight.

Due to fiscal deficit concerns, food subsidies are currently being lowered.⁸¹ Food subsidies are frequently contested for their artificial lowering effect on crop prices. Distortion of the market prices undermines local farmers and all companies in the agricultural production chain. There is a widely expressed need for targeted socio-economic safety nets instead of food subsidies, which also affects Morocco.⁸² However, defining and implementing a strategy for this turns out to be a slow process.⁸³

Poorer rural areas stand to benefit in particular from foreign agribusiness activities. Poverty is mainly a rural phenomenon in Morocco, revealing the disparity between urban and rural communities.⁸⁴ Mountainous areas, steps and the arid south are home to most of Morocco's poor. Soil erosion and poor water sources are detrimental for smallholders, landless people and rural wage earners. For farmers, poor education, poor access to credit and a lack of organization are additional factors contributing to rural poverty.⁸⁵

Stability

Because of high rural poverty, agribusiness has a high potential of improving stability in the country by offering (better paid) jobs to the rural poor. That said, the country is relatively stable compared to other states in the region.

Case study 2: Egypt

As we saw in Chapter 2, Egypt offers more mixed prospects for foreign agribusiness than Morocco.

Detailed analysis of enabling environment

Egypt is, in many respects, the largest consumer market in the MENA-region, with 90 million inhabitants – a number that is projected to growth by 20 million in the next decade. This opens up opportunities for the business in agriculture and food products. The main concern remains the security situation and low water and land availability. Quality of infrastructure and education are about average for the MENA region, whereas the business climate scores lower.

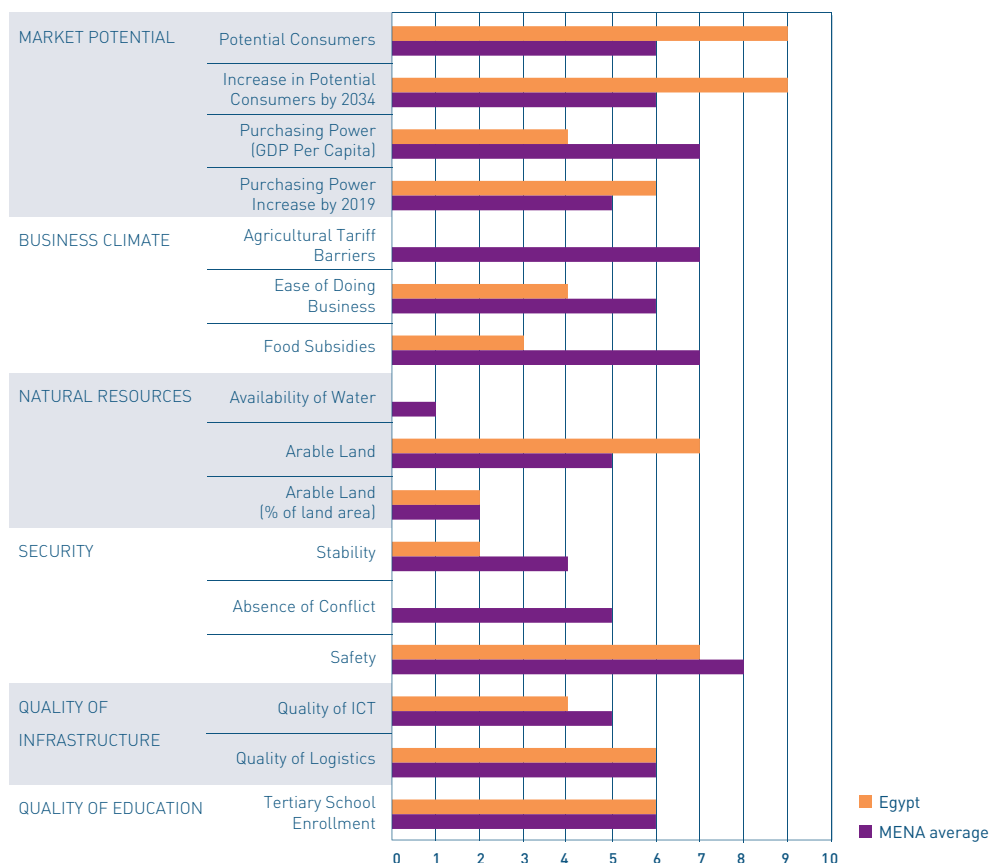


FIGURE 31. ENABLING OPPORTUNITIES FOR EGYPT COMPARED TO THE MENA AVERAGE. HIGHER SCORES REFLECT BETTER PERFORMANCE.

Egypt has gone through great turbulence in recent years – from revolts that toppled the Mubarak regime, to the removal of the Muslim Brotherhood President Morsi, and now the new government under general Abdel Fattah al-Sisi. Although recent years have been economically difficult, policy reforms are picking up, with help from the Gulf states (Table 5). Despite austerity measures, al-Sisi, the man who was officially elected by 97% of the popular vote, remains popular.⁸⁶ According to the IMF, these developments give rise to a more positive economic outlook, of which agribusiness may well profit.⁸⁷ The al-Sisi regime has been active in developing large-scale economic policies aimed at stimulating growth, including those aimed at the agricultural sector. These plans include the building of a second Suez Canal and the improvement of transport networks. Land and water scarcity are indeed a prime issue for the agricultural sector, along with rising water demands and inefficient use of water. Many of the problems related to water and land scarcity also indicate business opportunities. Innovative water engineering solutions may provide an answer to inefficient water use and rising demand.

Egypt does have an ideal geographical position for trade in agrifood products, which may further improve by the plans to build a second Suez canal. Although energy supply is sometimes unstable, new regulations such as feed-in tariffs for solar energy may improve the situation and attract more private investments and business activities. Still, despite efforts to improve the business climate, companies trying to conduct business in the country are faced with significant hurdles. A business elite of previously state owned enterprises and military companies are in a preferred position. Other obstacles are related to contracts, taxes and bureaucracy.

