



# ENPARD SOUTH

*Support Programme*

European Neighbourhood Programme  
for Agriculture and Rural Development

**Agricultural cooperatives in Egypt :  
For a strategic vision**



## Summary note

### Workshop VI: Agricultural cooperatives: For a strategic vision

Cairo: May 7th and 8th, 2017

#### Introduction

The first steps taken to develop agricultural cooperatives in Egypt began with the enactment of the 2014 law which allowed private capital and legal persons to contribute to the financing of projects established by agricultural cooperatives on the condition that contributions do not exceed 25% of the capital of these projects in order to develop agricultural production. After issuing this law, a technical support project for the development of cooperatives was initiated by the Food and Agriculture Organization of the United Nations (FAO) and which aims at achieving three objectives: "Assessing the needs and capacities of stakeholders to account for the reform of the law; disseminating know-how on best practices related to the reform of agricultural cooperatives in Egypt to reach efficiency and effectiveness and to achieve equality; preparing a proposal of a law to support cooperative reform (in partnership with other development partners)."

In this context, it seemed necessary to contribute to the thinking and the ongoing dialogue on the development of agricultural cooperatives in order to formulate a new strategic vision. Accordingly, the first workshop on agricultural cooperatives was organized in January 2017 with the participation of members of the Think Tank, the cadres of the Central Administration for Agricultural Cooperation in the Ministry of Agriculture, representatives of farmers and agricultural cooperatives in governorates, representatives of civil society and NGO's working in the field of agricultural and rural development, researchers from the Agricultural Research Center and the project coordinator from FAO. The workshop led to some preliminary results regarding the analysis of the status of the current cooperatives and the problems and obstacles facing them as well as highlighting a lack in a strategic vision that gives the framework and general direction for the development of agricultural cooperatives.

The second workshop was held on May 7th and 8th 2017 with around 35 participants representing the stakeholders who participated in the first workshop. This workshop aimed at holding a dialogue on **the components of a strategic vision for the development of agricultural cooperatives** and to identify the main components. The workshop began with a presentation on the role and functions of agricultural cooperatives in Europe in general and in France in

particular, followed by an open dialogue with the participants. During the second part of the workshop, participants were divided into two groups with each group managing a dialogue based on an analytical framework that was distributed. Finally, each group presented the ideas that were agreed upon.

**The aim of this note is to present the main findings of the workshop.**

– **General framework and contemporary determinants of the activities of agricultural cooperatives; two categories of determinants :**

1. The first category includes general determinants related to the market, demand and consumer needs at the level of the local and global markets where an increasing amount of agricultural production goes to export. The most important of these determinants is that domestic production faces strong competition from other countries' products. It is therefore necessary for local production to have competitive advantages not only in terms of production cost and price, but also in terms of quality and conformity with international standards of food safety hence resulting in an increasing demand in the international market for products of specific local origin and recognized as a brand of confidence and assurance of quality.
2. The second category consists of the determinants related to the structural characteristics of agriculture in Egypt: i) the majority of the agricultural production units in Egypt comprise of very small areas, ii) the agricultural lands are fragmented, iii) the scarcity of water resources with respect to the needs and iv) the weak incomes of farmers that decrease their investment capabilities.

In an open and competitive global market along with the small and economically weak farms, the role of cooperatives is vital as they represent a solution to overcome the previously mentioned obstacles.

– **Agricultural cooperatives are an important and major player in the agricultural sector:**

The experiences of numerous countries from different continents such as Asia, Africa and Europe show that agricultural cooperatives are a key player in agricultural development. For example, Europe has 40,000 agricultural cooperatives with an annual turnover of 260 billion euros while France, that has around 500,000 farmers, has 2,600 agricultural cooperatives and 11,000 cooperatives for agricultural machinery use, with a turnover reaching around 85 billion euros with agricultural cooperatives achieving around 40% of the turnover of the overall agricultural sector. Finally, it should be noted that  $\frac{3}{4}$  of agricultural producers are members of cooperatives.

In Egypt, there are about 4.5 million farmers and 5,435 agricultural cooperatives. Taking into consideration the characteristics of the Egyptian agriculture as mentioned above, the

agricultural cooperatives are of particular importance as an effective means of assembling farmers in order to gain economic strength and raise their productivity and competitiveness, especially with the opening of the scope for diversification and expansion of activities of agricultural cooperatives.

