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Views on the Crisis

A new model for agricultural cooperatives in Egypt achieves the required developmental take-off:

With an overview of features of Dutch agricultural cooperatives as a pioneering experience



General Introduction

ECES initiated a set of studies to analyze the implications of the Corona crisis on the various variables and sectors. Now it is time to move on to the second stage, which is to put forth the strategic pillars for the post-corona phase in the Egyptian economy, taking into account the new global economic situation imposed by the crisis.

This series of new reports focuses on a detailed discussion of a set of drivers of change, i.e., issues that, if properly addressed, are expected to cause major developmental strides for the Egyptian economy. These issues may have been dealt with previously, but were not adopted in the required manner and therefore need revisiting or they may be issues that were not addressed in the first place despite their importance.

This series of reports follows a descriptive and quantitative analysis approach according to the nature of the topic.

Each report focuses on an issue through three main aspects, clarification of the importance of focusing on this issue and the rationale behind it, followed by a quick description of the current situation, a detailed

discussion of the proposed change method and timeframe, and any immediate/medium-term / long-term changes. Finally, it identifies the parties responsible for implementation, preconditions for success and the most important expected results.

“cooperatives and other social and solidarity economy models must be an integral part of the solutions that we envision as we confront the enormous challenges of building back better. And if we want to build a human-centered future of work, one that is fairer and greener, one that serves people and planet together, if we are truly committed to realizing the UN 2030 Agenda for Sustainable Development then we need to be sure that cooperatives continue to be the crucial actors that they have always been.”

ILO Director-General Guy Ryder, on the International Day of Cooperatives 2020

1. Why are cooperatives a driver of change?

1-1 Cooperatives, a globally successful development model that Egypt desperately needs

- Cooperatives are considered a successful development model that can play a pivotal role in promoting social and economic development, especially in poor societies. Therefore, the United Nations designated an annual celebration on the first Saturday of July to focus on the importance of this cooperative model and to discuss ways to support it.
- Globally, the cooperative sector is a major player in the economies of many countries. For example, it accounts for the majority of the insurance sector in Sweden, more than 75% of agricultural marketing and more than 60% of the milk and cheese industry in Canada, 40% of Finland's trade, 50% of the agricultural sector in Germany, in addition to 20% of the banking sector. In addition, 13% of electricity production in the US is carried out by the cooperative sector. The contribution of the cooperative sector in Denmark is 97% in the milk collection sector, 38% in the consumer sector, and 70% of the consumer activity in Kuwait. A quarter of health services in India, Turkey and Colombia is provided by the cooperative sector.¹

¹Wael Zaki (2017), "The Cooperative Sector: A Billionaire Looking for A Role," Al-Shorouk, December 17.

- Cooperatives are considered a model for a participatory-social economy that maximizes benefits of the individual, especially the young, whether a producer, consumer or entrepreneur, by including them in a larger entity that organizes efforts and enables them to benefit from economies of scale. Hence, the individual benefits from this entity in achieving productivity and marketing objectives as well as increasing bargaining power with other actors.
- Cooperatives are an entry point for integrating the unorganized sector into the formal economy. As they are people-centered models that aim at meeting the demands of local communities, they can play a catalyst role to integrate the organized sector through an organized structure that acts as a platform to bring together micro and small entities, such as fishermen and farmers, by reducing the cost of intermediation and maximizing the efficiency of coordination between the government and small and micro productive units.²
- Cooperatives have presented effective initiatives to confront the Coronavirus pandemic in various parts of the world. They have contributed to increasing awareness of the virus and ways to prevent it, providing food needs for those affected or ensuring that farmers' supply chains are

²A survey conducted in January 2021 by UNDESA.

not disrupted and/or providing concessional financing to affected projects and vulnerable segments of the population. Therefore, many governments have taken the initiative to support cooperatives, especially small ones, by providing financing and liquidity during the Corona crisis so that they can continue their activities.³ Cooperatives have also transformed their products and services to meet urgent local demand for protective equipment, food supplies and social care.⁴

- Egypt is in dire need of cooperatives as a development model in light of the huge size of the informal sector, the absence of entities that organize the efforts of small producers, consumers and entrepreneurs, or the presence of fragile entities that do not achieve their interests with the required efficiency and effectiveness.

1-2 Why focus on agricultural cooperatives?

- Agricultural cooperatives are among the most successful in the world. For example, agricultural cooperatives account for a 50-60% market share of total turnover in the agricultural sector and food industries in the EU. In the US, the market share of cooperatives is 33% for manufacturing,

³For example, France and Canada have created several funds to facilitate obtaining loans for cooperatives, Malaysia has postponed loan maturities for cooperatives and restructured them, while Italy has availed Garanzia Italia or "Guarantee Italy" to non-bank financial institutions to offer loans that makes financing cooperatives easier.

⁴ILO Director-General's statement for the International Day of Cooperatives 2020, July.

marketing and input supply. In Australia and New Zealand, dairy marketing cooperatives hold a market share of more than 60% and 90%, respectively. In Latin America, dairy cooperatives in Argentina and coffee cooperatives in Brazil are leaders across sectors, whether in terms of their market share in the domestic market or exports (Rabobank, 2012).⁵

- In Egypt, agricultural cooperatives are among the oldest examples of cooperatives that arose in Egypt for rational and valid reasons. However, they did not fulfill their principal role as a non-governmental participatory entity that works for the benefit of farmers and is self-managed according to their vision. Consequently, the change in the nature of the current needs of this model entails a radical change in our view of it as a promising sector that has ready opportunities to contribute to agricultural development and improve farmers' living standards.
- The Coronavirus pandemic demonstrated the need to pay attention to agricultural cooperatives, especially that achieving food security and ensuring the smooth flow of food supply chains, and thus availability and affordability,

⁵Rabobank. 2012.Cooperatives and rural financial development. Netherland.

have become among the a-typical future challenges facing the world.

2. The concept of cooperatives and an overview of their current global position

1-2 The concept of cooperatives

Historically, cooperatives are a separate institutional framework for a group of individuals who voluntarily unite to meet their common economic, social and cultural needs and aspirations. This framework is managed in a participatory and democratic manner.⁶

It is also considered a profitable economic model based on community participation (a community-based economic model). If it is properly established and the appropriate environment is provided for its work, it can play a fundamental role in achieving national development goals. Specifically, it can contribute to the economic and social development of the local community, generate employment opportunities, alleviate poverty, and achieve social justice.

Cooperatives embrace the values of self-help, self-responsibility, democracy, equality, equity and solidarity. They are based on a set of principles that include: voluntary membership that is open to all;

⁶Statement on the Cooperative Identity. International Cooperative Alliance. at: <https://www.ica.coop>.

democratic governance through members; joint ownership of members; independent institutions that provide education, training and information to their members and their administration; and local, regional and international cooperation between cooperatives. They also aim to develop their communities.⁷

There are many types of cooperatives according to their different social, economic and environmental goals, including producer cooperatives, consumer cooperatives, retail cooperatives, housing cooperatives, utility cooperatives, insurance and financial services cooperatives, business owners' cooperatives, supply cooperatives, multilateral cooperatives, social cooperatives, and others.