FACTOR	FAVORABLE CONDITIONS	CHALLENGES
Market potential	<p>Growing population means more potential consumers.</p> <p>Opportunities for expansion of the food processing industry.</p> <p>Need for expertise in waste reduction.</p>	<p>A low income urban population and poor rural populations, with low consumer spending habits.</p> <p>Economic growth remains fragile.</p>
Business Climate	<p>Mega projects to improve the business climate, also in the agricultural sector.</p> <p>Trade agreements with EU and other countries.</p> <p>Efforts to formalize the informal economy.</p> <p>Stimulating access to micro-finance may provide impulse for local business chains.</p> <p>Russia import ban on EU food production?</p>	<p>Poor <i>Ease of doing business</i> performance.</p> <p>Difficulties in enforcing contracts, dealing with construction permits and tax payments.</p> <p>Corporate income tax has been raised in 2013 from 5% to 25%.</p>
Natural resources	<p>Suez canal of strategic and economic importance.</p> <p>Construction of second Suez canal.</p> <p>Expanding sustainable energy production.</p> <p>Demand for technologically advanced farming practices (e.g. fertilizer use).</p>	<p>Energy supply sometimes erratic.</p> <p>Fertilizer shortages.</p> <p>Growing demand for water.</p> <p>Inefficient water use.</p> <p>Geopolitical feuds over downstream use of Nile water.</p>
Security	<p>New regime remains popular.</p> <p>Economy is improving.</p> <p>Political and economic support from Gulf states.</p>	<p>Terrorism and IS recruitment (mainly in Sinai).</p>
Quality of infrastructure	<p>Large-scale infrastructure projects.</p>	<p>Transport infrastructure is outdated.</p>
Education and technological development	<p>Quality agricultural research centers.</p> <p>Education levels improving.</p> <p>Feed-in tariffs for renewable energy.</p>	<p>Education levels still low.</p> <p>Significant gender gap.</p>

TABLE 5. SUMMARY OF OPPORTUNITIES AND CHALLENGES FOR AGRIBUSINESS IN EGYPT.

Market potential

Egypt offers significant market potential in terms of population (growth) and an expanding middle class. It already has a relatively large population of a little below 90 million people and is expected to grow by 20 million people in the next decade. Its population consists of mainly young and middle aged people. Purchasing power is increasing. Egypt's Gross Domestic Product has grown over recent years, with on average almost 5% in the noughties. After a temporary lull more recently, it is set to climb again to around 4% in 2015.⁸⁸ Although the GDP is below the MENA average (USD 3,314), it has gone up from around 2,800 in 2010 – indicating that the middle class is growing.

Despite the good news, economic growth forecasts are cautious due to a number of macro-economic imbalances. For example, public debt is considered unsustainably high, exceeding 100% of GDP, and many of the economic initiatives are powered by foreign financial assistance, mainly from Gulf States. Unemployment rates are high, amounting to around 12.7%; and due to population pressure there is a wide income gap between urban populations with modest incomes and the rural poor.⁸⁹

One concrete opportunity would be the expansion of the food processing industry. Currently, Egypt is predominantly exporting raw agricultural produce, with little downstream processing.⁹⁰ Its imports consist predominantly of finished goods and cereals. Interestingly, there has been a recent upsurge in the export of fresh, frozen and processed food to Russia, partially in response to the Russian ban on agri-food products from the European Union. In addition, new opportunities may arise following a free trade agreement between Egypt and the Eurasian Customs Union (ECU), which includes Russia, Kazakhstan and Belarus.⁹¹

Business climate

The business climate is facing considerable hurdles, but Egypt is working to improve the situation. The country ranks 128 out of 189 countries in the 2014 World Bank *Ease of doing business* report. As mentioned in the report, the most prominent obstacles to doing business are enforcing contracts, dealing with construction permits and high taxes. Furthermore, corporate income tax has been raised in 2013 from 5% to 25%.

On the other hand, the situation seems to be improving under the al-Sisi government. A series of 'mega projects' are intended to improve the business climate. These projects include the building of a second Suez canal, constructing 3000km of new roads, reclaiming one million acres of land, and the "Golden Triangle" project, which is "aiming at exploiting the natural resources in the region between Qena, Quseir and Safaga while developing the area for touristic, industrial, commercial, and agricultural activities."⁹²

In addition, Egypt has various trade agreements that provide a positive impulse to the business climate. Amongst these agreements is an association agreement with the EU since 2004 and an agricultural and fisheries products agreement since 2010. Finally, regulations to formalize the informal economy are also set to benefit the agricultural sector. By adding the output of the informal economy to the entire economy, it is believed that economic growth can be boosted in a "grassroots way," from the bottom up.⁹³ These reforms also aim at including smaller Egyptian

entrepreneurs into the formal economy. Policies are also focusing on reducing regulatory hurdles for micro-firms to fully join the formal sector of enterprises. In terms of financial infrastructure, Egypt stimulates the access to microfinance through a law that enables non-bank microfinance institutions to enter the microfinance market.

Natural resources

Agriculture in Egypt has a long history going back to the ancient reigns of the pharaohs. Because of the size of the country, the total amount of arable land is higher than the world – and MENA – average. Yet only a small share of land is arable: a little over 3%. That said, the Nile Delta is extremely rich and fertile. Some challenges are compounding the situation. Water per capita is expected to decline and droughts causing serious water shortages in the next fifteen years are likely to occur, which would affect many industrial sectors, most notably agriculture. Feuds over the possibility of access to the downstream Nile water with neighboring countries continue, although they are deescalating somewhat under the al-Sisi regime.⁹⁴ Furthermore, population growth is increasing land and water stress. Urban developments, for example, have been replacing farmland at the most fertile areas of the Nile Valley and Delta.

One of Egypt's main advantages is its geographical position. Egypt is a major trading partner for many countries across the world, because of its geographical position, which is favorable not only for European countries but also for Eastern African countries and the Middle East. It also enjoys trade agreements with Europe, some African countries and the Gulf States. Egypt could well see exports to upcoming economies in the East (m.n. China and India) rise. In this respect, the plans to build a second Suez Canal are interesting, since they could improve the position of Egypt as a trading partner. When in use, the new canal should give Egypt a competitive edge over the Panama Canal.⁹⁵

These challenges also open up opportunities for foreign agribusiness. There is sufficient potential for increasing yields. Water engineering solutions could provide answers and improve situations for the future. On the one hand, water is currently inefficiently used, with many leaking pipes, pollution and degradation common. On the other, there is a larger water demand for the growing population together with irrigation needs. The run off water from agriculture frequently contains pollutants from pesticides and herbicides.⁹⁶ Concretely, technologically advanced farming practices applied by foreign investors could be beneficial to achieve more optimal yields with minimal fertilizer usage. Land consolidation would also help to support the growth of

farms that are capable of modernization. The agricultural knowledge of foreign investors and research organizations could be beneficial to this process.

