



# Agricultural cooperatives in Egypt and its role as important actors in agricultural and rural development

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## ENPARD South Support Programme (ESSP) II

### Report on “Agricultural cooperatives in Egypt and its role as important actors in agricultural and rural development”

8 and 9 January, 2017

Cairo – Egypt

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#### Introduction

During the first year of ENPARD's activities, topics as Good Agricultural Practices (GAP) and reform of the extension system were discussed as well as their possible reforms, through four workshops each attended by almost 40 members of the Think Tank group in addition to other participants as specialists and actors in the field. During these discussion sessions and evaluations, agricultural cooperatives have emerged as key actors that cannot be ignored or excluded from the framework of discussions and proposals that explore potential future policies. Accordingly, it was found necessary to address the topic of agricultural cooperatives in order to link the present subject to prior discussions and proposals.

In this context, a workshop was held on the 8<sup>th</sup> and 9<sup>th</sup> of January, 2017 in cooperation with the Department of External Agricultural Relations at the Ministry of Agriculture in the presence of the Think tank members and other participants including representatives of agricultural cooperatives from different governorates and officials from the Central Administration of Agricultural Cooperatives at the ministry of agriculture. And, as there is a project on the " Support to Cooperatives Reforms in Egypt ", supported by the Food and Agriculture Organization of the United Nations (FAO), representatives from the FAO branch in Cairo were contacted and invited to participate in ENPARD's workshop in order to present the project, its objectives, its activities and expected results.

## Agricultural cooperatives in Egypt

### Summary of debates and main conclusions of the workshop

Cairo, 8 and 9 January 2017

**The objective of the workshop** was to display and discuss the current situation of agricultural cooperatives, the objectives of the Cooperatives' Act of 2014, major changes resulting from the Act, answers brought by the Act to the presented inquiries and future needs.

#### Day 1

As an introduction to the workshop, Ms. Tahani AbdelHakim - CHIEAM-IAMM expert for ENPARD program - introduced agricultural cooperatives experience in one of the European countries in order to define the types of agricultural cooperatives in terms of their role, scope of work, services provided to farmers, the evolution of its functions and services to follow-up with the new needs of producers and finally the changes of needs and requirements of the market and consumers.

Following the introduction, Dr. Mohammad Hassan Abed Alaal – FAO's coordinator for the "Support to Cooperatives Reforms in Egypt" project – presented the project, which mainly seeks to achieve the following four outcomes:

- Developing an environment that suits agricultural cooperatives and supports small farmers and agricultural households in Egypt
- Assessing the needs and capabilities of stakeholders to be considered in the framework of the law's reform
- Disseminating know-how of best practices related to the reform of agricultural cooperatives in Egypt in order to develop their efficiency, dynamicity and equality
- Formulate a proposed law to support the reform of cooperatives (in partnership with other development partners such as the International Labour Organization - ILO)

Following the above two presentations, the floor was open for discussions and debates.

#### Day 2

Participants were divided in two groups and an analytical framework, which included a number of questions and discussion topics to be answered, was distributed. After that, findings of the groups were presented.

## Summary of discussions

### 1. Elements on the current situation of agricultural cooperatives in Egypt

Agricultural cooperatives were found to be one of the oldest and most important cooperation sectors in Egypt, first appearing in the beginning of the twentieth century. It was also found that agricultural cooperatives played an important role in the development of the agricultural sector and provided support and services to farmers since the 1960s, within the framework of state policies and agricultural reform.

There are currently 5,435 and agricultural cooperatives on the local level, i.e. at the level of villages, subdivisions known as “marakez”, governorates and some general cooperatives at the national level. The Central Administration of Agricultural Cooperatives in the Ministry of Agriculture conducts the financial and management supervises on cooperatives as well as other tasks as planning and projecting policies customized for cooperatives.

The issued 2014 law introduces some amendments to the Cooperation law of 1980 and is conveyed as a beginning to the development of agricultural cooperatives. Major amendments introduced by the 2014 law includes the give agricultural cooperatives the possibility of establishing projects and legal personalities may contribute to the capital of projects initiated by the Cooperatives.