2.2 Cooperatives around the world

Globally, cooperatives are prevalent in about 98 countries, with nearly 3 billion members, or nearly half of the world's population. The number of cooperatives is estimated at three million cooperatives and about one billion members, generating estimated turnovers of \$3 trillion.⁸ According to estimates of the International Labor Organization, the number of jobs that cooperatives generate

⁷International Cooperative Alliance at: <https://www.ica.coop>.

⁸ILO. 2014. The Role of Cooperatives in Sustainable Development for All: Contributions, Challenges and Strategies. December, Kenya.

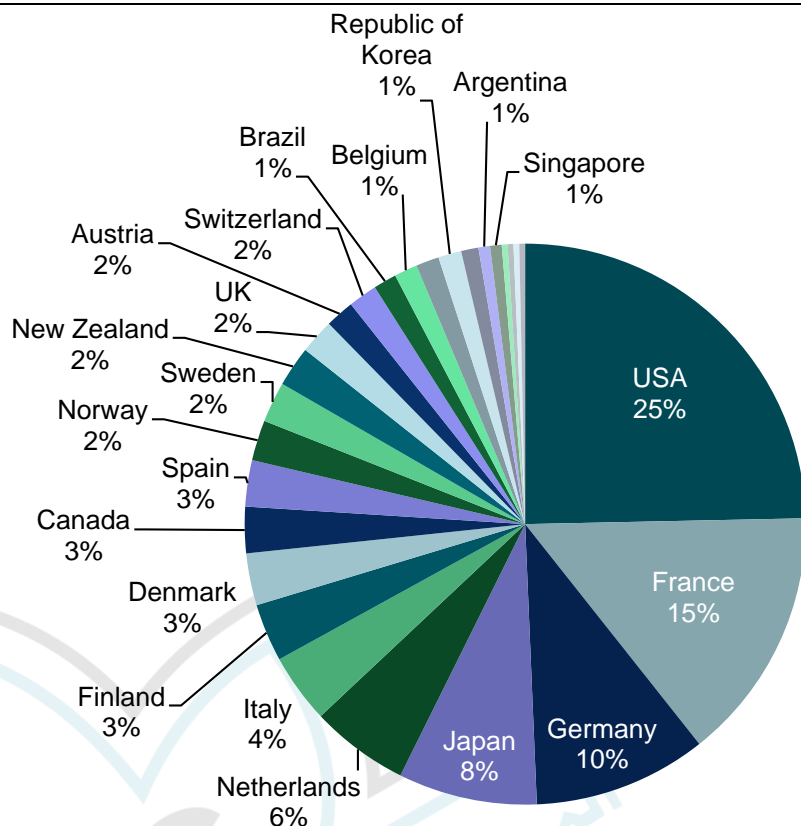
or that guarantee their continuity amounts to about 280 million jobs for at least 10% of the total employed in the world.⁹

The following table displays the 300 largest cooperatives around the world in terms of annual turnover, according to their geographical distribution, economic activities, and gender.

Table 1. The largest 300 cooperatives worldwide in terms of annual turnover

Item	Details
Geographical distribution	<p>Europe is one of the world's largest regions in terms of the prevalence of cooperatives, followed by the US, as shown in Figure (1). Germany alone has 7,000 cooperatives with more than 20 million members, and 90% of farmers in France are members of one or more cooperatives.</p> <p>Figure 1. Relative distribution of the largest 300 cooperatives around the world in 2020, distributed geographically</p>

⁹<https://www.ilo.org/global/topics/cooperatives/lang--en/index.htm>.

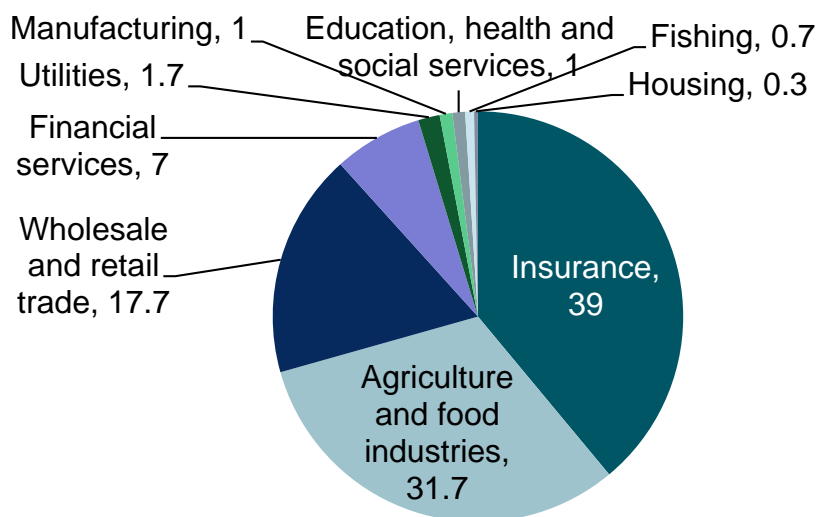


Source: Egyptian Center for Economic Studies calculations based on International Cooperative Alliance data.

Nature of economic activities

Cooperatives in the area of insurance account for the highest share of turnover, followed by cooperatives in the area of agriculture and food industries, followed by cooperatives in wholesale and retail trade.

Figure 2. Percentage distribution of the largest 300 cooperatives around the world in 2020 according to economic activity (%)



	<p>Source: Egyptian Center for Economic Studies calculations based on International Cooperative Alliance data.</p>																
<p>Cooperative types (Producer/Consumer)</p>	<p>Producer cooperatives are the most widespread among the various types of cooperatives, followed by mutual cooperatives* then consumer cooperatives.</p> <p>Figure 3. Percentage distribution of the largest 300 cooperatives around the world in 2020, broken down by type</p> <table border="1"> <thead> <tr> <th>Cooperative Type</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Producer</td> <td>44.04%</td> </tr> <tr> <td>Mutual</td> <td>28.15%</td> </tr> <tr> <td>Consumer/User</td> <td>21.52%</td> </tr> <tr> <td>Non coop (controlled by coop)</td> <td>4.30%</td> </tr> <tr> <td>Worker</td> <td>0.99%</td> </tr> <tr> <td>Multistakeholder</td> <td>0.66%</td> </tr> <tr> <td>Producer+Consumer/user</td> <td>0.33%</td> </tr> </tbody> </table> <p>Source: Egyptian Center for Economic Studies calculations based on International Cooperative Alliance data.</p> <p>* Such as cooperatives in financial services, insurance etc.</p>	Cooperative Type	Percentage	Producer	44.04%	Mutual	28.15%	Consumer/User	21.52%	Non coop (controlled by coop)	4.30%	Worker	0.99%	Multistakeholder	0.66%	Producer+Consumer/user	0.33%
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3. Best cooperative practices from many global experiences

The cooperative system, especially agricultural cooperatives as a model, has been revisited in many countries in Europe, Asia, Africa and Latin America in addition to the US, either through the websites of some cooperatives in these countries or through the studies that have dealt with them.¹⁰ Appendix (1) presents some

¹⁰Allan, B. 2008. Egypt Agricultural Cooperatives. IMC, Egypt.

basic features of agricultural cooperatives in the Netherlands as one of the most successful models in the world.