Knowledge of efficient use of fertilizers for yield optimization is now more necessary than ever. The use of fertilizers per acre is one of the highest in Africa, and after Iran, the highest in the MENA region.⁹⁷ Although highly subsidized, smallholders often still lack access. In 2014, gas supply shortages and rising prices have caused concerns for shortages, which has hampered ambitions to improve smallholders' access to fertilizers.⁹⁸ The energy crisis in the summer of 2014 is complicating matters further. One of the actions by the Ministry of Petroleum was to halt gas supply to fertilizer plants.

There also seems to be opportunities for businesses with expertise in waste reduction in the food chain. The food distribution system in Egypt suffers from severe inefficiencies, leading to losses in investments. Post harvest losses are considerable, around 40% of agricultural production.⁹⁹

Quality of infrastructure

The quality of infrastructure is average for the MENA region, but expected to improve significantly in the coming years due to a series of strategic investments. The mega-projects under al-Sisi's 2014 economic plan, which includes the building of new roads and the second Suez canal, are set to provide an impulse to business activities and are attracting foreign investments. Infrastructure is expected to improve, potentially making it easier for companies to transport goods within the country, and to import and export abroad. These plans are fuelled by substantial financial support from the Gulf region, which has helped the state's finances and provided 'breathing space' in the political transition.¹⁰⁰

The ICT infrastructure remains poor, with a score below the MENA average. The situation is improving, with broadband internet connectivity becoming more widespread. This is, for example, increasing possibilities for e-commerce, opening up new possibilities for food shopping. Already, most online purchases in Egypt concern food.¹⁰¹

Education and technological development

Quality of education in Egypt is about average for the MENA region. The country has invested in higher and secondary education, also for women, with some beneficial effect on the labor market. According to UNICEF, the country has made significant

progress in providing education for all, giving rise to more highly educated people.¹⁰² Traditionally, Egypt has strong agricultural knowledge infrastructure, with several agricultural research centers well known for their quality.¹⁰³ There is a need for human capital to grow innovative businesses.¹⁰⁴ President al-Sisi has established the Education and Scientific Research Council to address nationwide educational issues. This council aims to achieve coordination amongst research centers and contribute to Egypt's educational challenges. Agricultural and rural communities contain the highest levels of illiteracy and are in need of training in line with modernization of farming practices.

Energy provision remains an issue, as was illustrated by the energy crisis in the summer of 2014. Frequent blackouts brought additional costs for many companies. This has led the al-Sisi government to focus on alleviating power problems. One of the key policies is to improve renewable energy provision. Egypt has great potential for a high tech solar energy industry, which can be accelerated by recently introduced feed-in tariffs for renewable energy, which should stimulate private investment in renewables. The government has also reduced energy subsidies by approximately a third, which could lead to more investments in solar energy and open up markets for younger, smaller firms.¹⁰⁵

Stability

Egypt has gone through periods of considerable turmoil in recent years. However, since al-Sisi came to power, the country is gradually gaining stability—some may argue due to tactics that were popular under the Mubarak dictatorship.¹⁰⁶ And despite a recent increase in terrorist attacks, the every day security situation in most parts of the country is good. Homicide in Egypt has gone up since the revolution, but is still lower than most African, Asian and American countries.¹⁰⁷

The political and financial support of the Gulf States has helped to bring some optimism. At the same time, repressive responses to the Muslim Brotherhood are fuelling tensions.¹⁰⁸ And regional security issues remain, particularly in the inland regions of the Sinai, where military insurgency takes place close to the border with the Hamas-ruled Gaza strip. The region shows an increase of attacks on police and military personnel. As elsewhere in the MENA region, recruitment to Islamic State (IS) is occurring, with some extremists traveling to Syria – and coming home as battle tested fighters. The military regime has ramped up security policies to combat terrorism. Finally, if austerity measures fall hard on part of the population, for example by lowering energy and food subsidies, this could be one factor that could spark social unrest once again.¹⁰⁹

Detailed analysis of potential for inclusive growth

In Chapter 2, we painted a picture of the inclusive growth prospects for Egypt. The fragile security and (socio-)economic situation stands to benefit from increased agribusiness activity in the country (the figures below provides a summary).

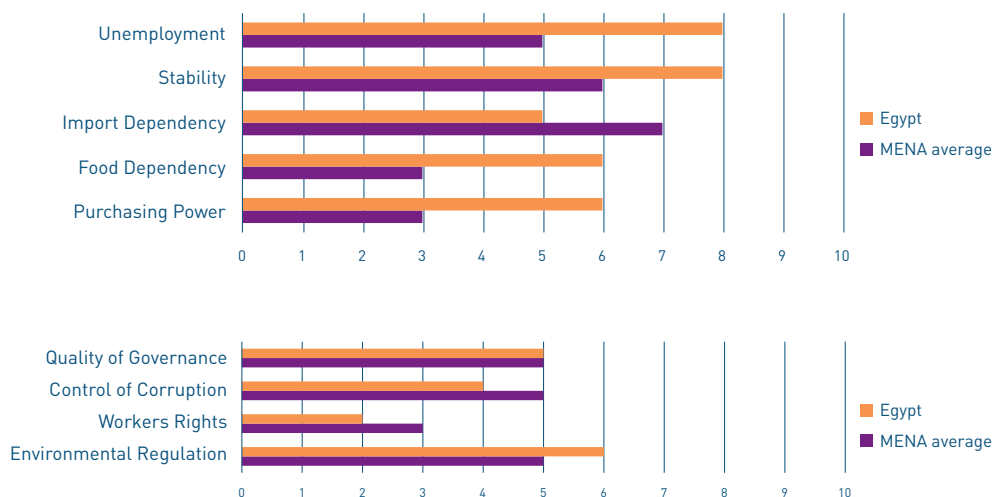


FIGURE 32. TOP: CONDUCIVE FACTORS FOR EGYPT AND MENA-AVERAGE. BOTTOM: POTENTIAL FOR INCLUSIVE GROWTH FOR EGYPT AND MENA-AVERAGE. HIGHER SCORES REFLECT BETTER PERFORMANCE.