Through the discussion sessions, several problems emerged, which present an obstacle to the development and activation of the role of agricultural cooperatives and limit the effectiveness of the implementation of the 2014 Act. Major obstacles include:

- The lack in appropriate legal and legislative framework and the lack in its adaptation to the change of economic conditions and the orientation of agricultural policy towards market economy, for decades
- Inconsistency and contradiction in the tasks entrusted to the cooperatives over time which led to the lack of a clear definition of the role of agricultural cooperatives as part of liberal economic policies
- The management of agricultural cooperatives in a traditional way does not fit with the current changes
- Lack of management and technical skills along with a weakness or lack in financial and human resources for training, which is necessary for developing the efficiency of workers in cooperatives

- Limited financial capacity of agricultural cooperatives, thereby weakening their ability to invest and develop
- Poor infrastructure in a large number of cooperatives that do not have the infrastructures needed for proper storage, separation and packaging...etc
- The transfer of some operations that are at core to the role of cooperatives to the Principal Bank for Development & Agricultural Credit, such as the collection and marketing of certain crops
- Lack of coordination and cooperation between cooperatives at various levels
- The intervention of administrative authorities in the activities of agricultural cooperatives which obstructs their ability to adapt with the changes, the provision of services needed by farmers and their ability in taking initiatives. Additionally, it was clear that the submission of cooperatives to the administrative system has greatly deprived their credibility as autonomous productive organizations that work for the benefit of producers. This led farmers to lose trust in cooperatives and to consider it as tools for the implementation of the state policy.
- Multiplicity of statutes. The classification of agricultural cooperatives to 1) credit cooperatives, 2) agricultural reform cooperatives and 3) reclaimed land cooperatives leads to the intervention of three different authorities; where credit cooperatives are subject to the supervision of the central administration for agricultural cooperation, the agricultural reform cooperatives are subject to the supervision of the central administration for cooperation and the reclaimed land cooperatives are subject to the supervision of the sector of land reclamation
- The small size of cooperatives, where the law specifies a minimum area of 750 feddans to be covered, which is equivalent to 300 hectares. With land fragmentation and the small size of farms, this leads cooperatives to deal with small quantities of produce
- Inadequacy of the definition used and the criteria for membership in agricultural cooperatives; where the law defines the difference between a “small farmer or peasant” - who owns less than 10 feddans (4 hectares) and farmers – especially when the membership to agricultural cooperatives is based on the land ownership. This results in several problems including the deprivation of tenant farmers from the membership of cooperatives on one

hand and allowing the possibility of improper practices regarding trade in agricultural inputs that are sold by the cooperative to its members.

- Multi-functionality of cooperatives, its change with time and the orientations of the agricultural policy, which led to the misperception and an unclear role of cooperatives at the level of farmers. At the workshop, participants estimated agricultural cooperatives to be currently conducting the following tasks:
  - Cooperative Marketing by 3 to 5%
  - Agricultural credit by 2%
  - Productive projects by 10%
  - Sales of production supplies and agricultural inputs by 85%

## 2. Proposals and requirements for the development of agricultural cooperatives

Participants agreed that agricultural cooperatives will not be able to operate effectively and efficiently in the absence of a clear strategic vision of core functions. There are also important axes needed for the development of cooperatives and which need to be addressed especially when the 2014 law does not cover them all.

### Axis 1: Administrative and Institutional Framework

Activating and developing the role of cooperatives require institutional adjustments consistent with the economic changes as well as with the new required tasks. The first of these amendments includes the restructuring of the relationship between administrative/official bodies and cooperatives in order to limit the intervention of public authorities and to increase the autonomy of agricultural cooperatives, allowing them to take initiatives and to quickly adapt to the needs of producers.

In this context, it is necessary to unify cooperatives and withdraw the prior-mentioned categorization system, ultimately ceasing the supervision of multiple authorities, along with the modification of the role of the government administrative to only follow-up and evaluate tasks.

At the level of cooperatives, certain conditions should be supplemented and that ensure the renewal of the Board Members and Chairperson on a regular basis, while imposing that the same person may not Chair the Board on two consecutive periods; unlike the current situation which allows the same person to maintain a position for life. Moreover, it is seen imperative to mobilize financial and human resources that are necessary for training and thus developing the efficiency and capabilities of both workers and Board Members in cooperatives.