With the emphasis on the different political, economic, social and environmental factors in each country and the impact of these considerations on the success / failure of cooperatives therein, it is possible to come up with a set of common factors that represent basic pillars for the success of cooperatives in achieving their goals and serving their societies, as follows:

Table 2. Common factors that represent basic pillars for the success of cooperatives in achieving their goals and serving their societies

Pillar	Details
Nature of cooperatives	<ul style="list-style-type: none"> - Cooperatives are a non-governmental institutional framework for a group of individuals who unite voluntarily to meet their common economic, social and cultural needs and aspirations, and this framework is managed in a participatory and democratic manner. - Governments have a facilitating and supportive role for cooperatives as one of the main pillars in the implementation of their national development plans. This supportive role is exercised by facilitating procedures for their establishment and management in order to enable them to carry out their tasks. Some governments offer several incentives to these entities such as to contribute to their financing or exempt them from taxes.

<p>Organizational Structure</p>	<ul style="list-style-type: none"> - Cooperatives operate in an organizational structure consisting of two or three administrative levels at the most. - Clarity of tasks for each level and ease of collaboration: - The national level: They set policies, communicate with the government, represent cooperatives externally and internally, and include representatives of all affiliated cooperatives. They can be divided according to sector, activity, or geographic region. - The Intermediate level (province / governorate) is an intermediate link between local and national cooperatives. - The local level: Cooperatives that directly include farmers - A specialized technical department that manages cooperatives.
<p>Legislative framework</p>	<ul style="list-style-type: none"> - One legislation for all cooperatives or multiple legislations, but governed by general principles - Clear, comprehensive, consistent and balanced legislations that guarantee everyone's rights and stimulate accountability for members as well as the regulatory authorities - Legislations guarantee: <ul style="list-style-type: none"> • A minimum level of government intervention • The lowest degree of government spending • The maximum degree of decentralization • The highest degree of democracy - Determine the degree of government intervention - The government role is often limited to specific tasks: <ul style="list-style-type: none"> • Legislations • Registration procedures • Dissolution / liquidation • Follow-up

Membership	<ul style="list-style-type: none"> - Membership is optional, and a member can join more than one cooperative if needed - Membership is for a fee, as are some services
Services provided	<ul style="list-style-type: none"> - The services provided by cooperatives vary across the value chain and can be grouped into two main sets: <ul style="list-style-type: none"> - Technical and financial support: training, research and development, dissemination and lobbying services, in addition to helping farmers obtain credit and providing appropriate financing for their projects. - Variety of services including supply of inputs and requirements, production and harvesting, manufacturing, sales, marketing and distribution locally and abroad. - The services that can be provided are determined by the size of the cooperative, and the cooperative may specialize in providing a specific service and may provide a range of services. - The profit margin that cooperatives get from technical and financial support is low, but high in the case of other services, especially marketing and distribution.
Financing	<p>Various sources for financing cooperative activities: Government funding / contributions / service fees / loans</p> <ul style="list-style-type: none"> - Direct government financing such as special annual grants for cooperatives at the national level, or indirectly, such as the government bearing the difference in production prices from market prices or the government's commitment to purchase products. - Member subscriptions - Members' participation in the capital through subscription, in addition to offering quotas to finance

	<p>specific capital needs in exchange for the services provided</p> <ul style="list-style-type: none"> - Loans either from specialized credit cooperatives (whose rates are lower) or through banks. - Many cooperatives succeed in achieving a profit margin that they are entitled to dispose of either by distributing or reinvesting.
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Source: Prepared by the Egyptian Center for Economic Studies based on multiple sources, including Rabobank 2012; Allan 2008.

4. A brief description of cooperatives in Egypt, with a focus on agricultural cooperatives:

The state realized the strategic importance of cooperatives and their economic and social role. This was reflected in the existence of a provision in the Egyptian constitution issued in 2014 in Article (23) that the state must sponsor and support cooperatives in all their forms. This is in addition to what is included in this regard in the national strategies for agricultural development, and the sustainable development strategy: Egypt Vision 2030.

In Egypt, there are many types of cooperatives, including agricultural cooperatives, consumer cooperatives, housing cooperatives, and educational cooperatives. Each type of cooperative is affiliated with its relevant ministry. Agricultural cooperatives are affiliated with the Ministry of Agriculture, consumer cooperatives are affiliated with the Ministry of Supply and Internal Trade, producer cooperatives are affiliated with the

Ministry of Local Development, water cooperatives are affiliated with the Ministry of Irrigation, and housing cooperatives are affiliated with the Ministry of Housing. They are all under the umbrella of the General Cooperative Union ¹¹ except for educational cooperatives, which are under the Ministry of Education.

The legislative framework for cooperatives is diverse. Each type of cooperative has a law that regulates it,¹² in addition to a law that clarifies the universal principles of cooperatives (Law No. 317 of 1956).

In Egypt, there are about 14 thousand cooperatives that have more than 10 million members, with total financial contributions exceeding EGP 40 billion, more than half of which are in the field of agriculture and more than a quarter of them in housing.¹³

¹¹The General Cooperative Union was established by Law No. 28 of 1984 and comprises the central cooperative unions of consumer, producer, agricultural, housing and water resources. In its fourth article, the law defines the tasks of the General Cooperative Union, specifically: planning and coordinating the efforts of the cooperative movement in the economic and social development plans. It sets, in partnership with the relevant ministries, the general policy for the cooperative sector, and conducts studies, research and data, as well as spreads the cooperative movement thought and in the field. It presents cooperative and technical advice to cooperative unions and supplies them with what they may need in terms of assistance, expresses legal opinion, spreads cooperative culture, supports cooperative education, prepares cooperative leaders, establishes and manages cooperative institutes and training centers, sponsors graduate studies in the field of cooperative work, and finally, represents the cooperative sector at home and abroad.

¹²Law 109 of 1975 regulates consumer cooperatives, Law 14 of 1981 regulates housing cooperatives, Law 122 of 1980 and its amendments regulate agricultural cooperatives, Law 123 of 1983 fishing cooperatives, Law 110 of 1975 producer cooperatives, and Law 1 of 1990 educational cooperatives.

¹³The statements of Dr. Ahmed Othman, President of the General Cooperative Union, in his review of the movement's role in modernizing Egypt until 2020 (from multiple press sites).