If we zoom in on the more specific favorable conditions and challenges facing such attempts to generate inclusive growth, we see that the regulatory environment is improving somewhat, but environmental regulations and labor laws remain weak (see Table 6). Similarly, efforts to improve bureaucracy and fight corruption have yet to materialize, with a standing business elite tied to the regime effectively controlling parts of the economy. It is uncertain if the economic progress is sustainable. Poverty has increased since the revolution in 2011. Austerity measures could become too much of a burden for the Egyptian people, fueling future revolts.

FACTOR	FAVORABLE CONDITIONS	CHALLENGES
Conducive conditions		
Regulation	The al-Sisi government takes effort in preparing new legislation aiming at restoring the economy.	Weak regulation of environmental issues and workers' rights.
Quality of governance	Gradual reforms of the subsidy system, to support sustainable economic revival.	Bureaucracy and corruption is hindering private business. Enforcement is weak.
Potential impact of agricultural investments		
Economic development	High demand for (better paid) jobs in rural poor areas.	
Social development	<p>Lower than average dependence on foreign food imports.</p> <p>Significant progress in basic education for all.</p> <p>Number of female owned SMEs is increasing as men migrate to metropolitan areas for work.</p> <p>Aid in transition from ransom cards.</p> <p>Help change to more healthy consumption patterns.</p>	<p>Sustained concerns about food security and widespread dependence on ransom cards.</p> <p>Levels of illiteracy still high in rural areas.</p> <p>Developmental issues remain (e.g., stunted growth).</p> <p>High levels of obesity.</p> <p>Low female participation in economic life.</p>
Stability	Economic policies and investments have a positive effect on the wider economy.	The burden of austerity measures may fall heavy on parts of the Egyptian populace.

TABLE 6. SUMMARY OF OPPORTUNITIES AND CHALLENGES FOR INCLUSIVE GROWTH IN EGYPT

Conducive conditions

Regulation

In terms of regulatory effectiveness, Egypt has room for improvement. Inclusive growth prospects are hampered by poor environmental and social regulations. The country scores slightly higher than the MENA-average on the Environmental Performance Index, but enforcement of rules and regulations remains weak, and insufficient investments in preservation of nature has led to the decline of the quality of ecosystems.¹¹⁰ Health problems related to pollution and environmental degradation are prevalent, with water common pollution due to environmentally unfriendly practices by industries and the agricultural sector.¹¹¹

As for workers rights, the situation is mixed at best. Due to a series of labor reforms since 2011, the rights of labor unions has increased.¹¹² More recently, in August 2014, the al-Sisi government proposed a draft labor law. The law has been met with protests from workers, over concerns that it would allow arbitrary dismissal of workers, and that it favors workers in the public sector over the private sector.¹¹³ Furthermore, in May 2015, a court ruling effectively banned the right to strike.¹¹⁴

Quality of governance

The quality of governance has significantly changed for the better in the last year, but corruption and bureaucracy remain a significant bottleneck for foreign businesses. Bureaucracy remains a severe bottleneck, although the situation is improving under the current al-Sisi presidency. As noted above, the priorities to revive the economy and bring in foreign investors are improving the business climate.

Corruption is still widely prevalent in Egypt, with the country ranking just below the MENA average. At the same time, Egypt outperforms other low-to-middle income countries in enforcement of corruption, according to the Rule of Law Index 2014.¹¹⁵ Efforts to contain corruption, drafted in the 2012 constitution, include whistleblower protection, an Anti-Corruption Commission, improved performance in regulatory areas such as starting a business and cross border trades, and in payments for issuing licenses, permits and utility connections.¹¹⁶ That said, former state enterprises have gained political power and privileges in terms of tax breaks, subsidies and other incentives. Bribery and extortion in the interaction with government officials still occurs.¹¹⁷ The military continues to play a significant role in the Egyptian economy, such as in the development of infrastructure, which is embarked upon by military-affiliated enterprises.

Potential for inclusive growth

Economic development

The agriculture and food sector is well placed to improve the economic situation of the Egyptian people. Unemployment levels were around 13% in 2013 and, as noted, are particularly high among young people and the rural population. Foreign agricultural investments could generate much-needed jobs in rural areas. These areas are already predominantly dependent on agriculture: more than 30% of Egyptian jobs in non-metropolitan regions are in this sector, including many smallholders and unpaid family members.¹¹⁸

Socio-economic development

Investments in the agriculture and food sector could have a positive effect on Egypt's social situation. For many years, Egypt has had concerns about food security, and food security issues were one of the main factors leading to the revolts that toppled the Mubarak regime.¹¹⁹ Food import dependency is low, but individual food security is high, partly because of consumer price inflation.¹²⁰ The agriculture and food industries could help in changing consumption patterns and be beneficial to the health of Egyptians. Currently, consumption patterns are shaped by the subsidies and consist

mainly of bread and bakery products. The country has one of the highest obesity levels globally due to low nutrition and calorie-dense foods, and many are suffering as a result of nutritional deficiencies at the same time.

One opportunity to improve the social situation of Egyptians relates to food subsidies. About 80% of the population receives food ransom cards, but this may change in the future. The food industry could focus on consumers making the transition from ransom cards. Targeting of ransom cards is not optimal. It is suggested that many of the slightly better-off households should no longer be recipients of these safety nets. However proposals to replace the food card system with safety nets of financial support for the poorest are generally unpopular. The weekly price swings are too much a factor of uncertainty for Egyptian households.

