PANORAMA

SEPTEMBER 2016

# Agrofood in North Africa: a strategic sector at nature's mercy

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The agrofood sector remains one of the most important sectors for North African economies. Although its contribution varies across the region, in 2014 (1) it accounted for 9.5% of total gross added value in Tunisia, 12.7% in Algeria, 13% in Egypt and 15.6% in Morocco. In 2015, the sector provided employment to 21.7% of the total labour force in Egypt, 15% in Tunisia and approximately 40% in Morocco.

In general, some of the favourable factors boosting the sector include rising populations, increasing demand for processed food, higher per capita incomes and improved production capacities.

Nevertheless, local conditions and government strategies are major influencers on the specific challenges faced by each country. In Morocco, the government has been making the development of the agricultural sector a priority since 2008, ensuring continued levels of investments. In Algeria, the government has recently begun promoting the importance of food self-sufficiency. Rising disposable incomes and changing consumer habits in Egypt have boosted domestic consumption for the agrofood sector.

In general, governmental strategies to support agriculture and the agrofood sector are mainly concerned with ensuring that food supplies meet demand a serious challenge, compounded by the region's rapidly growing population and per capita income.

While progress has already been achieved, some challenges remain. The greatest of these difficulties is the relatively poor infrastructure, which drives up transport costs and thus narrows profit margins. In some areas, challenging topographies and difficult climatic conditions make the cultivation of many types of agricultural goods almost impossible. Depressed food prices in the region could also dissuade new investments in the sector.

In the case of Algeria, the persistence of low oil prices is a further factor contributing to risks, as the country is highly dependent on hydrocarbon revenues for providing subsidies and incentives to agrofood industries. This, in turn, is negatively impacting the sector's ability o attract the investments it needs for development.

(1) Business Monitor International data

RESEARCH PAPER

September 2016

# AGROFOOD IN NORTH AFRICA: A STRATEGIC SECTOR AT NATURE'S MERCY

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## 1 AGRIBUSINESS: A STRATEGIC SECTOR FOR NORTH AFRICA

The importance of the Agrobusiness sector varies between the different North African economies. While on a regional level, the sector leads exports, on a country basis it differs. In Morroco, agribusiness benefits from government subsidies, as it contributes nearly 16% of GDP and provides employment for 40% of the population. Overall, across the main north African countries, the lowest level of risk is in Morocco. Algeria is not a major producer of agricultural goods and thus depends on food imports to meet domestic demand. Faced with the erosion of its foreign exchange reserves, due to the drop in oil prices, the Algerian government is multiplying measures to try to rebalance its trade balance. These measures include reducing imports of food and agricultural products. In Egypt, the return to stability, following the political turmoil experienced between 2011 and 2013, has meant that the agrobusiness has started to recover – especially as the government has made the development of the agrobusiness sector a priority. The sector currently contributes to around 15% of Egypt's GDP. For Tunisia, the agrobusiness is of lower importance than for other countries in the region, as tourism is the main engine of its economy.

**AGRIBUSINESS SECTOR RISK ASSESSMENT**

| Country | Medium risk |
|---|---|
| Tunisia | Medium risk |
| Morocco | Low risk |
| Algeria | Medium risk |
| Egypt | Medium risk |
| Middle East & Turkey | Medium risk |

Source: Coface

Low risk · Medium risk · High risk · Very high risk

### Despite positive developments over the last decade, challenges remain for Morocco's agribusiness sector

In Morocco, agriculture has long been both the strength and weakness of its economy. The strength is that it has been a real lever for growth, while the weakness is due to its high volatility. The sector's average growth rate fell from 10.6% between 1985 and 1991, to 0.27% between 1991 and 2004. During this period, the volatility of the agricultural sector (deviations of output relative to its average) grew to become eight times higher than that observed in the Middle East and North Africa region [(2)].

Morocco has two key agricultural segments. The first is mainly concentrated on the irrigated areas that occupy 20% of the agricultural land used. The second is livestock, which employs the majority of the agricultural workforce and occupies 80% of farming land used.

