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Agricultural Cooperative Reform in Egypt: *RDI's activities and prospects for the future*

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EXECUTIVE SUMMARY

In Egypt today, cooperatives are the primary rural organizations dedicated to improving the productivity and income of small holders. Especially in the new liberalized environment, cooperatives in Egypt have become essential institutions for small farmers to help combat market inefficiencies and reduce transaction costs. Cooperatives redress imbalances in market power by bringing together groups of small holders to achieve markets of scale, enabling them to acquire inputs at more equitable prices and to receive a range of services. This includes assistance with contract farming arrangements, crop inputs, credit, extension services, and management of land and water resources.

In order for this to take place, however, cooperatives must consolidate their conversion into autonomous entities decoupled from government control. RDI has worked with the MALR, the Central Authority for Cooperatives, and local cooperatives in order to promote this evolution of farmers associations into private, profit-oriented organizations run by, and oriented to, the needs of the growers. This has entailed sponsoring workshops in the pilot Governorates of Assuit and Daqhleya, and working with four cooperatives in each Governorate to sponsor free elections of the Board of Directors without nominations from the government. RDI has also been working with the MALR to withdraw government-funded resident technical specialists from the cooperatives.

The purpose of this study was to conduct an appraisal of RDI's work in agricultural cooperative reform in the pilot Governorates of Daqhleya and Assiut. This appraisal was designed to assess RDI's past activities and to identify future steps that need to be taken in revitalizing cooperatives within the context of Egypt's newly liberalized agricultural sector.

The process of reform is moving forward. Elections have been held in each of the cooperatives in Daqhleya, and election dates have been set for the cooperatives in Assiut. The Minister of Agriculture and Land Reclamation has additionally agreed not to appoint any individuals to these Boards of Directors. Furthermore, through workshops held in the pilot Governorates, cooperative leaders have clarified the organizational mission of their cooperatives and have clearly defined the roles and responsibilities of the Board of Directors and of the technical specialists in running the cooperatives.

Change, however, does not occur overnight. Cooperatives need to continue to move toward financial independence in order to provide all of the services that farmers require. This will necessitate the presence of effective managers willing and able to pursue profit-making activities that benefit both farmers and the cooperatives. Perhaps most importantly, change requires a clear understanding on the part of all stakeholders concerning their roles and responsibilities in the newly liberalized agricultural sector. This has already begun to happen with RDI's awareness-raising activities in the pilot Governorates, andwill be consolidated as RDI continues to encourage open dialogue among all parties and facilitate cooperation between cooperatives and the government.

INTRODUCTION

In a free market economy, farmers have the chance to invest in their own production, to choose the products they grow, the form in which they will sell their goods, and the markets into which they sell their output. With moves toward liberalization, however, small-holding farmers have found themselves at a significant disadvantage in purchasing inputs, marketing their products and, especially, in adding value to their output through investments in post-harvest handling.

In response to these market conditions and increased competition, Egyptian farmers now have to overcome the disadvantages inherent in the country's pattern of small landholdings, where the average farm size is under three feddan and a great majority of farmers have less than one feddan under cultivation. The most effective strategy small producers can utilize is to organize themselves into groups of sufficient size to achieve significant market presence.

Cooperatives are means farmers can use to gain access to new ideas, advanced technology, and profitable opportunities which growers acting alone would not have. All cooperatives share the goal of redressing imbalances in market power by enhancing both collective and individual ownership of capital resources by its members. Cooperatives offer protection within a group of persons having common needs and aspirations, making it possible to offer a wide array of services to farmers and the larger community. While commercial competitors would primarily ask whether such activities are profitable, cooperatives can opt for entering a new field if it provides long-term benefits to the members and to the community, provided it is economically feasible.

Farmers associations therefore have enormous potential to promote the growth and prosperity of the agricultural economy. With support from the MALR and RDI, many Egyptian and foreign private companies have begun approaching multiple purpose and specialized cooperatives for investment purposes, including investments to increase and improve the quality of on-farm production and to install post-harvest handling infrastructure for sorting, packing, cooling, and transport to add value to their output. Despite this growing pattern, however, many private firms, and even many cooperatives, remain somewhat reluctant to risk their funds in enterprises which seem, in some ways, subject to government control.

RDI has therefore been working with the MALR, the Central Authority for Cooperatives, and local farmers associations in order to promote the economic, managerial and financial independence of the multi-purpose cooperatives. This has entailed decoupling the cooperative system from government involvement and control through the holding of free elections for the Board of Directors and the removal of government-financed staff from cooperatives.

Objectives of Study

This study was commissioned in order to document RDI and MALR efforts in promoting the management autonomy of cooperatives in the era of liberalization.