Also the food industry could play a role in food security for children. Research has indicated that stunted growth, which is applicable to almost 30% of Egyptian children, has considerable economic costs. This is known to cause detrimental effects on school performances, disadvantages on the labor market and lower physical capacities in manual labor, such as agriculture.¹²¹

Agricultural investments can be a positive force to female employment. Almost half of the women who have a job, paid or unpaid, are employed in the agricultural sector. As men tend to migrate for work, the farm work is left to female household members. Thus, the number of female owned SMEs is increasing. Yet in terms of social development, the condition of the poor and near poor has not improved in the post-revolution period. Many Egyptians suffer from the double burden of food insecurity. The ransom card system is associated with both undernourishment and obesity.¹²² Providing basic education and training could help alleviate these problems.

Stability

In this transition period, foreign business investments could help to bring stability to Egypt. As noted above, providing jobs and generating growth is one of the key policy priorities of the current government. Job provision will remain essential to removing one of the destabilizing factors. At the same time, austerity measures may fuel civil unrest, if the burden falls hard on parts of the population.

Case study 3: Saudi Arabia

Saudi Arabia offers several opportunities for agribusiness, which we discuss in detail below.

Detailed analysis of enabling environment

The figure below summarizes the scores on all indicators we looked at in the previous chapter. The scores highlight the above MENA average performance on almost all structural factors related to agribusiness opportunities.

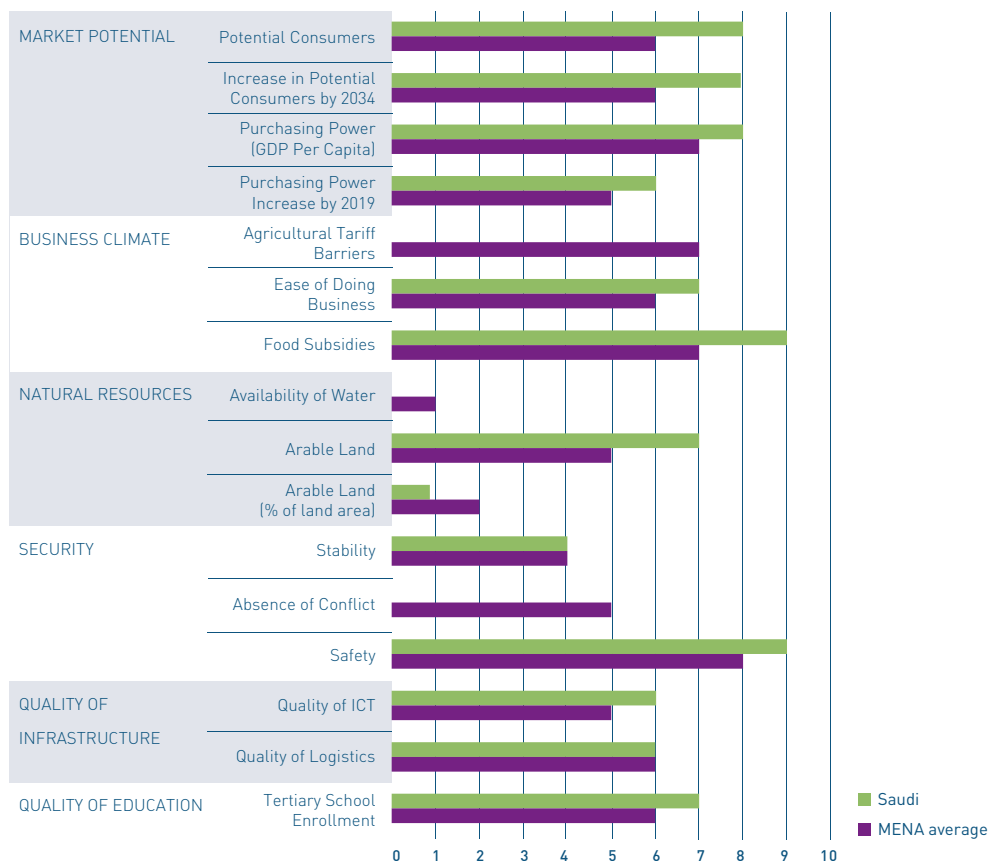


FIGURE 33. ENABLING OPPORTUNITIES FOR SAUDI ARABIA AND MENA AVERAGE. HIGHER SCORES REFLECT BETTER PERFORMANCE.

Table 7 provides a summary of the enabling environment. With a large, growing and increasingly wealthy population, Saudi Arabia offers large consumer markets. The economy has grown steadily over the years, but inequality remains high. Compared to other MENA countries, the business climate is good, and low tariff rates provide incentives for innovative businesses. Such incentives are part of a push by the Saudi government to diversify its economy in order to create jobs for (the growing number of young) Saudis, including in the agricultural sector. There is a growing need for foreign agricultural knowledge, such as in innovative farming techniques and expertise to help grow the food-processing industry. Arable land is scarce, and so are renewable water resources. Yet the oil rich country presides over large financial buffers and has substantial financial clout for stimulating its economy, including the agricultural sector. It invests heavily in land development and water infrastructure, and innovation to achieve water efficiency and prevent further water depletion. Investment conditions are generally good, in terms of taxes and other regulatory conditions. Saudi Arabia is a stable country but businesses need to take into account that it exercises restrictions to civil liberties, especially for women. Food security and reducing water scarcity are at the top of its agenda. A variety of government incentives, such as low tariffs for the importation of machinery and high-tech equipment, and subsidies, make the country especially attractive for innovative businesses in the agrifood sector, such as those specialized in innovative and knowledge-intensive farming systems.