Morocco's food-processing industry is relatively important and benefits from a strong agricultural base. With a population of 32 million – and growing, the country is a major market for the region's agricultural produce. The Moroccan

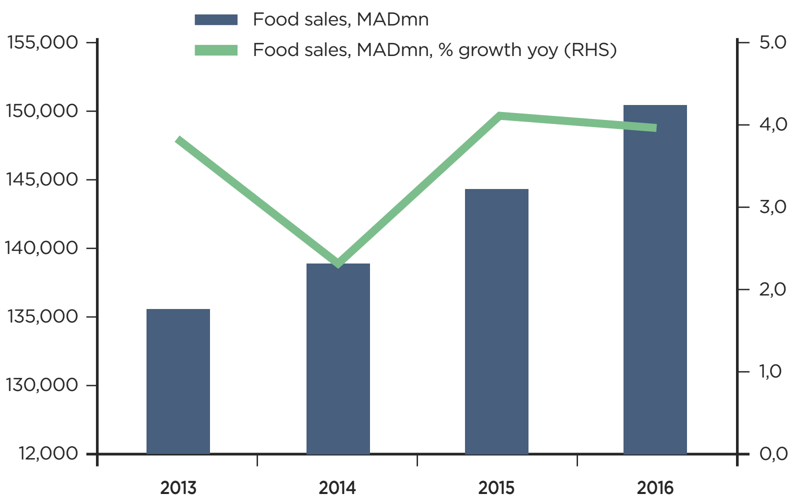
(2) Morocco: the challenge of becoming an emerging economy, May 2015, Coface

government has made the development of its agricultural sector a priority. Since the introduction of the 'Green Morocco' plan in 2008, agricultural productivity per worker has been rising at a fast pace. Over the last five years, the agricultural growth rate has reached an average of 9.3%. Productivity per hectare has also grown, thanks to an increase in irrigated plots. The Green Morocco plan has led to nearly 100 billion dirhams of investments in drainage systems over the last seven years and generated an additional GDP of 43 billion dirhams. Growth in the sector has improved significantly over the last seven years and the government's goal of doubling agricultural GDP by 2020 therefore seems achievable. Average annual growth of agricultural GDP reached 7.7% in 2015, exceeding 118 billion dirhams – compared to 75 billion in 2008.

According to a study carried out by l'Office des Changes, food industry production and exports doubled during the period 2000-2013[3]. The share of food exports in total exports increased from 9.1% in 2011, to 11.2% in 2014. The EU accounts for 51.4% of Moroccan trade and its leading trading partners, Spain and France, account for over 55% of total trade with the EU. Growth in the agribusiness has attracted more foreign investors into Morocco. Foreign direct investments rose to 10.2 billion DH in 2013, up from 531 million dirhams in 2010. The food sector's share of FDI receipts in total foreign direct investments jumped from 1.5% in 2010, to 26.2% in 2013.

The structure of Morocco's food exports has been relatively stable for the last 10 years. In 2014, 50% of food exports related to the fishing industry, 14% were fruits and vegetables and 8% were meat. Thanks to the growth in agribusiness, supported by the government, the country has introduced new products such as meat processing and preparation, chocolate and confectionery products.

**Chart n° 1**
Food sales in Morocco




Source: BMI

Optimism in the sector has been bolstered by the government-initiated Green Morocco Plan, which also aims to reduce the industry's weather-related production risks by 2020. A further program, to update logistical frameworks, was initiated in 2010. This programme should result in reduced transport costs and improved management and traceability of stocks. The sector itself is also working on developments and, between 2007 and 2012, climbed up 44 places in the Logistics Performance Index listing (LPI)[2]. The government's twin strategies of producing highyield, market-related agriculture, as well as improving the existing water conservation programme, could produce good results in the medium-to-long term.

The biggest challenge relates to the sector's failure to bring added value. The development of agribusiness has been slow and accounts for only 5% of Moroccan GDP, compared to 15% for agriculture. Nevertheless, the sector has huge growth potential, as the demand for processed goods has been rising in line with the progressive transformation of consumption patterns over the last twenty years. In fact, the demand for agribusiness products has been growing at an average annual rate of 4% since 2004 (the same as the growth rate seen in household demand for agricultural products).

