
INTRODUCTION

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Hussein: For 20 years I have been here studying this and now I know that every town had its own wheatery, a kind of silo bulk like a giant clay jar buried in the desert...

Basyuni: You mean if we dig there, the wheat will come up?

Ali Salem, *The Well of Wheat*.

On February 28th 2013, Bassem Ouda, the young engineer who had recently been appointed Minister of Supply and Internal Trade in Egypt announced that supplies of subsidised *baladi* bread would now be rationed according to a smart-card system. The cheap loaves that had retailed for 5 piasters (<\$0.01) since 1989 are a staple in the Egyptian diet and there are no controls in place restricting the amount of *baladi* bread that any individual can buy.

Egyptians are the largest consumers of bread in the world with an annual rate of 180-210 kg per person, well above the global average of 70-80 kg. The symbolism of bread is pertinent on the streets of most districts in Cairo, particularly in the morning as crowds gather outside bakeries to procure their main calorie source for the day.¹ *Baladi* bread is termed *A'ish*, or life, in the colloquial Egyptian Arabic language, testimony to its centrality as an indispensable staple for a large part of the population.

In a 2012 census, the World Bank estimated that from a total of about 80.72 million Egyptians, 13% were unemployed and 25.2% of the population lived below the national poverty line.² Throughout its modern history, the Egyptian state has taken an active role in providing essential goods at subsidised prices for the urban and rural poor, of which bread is a key constituent. The provision of *baladi* bread itself can be traced back to agricultural reforms instated by President Gamal Abdel Nasser in 1956.³

However, the Muslim Brotherhood's turn to so-called "flour power" in an attempt to curb government spending on food subsidies and reduce wastage quickly degenerated into protests and widespread bread shortages across the country.⁴ Attiya Hamed, the spokesperson for the Bakery Owners' Division at the Federation of Egyptian Chambers of Commerce responded to Ouda's policies by threatening a nationwide bakers' strike if the government did not back down.

Although these changes have been framed as an attempt to address Egypt's faltering economy and foreign reserves since the January 25th

1. See Appendix A.3 for a recent breakdown of household food consumption in Egypt.
2. For the most recent update, see the World Bank's Development Indicators, <http://data.worldbank.org/country/egypt-arab-republic>. Last accessed on April 26, 2014.
3. Bread and other food staples were subsidised by Nasser's new regime after overthrowing the Egyptian monarchy in July 1952. The new state leaned heavily on subsidies to maintain social order and promote a socialist economic model. Yet the provision of basic food staples has long been a part of Egypt's history in keeping urban areas well-provisioned and preventing unrest. Sevet Pamuk provides more details on this in the Ottoman Empire. See: Pamuk, 2004, p.235.
4. See for example Perry, T., "The Egypt's Muslim Brotherhood turns to flour power", *Reuters*, June 14, 2013.

2011 uprising, they are in fact steeped in a history of negotiations between the Egyptian state and supply chain actors in charge of administering the *baladi* bread subsidy.

Some of the political constraints on subsidy reform are largely perceived to relate to the end consumer, yet the above example seems to suggest otherwise. Given the nature of the subsidy debate, previous studies have tended to look at the aggregate and undifferentiated nature of the *baladi* bread supply chain. Little attention has been paid to the role of powerful intermediaries in obstructing or facilitating reform in the system.

The objective of this book is to conduct a study of the intermediaries in the Egyptian *baladi* bread subsidy system and to subsequently identify their vested interests in the supply chain. In so doing, the analysis will look at how the *baladi* bread system has changed over time and how these changes reflect the interests of specific actors in the system.

The Egyptian state (henceforth, the state) is valued for its ability to continuously deliver *baladi* bread to its citizens at an affordable price. However, it would seem that the genesis of current attempts at reform dates back to *infitah*, or open-door, policies, initiated by President Anwar al-Sadat in 1974 and carried on by his successor, President Hosni Mubarak, from 1981 onwards. The shift from a state-administered economy to one where the private sector assumed a more active role had a profound impact on various industries, chiefly those that had been relegated to the realms of the state. In fact, the initiation of reforms to Egypt's various state subsidy programmes and the stiff resistance that it encountered – particularly in the case of *baladi* bread – suggests a deeper, underlying political economy associated with the administration of food subsidies, one that surpasses the conventional narrative of keeping urban areas well provisioned. Rather, it seems that there are powerful actors within this subsidy regime that are able to create political ripples, ensure stability and control the smooth functioning of the supply chain.

These factors suggest that by unpacking one of Egypt's most contentious subsidies, the *baladi* bread system, one can better understand the roles and incentives of actors within the supply chain. Research findings would then shed broader light on how the Egyptian political economy unfolds in the specific domain of food subsidies. Indeed, the functioning of the *baladi* bread supply chain is a microcosm of all that is wrong with the Egyptian political economy: its centralised state structure, the prevalence of economic control, the fragmented nature of bureaucracy, the bloated public sector and a rentier structure that is both perverse and persistent. A deeper study of the *baladi* bread subsidy, therefore, provides a useful prism for understanding the wider political economy forces at play.

Research throughout the remainder of this study constitutes a concerted effort to collate studies in the academic literature and combines these with insights from fieldwork to map out the supply chain. The discussion will then culminate in a supply chain model that better encompasses the roles and incentives of intermediaries in the *baladi* bread supply chain as part of the broader political economy literature.