– **Agricultural cooperatives have a dual nature:**

Agricultural cooperatives are socio-economic organizations based on internationally recognized principles of cooperation. Their primary objective is to be in the service of agricultural producers. At the same time, agricultural cooperatives are considered as economic institutions operating in the field of production and therefore their goal is also to achieve profit. This means that cooperatives should have the administrative, financial and economic capabilities to play their role efficiently within the framework of market requirements and competition with other economic institutions and the private sector.

Profit making is a necessary condition for many reasons as it allows for the continuous improvement of services provided to farmers, ensuring their sustainability and raising the technical and economic level of cooperatives through increased investments.

– **The diversity of services and functions carried out by cooperatives is a necessity:**

The experience of other countries has shown that the expansion of cooperatives' activities is a necessity to improve the services for farmers and raise economic efficiency, which are the two main axes as mentioned above. Therefore, there are cooperatives with a broad scope of activities while others are more specialized. In general, cooperatives exist in all the pre and post stages of the production process, starting from the provision of agricultural inputs, leasing of agricultural machinery, mechanization, harvesting and crop collection, sorting, storage, packaging and marketing; and in some cases, cooperatives proceed to manufacture and process some products such as dairy products. These activities are important to small farms that do not have the means to carry out such tasks as their limited size does not allow the necessary investments to be made on one hand and because they will not be profitable on the other hand. Moreover, with cooperatives operating in the sorting and storing of products greatly aids in decreasing losses as it is widely known that the percentage of losses due to poor sorting and storage conditions reaches 25% and more in some products.

There is also a need to diversify the economic activities along the steps of the value chain in order to achieve integration and a higher degree of coordination among the actors in the production chain in order to increase the economic efficiency of each production chain starting from the field and reaching to the consumer. This expansion leads to the creation of an added value and distribution of revenue to farmers.

In addition to the activities mentioned above which are directly related to the various stages of production and marketing, cooperatives assume new responsibilities in light of modern changes

and issues. For example, agricultural cooperatives play an important role in the dissemination and adoption of production standards for quality assurance through specifications considered as the basis of contracting with members of cooperatives. Cooperatives also play an important role in the voluntary gathering of farmers to implement various forms of agricultural training courses at the local level which thus elevates the efficiency in irrigation, mechanization and the overall agricultural processes.

Additionally, cooperatives play an important role in spreading good agricultural practices in order to conserve resources while decreasing waste or pollution while protecting the health of both producers and consumers.

– **The size of cooperatives and their financial and human resources:**

1. The small size of agricultural cooperatives has a negative impact on their potential and leads to a weakness in its economic situation and services. It is therefore necessary to link cooperatives regionally, i.e. linking cooperatives at the local level to reach a competitive capacity and greater economic ability in order to serve farmers. Lessons learned from the experiences of other countries have also shown that cooperatives should include all categories from small to large farmers.

This necessity raises the issue of reconsidering the appropriate definition of the farmer, since the current definition takes a social and historical definition and therefore does not reflect the current situation and does not take into account the desired developments. As part of the development of agricultural cooperatives it becomes necessary to define the farmer based on the economic activity of the individual and not based on the social situation or land ownership separately from the land use. If we look at the experiences of other countries, we find that the ownership of agricultural land is not a prerequisite for the membership of agricultural cooperatives, but requires that the individual is active in the fields of agriculture and production. With the development of the definition of farmers, the membership of agricultural cooperatives can be expanded to include the largest number of small and large scale farmers. This is an important step in strengthening the potential of agricultural cooperatives, which will benefit from increasing the number of members and the entry of members with productive activity and economic size.

2. On the other hand, with some successful and effective models of agricultural cooperatives, it is known that agricultural cooperatives in Egypt suffer from a general lack of services and weak human capabilities in the field of management, follow-up, extension and investment, which represents a strong obstacle to any attempt to develop and modernize cooperative agricultural work. It includes weak technical and managerial capabilities of both staff and board members.

In this context, any measures aimed at strengthening the financial and economic potential of agricultural cooperatives must be accompanied by a full policy of capacity building at the level of employees and board members through procedures at all levels:

- Legislative level to review the selection criteria and specifications of employees and board members such as age and educational level as well as determining the allowable frequency of running for the Board of Directors ... etc.
- Executive level through training programs for employees and board members to raise the technical, administrative and marketing competencies in order to prepare them for future tasks that they should perform in the framework of developed and modern cooperatives.