On the investment side, the use of production factors remains low. The use of fertilizer per hectare in Morocco is four times lower than in France, while mechanisation is eleven times lower than in Spain[4]. In addition, farmers have little access to banking systems and only 18% are able to obtain bank loans - which means that project financing for agribusiness is limited.

Drought and irregular rainfall are among the sector's most important obstacles to development, resulting in huge volatility in terms of agricultural output. The government is introducing measures to address this problem. A major public investment programme should make it possible to increase the amount of irrigated land and productivity per hectare, while crop conversion should enable the production of higher added value goods.

If current global economic conditions and depressed food prices continue, private investors will have little incentive to risk entering seemingly unprofitable businesses. A prolonged global economic downturn could harm the growth performance of countries in the region, reducing the revenues available for agricultural investment and development.

Government incentives are crucial for the development of Morocco's agricultural activities. The Green Morocco Plan aims to mobilise 10 billion dirhams annually for the agricultural sector, by 2020. In this way, the lack of access to banking

(2) Morocco: the challenge of becoming an emerging economy, May 2015, Coface
(3) Etude sur l'industrie alimentaire au Maroc, 2015, Département des Statistiques des Echanges Extérieurs du Maroc
(4) Green Morocco Plan, www. maroc. ma

loans for farmers is partly compensated for by government incentives. Under the Green Morocco Plan, 70 to 80% of the funding for projects within 'Pillar II', will be supported by domestic or international investors. The remainder will be largely taken in charge by the agricultural development fund (FDA). The state provides financial aid for 'Pillar I' projects, in the form of grants and bonuses, through the FDA.

Overall, despite some obstacles, Morocco's agribusiness shows very promising perspectives. Serious efforts by the government to address some of the issues could lead to a more fully integrated and efficient domestic supply chain. In addition, the country's rising population and expanding GDP should lead to increased consumer demand for higher added value agricultural goods, thus further sustaining the agribusiness sector.

## Dependence on food imports and oil revenues weigh on Algeria's agribusiness

The agribusiness is Algeria's second largest industry (following hydrocarbons) and employs a workforce of some 140,000. It accounts for 17,000 industrial enterprises, of which 95% are in the private sector. The country is heavily dependent on food imports, which account for 75% of its needs. The government has shown its strong willingness to support agriculture and rural development and thus reduce its dependence on imports.

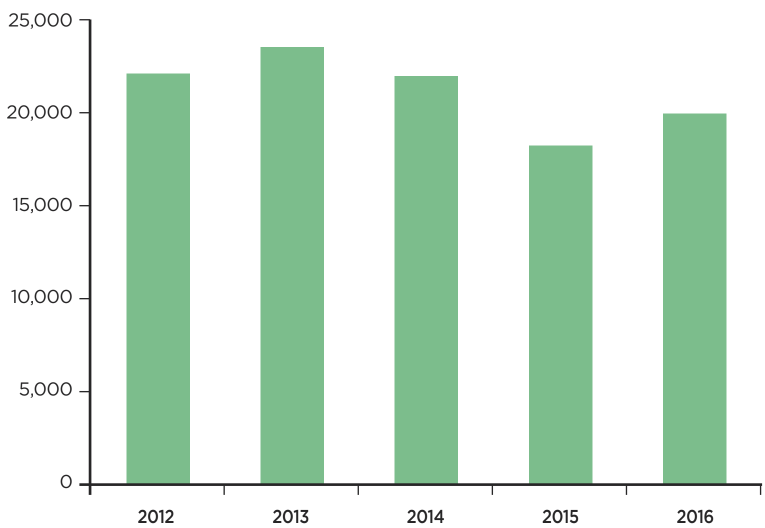
Algeria's agricultural production is dominated by large crops - especially cereals and date palms, as well as livestock production and poultry farming. Agricultural exports mainly concern dates and olive oil. Specific programmes have been introduced by the government to give impetus to local production, with a focus on improving product quality and labeling. The country's main agricultural imports are commodities such as cereals, pulses, milk and oilseeds (5). Water resources play a key role in Algeria's food security, due to the semiarid and arid climates that characterise most of its territory.

