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**RDIREPORTS**

***Rationale, Development  
and Support for an  
Egyptian Rice Union***

*by*

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## **Introduction**

This report is primarily the result of an intensive week of meetings with private and public businesses and organizations about the rationale, development and support needs for an Egyptian Rice Union (ERU). Fatma Khattab, who provided excellent background information and knowledgeable assistance throughout the week, organized the meetings. Dr. Ragaa El Amir provided outstanding guidance on the issues and institutions involved in the formation of an ERU and actively participated in the meetings. A list of the meeting contacts and meeting notes are included in the report as an appendix.

The report is organized by first reviewing the rationale for an ERU. This is followed by a discussion on the potential role and set of activities that the ERU should pursue. Obstacles and constraints to the ERU are recognized. Overcoming these issues will require a set of technical support activities to assist the ERU in realizing its mission and objectives. Terms of reference for this support are presented in this report.

## **Rationale for an Egyptian Rice Union**

The idea for an ERU originated from the private rice milling and export sector. The industry has come to recognize that a lack of market information and a lack of attention to quality (grades and standards) has resulted in a poorly coordinated marketing system. Rice marketing was one of the first agricultural commodity subsectors to become liberalized in Egypt. Mandatory rice production deliveries, a fixed procurement price and a government export monopoly were eliminated by 1992. Relative to other sectors, the market liberalization of the rice subsector has been considered a success (Holtzman, Strathacos and Ismail). Many new participants, especially traders, millers and exporters have entered the industry with substantial private investment. However, many of these new participants had no prior experience with rice marketing. As a result, procurement of paddy has been subject to speculation as the industry has experienced significant price volatility since 1992. Procurement, storage, milling and distribution patterns have likewise become unstable and an orderly rice marketing system has yet to emerge. Grades and standards for paddy procurement have become ignored and unenforced. Farm level marketing has been constrained by the lack of credit to small rice producers. Rice dealers have become a primary source of credit for rice producers. Loan repayment is based on selling the paddy at harvest, when prices are typically low. A large expansion in village level (mewani) and commercial scale rice milling has occurred. Milling capacity in Egypt is now excessive. Much of the new investment has been in single-pass milling systems that result, even with high quality paddy, in high breakage and lower mill out-turn. With little or no attention to paddy quality (grades and standards) at the first handler stage, uniformity and milling quality has also deteriorated. While Egyptian consumers have not traditionally been willing to pay for cleaner, higher quality rice, the international market places strict and

severe discounts on lower quality grades. The reputation and image of Egyptian rice in world markets has consequently deteriorated under the chaotic marketing system that has developed.

The current state of the Egyptian rice industry, while having successfully privatized, reflects a fundamental lack of market coordination. Private market coordination is typically achieved on the basis of market knowledge and experience by the participants and transparency in prices and price expectations. Inadequate information about the international rice market, a lack of information and monitoring about the expansion in new milling infrastructure and a lack of understanding of rice market fundamentals by participants who have found market entry relatively easy have all contributed to a disorderly market. This has resulted in an over-invested, high cost, high loss, and low quality marketing system. The primary cause of this development has been a failure until now by the industry and government to develop an adequate market information system. Since desired consumption of rice is primarily in the form of a white whole kernel, rice marketing systems typically emphasize quality and uniformity. Potential quality losses can occur throughout the market channel during on-farm production and storage, off-farm storage and handling, milling and white rice storage, handling and packaging. A failure to reflect end-use values on quality at the farm-gate will compound the problem as the rice moves through each successive state.

