



# Addressing the Root Causes of Food Inflation in the MENA



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 **Quick read**

## Introduction

Countries in the Middle East and North Africa are especially susceptible to food inflation. Government policy needs to change away from short-term solutions such as food subsidies, which ultimately exacerbate the problem, rather than easing it.



Since 2008, local food prices have grown by over 50 percent in the MENA region, at a CAGR of approximately nine percent.

## Food Imports

The Middle East and North Africa (MENA) relies on imported food to an extent greater than many other regions. Net food imports account for 48 percent of food consumption across the region and 89 percent of consumption in Gulf Cooperation Council (GCC) countries. Overall demand for food is also increasing in the region and the volume of cereal imported into to the MENA region rose 13 percent between 2007 and 2010. Countries that rely heavily on food imports are disproportionately affected as world food prices rise and are especially prone to food inflation. Since 2008, local food prices have grown by over 50 percent in the MENA region, at a CAGR of approximately nine percent.

## Food Security

Food prices are a sensitive issue in the region and many MENA countries have identified food security as a key policy measure in ensuring political stability. Food inflation triggered a series of bread demonstrations in Bahrain, Yemen, Jordan, Egypt and Morocco and these countries experienced political unrest only a few years later. Although food prices were not the only factor in the so-called “Arab Spring”.

Many governments in the MENA region subsidise world food prices in order to keep food affordable in local terms. These measures include price controls, food subsidies and other measures aimed at reducing the burden of food inflation.

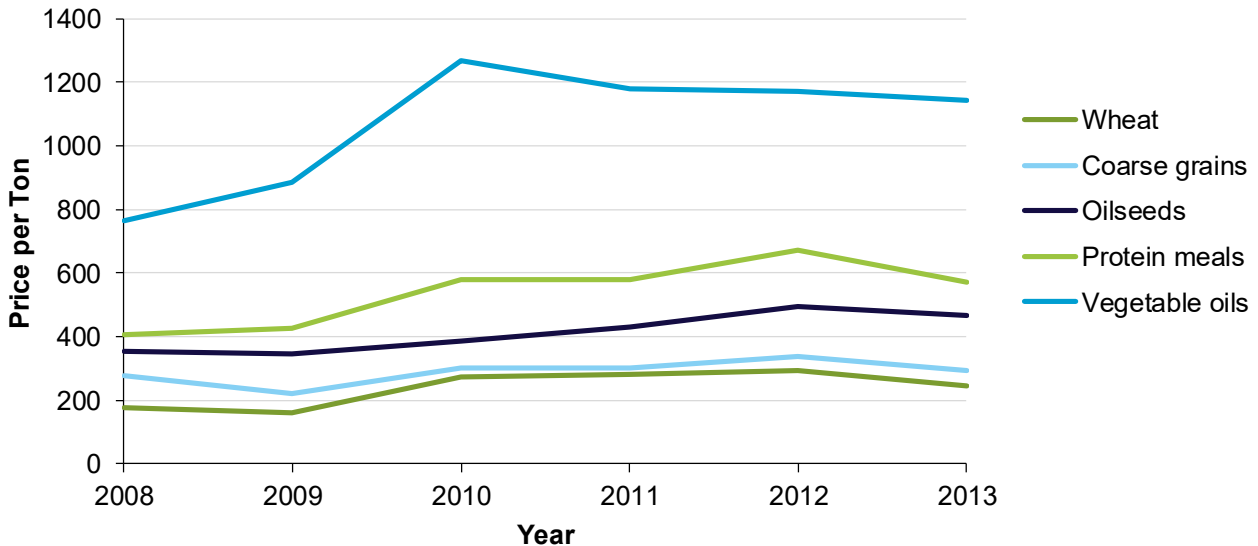
However, food subsidies do not address the root causes of food inflation and may make the situation worse.

- Due Diligence is the investigation of a target by a buyer evaluating historic record & future potential
- Meaningful DD means evaluating the whole supply chain in which the target is embedded
- Commercial & Technical Due Diligence provides deeper insights into future performance
- DD identifies key risks, supports valuation process and identifies issues
- A high failure rate in acquisitions meeting value makes DD vital in minimising bad outcomes
- Outputs from DD include deal value and Go/ No Go decision
- Advantages of TDD include informed decisions & improved negotiating position
- Sound CDD means having sector experts deployed on the ground

The main external factor for food inflation in net importing countries is the increase in global food prices. In Saudi Arabia, net food imports account for 80 percent of food consumption. Between 2007 and 2014, food prices increased by 43 percent compared with an increase of 29 percent in the overall inflation rate since 2007. Fluctuations in the consumer price index also tend to mirror those in the food index.



**Figure 1: MENA Food Inflation Rates vs World Food Inflation Rates, based on consumer prices.**



Source: FAO

## Key Drivers

Key drivers for food inflation in the region include weak supply chain infrastructure, which results in food not being stored or transported in an efficient manner. Some countries suffer from inefficient food production methods or even a decline in agricultural production due to migration from rural to urban areas. Lack of competition in the marketplace reduces the quality of produce and allows costs to rise.

Consumer-focused subsidies and price interventions are only effective as short-term measures. In the long term they exacerbate and lock-in food inflation. According to a World Bank report, a one percent increase in world food prices results in a one-quarter percent increase in MENA local food prices, but also found that decrease in world food prices resulted in no local food price reductions.

## Addressing the problem

In order to address the problem, governments should implement policies that promote the modernisation of the local agri-food sector, through the implementation of modern processes and practices; the consolidation of markets in order to benefit from economies of scale; and education of the agri-food workforce to facilitate the introduction of best practice in each sector.

## Conclusion

In the short-term, the problem of food inflation seems less pressing than it did six years ago. A record crop production and favourable forecasts for the 2018 crop has facilitated a decline of 18 percent in world food prices since August, 2015. However, the long-term trend for food prices is likely to follow an upwards trajectory and should provide compelling motivation to MENA governments to pursue policies that will address the root causes of high food prices in the MENA region.



## Expert in this Insight

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