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

- **Several favourable factors are boosting the sector, including rising populations, increasing demand for processed food, higher per capita incomes and improved production capacities**
- **Infrastructures, climate and government strategies are major influencers**

Agrofood dependent on various factors

Agrofood remains one of the most important sectors for North African economies. Although its contribution to national outputs varies across the region, in 2014¹ it accounted for 9.5% of the DGP 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.

Favourable factors supporting 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 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 problems remain. The greatest 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.

Morocco, Algeria, Egypt and Tunisia: contrasting dynamics

The importance of agribusiness varies between North African economies. While on a regional level the sector leads exports, on a country basis it differs.

- Morocco's agribusiness benefits from government subsidies, as it contributes nearly 16% of GDP and provides employment for 40% of the population. Overall, Morocco enjoys the lowest level of risk among the main North African countries.
- 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

¹ Business Monitor international data

improve its trade balance. These measures include reducing imports of food and agricultural products.

- With Egypt's return to stability, following the political turmoil experienced between 2011 and 2013, the agrobusiness has started to recover - especially as the government has made the development of the sector a priority.
- For Tunisia, the agrobusiness is of lower importance than for other countries in the region, as tourism is the main engine of its economy.

Major challenges: low food prices and difficult meteorological conditions

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. In the first seven months of 2016, 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 oils².

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 for 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 occurs, the impacts could include increased rainfall and flooding, which could hit the same areas already affected by El Niño.

Weather conditions are extremely important, as they directly impact levels of commodity prices for North African countries. Because 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 could result in a more integrated, efficient and productive supply chain for the sector.

² Food Price Index down slightly in July, FAO, August 2016



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