The government has initiated an action plan to boost agricultural production and reduce reliance on imports, in order to maintain the security of food supplies. In line with falling oil prices (the government's premier source of revenues), the authorities have implemented a new growth model that prioritises attracting private investment to the sector, mainly through public and private partnerships. The government is focusing on the sustainable development of strategic sectors (such as cereals, milk, meat and pulses) and reducing its massive reliance on imports of certain agricultural and food products. In this respect, Algeria plans to restrain imports of some agricultural products (such as olive oil, milled flour products, refined sugar, meat and fish products and seasonal fruit and vegetables. The government's agricultural development strategy aims to reduce the import bill by 30%, by 2019, through this limitation of imports. In the same period, the goal is to double agricultural exports, to $1.1 billion.

Despite this, the country remains a major importer of food products and it will be difficult for Algeria to meet its own growing requirements for wheat and milk. Nevertheless, the government is showing its commitment to improving food self-sufficiency and this is helping to revive the country's agribusiness. Although this higher government support will be positive for productivity and product quality in the medium term, Algeria will remain a major importer of agricultural products. Food spending represents 45% of household budgets for Algerians and the country ranks third worldwide in terms of imports of milk and milk products. The consumption of biscuits remains high at 2.5 kg per person, per year, while soft drinks consumption stands at 47 litres. The government aims to end imports of products such as milk powder, beef and potatoes by 2019 (6).

Algeria's reliance on oil revenues (97% of exports, 60% of the State budget, and more than 30% of its GDP) is putting the development of the agricultural sector under pressure, as lower energy prices have narrowed the State's financial resources and weighed on its ability to provide incentives. The drop in energy prices is also pulling down the country's economic performance. Coface forecasts that Algeria's real GDP growth will slow to 1.9% in 2016, down from 3.7% in 2015. This will also have a negative effect on the country's ability to attract the foreign investments necessary for the development of agribusiness.

**Chart n° 2**
Algeria Agribusiness Market Value (USDmn)




Sources: BMI, FAO

(5) Cadre programmation par pays, Algerie (2013-2016), 2012, FAO
(6) Objectifs de développement des filières stratégiques de l'Agriculture, 2016, Ministry of Agriculture of Algeria

Falling oil revenues will also result in tighter food subsidies and government incentives, restraining the sector's development potential. Poor topography and the lack of irrigational infrastructures also represent challenges for agricultural development.

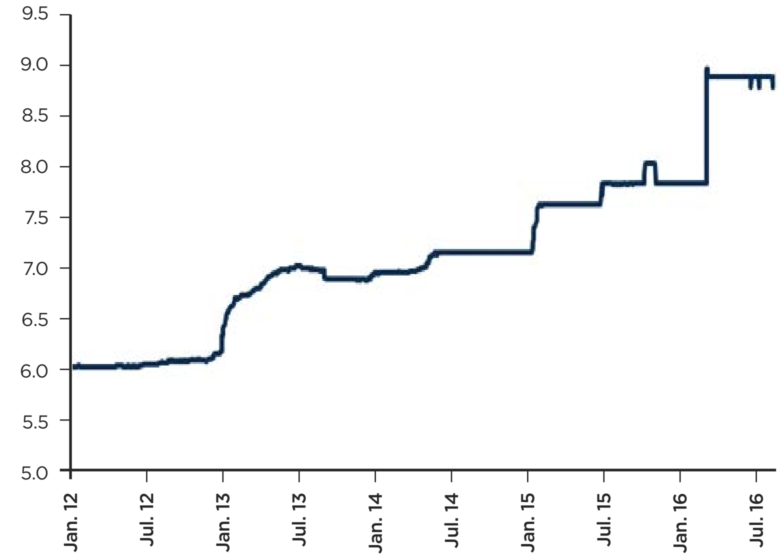
Nevertheless, Algeria was able to accumulate important foreign exchange reserves when hydrocarbon prices were high, estimated at $135 billion by the IMF as of 2015 (and equivalent to around 33 months of imports). This means that the country can continue supporting agribusiness and investing in improving infrastructures for agricultural productivity in 2016. It should be noted, however, that these foreign reserves are on a downward trend, having fallen to $106.9 billion, as of June 2016. Recent government efforts to increase food self-sufficiency should also help to revitalise the beleaguered agribusiness sector.