– **The economic role of agricultural cooperatives:**

One of the main axes of the development and modernization of agricultural cooperatives is the economic role. As mentioned previously, agricultural cooperatives, in addition to serving farmers, must operate similarly to companies of the private sector companies by having independence and aim to achieve profit which will be partly distributed to members and partly directed towards investment and development. The higher the profits of cooperatives the greater their ability to serve farmers.

As seen from the experiences of other countries, the expansion of economic activities on one hand and working to raise competitiveness on the other hand, taking into account market and consumer demands, are the main factors to achieve profit in agricultural cooperatives. To achieve this goal, the expansion of cooperative activities is necessary as it leads to complementarity and consistency between the different levels in the production chain. Therefore, agricultural cooperatives have a role in:

- Selling of agricultural inputs and their provision to farmers in addition to technical consultancies and guidance;

- Providing agricultural machinery for rent to farmers;

- Sorting and storing products after harvesting: The sorting process is important as it is the preliminary step before marketing. Sorting aids in directing the product according to the required standards of the market especially since products are sold at different prices according to their quality after sorting. Storage is also an important step which, if performed properly following conditions and standards, leads to the reduction in losses while maintaining the quality of the product and thus the possibility of marketing at a better price. These operations require equipment and facilities that are not owned by the majority of farmers because of their cost and because the production volume in the vast majority of farms is insufficient to operate the equipment economically. This is where the role of agricultural cooperatives comes in

providing these services collectively to farmers, which allows the increase in the value of their production;

- **Marketing:** It is known that the greater the number of intermediaries, the lower the purchase price of the product. Negotiating the selling price depends on the size of the supply and the volume of demand on one hand and on the bargaining power of the seller on the other hand. The bargaining power of the seller is related to several factors including quantity, volume of production offered for sale, quality and the possibility of storage until the price is appropriate. This bargaining power is not available to the overwhelming majority of farmers thus resulting in intermediaries and wholesalers controlling the purchase price of farmers and imposing their conditions. Therefore, cooperatives performing marketing for the members aims at selling at higher prices since the quantity offered for sale is greater and since there is a possibility of storage and non-immediate sale. Agricultural cooperatives have the potential to diversify marketing channels such as opening new markets, selling directly to retailers or supermarkets, or even direct selling to consumers through cooperative outlets. On the other hand, cooperatives play an important role in contractual agriculture because the contracting of large quantities takes place through cooperatives.

- **Conversion or processing of some agricultural products such as dairy:** In the framework of raising the value of the agricultural product and returning the bulk of the added value to the farmers, cooperatives have turned to the conversion and processing of some products before their marketing in many countries such as Tunisia or Morocco. In some European countries such as France or Italy, the brands of some dairy products produced by cooperatives have become well-known worldwide, exported over the world under registered brand-names.

– **Some conditions that must be met to accompany the development and modernization of cooperatives and proposed procedures:**

Providing crop insurance against natural risks (rains, floods, diseases, insects, etc.) or marketing (collapse in prices or closing markets, etc.) is an important factor in securing investment and farmers' incomes, especially in the case of small farmers who a limited and fragile economy that discourages them from making any changes to avoid risk. It is also the case for cooperatives where the expansion of economic activity must be accompanied by an effective insurance system.

The other factor is the funding/loan system for farmers and cooperatives, as the provision of facilitated financing is a prerequisite for investment. In the framework of modernization of agricultural cooperatives, the trend towards the independence of financial cooperatives must be based on self-reliance or external resources, without falling under the control of private or governmental institutions. One of the most important proposals is the establishment of an independent cooperative bank that will provide loans to cooperatives and their members to facilitate investment and modernize productive agricultural activity.

In addition to developing the legislative framework and laws governing the work of agricultural cooperatives in order to give freedom in taking initiatives and developing economic activities and the entry of cooperatives into new fields such as packaging and processing of products.

Develop an integrated policy to link cooperatives and scientific research and extension centers since cooperatives need technical support in various fields, starting with the agricultural techniques and economic studies necessary to start any investment activity and market studies. It is proposed that the scientific centers undertake these studies in order to provide a sound scientific background for decision-making in support of cooperatives that do not have the necessary competencies.

Finally, the development and modernization of agricultural cooperatives requires the formulation of an integrated vision consisting of:

- Assessment of the current situation and the resulting problems and setbacks;
- Long term goals in terms of change we seek;
- Specific goals in the medium and short term;
- A set of policies to achieve these goals;
- These policies are to be translated into specific procedures;
- Identify the responsible parties;
- An implementation timeframe.