FACTOR	FAVORABLE CONDITIONS	CHALLENGES
Market potential	<p>Large market potential (population size and middle income).</p> <p>Income is rising fast and consistently.</p> <p>Opportunities for poultry and greenhouse horticulture.</p>	<p>Inequality remains large</p> <p>Dropping oil prices are damaging national income.</p>
Business climate	<p>The second best country for doing business in the Middle East after the UAE.</p> <p>Low tariff rates, duty-free imports of machinery.</p> <p>No fee for starting a business.</p> <p>A well-regulated, secure banking system.</p> <p>Microfinance schemes are expanded.</p>	<p>Enforcement of contracts, which may hamper the business.</p> <p>Saudinisation is restricting hiring policies.</p> <p>Mismatch between human resources and available jobs.</p>
Natural resources	<p>Oil and gas revenues fuel state coffers, allowing for investment in agriculture.</p> <p>Subsidies for Saudi farms and attractive import tariffs.</p> <p>Efforts to improve water efficiency.</p>	<p>Scarce sources of renewable water.</p> <p>Inefficient water use in agriculture.</p> <p>Arable land is scarce.</p>
Security	<p>Oil riches allow regime to buy off protests.</p>	<p>Repressive stance on protests, poor human rights situation.</p> <p>Civil liberties, especially for women are restricted, which feeds discontent.</p> <p>(Involvements in) regional conflicts are costly and involve spill-over risks.</p>
Quality of infrastructure	<p>Average quality of ICT and transport infrastructure.</p> <p>New infrastructure projects part of diversification strategy, connecting parts of the country.</p> <p>Good electricity provision.</p> <p>Focus on renewable energy for domestic consumption.</p> <p>Biggest ICT market in the Middle East and expected to grow.</p>	
Education and technological development	<p>Due to technological innovation, agricultural production levels have risen considerably since the 1970s.</p> <p>Sustainable water infrastructure technologies could contribute to further increases in yields.</p> <p>Large agricultural production facilities. Integral projects and system solutions.</p>	<p>Despite technological developments, wheat production requires too much water. Phase-out policies have lead to debated imports from foreign countries such as Ethiopia.</p>

TABLE 7. SUMMARY OF OPPORTUNITIES AND CHALLENGES FOR AGRIBUSINESS IN SAUDI ARABIA.

Market potential

With a large and growing population, market potential in Saudi Arabia is larger than the MENA average. The spending habits of the middle and upper classes are attractive for the food industry. The poorest Saudis are supported by welfare programs, which are a segment of the local food chain that foreign investors could be part of. Saudi Arabia has a large consumer market. It is the second largest Arab state in terms of size (after Algeria) and has currently more than 29 million citizens including 9 million legal immigrants.¹²³ The population is expected to rise in the future, although the growth rate is expected to decrease.¹²⁴ Since over half of the population is under 25 years of age, and many young people will be entering the workplace over the coming years, job creation has become a top priority for the government.

Over recent decades, income has been rising fast and consistently for middle and upper class Saudis.¹²⁵ Individual tax rates are zero, which gives rise to high levels of consumer spending power. Due to its large oil reserves, Saudi Arabia has presided over stable economic growth.¹²⁶ Although dropping oil prices are pressuring the economy, the country presides over a large fiscal buffer to weather the storm.¹²⁷ Yet inequality remains large. Although there is little official data about poverty and hunger, some reports indicate that over a quarter of the native Saudi population lives in poverty.¹²⁸ Population growth and (youth) unemployment could further increase the number of poor people in the country.

As the food-processing sector may expand to meet the demand from the growing and urban population¹²⁹, this sector is recognized as being very relevant in providing Saudi jobs. However, sustained subsidies and social welfare programs have helped to shape a generation that is critical of accepting jobs in agriculture. Matching human resources with the available jobs is a key concern.

Important production sectors to the Saudi food economy include large sectors such as poultry and greenhouse horticulture. Foreign investments are needed to expand production in a sustainable manner, thus reducing the pressure on water consumption for a growing population especially in the face of climate change. Moreover, by building a strong agriculture and food sector, Saudi Arabia aims to diversify its economy beyond the petrochemical industry.

Business climate

Saudi Arabia offers a business friendly environment compared to other MENA states. In the World Bank 2015 *Ease of Doing Business* report it ranks 49th out of 183 countries,

with only the U.A.E. scoring better out of the other MENA states.¹³⁰ It is one of the few countries that demands no fee for starting a business. Regulation regarding construction permits is also relatively business friendly. That said, obstacles remain in other fields – the enforcement of contracts, for example, is a weak point.¹³¹

The country is furthermore relatively open to trade. It has the lowest average weighed tariff rates in the MENA region.¹³² And since 2008, port-handling fees have been reduced by 50%.¹³³ The country is complying with many international trade agreements, and regional integration is far-reaching, most notably within the Gulf Cooperation Council.¹³⁴

As part of its ‘Saudinisation’ strategy, the government is seeking to improve the situation of Saudis on the labor market. It includes subsidies, training, and other services, all intended to create attractive conditions for Saudis to find employment.¹³⁵ It is a response to concerns by policy makers that the welfare state is unsustainable with a large and growing population. On a positive note, it has led to an increased number of women in the labor market, for instance, as check-out staff in supermarkets. In sectors such as agriculture however, business leaders have pleaded to expand the visa of foreign workers, due to a lack of available Saudi candidates. The Ministry of Labor is adjusting the laws to give employers more flexibility in complying with these rules.¹³⁶

The process has implications for foreign companies, which may see themselves being forced to hire Saudis, and the job insecurity for foreign workers themselves is fragile. There are also concerns that the process drives up prices of consumer goods, including food products. This could affect consumers with the smallest purchasing power, who generally spend most of their income on food.¹³⁷

Finally, Saudi Arabia has a well-regulated, securely governed banking system. It is based on the Islamic banking system of Shari’ah, that ensures that return on investments must be based on ownership and shared profit (or loss). Partnerships and acceptable sales transactions are therefore commonplace. Microfinance schemes are expanding in Saudi Arabia, reaching out for instance to women in entrepreneurship, many of whom are active in the food sector, and includes coaching and guidance.^{138,139}

Natural resources

Apart from oil, natural resources in Saudi Arabia are scarce. Water availability is extremely low. Agriculture uses 85% of all water consumption in the country. Even so, water conservation in agriculture is still at an early stage and Saudi Arabia is at risk of

severe water depletion, affecting future agricultural performance.¹⁴⁰ This is partly because agricultural businesses do not need to pay for their water. The prevalence of unregulated bore wells for agricultural purposes increases the risks of depleting these non-renewable aquifers. Aquifers, mostly non-renewable, provide 84% of the water supply mostly for agriculture. Surface water provides 10% of the country's water supply, while desalination plants provide 5% of the water and 70% of the drinking water.¹⁴¹ Thus, these plants free up other water supplies for agricultural purposes. Dams have been built to optimize the use of seasonal floods. In addition, there are various facilities for treating runoff water to become suitable for agriculture.