## Currency shortage and natural conditions among key risks for Egypt

A wide range of players, both public and private, are present in Egypt's agribusiness sector. Since its struggles during the political turmoil experienced between 2011 and 2013, the country has been returning to stability. Egypt enjoys a dynamic market of some 88 million consumers - one of the largest in Africa and the Middle East. The agricultural sector accounts for 15% of Egypt's GDP.

There are 5,809 business establishments operating in the agribusiness sector, with total capital standing at EGP 9.6 billion [7]. Egypt's exports of agricultural products and processed food totaled $4.9 billion in 2013, accounting for nearly 13.8 % of total exports. The country's main trading partners are Arab countries and the European Union. Egypt's exports primarily consist of cooked cheese products, processed sugar, aromatic oils, resins, non-olive oils, juices, concentrates and frozen vegetables. Despite this, the country remains a net importer of agricultural and food products. The main products imported in large quantities are cereals, meat, vegetable oils, vegetables and seafood.

**Chart n° 3**
Egypt Exchange Rate (EGP/USD)




Source: Thomson Reuters

Egypt's agribusiness sector enjoys several advantages, including vast agricultural resources, a large customer base and a strategic location. Its agricultural sector is able to provide a wide range of fruits and vegetables to the food processing sector. Egyptian youth, who account for over 50% of population, increasingly aspire to more diversified and modern modes of consumption. The return to stability is bringing a return to growth in the sector, while the government is also supporting the development of agriculture and agribusiness. The authorities aim to increase the area of cultivated land to 2.4 million acres by 2017. The fact that, currently, only 3.5% of Egypt's landmass is qualified as agricultural land, is seriously limiting output growth.

Egypt does, however, enjoy a strategic location in the north-east corner of the African continent, very close to its main export markets in Europe, Africa and the Middle East.

As is the case for many countries in the region, Egypt suffers from prolonged droughts and water shortages for irrigation purposes. This is a long term challenge for the agribusiness sector, as is the poor state of the country's infrastructure, which makes it costly for farmers to transport their products and narrows their profit margins.

In parallel, any escalation in political tensions (as was the case in Algeria a few years ago), would damage investor and consumer sentiment, as well as economic growth.

Foreign currency is another major risk for Egyptian exporters. The country's rising population and changing consumption patterns should ensure dynamic domestic demand continues in the upcoming period. Sales of affordable food should perform well, due to high unemployment (13% as of 2015) and the weaker currency. The Egyptian pound has depreciated by 13% against the dollar since the start of 2016, trimming the purchasing power of households. As Egypt is a net importer of food, its chronic foreign currency shortage has led to a sharp rise in food prices. In July, annual inflation stood at 14%, driven by rises in food prices. Food and beverage prices climbed by 33.64% year-on-year, in July. Consumers are therefore shifting their purchases to economically-priced foods, which may restrain the growth of non-essential food products over 2016.

(7) Agribusiness, Invest in Egypt, GAFI

BOX

## Production trends in North Africa, in the light of lower commodity prices

Agriculture is one of the main sectors of the North African economy. International prices for major food commodities edged down in July, following five consecutive months of increases. The FAO Food Price Index (FPI) averaged 161.9 points in July 2016, slipping by 0.8% (1.3 points) below the level recorded in June and 1.4% below that of July 2015. However in the first seven months of the year, food prices declined by 9% compared with the previous year. The overall decline in July is mainly due to falls in international quotations for grains and vegetable oils [8].

Low global food prices represent a serious challenge for North Africa, as agriculture is a key economic growth driver for the region. Combined with high input costs, poor infrastructure and difficult meteorological conditions, the production of agricultural goods requires further efforts and support from governments. While drought is the main threat to producing countries, El Niño (a natural phenomenon that causes an abnormal warming of sea surface temperature, resulting in extreme climate events) makes production even more difficult, due to heavy rains, flooding and extremes of hot and cold weather. Another risk concerning natural phenomena is that of La Niña. According to the FAO, climate models are now predicting an increasing likelihood of La Niña (the opposite of El Niño) developing in 2016. If this develops, the impacts could include increased rainfall and flooding, which could hit the same areas already affected by El Niño.