Finally, it is seen necessary to simplify regulations to alleviate bureaucratic complications and to increase transparency in order to restore the confidence of producers in cooperatives, where

cooperatives are currently subject to two operational regulations which lead to a competitive instead of a complementary relationship between various institutions (such as between the Ministry of Agriculture and the Union of Cooperatives ... etc).

## **Axis 2: Organizational and Technical Framework**

Cooperatives suffer from weakness in financial resources and from a continuous deficit in budget. Although the value of one share was raised from 1 Egyptian pound to almost 50 to 100 pounds, this is not yet sufficient to provide the required financial resources, especially if the goal is to develop cooperatives as independent and profitable economic entities. For this reason, a few propositions were presented to provide additional financial resources, such as: allocating a profit percentage from the market value of products, commission on marketing or on services as rental of agricultural machinery, or applying for grants or donations from members, agricultural companies or banks.

As the small size of some cooperatives creates a significant obstacle, it is suggested to raise the minimum agricultural area of each cooperative to 1,500 feddans, equivalent to 600 hectares. This relates to the problem caused by the small size of farms and the fragmentation of owned agricultural land, which leads to severe negative impacts on the management of water resources on one hand and on the implementation of a successful marketing policy of agricultural crops.

One of the proposals to alleviate the negative effects is to generalize the presence of cooperatives which are specialized in marketing of certain agricultural crops as well as cooperatives having multiple activities and functions. Accordingly, cooperatives may play a major role in convincing producers to apply proper and optional agricultural rotations to improve the use of irrigation water on one hand and in order to obtain sufficient quantities of marketable products under better prices and terms. The latter proposal raised numerous discussions within the groups indicating the need for continued communication between actors and decision-makers in order to form a consensual vision and strategy for cooperatives and their role in the development of the agricultural sector.

## **Axis 3: Political and Strategic Framework**

This axis is related to the strategic vision that defines the expected role of cooperatives as a key actor in the development of the agricultural sector. Taking into account the structures of the agricultural production in Egypt as well as the current and future challenges facing agriculture, cooperatives become an important activator of the development process and which can perform different tasks as:

- At the level of the product: Since the agriculture sector in Egypt is characterized by the presence of a large number of small and marginal farms, the services provided by the cooperatives may help develop the efficiency of the production processes, increase



production quantities and increase farmers' income. Services may be presented in the form of:

- Provision of know-how in marketing or marketing of products for small farmers in order to acquire suitable prices, thus contributing to an increase in farmers' incomes
  - Provision of services complementing the marketing process, as storage, sorting and packaging
  - Provision of agricultural inputs and rental of agricultural machinery
  - Provision of extension services and technical consultancies
- At the regional level: cooperatives are one of the most important forms of collective action and coordination between actors. Consequently, agricultural cooperatives have a vital function in coordinating between partners and actors at the local level in order to improve the quality of production and maximize the value of local products, and thus contributing to local development mainly through:
    - Attending to local products having a superior quality and working towards its promotion, and marketing while encouraging farmers to invest in such products
    - Coordinating with the actors in the value chain as industries and traders in order to identify market demands and contribute to improving the efficiency of the production chain holistically
    - Contributing to the activation of contract farming and its success through proper collection and storage of crops and through the provision of needed quantities for contractors
- At the national level: cooperatives may execute important tasks and form a strategy for the agricultural sector, such as:
    - Preserving the environment and resources from pollution and waste by promoting and disseminating know-how of good agricultural practices (GAP) amongst farmers. This requires strengthening the relationship between cooperatives and research/consulting institutions.
    - Contributing to the rational use of irrigation water mainly by convincing farmers to plant the same crop at once.
    - Contributing to the improvement of the quality of agricultural production and compliance to international safety standards in order to increase export opportunities, which may be achieved by adopting TORs followed by its dissemination and implementation within members of cooperatives.
    - Reducing losses in yield, which represent a burden and huge loss at the national level through the provision of proper storage and transportation infrastructures.



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Finally, it seems evident that the development of agricultural cooperatives is a multi-dimensional process that requires a strategic vision and specific operational phases over the years, without which partial amendments will not lead to effective results.

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