Finally, as would be expected with an industry that has only recently been liberalized from government control, both the private sector and the government are seeking to redefine their roles in the development of a well-functioning and efficient marketing system for rice. Uneven growth, a lack of market experience, and low entry barriers have led to conflicts within the industry that the government has not found easy to resolve. The ability of the industry to organize into a rice union, with membership from all levels of market participants, will be a very useful institutional development. It will provide a framework for the industry to identify, discuss and resolve its own problems. Some solutions may naturally require governmental assistance and coordination. Seeking this assistance on the basis of a unified position by the rice industry will enhance the effectiveness and importance of the request to the government. The ERU should also become an effective lobby for policies and programs that promote the efficiency and competitiveness of the Egyptian rice industry in domestic and international markets. The ERU should also develop mechanisms to access information and support from universities and research centers in Egypt. The two critical problems identified above, price and market information and quality need to be addressed by the industry. The ERU should be expected to formulate recommendations to the government on their data and information needs and on a system of grades and standards that will facilitate a competitive market.

## **Development of the Egyptian Rice Union**

The formation of the ERU will require a public law similar to the General Union for Poultry Producers, Law No. 96 for 1998. Support for this legislation has come from segments of the rice industry, the Ministry of Trade and Supply and the Ministry of Agriculture and Land Reclamation. Preparation of the enabling legislation has been requested by Minister Wali and should begin in the next several weeks. Without much experience with umbrella commodity industry organizations in Egypt, it is important that the enabling legislation be written as generically as possible for issues such as membership, responsibilities, and financing in order to avoid ending up with a rigid structure that is unrepresentative and unresponsive. Egypt is in a transition stage of institution building. Organizations that do not exist today may in the future be the legitimate representative group to participate in the ERU. For instance the Poultry Union has specific and leadership roles assigned to the Government Minister. It would seem logical that as the private and public sector roles evolve, membership in this organization by the government would not be appropriate, since ideally the organization would represent the private sector interests to the government rather than within the framework of the Union. It is unlikely however that the ERU could begin to function with sufficient resources and power without the active participation of the government. It would be desirable if a transition structure could be established whereby membership by the government would have a sunset provision and representation by the private sector—farmers, dealers, millers, and exporters would ultimately be elected by the groups that they represent.

Other aspects that will require careful consideration include the need for a professional management staff, funding mechanisms and a set of strategic objectives. A professional management team will be needed including a chief executive officer, managers of various units of concern to the union and an appropriate support staff, including legal solicitor, auditor, etc. The management team, budget and funding mechanisms should be identified after the founding board members have developed a mission statement and set of long-term plans for ERU.

While the board of ERU will ultimately be responsible for identifying the sets of activities that will help bring market coordination to the Egyptian rice industry, the following list of issues should be considered:

- Transparency and enforcement of regulations. A number of regulations and or their enforcement such as the legal status of paddy exports, grades and standards, etc are not well understood by the trade. If the regulations are too rigid or enforcement uncertain then informal market mechanisms develop to circumvent the intention of the regulation.
- Licensing of traders, millers and exporters are required but do not appear to be strictly enforced. Potential problems include whether the license regulations are unclear, meaningful to efficient marketing, and consistently enforced.

- **Price and market information.** Holtzman et al have reviewed the information system for rice and concluded that there is “significant scope to improve the collection, dissemination and analysis of price data”. The same conclusion applies to information about the domestic and international rice markets. There is, for example, a wide range of estimates of current rice stocks. Uncertainty about an important market fundamental such as carryout stocks results in uncertain prices. This issue is so important that RDI should consider initiating as soon as possible an activity to establish a rice price and market information system for Egyptian rice. This activity should identify up to 5 individuals (MOALR, MOTS, and private sector) who would have short-term (2-3 weeks) training in rice market information systems provided by the University of Arkansas. These individuals would be expected to implement market information systems, which are customized to Egyptian domestic and international markets. This would include becoming knowledgeable of the standard sources for daily, weekly and annual price and market information.
- **Grades and standards.** Paddy grades and standards need to be re-established and enforced. Export grades exist but inspection and enforcement are not consistently applied. This issue is also of such importance that RDI should initiate the formation of an ad hoc committee to begin to study and prepare a draft of a set of grades and standards that could be adopted for paddy markets in Egypt. This committee should include relevant government agencies charged with enforcement of grades and standards, and private sector businesses at all levels of the market chain. An expert on rice grades and standards should be invited to guide the discussion and preparation of the recommendations.
- **Credit constraints.** Lack of access to credit and financing limits the marketing choices to small-scale rice farmers. ERU should provide an assessment of the impact of credit constraints on rice marketing and urge the government to improve institutional development of private commercial and cooperative lending facilities to expand access to credit markets for small farmers.
- **Research and development.** There is a clear lack of market analysis and information available to the rice industry. To the extent that the government will not develop such analysis, the ERU should take the initiative in developing its own information system and market studies. Technology research including production, storage and milling activities can benefit from evaluation, recommendations and funding from the ERU.