The Saudi economy is built around oil. Oil revenues have allowed for broad state investments in the economy, including in agricultural projects. The oil wealth is also a conducive factor under the low tax regime and generous subsidy programs, of which agricultural businesses are profiting too.¹⁴² Policies continue to focus on infrastructural projects to increase water resources. The Saudi government puts efforts into building dams, implementing innovative and energy-efficient desalination plans, improving access to deep aquifer wells and expanding and improving water treatment plans. Water infrastructure investments are the cornerstone for the future development of agriculture. In order to avoid further depletion, this is a delicate balance between desalination, wastewater treatment and aquifer storage recovery. There is the risk of water tables falling further.

Agriculture has been stimulated by the Saudi government since the 1970s. Free seeds and minerals, affordable supplies of water, fuel and electricity has helped the Saudi farming companies, as well as duty-free imports of raw materials, farm equipment and machinery. Investments in agriculture have created a phenomenal growth in food production. Saudi Arabia is now self-sufficient in meat, milk, eggs and several other foodstuffs. It is exporting many kinds of food and also flowers.

Security

Saudi Arabia has weathered the Arab Spring relatively well.¹⁴³ The government has used its oil wealth to "buy off" protests with subsidies and investment plans. At the same time, a number of factors challenge this stability. Regional conflicts are risking spill-over to the Kingdom, especially since the country has become more involved in the Yemeni civil war. It is allegedly involved in the Syrian conflict by backing IS-linked rebels. Tensions with Iran remain. Internally, some minorities are suppressed, most notably Shi'a groups. In addition, the growing (and young) population puts pressure on the need for job creation. Civil liberties, especially for women, are restricted, which

could feed discontent under the population. However, the Saudi government leaves little room for activism of any kind. Since the civil war in Syria, several laws have been implemented that put further restrictions on Saudis to prevent them from playing a role in the conflict.¹⁴⁴

Quality of infrastructure

The quality of infrastructure for the MENA region is average, but the country is working on a range of improvements. It aims to improve its roads and railway system to provide access to outskirts regions and decrease transportation times. In its efforts to diversify the economy, the government is pushing for infrastructural developments. Transportation projects include metros in Riyadh and high-speed train transit systems. Railways are seen as a way to connect remote areas of the Kingdom to the economy, which for a long time have suffered from insufficient infrastructure. Expanding the port system is another strategy of preparing for vast growth of imports and exports, in order to strengthen the economy and keep up with the growing population.

The ICT network is better than the MENA average and rapidly improving. The country offers the biggest ICT market in the Middle East. ICT services are expected to grow in the next five years, driven by infrastructural developments, e-government initiatives and modernization on a broad level.¹⁴⁵ The electricity network is extensive and reaches out to cities, towns and villages.¹⁴⁶ The country aims for a 30% solar powered domestic economy in the next twenty years. Main partners in research and development of this plan are from China.¹⁴⁷

Education and technological developments

The Saudi Arabian regime has a variety of policies in place to stimulate technology transfers and facilitate technology intensive businesses. Due to a growing population and the increasing domestic demand, the government is looking for ways to increase domestic food production. Investments in agricultural technologies focus on large-scale production systems, and outstanding agricultural knowledge and innovation systems are needed to fulfill these ambitions.

Water efficiency has been a main focus of government efforts over the years. Current developments in agriculture focus on efficient and sustainable irrigation systems that include innovative water treatment solutions. A wheat phase-out policy, launched in 2008, intends to limit wheat production, as it is a water intensive crop. Other water intensive production processes, such as cattle farming are also looking at ways to improve water efficiency. Phase-out is also considered for water intensive feed crops,

such as alfalfa, and dates. As the country still needs a vast amount of wheat, grains and rice for food and feed, imports are rising fast. To expand its production, Saudi companies are also investing abroad, in countries such as Ethiopia. Saudi companies are also investing in storage silos, as the Saudi government aims at building up one year of grain reserves.¹⁴⁸

Detailed analysis of potential for inclusive growth

This section expands on the business opportunities for inclusive growth outlined in the previous chapter (see Figures below).

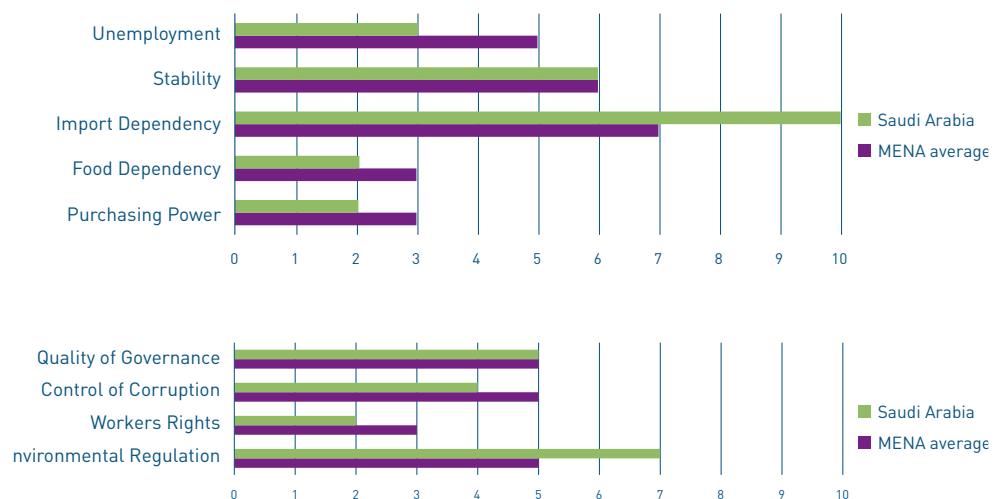


FIGURE 34. TOP: CONDUCIVE FACTORS FOR SAUDI ARABIA COMPARED TO THE MENA-AVERAGE. BOTTOM: POTENTIAL FOR INCLUSIVE GROWTH FOR SAUDI ARABIA COMPARED TO THE MENA-AVERAGE. HIGHER SCORES REFLECT BETTER PERFORMANCE.

Contributing to inclusive growth by the agribusiness sector is influenced by current environmental and labor regulation (see Table 8). Investments in agribusiness in Saudi Arabia can help to grow more products for the expanding population and provide system solutions for an extremely water scarce country. Investments in the agricultural sector and food processing industry help to strengthen the economy in sectors beyond the oil production and refinery sectors. By contributing to food security and economic progress, investments in agriculture and food may have a positive impact on the stability of the country.