The overarching framework of the study sits within the debate on state-provisioned food security. That is, the notion that the government is able to provide “physical, economic and social access to sufficient, safe and nutritious food to meet the dietary needs and food preferences of its population for an active and healthy life”.⁵ The issue of food security is then intimately tied up with discussions of political security and political stability.

This book constitutes one of the first concerted efforts to analyse in greater detail the role and functions of intermediaries in the *baladi* bread supply chain.

Previous studies in the extant literature on the Egyptian *baladi* bread subsidy have largely focused on instances of leakage and wastage in the supply chain from a technical standpoint. Some of the issues that researchers have already considered in the existing literature include: mapping of the wheat value chain in the Middle East and North Africa region, an assessment of the wheat policy and wheat production in Egypt, and the pricing policy of food subsidies.⁶ In addition, policy recommendations have examined how the *baladi* bread supply chain can be improved to address population growth and nutrition deficiency amongst poorer Egyptians.⁷

However, many of these narratives have overlooked the intricacies of the *baladi* bread subsidy. In fact, when this system is studied as an aggregate monolith, it fails to capture the dynamics and differentiated realities that undergird its operations. In reality, the actor’s incentives and activities at each stage of the supply chain are sometimes intertwined and overlapping.

By engaging with the institutional details that focus on the intermediaries and middlemen in the *baladi* bread system, the research in this book seeks to complement the conventional quantitative, macro-level narrative that has guided the extant literature so far.

The analysis subsequently touches on elements of political economy that explain the actors’ trade-offs between reform and stagnation in the system.

Findings

The empirical findings were based on the collection of publicly available documentation and archival data on the Egyptian food subsidy system as well as 36 interviews with a number of actors and stakeholders in the *baladi* bread supply chain. The fieldwork was conducted over a period of twelve weeks and covered all stages of the supply chain from the harvest of the wheat to the sale of *baladi* bread. In addition, I have consulted a series of original documents in Arabic as well as newspaper clippings to supplement the analysis on intermediaries in the system. Though it is worth noting that a qualitative research approach can restrict the scope and generalisability of the findings beyond this book.

The analysis of the *baladi* bread subsidy revealed that intermediaries tend to play a more prominent role at different stages of the supply chain.

5. Official definition of Food Security given by the Food and Agriculture Organization in the Declaration on Food Security and World Food Summit Plan of Action in Rome, November 1996.
6. See, respectively: Ahmed et al., 2013; Kherallah et al., 2002; Scobie, 1981; Ghoneim, 2012; Croppenstedt, 2007; Rohac, 2013; and Hannusch, 2008.
7. See: Omran, 1997; World Food Programme, 2010; and Poulin et al., 2013.

Depending on their power, some intermediaries are capable of diverting or obstructing the distribution of state resources by exerting their power on other actors. Notably, some intermediaries such as bakers, millers, private traders, inspectors and mayors would deliberately maintain specific arrangements in place to divert resources from the system.

These actions typify rent-seeking behaviour in political economy, where a small group of actors exerts its power to secure economic advantages.

In addition, unpacking the *baladi* bread system reveals that the lines between one stage of the supply chain and another are not as clear-cut as previous research findings would suggest. By narrowing down to the micro-level details, this study begins to disentangle the functions of various actors within the supply chain. As a result, the fragmented nature of the system uncovers many of the black boxes where the heterogeneous interests of actors were largely ignored. This is most notably observed with the state apparatus: ministers, politicians and government agents were more likely to exhibit diverse, sometimes opposing interests in the administration of the *baladi* bread system. In return, this had a different impact on the administration and reform of the supply chain.

Contribution

This book makes four contributions to the political economy literature on the public provision of subsidies. Firstly, it demonstrates a more differentiated and nuanced understanding of the supply chain that results in a clear identification of actors and their incentives at each stage in the system. Secondly, it provides one of the first systematic case studies of the structure of rents⁸ by unlocking distortions in relation to leakage, wastage and poor regulation in the *baladi* bread supply chain. Thirdly, it uncovers how the power of a small group of intermediaries allows for these distortions to persist by maintaining the status quo and resisting large-scale reform of the system. Finally, after gaining a clear sense of the distortions in the *baladi* bread subsidy scheme, it emerges that the system is distorting a whole range of associated products by relying on artificially low prices. The price of one commodity leads to negative spillovers in the Egyptian economy. All of this is inherent in the fact that resources that were initially meant to subsidise the final product, *baladi* bread ended up subsidising the entire supply chain and distorting the local market in the process.

Ultimately, these contributions also highlight the need for finer details and disaggregate work on the public provision of subsidies.

Structure

The remainder of this book is structured as follows: Chapter 1 reviews the extant literature on Egyptian food subsidies and recent policy work on the *baladi* bread supply chain. Chapter 2 describes the research process and methods that were used to collect and analyse the empirical data. Chapter 3 provides a detailed description of the role of conventional and unconventional actors in the *baladi* bread system. Chapter 4 then makes use of testimonies and new insights from fieldwork data to better establish

8. In standard economic theory, "rent" is defined as the receipt of payment from unearned income streams.

the role of these actors at each stage of the supply chain. Chapter 5 draws on the micro-details from this study to make sense of how distortions occur at each stage of the *baladi* bread supply chain by focusing on instances of leakage, wastage and poor regulation. Chapter 6 situates the findings of the study within the broader political economy literature on rent-seeking and discusses its implication on the political economy of Egypt. Finally, the conclusion outlines the book's theoretical and empirical limitations and highlights possible avenues for future research.