### **Terms of Reference**

A log-frame is used to identify the initial set of goals, objectives, activities, responsibilities and timetable for support of the development of ERU. The two primary goals will be the establishment and implementation of the ERU. Establishment of the ERU will be achieved by law, following the precedent of the Poultry Union. RDI/APRP should support the preparation of the

legislation with representatives from MOALR and MOTS. It is expected that this legislation can be expedited to the Peoples' Assembly for a favorable consideration early in 1999.

Implementation of ERU will include the establishment of a founding board of directors, preparation of a mission statement and set of strategic goals, development of an internal organization and a set of services to the members. It is recommended that RDI with the cooperation of the University of Arkansas, arrange to have the founding board of directors visit the U.S. to observe the rice market system, activities of private firms, government agencies, and industry organizations. This trip will provide the board members with a framework to consider the development of their own mission statement and long-term strategic objectives and plan for implementation. RDI should facilitate this activity by providing a team-building workshop and planning exercise. Following the development of the mission statement and strategic plans, the ERU will need to develop the internal organizational structure including the design and hiring of a professional management staff, a budget and funding mechanism, and various training programs, especially leadership training for young members.

The critical test of the ERU will be its ability to deliver services to the members that improve the market coordination of the rice subsector and increase the total value-added by the market channel. The specific service activities pursued by the Union will evolve as the structure of the industry changes and as services provided by the government change. It will be necessary for the ERU to consider its role relative to the government in providing: 1) market research, 2) price and market information, 3) establishment and enforcement of grades and standards, 4) licensing, 5) price transparency, 6) regulatory transparency and enforcement, and 7) technology research identification, evaluation and funding. Servicing these functional aspects of marketing rice in Egypt will become the day-to-day responsibility of the ERU.

Log-frame for support of development of the Egyptian Rice Union

Goal	Objective	Activity	Responsibility	Date
Establish ERU	Develop and pass enabling legislation	Write legislation and assist passage with background report	RDI, Rice industry, MOALR, MOTS, and Peoples' Assembly	Jan/Feb. 1999
Implement ERU	Board members are knowledgeable of rice market subsector coordination	Study travel/workshop for founding board members to US to observe rice market coordination—public, private and industry organizations.	RDI, ERU—founding board members, Univ. Arkansas	Apr/May 1999
	Mission statement and set of long-term plans for ERU are established	Follow-up workshop in Egypt for founding board members on team-building and planning exercises.	RDI, ERU—founding board members, Univ. Arkansas	May/June 1999
	Internal organizational structure is developed – 1) management team, 2) budget and funding mechanisms, 3) identify/develop member representation bodies, 4) young member	Follow-up workshop to mission statement and long-term planning workshop	RDI, ERU	June/July 1999

	<p>leadership training</p> <p>Services for members are identified and established and a mechanism is set to make recommendations for public policy on —</p> <ol style="list-style-type: none"> <li>1) Market research,</li> <li>2) 2) price and market information,</li> <li>3) grades and standards,</li> <li>4) licensing,</li> <li>5) credit constraints,</li> <li>6) transparency and enforcement in regulations,</li> <li>7) Technology (production, storage, milling) research identification, evaluation, funding.</li> </ol>	<p>Day-to-day activities of management staff with occasional board and union meetings.</p>	<p>ERU staff and Board and Union members</p>	<p>July 1999-ongoing</p>
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