Egypt's wheat production is likely to be restrained, as greater areas of land are used for the production of export-oriented crops - although improved farming methods (such as irrigation techniques in the Sinai region) are somewhat supporting wheat output [9]. In Morocco, the severe drought is estimated to have wiped out half of the country's wheat harvest in 2016. In the medium term, it is expected that the government will help to address the volatility of output growth. In Algeria, where crops remain highly dependent on weather conditions, grain production is expected to grow at a modest rate over the coming years. This dependence on the weather causes large swings in output. Over the past 10 years, wheat output growth had expanded by as much as 123% y-o-y (in 2009/10) and decreased by up to 42% (in 2014/15) [10]. The government's strategy to invest in irrigation and improve the use of certified seeds and fertilizers are important factors needed to achieve higher levels of grain production.

Algeria is the region's largest importer of dairy products, due to its rising population and changing dietary preferences. The country is the world's third largest importer of whole milk powder and the fourth largest for skimmed milk powder [11]. Dry weather conditions dragged down milk production in 2014/2015 and output is expected to slow further, due to low dairy prices. Morocco is another growing importer in terms of dairy products, due to its increasing population and rising incomes. Nevertheless, the country could be faced with a deficit in dairy production compared to domestic consumption, due to demands for higher quality milk and slow growth in farming revenues. Low dairy prices do not seem to be impacting Egypt as much as Morocco. Egypt's milk production appears to be growing strongly, on the back of rising investments from multinational companies. Private investments are expected to take the lead in terms of production growth. Economic recovery in Egypt will also support the rise in production.

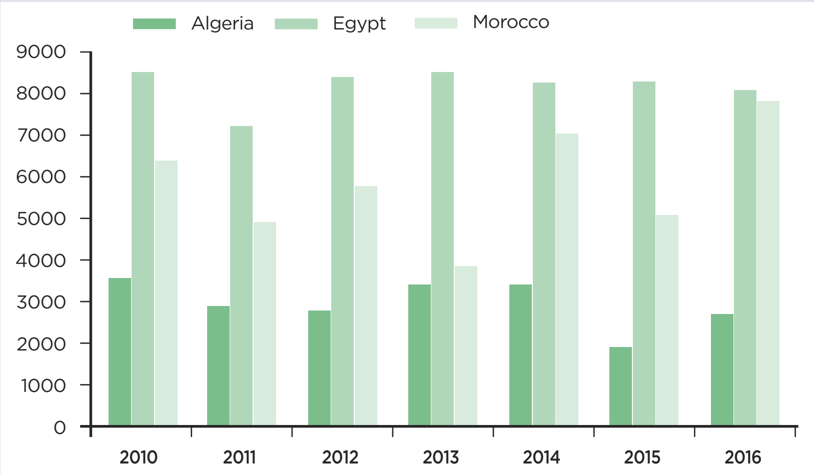
Egypt has been dominating sugar production in North Africa, as its government is providing subsidised prices for sugar cane to farmers (through the state-run Sugar and Integrated Industries Company). These subsidies are resulting in increased incomes for farmers and expanding sugar output. Many farmers are substituting cotton for beets, in order to benefit from these subsidies. The country's rising population and higher disposable household incomes are stimulating the demand for sweets, confectionary and chocolates – thus leading to further support for the sugar production sector. The pace of economic recovery will also continue to be an important driver for the agricultural sector. Morocco's sugar production, as with its other agricultural products, is also volatile depending on weather conditions. The government's support, through the Green Morocco Plan, remains an important tool for improving yields, in the face of the country's arid climate.