- Currently, the total number of agricultural cooperatives stands at 5,697 cooperatives, with 4.6 million contributing members. The size of the capital amounted to EGP 327 million. About 18.9 thousand employees worked in cooperatives in 2018/2019. Agricultural cooperatives have cultivated lands amounting to 7.5 million acres, which represent 86% of cultivated land.¹⁴
- In Egypt there are three types of agricultural cooperatives according to the nature of land affiliated to them, namely:
 - The first type:* cooperative societies for agricultural credit: to which old agricultural lands are affiliated
 - The second type:* cooperative societies for agrarian reform, to which the lands reclaimed by the state are affiliated
 - The third type:* cooperative societies for reclaimed lands, to which desert lands are affiliated
- Agricultural credit cooperatives account for the largest share, whether in terms of the lands affiliated to them, the number of societies or members affiliated, or their capital, as shown in Table 3.

¹⁴The total cultivated area in Egypt is 8.7 million feddans, of which 7.5 million feddans belong to cooperatives (the Central Agency for Public Mobilization and Statistics).

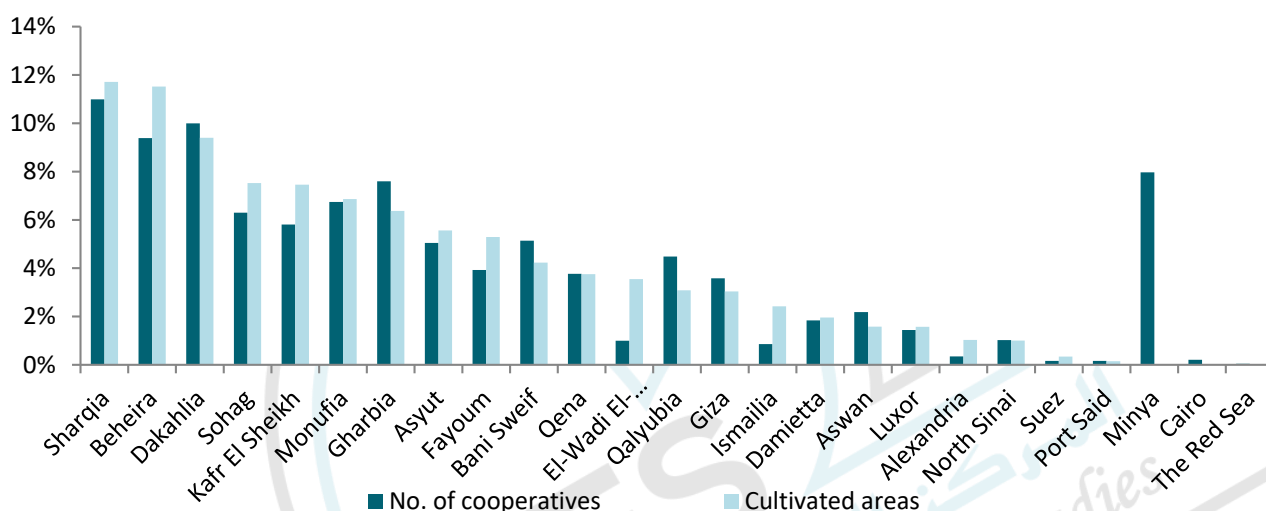
Table 3. The relative distribution of agricultural cooperatives in 2018/2019

Item	Cooperative Societies for Agricultural Credit	Cooperative Societies for Agrarian Reform	Cooperative societies for reclaimed lands
Number of cooperatives	%76	%13	%11
Number of contributing members	%84	%9	%6
capital	%62	%34	%4
Land area	%72	%8	%20

Source: Prepared by the Egyptian Center for Economic Studies based on the annual bulletin of cooperative activity in the agricultural sector for 2018/2019, issued in September 2020, by the Central Agency for Public Mobilization and Statistics.

- The number of local cooperatives (in villages) affiliated with the Cooperative Societies for Agricultural Credit is about 4310, with 3.9 million members, with a land area of 5.4 million feddans and a capital of approximately EGP 2 million.
- Lower Egypt has the largest number of agricultural cooperatives due to the largest area of agricultural land, followed by Upper Egypt, as shown in Figure 4.

Figure 4. Relative distribution of agricultural cooperatives over governorates and their share of total cultivated land



Source: Prepared by ECES based on the annual bulletin of cooperative activity in the agricultural sector for 2018/2019, issued in September 2020 by the Central Agency for Public Mobilization and Statistics.

- Total loans obtained by farmers in 2018/2019 were estimated at EGP 13.8 billion, a decrease of 2% compared to the previous fiscal year, 95% of these loans are short- and medium-term loans.¹⁵

¹⁵Short-term loans have a maturity of less than 14 months and are used to finance the purchase of seeds, fertilizers and operations needed by the farmer until harvest, while medium-term loans have a maturity of more than 14 months and less than 5 years and are used to finance the purchase of agricultural machinery and others, while long-term loans with a maturity of more than 5 Years are used to finance the reclamation and cultivation of land. (The Central Agency for Public Mobilization and Statistics, the annual bulletin of cooperative activity in the agricultural sector for 2018/2019, issued in September 2020).

The legislative and institutional framework for agricultural cooperatives in Egypt:

Legislatively, agricultural cooperatives are regulated by one law, namely, Law No. 122 of 1980 and its amendments.

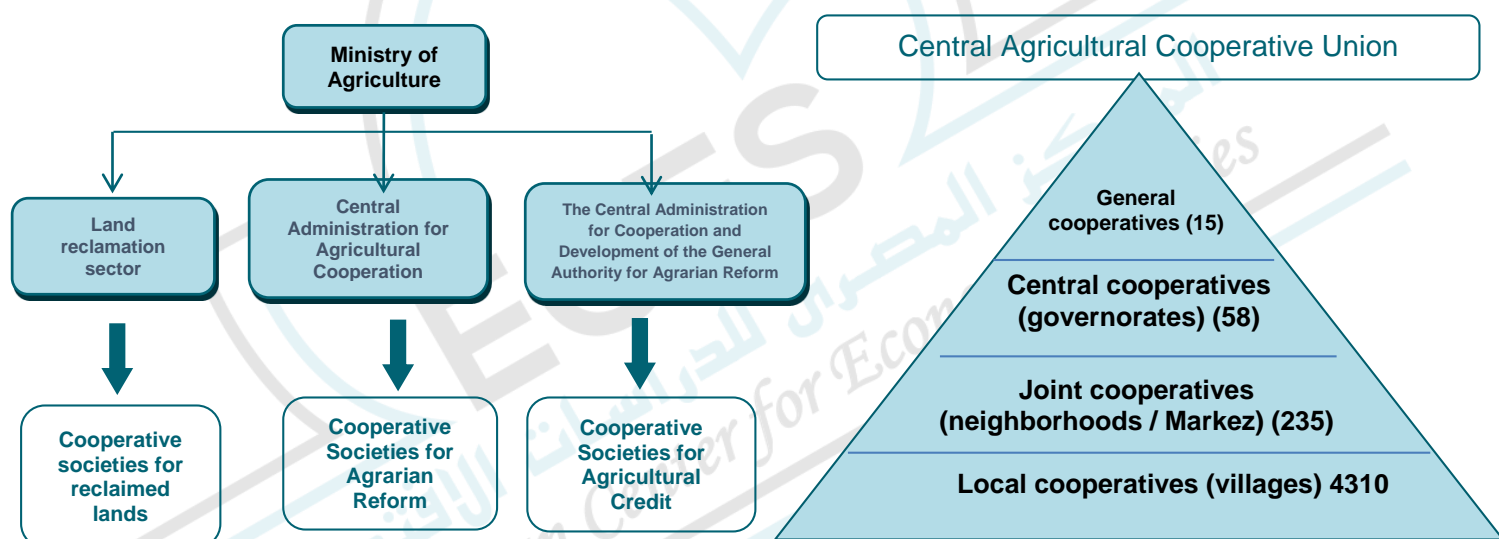
- Law 122 of 1980 defines agricultural cooperative societies as "economic and social units aimed at developing agriculture in its various fields as well as contributing to rural development in their areas of operation, with the aim of raising the standards of their members economically and socially within the framework of the state's general plan and providing various services to its members."
- In addition to the concept, the law covers the agricultural cooperative structure, tasks of the agricultural cooperative structure units, sources of cooperative financing and distribution of surplus, membership and members' responsibilities, the management of the cooperative, exemptions and benefits, supervision, cooperative's termination, the central agricultural cooperative union, and penalties.