FACTOR	FAVORABLE CONDITIONS	CHALLENGES
Conducive conditions		
Regulation	<p>Comprehensive environmental regulation, plus a 2014 decree to raise standards on sustainability.</p> <p>Gradual steps towards improvements of labor rights and foreign worker protection.</p>	<p>As part of “Saudisation”, quotas for foreign workers can be adjusted overnight.</p> <p>Restricted freedom for women has limited the female workforce.</p>
Quality of governance	<p>“Saudisation” of the labor market to reduce unemployment amongst Saudis.</p> <p>Government stimulates private businesses by subsidies and training for workers.</p> <p>Business climate is good and improving.</p>	<p>Corruption remains significant.</p>
Potential impact of agricultural investments		
Economic development	<p>Agri- and food business could provide Saudi jobs.</p> <p>Foreign investments help to build an innovative and sustainable agrifood sector to be resilient to climate change.</p> <p>Diversify the economy.</p>	<p>Agricultural jobs are not very attractive for Saudis.</p> <p>The quota system leads to shortages of labor for this sector.</p>
Social development	<p>Foreign investments in Saudi Arabia contribute to food security.</p> <p>Food security top priority for Saudi government. High demand to decrease near total food import dependency.</p> <p>Food processing industry could provide meal solutions to tackle obesity.</p> <p>High demand for innovative food processing industry.</p> <p>Business opportunities in cooperating with Saudi firms in foreign food production.</p> <p>Introduction of state-of-the-art sustainable agricultural practices to increase crop yields through better soil fertility, water and nutrient management.</p>	<p>Near total food import dependency.</p>
Stability	<p>Providing jobs to the rural poor. Including minorities, women and other disenfranchised groups in the economy.</p>	

TABLE 8. SUMMARY OF OPPORTUNITIES AND CHALLENGES FOR INCLUSIVE GROWTH IN SAUDI ARABIA

Regulation

Poor workers' rights hamper the potential for inclusive growth, while the environmental regulation is somewhat more conducive. Since 2001, Saudi Arabia has effectuated comprehensive environmental regulation.¹⁴⁹ It sets out prohibition of air, land and water pollution. The law applies to all economic activities and services. In early 2014, a new decree aimed to raise environmental standards for air, water and noise pollution. This especially affects the construction industry, providing an impulse for green building.¹⁵⁰

Workers' rights remain poor. The situation for women and foreign workers in particular remains troublesome. Human Right Watch and other NGOs still express concerns over the right of Saudi Arabia's foreign workers – a significant group, with over 9 million on a total population of 27 million.¹⁵¹ Women in Saudi Arabia are required to be separated from men when working, and face other significant restrictions, such as not being allowed to drive a car. The combination of these restrictions have limited female labor employment. Only 11% of Saudi women are employed, whereas 60% of male Saudis have a job.¹⁵²

There are signs that this may slowly be changing. Saudi Arabia signed the recommendations on human right reforms at the UN Human Rights Council in October 2013, which includes labor rights and taking steps to phase out requirements for women to have male guardianship.¹⁵³ It also recently has ratified ILO standards of requiring a minimal working age of 15 years. Also agreements protecting foreign workers have been signed.¹⁵⁴ A draft labor law intends to reduce the number of working hours to 40 hours per week and having two days for the weekend. This new labor law is part of the so-called "Saudisation" process.¹⁵⁵

Quality of governance

Prospects for inclusive growth are affected by efforts to control corruption and reduce government bureaucracy. Saudi Arabia is actively trying to improve its business climate to diversify its economy and attract foreign business in key sectors, including agriculture – although this process is hampered by the "Saudisation" process. Corruption remains an issue for foreign businesses in the Saudi Kingdom. In 2014, Saudi Arabia ranked 55th out of 175 countries on the Global Corruption Perceptions Index.¹⁵⁶ State corruption is reported to be often felt. There are some indications that the Royal family is aware of the urgency to increase anti-corruption efforts: Prince Al-Waheed wrote a letter to the Anti-Corruption Organization to underline his stand against corruption.¹⁵⁷ And there are some efforts under way by the Saudi government to liberalize and strengthen its governmental institutions in order to improve transparency and good governance for the benefit of the business climate.¹⁵⁸

Potential for inclusive growth

Foreign investments in agribusiness could help the Saudi economy by creating jobs for the large and expanding young workforce. In addition, foreign technology could help to establish innovative, sustainable agricultural practices that Saudi Arabia needs for the future of dwindling water supplies.

Economic development

Agribusinesses have a potentially large role to play in improving the economic situation of Saudi Arabia. First, they could help provide poorer people in the country with (better paid) jobs. This fits with the larger “Saudisation” process and could help the government to increase the number of employment opportunities available to its people. It also fits with the broader ambition to diversify the Saudi economy.

Social development

Food security and access to food for the Saudi people are key social issues in Saudi Arabia. With a near total food import dependency ratio, it has one of the worlds highest demands for food imports to suffice the needs of its population. As noted before, the country is actively looking for overseas investments to improve its food security, which also follows from the phasing-out of wheat and feedstock. Foreign investments in the agriculture and food sector in Saudi Arabia could also help to improve food security in the country. This requires, for example, the introduction of state-of-the-art sustainable agricultural practices to increase crop yields through better soil fertility, water and nutrient management.

Saudi Arabia has a relatively large percentage of overweight people, almost 30% of the population.¹⁵⁹ Consumption patterns rely heavily on bread, and the limitations of practicing sports due to the hot desert climate and restrictions on women’s liberties does not help either. An innovative food processing industry could provide meal solutions to help people tackle their weight issues.

Stability

Through the provision of jobs and generation of economic growth, agribusinesses can help to positively affect stability. As we saw earlier, employment and economic progression for the young Saudi population is a key policy concern and viewed as essential for sustaining social and economic stability. Foreign investments could be a source of job creation, which from a stability point-of-view would be particularly beneficial for women and disenfranchised minorities.

ENDNOTES

ENDNOTES

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