(8) Food Price Index down slightly in July, FAO, August 2016
(9) Egypt Agribusiness report, BMI, Q3 2016
(10) Algeria Agribusiness report, BMI, Q3 2016
(11) Research: Algeria, Egypt, Morocco Ripest North African Markets for U.S. Dairy, The US Dairy Exporter Blog, May 2015

BOX

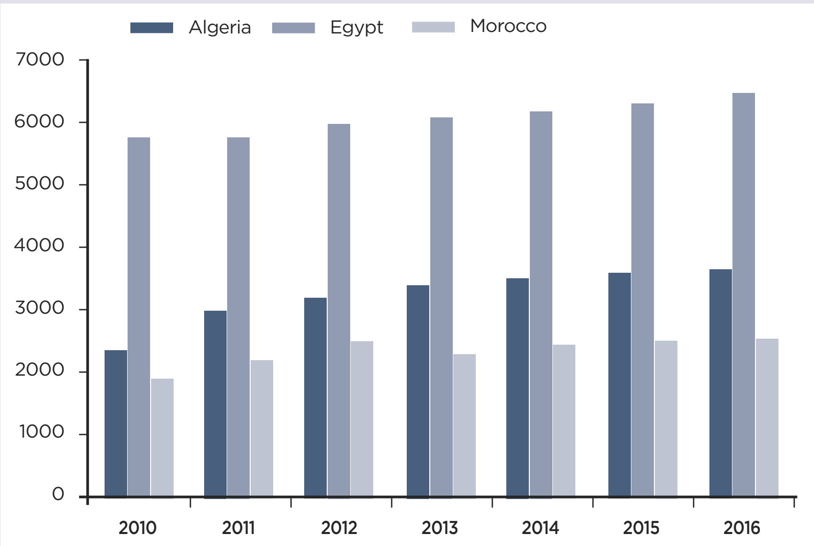
Overall, weather conditions represent a major challenge, as they directly impact levels of commodity prices for North African countries. Aware of this situation, the region's governments are supporting their agricultural sectors through subsidies and making the investments necessary to improve infrastructures. Despite the adverse weather conditions that make output levels volatile, the agricultural sector represents many opportunities. Rising populations, higher disposable incomes and economic expansions are all giving rise to more positive sales perspectives. Over the upcoming period, these supports may result in a more integrated, efficient and productive supply chain for the sector.

**Chart n° 4**
Wheat Production (000 tons)




Source: BMI

**Chart n° 5**
Milk production (000 tons)




Source: BMI

INTERVIEW

## Jean-Christophe Batlle,

Mediterranean & Africa Region, African Countries Manager, Coface

**How would you assess the performance of North Africa's agribusiness sector so far in 2016, compared with previous years?**

North Africa's agribusiness performance in 2016 has been rather difficult, mainly due to droughts. These have had direct impacts on the agro industry. Agriculture is still mainly reliant on rains, even though governments are addressing the issue with improved water supplies and the implementation of new irrigation systems.

Transformations in the Agrobusiness sector are still low. Nevertheless, plans have been implemented in Morocco and Tunisia, in order to improve the value chain and encourage the production of more added value products.

**What do you expect for 2017?**

Once again, rains are an important parameter. Expectations for better economic environments in Europe and Africa could improve the level of exports.

**What could be the biggest advantages for Moroccan and Algerian agrobusiness in 2016?**

I would say for Morocco, the state's long term plans and support, as well as rising expertise on the market. Morocco has also improved its direct shipping lines, which will reduce exportation costs. As for Algeria, a net importer, I expect to see continued levels of local consumption and imports.

**What are the biggest challenges faced by agribusiness in North Africa?**

I think the biggest challenges are linked to securing water and energy supplies, in order to reduce fluctuations from one year to another.

The other challenge is to continue to grow added value, by transforming from agricultural to agribusiness-oriented economies.

**Is the fall in global food prices putting pressure on profit margins in North Africa? If so, how can companies try to address this?**

I do not see any complex pressure on profit margins. North Africa does not have the same level of exports and product concentration as other African countries (which are linked to crops such as cocoa, nuts and coffee). Morocco is more focused on fruit and vegetables. Also, the markets are rather driven by domestic consumption, where prices have not fallen. Some would even say that it has been the opposite.

**How do small and medium sized agribusiness companies meet their financing needs? Does the banking system have a supportive attitude?**

Yes indeed. Specific plans have been designed for farmers, supported by loans backed (either directly or indirectly) by government initiatives.

**What could be the new opportunities for North Africa's agribusiness sector in the upcoming period?**

I believe this will be linked to transformations of raw products, in order to increase added value.

Algeria also needs to work extensively on improving its agribusiness, in order to develop local production and reduce some of its dependency on imports.



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