Institutionally:

Figure 5 illustrates the institutional structure of agricultural cooperatives in Egypt, which indicates the following:

- The three types of cooperatives are supervised by three government agencies affiliated with the Ministry of Agriculture.
- The three types of cooperatives are organized geographically and functionally into four administrative levels, in addition to the Central Agricultural Cooperative Union,¹⁶ which is an organizational umbrella for all agricultural cooperatives.

Figure 5. Institutional structure of agricultural cooperatives in Egypt



Source: Prepared by the Egyptian Center for Economic Studies based on various sources (Ministry Of Agriculture, Central Agency for Public Mobilization and Statistics, 2020,¹⁷ and Ghonem 2019).¹⁸

¹⁶The union consists of specialized and non-specialized (multi-purpose) general cooperatives, and all central cooperatives in the governorates (Article 70 of Law 122 of 1981).

¹⁷Central Agency for Public Mobilization and Statistics. 2020. Annual Bulletin of Cooperative Activity in the Agricultural Sector, 2018/2019.

¹⁸Ghonem, M. 2019. Egypt: Review of the agri-food cooperative sector. Country highlights FAO Investment Centre. Rome, FAO. pp.120.

- Each administrative level has tasks, including assisting the relevant cooperatives, in addition to a set of specific tasks, for example:
- Providing technical support to farmers, whether through experts from the Ministry of Agriculture or specialized NGOs. Appendix 2 explains in detail the tasks of each administrative level.
- Each administrative level has a general assembly, an elected board of directors and a manager appointed by the Minister of Agriculture. In local cooperatives, the general assembly includes all its members. In joint and general cooperatives, it consists of all the members of the boards of directors of the cooperatives that are its constituents, while in the central cooperatives it consists of a member representing each cooperative. Finally, the general assembly of the Central Agricultural Cooperative Union consists of members of the boards of directors of its constituent cooperatives.
- The Central Cooperative Union's board of directors consists of at least thirty members, and the Minister of Agriculture may appoint five members.

From the previous description of cooperatives in Egypt, many important points can be drawn that reflect the role of cooperatives in the agricultural sector over the past decades, as follows:

- In conjunction with implementation of the agrarian reform program in the 1950s and the resulting fragmentation of the agricultural land, agricultural cooperatives were established for important reasons. These are combining the incentive of individual ownership and land management according to economies of scale. Hence scope can be widened of farmers' access to various services and the possession of bargaining power. Such power is reinforced through combined purchase/supply to obtain fertilizers, pesticides and all agricultural and animal supplies at reduced prices, and through combined sale at the highest prices. Services include facilitating the obtaining of the necessary financing for machinery and equipment, and increasing the quality of products and raising their added value.
- Cooperatives did not operate at any time in the proper sense of the word. Rather, they turned into a financial tool for the state to leverage to manage the agricultural sector—a large part of which shifted to the private sector—through monopolizing the supply of fertilizers, seeds and pesticides, as well as purchasing strategic crops.
- With the serious reforms to improve the agricultural sector since the late 1980s, the decline of the government's role in managing the agricultural sector and the end of the state's monopoly on

agricultural inputs and the purchase of crops, cooperatives did not witness a change that would enable them to perform their principal role in serving farmers, improving their economic lot and social conditions, and achieving agricultural development. The role of cooperatives has remained marginal to farmers, but they still exist as governmental entities in terms of their funds, employees and management.

- This is in addition to the weak financing for agricultural development, as evident from the nature of loans obtained by farmers. Most of them are short-term loans used to cover the needs related to the agricultural process, such as buying seeds, fertilizers and chemicals, indicating poor sustainability in the agricultural development process related to long-term investments.

5. Where are Egypt's agricultural cooperatives positioned among the best international practices?

Despite the state's awareness of the strategic importance of cooperatives in addition to their many strengths, including their wide geographical spread and direct link with farmers for many decades, they face many challenges that hinder their development and keep them away from best practices, as shown in the following table:

Table 4. Assessment of cooperatives in Egypt against best practices

Pillar	Best practices	Egypt
Nature of cooperatives	<p>- Cooperatives are considered a non-governmental institutional framework for a group of individuals who unite voluntarily to meet their common economic, social and cultural needs and aspirations. This framework is managed in a participatory and democratic manner.</p>	<p>- The Egyptian law recognizes the international standards of the cooperative movement. However, in terms of implementation, cooperatives witness widespread governmental interference, as their funds are considered public funds and their employees and members of their boards of directors are deemed public employees. Decisions are centralized, such as determining the amount of fertilizer and the price of agricultural crops. Supervisory authorities have the right to be represented in the board of directors of cooperatives, and to nominate managers at the higher levels of cooperatives. They also have the final say in appointing managers at the local level, and they can object to the decisions of the board of directors.</p>
Organizational Structure	<p>- Cooperatives operate according to an organizational structure consisting of two or three administrative levels at the most.</p>	<p>The structure is complex and has clear imbalances, including:</p> <ul style="list-style-type: none"> - The multiplicity of agencies that perform the same roles, including, for example, the multiplicity of governmental

	<ul style="list-style-type: none"> - Clarity of tasks for each level and ease of cooperation - A specialized technical department that manages cooperatives 	<p>financial audit bodies, whether by the Central Cooperative Union, the Ministry of Agriculture, and the Central Auditing Organization.</p> <ul style="list-style-type: none"> - The presence of parties that do not have a clear role. Specifically, the Central Union of Agricultural Cooperatives, albeit the law indicates the tasks entrusted to it. - The small range of local cooperatives and their large number did not solve the problem of maximizing benefit from the fragmentation of agricultural holdings, which is a major reason for establishing cooperatives. - Weak institutional capacities for cooperatives, whether human, organizational or financial. - Inefficiency of the decision-making process because it is often centralized, weak democratic practice, difficulty of the decision-making process due to the large number of members of the board of directors, the higher the administrative level, for example.
Legislative framework	<ul style="list-style-type: none"> - One legislation for all cooperatives or multiple legislations, but governed by general principles 	<ul style="list-style-type: none"> - Despite the simplicity of the legislation governing agricultural cooperatives, being effectively one main legislation, namely Law No. 122 of 1980, it

	<ul style="list-style-type: none"> - Clear, comprehensive, consistent and balanced legislations that guarantee everyone's rights and stimulate accountability for members as well as regulatory authorities. - Legislations guarantee: - Minimal government intervention - Lowest degree of government spending - Maximum degree of decentralization - Maximum degree of democracy. 	<p>contained many articles that conflict with the global principles of cooperatives:</p> <ul style="list-style-type: none"> - It stipulates that associations' funds are de facto public funds, and their employees and members of their boards of directors are effectively public employees. - Controls that limit the expansion of the scope of voluntary membership and impede a free, independent and democratic management system. - The amendments to the law that were introduced in 2014 restricted the participation of small farmers on boards of directors to only 8%.
<p>Services provided</p>	<ul style="list-style-type: none"> - The services provided by cooperatives vary across the value chain and can be divided into two main groups: 1. Technical and financial support: Training, research and development, dissemination and lobbying services, in addition to helping farmers obtain credit and providing appropriate financing for their projects. 2. A variety of services, including 	<ul style="list-style-type: none"> - Services are limited to providing some types of fertilizers (chemical only) for strategic crops (wheat, corn, sugarcane, rice, and cotton) as well as pesticides for cotton, and the provision of subsidized loans. - Purchasing some strategic crops according to prices set by the government.

	<p>supply of inputs and supplies, production and harvesting, manufacturing, sales, marketing and distribution locally and abroad.</p>	
<p>Financing</p>	<ul style="list-style-type: none"> - Various sources of financing cooperative activities: member quotas / contributions / government funding / services / loans. - Many cooperatives achieve a profit margin that they are entitled to dispose thereof either by distributing or reinvesting. 	<ul style="list-style-type: none"> - Limited financial resources. - Absence of a cooperative credit bank that enables cooperatives to engage in activities and projects of a wider scope. - A financing system that is not conducive to making profits and expanding the activities and services of cooperatives, as the law specified fixed percentages for the distribution of profits (stipulating the distribution of 50-55% to non-members and the rest to members). - Financial accounting for government regulators and not members. Few members know about the size of profits made by the cooperative to which they belong, and in which activities they are invested, and members rarely get profits. - Decline in members' contributions, in addition to the fact that services are weak and limited, and lack of participation in management are all factors that do not motivate an increase thereof.

Source: Prepared by the Egyptian Center for Economic Studies based on various sources (Law 122 of 1980); (Allan 2008); (Ghonem 2019).

6. How to shift to the new model of agricultural cooperatives

A comparison of the model of agricultural cooperatives in Egypt against best practices reveals a large gap between the Egyptian model and best practices. Agricultural cooperatives in Egypt are governmental entities with a complex organizational structure governed by a law that contradicts the global principles of cooperatives. This renders them executive arms of the government, making them lose the strategic direction that reflects the aspirations of their members, dynamism and the required performance efficiency. It also limits the opportunities for their development, and makes members lose their sense of ownership, preventing their real participation in management and development. The description of cooperatives in Egypt also shows that despite their prevalence and the logical motives for their inception, they fell short of operating in the proper manner at any time, and hence became existing governmental entities, with marginal contribution in serving the agricultural sector and improving the standard of living of farmers.

Egypt desperately needs a new model of cooperatives that achieves the required developmental takeoff. Such model should

draw on best international practices, while taking into account the specificity of the Egyptian case.

The shift to the new model reinforces the existence of a constitutional provision requiring the state to sponsor and support all forms of cooperatives.

The new model starts from a different modern view of cooperatives as a basic development partner alongside the government and the private sector, and as a major actor that contributes to the economic and social development of local communities, hence improving the standard of living of individuals and breaking the cycle of poverty and informality.

The transition to the new model will gradually take place after ensuring the availability of the elements for its success, which are as follows:

- **A review of the state's view of cooperatives as a major development partner** that helps achieve national goals at the local level. The success of this model requires allowing it to work freely and flexibly, which means a minimum degree of government intervention.
- **A supportive role by the state for the new model**, through mainly undertaking a regulatory role that includes:
 - Setting the outlines of these entities without going into details of their management;

- Ensuring balance of internal relations between senior and junior members;
- Giving incentives to large producers to encourage them to join cooperatives and help small producers.
- Organizing the relationship between cooperatives and other market players in a way that achieves competitiveness and prevents any monopolistic practices.
- Providing facilities for their creation, technical support and disseminating successful models
- Completing the legislative framework that guarantees the success of these entities. Specifically, implementing decentralization through the finalization of amendments to the Local Administration Law.
- **A radical change in the law regulating cooperatives** in a way that ensures their independence, efficiency and effectiveness. The law should aim to regulate the relationship between cooperatives and the rest of the actors while leaving their organizational rules to be set internally, addressing only the general principles that guarantee balance in the rights of large and small members.
- **Spreading cooperative awareness** through the media and agricultural extension to educate farmers about the new model of cooperatives, the opportunities that can be availed through

it, mechanisms of practicing cooperative work and elements for its success.



Appendices

Appendix 1. Some features of Dutch agricultural cooperatives

Introduction and History:

- The history of agricultural cooperatives goes back to the mid19th century, when more and more agricultural associations were being established. Most of which were organized rather informally and were often supported by local dignitaries. With the enactment of the first cooperative legislation in 1876, the first formal cooperatives were established, specifically in purchasing inputs and processing milk. It took another decade before cooperatives become quite popular, with a rapid increase in the number of newly established cooperatives can be found from the 1890s onwards.
- Interestingly, the number of associations grew parallel to the number of cooperatives, indicating that farmers (and their supporters, mainly the farmer unions) saw the benefit of establishing farmer-owned enterprises, but were not yet convinced that cooperatives were the ideal model. This can be explained in part by the unfamiliarity of the new legal model, and in part by the reputation of cooperatives as a pure business model, while most supporters of cooperatives

(farmer unions, priests, local dignitaries) also emphasized the community-element of joint organization and the need to invest any surplus in the community instead to paying it out to the members. It was only after 1920 that most associations turned into cooperatives and the cooperative model become dominant.

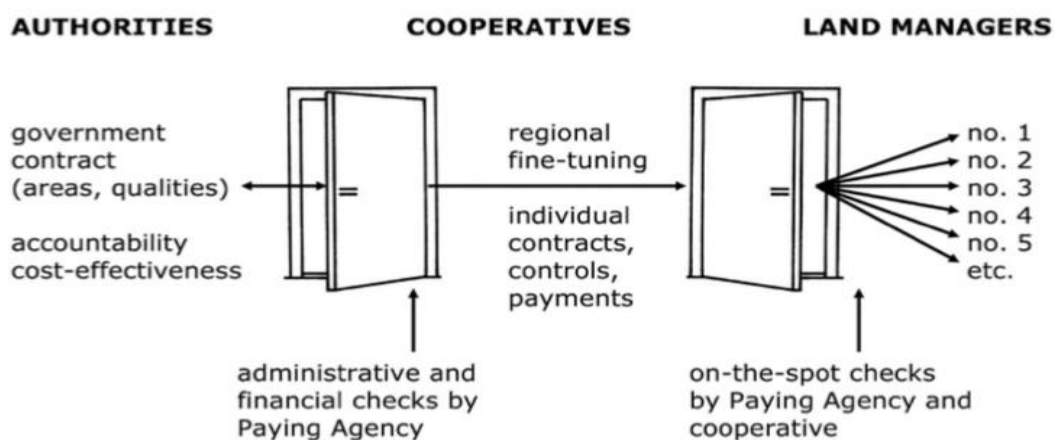
- While the number of farmers has gradually declined over the last 50 years, agricultural production has remained stable. In 2015 only 60,000 farmers remained, while the total added value generated by agriculture, food processing and distribution continues to be 50 billion euro. Cooperatives take responsibility for a major share of this added value.

Governance:

- The institutional environment in the Netherlands has always been favorable for the development of cooperatives. This can partly be explained from its historical and sociological background. The Dutch have a tradition of self-organization, democratic decision-making and coalition governments, often referred to as the 'polder' mentality. The long history of decentralized government and the need for self-organization in keeping one's feet dry in the polder have supported the cooperative mentality.

- Cooperatives are governed by the elected board where control rests with the 'general meeting of members' (GMM) or in Dutch the *Algemene Ledenvergadering (ALV)*. One of the ALV's tasks is to appoint a board to manage the cooperative's affairs. The board enters into agreements with and for its members. Government intervention is virtually inexistent as the elected board is solely responsible for governing duties.
- One of the key issues in cooperative governance is the allocation of decision rights between boards of directors and professional management. The board of directors, representing the membership, needs to maintain sufficient decision rights so as to control the strategic development of the organization.
- Since 2016, a new scheme was introduced which disallowed individual applications. Which, fits perfectly with the long tradition of environmental corporations. There are four primary reasons for the Dutch government to implement group applications and dealing exclusively with cooperative applications, rather than the tradition of individual applications.

- This newly adopted scheme was known as the "front door-back door principle," whereas the front door (the government) signs a contract with the regional cooperative setting the agri-environment targets and describes the types of conservation activities that will be used to achieve these targets. The back door concludes the cooperative contracts with individual land users; this construct includes all the specific activities and payments needed. Between the front door and the back door, the regional fine-tuning of conservation activities and payments occur. The figure below simplifies the "front door-back door principle," showing how the entire process works.



The "front door – back door system" of the Dutch agri-environment scheme with a key role for agri-environment cooperatives as final beneficiaries

- Another innovation in cooperative governance structures is related to the composition of the board of directors and the supervisory boards. The Netherlands allows a minority of non-member experts on these boards. In addition, large cooperatives have introduced a member council of 100 to 200 members that has taken over most of the rights and

obligations of the General Assembly. This member council is more likely to consist of committed members interested in the general affairs of the cooperative. Also, this member council is a pool for new board members.

Cooperative Legislation:

- The legal form most frequently used by farmers to set up a jointly-owned business is the cooperative. There is no state policy to induce farmers to choose cooperatives over other legal business forms. Farmers will typically join a cooperative as it helps boost their bargaining power within the market via the cooperative as it is composed of multiple members. There is also no state support for the promotion of cooperatives, nor are cooperatives obliged to fund any joint support organization.
- Evaluating the current legislation for cooperatives, in general, the Dutch laws on cooperatives and associations has been regarded by practitioners as very flexible with regard to setting up a cooperative and tailoring the cooperative's articles of association to the needs of its incorporators. Cooperatives are easy to establish and maintain, in terms of money and time.

Within a number of general rules on the internal governance structure of cooperatives, they are free to develop more detailed internal rules in their statutes, for instance regarding the type of activities, members' financial contribution, the distribution of surplus, and the communication between the members and the cooperative.

Memberships:

- The growth of the cooperative firm through internationalization and diversification results in different groups of members having different interests. Also, members may become more diversified in their individual strategies as their farms specialize. This type of specialization is even furthered by the shift of (some) members from producers of commodities bound for spot markets to producers of specialized products for specific processor or retail customers.
- Agriculture cooperatives are primarily organized for economic reasons, however; in the early 20th century, many considered cooperatives as a great source of social solidarity and collaboration and as a means of linking farmers with one another. Obviously, this is still the case today but, in older times this was the primary reason. It is also worth noting that

only after 1920 that most associations turned into cooperatives and the cooperative model become dominant.

- Decision-making may become more laborious, coordination between member firms and the cooperative firm may become more difficult, member commitment may decrease and member willingness to provide equity capital may be reduced.
- Several crucial decisions entail the (re)distribution of wealth among the members of a cooperative and thus may provoke influence attempts by members. The allocation of overhead costs, the assessment of members' product quality, and the geographical location of a new investment are but a few examples of such decisions.
- Cooperatives in the Netherlands are well funded given the "Dutch" nature of relying on cooperatives, the finance mainly comes through the members and is allocated and regulated via the elected board members. Although government intervention in the affairs of a cooperative are kept to a minimal, in the case of financial disruption as was the case of World War II, the government can intervene financially to prevent the cooperative from collapsing.

Structure, Scale and Scope:

- Where agency theory starts from the premise of conflicting interests and seeks solutions in designing mechanisms that align interests, stewardship theory emphasizes the shared interests between the board and management in promoting organizational performance. Thus, from a practical point of view, the discussion is not just about organizing effective.
- In the 1960s cooperatives shifted to another corporate governance model because of changes in the competitive environment. In order to develop appropriate strategic and tactic responses to competitive pressures, cooperatives have felt the need to strengthen the autonomy of their management, reduce member influence on operational decisions, find new sources of equity capital, and professionalize their supervisory bodies. In other words, their strategic re-orientation towards more customer focus, diversification, and innovation has been accompanied by changes in the decision-making structure.
- Over the last 20 years, most agricultural cooperatives in the Netherlands introduced a formal division of labor between the Board of Directors, which took responsibility for decision control (ratification and monitoring) and the professional management, which was responsible for decision

management (initiation and implementation). This division of labor has been institutionalized in new internal governance models (or board models). Besides the traditional model, which has been around for more than 100 years and is common in many countries, the authors found two new applicable corporate governance models: the management model and the corporation model.

- In the management model, the management of the cooperative firm is also the Board of Directors (BoD) of the cooperative society. In this model there is no longer a distinction between the decisions regarding the strategies and policies of the cooperative and the execution thereof. The BoD has been professionalized, and the supervisory committee supervises the society and the firm at the same time. In the corporation model, the BoD of the cooperative society has become the supervisory committee of the cooperative firm. A legal separation between association and firm has been established, turning the cooperative society into a 100% shareholder of the cooperative firm. This structure provides the management with relatively more autonomy.

Market Orientation:

- These are cooperatives with a specific field of operations, for example the supply of feed or the processing of only one crop, such as sugar beets. These are called specified cooperatives since, they specialize in a single or limited number of products. In other countries it is more common to find cooperatives that supply inputs and process and market the agricultural and horticulture products. These are known as multifunctional and are tailored towards a number of products usually with familiar traits. The combination of many different tasks in so-called multipurpose cooperatives may lead to high influence costs. Other explanations for membership homogeneity are the cultural homogeneity, the relatively small distances (thus allowing members to meet in person), and the low differentiation in farm size.
- One of the challenges for cooperatives to become transnational, that is, to obtain members in different countries, is the expected increase in membership heterogeneity and the concomitant decision-making problems. While the Netherlands is one of the European countries with the largest number of transnational cooperatives most of these cooperatives are very focused on their product portfolio. The transnational cooperatives can be found in dairy (with milk as

a very homogeneous product) and in fruits and vegetables, mostly for the same crop.

Rationale:

- Theories often used to explain the rise of cooperatives, such as transaction cost economics, bargaining power, and economies of scale. In the late nineteenth century, market conditions were unfavorable for the many small farmers, and the state followed a strict nonintervention policy. However, these theories need to be complemented by institutional theory to fully explain the success of the dairy cooperative model in later decades.
- The bargaining power of the individual farmer vis-a-vis the processor has greatly improved since the 19th century, as farms have become larger and have more sales options. However, the issue of bargaining power has shifted towards the cooperative itself. Because food retail has become very concentrated, with only a few buyers left in the Netherlands as well as in the main destination countries for Dutch dairy exports, dairy processors have pursued mergers in order to strengthen their bargaining power vis-a-vis those retail companies. As of 2018, a new situation in bargaining has

appeared. Several farmers have chosen to not become a member of a processing cooperative but of a bargaining association. Examples are EkoHolland, a bargaining association of some 175 producers of organic milk, and Noorderlandmelk and Flevomelk, two regional bargaining associations.

- Sustaining cooperatives in the Netherlands is very simple and highly likely given that the government follows a minimal intervention policy and cooperatives can easily bargain with the government, so the more members present the higher the bargaining power. In the case of dairy cooperatives there are only 5 cooperatives that house all of the dairy farmers in the Netherlands and each cooperative has strong bargaining powers and are financially sound and sustain high profits.

Appendix 2

Tasks of the Agricultural Cooperative Architecture Units in Egypt

Level	Tasks
General cooperatives	<p>a. Providing members' needs such as machinery, spare parts, production requirements, fertilizers, seeds and pesticides.</p> <p>b. Carrying out cooperative marketing operations for production nationwide.</p> <p>c. Exporting products on behalf of its members in accordance with the legally established rules.</p> <p>d. Achieving coordination and economic integration between cooperatives at the level of the Republic.</p> <p>e. Creating the necessary funds to support economic activity in accordance with the law.</p> <p>f. Establishing major projects on cooperative bases, especially factories for feed, fertilizers, pesticides or machine parts; establishing agricultural industries across the country to package or manufacture some agricultural crops, including projects for the processing of dairy, meat and fish, diluting juice, and packaging vegetables and fruits.</p> <p>g. Conducting the specialized research necessary for work development, organizing training programs for technical and administrative bodies and members of cooperatives, carrying out guidance and extension work, disseminating updated experiences and information, and following up on cooperative activity at various levels of policy-making and preparing appropriate programs.</p>
Central cooperatives	<p>h. Establishing a technical unit that undertakes control, supervision and inspection of administrative, financial, accounting, inventory and book works for governorate</p>

	<p>cooperatives and rationalizing administrative and financial work.</p> <ul style="list-style-type: none"> i. Establishing a central training center to handle cooperative, technical and administrative training operations for cooperative members and their functional apparatus. j. Establishing projects for agricultural processing and rural industries. k. Spreading cooperative awareness at the governorate level through various mechanisms. l. Providing the necessary spare parts for the machines owned by cooperatives and their members, and granting them the right to establish central workshops to carry out the repair operations that the joint cooperative workshops cannot undertake.
<p>Joint cooperatives</p>	<ul style="list-style-type: none"> 1. Establishing fixed or mobile workshops to carry out repair, maintenance and overhaul operations of all kinds of machinery and equipment owned by cooperatives 2. Establishing, managing and operating agricultural processing and rural industries projects for member cooperatives. 3. Establishing warehouses or refrigerators for storing production requirements and preserving crops. 4. Owning and operating means of transportation to serve its members. 5. Contribute to the marketing of crops of members.
<p>Local cooperatives</p>	<ul style="list-style-type: none"> 1. Examine the crop composition for agricultural rotations and follow up on the implementation of the plan agreed upon within the framework of the state's general plan in the cooperative's area of work. 2. Planning and implementing local production projects according to their economic potential, including projects of agricultural industrialization, animal

	<p>production, poultry farming, beekeeping, rural environmental industries, land reclamation or water wealth.</p> <ol style="list-style-type: none"> 3. Contributing to the organization of land cultivation and the aggregation of agricultural exploitation for the advancement of agriculture in accordance with modern scientific foundations, in cooperation with state agencies and local government units. 4. Carry out cooperative marketing of members' crops. 5. Obtaining loans from various sources to finance necessary production and service projects and for its members, all in accordance with the rules, controls and conditions indicated by the executive regulations. 6. Expanding agricultural mechanization by providing modern machinery for various operations, training workers on them, and organizing their management, operation and maintenance in a sound economic manner. 7. Managing and exploiting its projects and lands, as well as lands entrusted to legal persons and individuals. 8. Contributing to the conduct of public services for its members in cooperation with various agencies. 9. Creating savings awareness among members and organizing their investment.
<p>Central Agricultural Cooperative Union</p>	<ol style="list-style-type: none"> 1. Participation in planning the agricultural cooperative movement in Egypt. 2. Coordination between the general agricultural cooperatives within the set limits with regards to achieving their objectives, and drumming support for the cooperative movement for agricultural development, informing about it, and sponsoring and developing it.

	<ol style="list-style-type: none"> 3. Supervising cooperative training operations in agricultural cooperatives, in coordination with the central cooperatives in the governorates. 4. Holding the General Agricultural Cooperative Conference once every four years, following up on the implementation of the conference's decisions and recommendations, and organizing the holding of specialized cooperative conferences through the general cooperatives. 5. Participating in the coordination between the agricultural cooperative sector and all other cooperative sectors and linking them together. 6. Representing the agricultural cooperative movement abroad by participating in the membership of international, regional and Arab cooperative organizations, participating in foreign conferences, exchanging cooperative experiences with various international organizations, and accepting financial aid from foreign cooperative organizations, all in coordination with the Minister of Agriculture. 7. Proposing agricultural cooperative legislations. 8. Defending the interests of agricultural cooperatives in the units of the cooperative architecture.
	<ol style="list-style-type: none"> 9.

Source: Law No. 122 of 1980.

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