The specific objectives of this study are:

1) to document the work of RDI in cooperative reform in the pilot Governorates of Daqhleya and Assuit;

2) to solicit stakeholders' observations of their roles in supporting autonomous farmers' associations in an effort to identify extant obstacles to reform as well as to map out directions for future cooperative reform efforts.

Methodology

In order to conduct this evaluation, the consultant traveled to the pilot project Governorate of Daqhleya and interviewed Undersecretaries of Agriculture, leaders of cooperatives at the village and Governorate level, and cooperative members. In-depth discussions were also held in Cairo with the Director of the Central Authority for Cooperatives, all stakeholder groups from Assiut, as well as with key RDI staff.

CHAPTER 1

The role of cooperatives in Egypt's liberalized economy

An agricultural cooperative is a business owned and democratically controlled by the farmers who use its services and whose benefits are derived and distributed equitably on the basis of use. In many ways, cooperatives resemble other businesses such as input suppliers and traders. They perform similar functions and must follow sound business practices. But in some ways, cooperatives are distinctly different from other businesses. These differences are found in the cooperative's purpose, its ownership and control, and how benefits are distributed.

Cooperative Purpose

Farmers unite in a cooperative to get services otherwise not available, to get quality supplies at the right time, and to have access to markets. As cooperatives mature, they also may provide services for the entire community such as transport, child care facilities, and other activities. Working in concert gives members the advantage of economies of scale and bargaining power, and farmers benefit from the services made available such as group contracting agreements and low-cost high-quality agricultural inputs.

Cooperative Distribution of Benefits

Members also benefit by sharing the earnings on business conducted on a cooperative basis. When cooperatives generate profits from efficient operations and add value to products, these earnings are either returned to members in proportion to their use of the cooperative, or are rolled back into cooperative accounts to increase member services. Without the cooperative, these funds would go to middlemen or processors.

Cooperative Ownership and Control

Cooperative members control the activities of the cooperatives. Members vote to elect board of directors, and have the authority to make sure the cooperative provides the services they want. This keeps the cooperative focused on serving the members, rather than earning profits for outside investors or other objectives.

The raison d'etre of cooperatives in Egypt

In Egypt, agricultural cooperatives are primarily composed of small farmers seeking to achieve greater leverage in the sale of their produce to a concentrated and powerful distribution system. Cooperative members are also consumers anxious to be able to purchase agricultural inputs at the right price and from a trusted source.
The specific benefits of cooperatives to small farmers in Egypt are numerous:

- Access to quality supplies and services at reasonable cost. By banding together and purchasing agricultural inputs and services as a group, farmers offset the market power advantage of middlemen providing those supplies. Buying in bulk, farmers have access to volume discounts and are able to negotiate from a position of greater strength for better delivery terms, credit, and other arrangements. The larger the number of farmers purchasing supplies and services through the cooperative, the greater the potential for savings. And the more each individual member uses the supply operation, the more he or she may save over doing business elsewhere.

- Increased clout in the marketplace. Marketing on a cooperative basis permits members to combine their strength while maintaining their status as independent growers. They can lower distribution costs, engage in group contracting with exporters, and deliver their produce in the amounts and types that will attract better offers from purchasers.

- Reaching export markets. Through cooperative marketing, members can share information and negotiate with buyers from a position of greater strength and security. They can also develop processing facilities by themselves or as part of a joint venture with other cooperative or non-cooperative firms.

Members thereby form a cooperative to get a service—a source of supplies, market for products, and provision of specialized functions such as post-harvesting facilities. Activities are identified by the farmers for the farmers, and they themselves receive the dividends from such activities.

Cooperatives therefore work to the benefit of farmers in ways that traders cannot. Specifically, profits accrued from cooperative activities return back to the farmer-members as either increased shares, dividend returns, or improved services. Purchasing inputs or selling produce to traders may provide the farmers with some income, but potential earnings are limited as profits are siphoned to outside businessmen. Additionally, growers often view cooperatives as providing higher quality services. Farmers interviewed complained of the inputs sold to them by traders, and tended to characterize these traders as motivated solely by profit and not concerned with selling the correct inputs responding to the needs of the growers.

Cooperative activities in Assiut and Daqhleya

Cooperatives in Assiut and Daqhleya are engaged in a range of activities to meet the input and marketing needs of farmers.[1] All cooperatives involved in the pilot projects perform one or more of the three core functions of agricultural cooperatives: marketing products, purchasing supplies, and providing services.

[1] Specific data on the financial status and activities of each cooperative are located in Appendix I.

In Daqhleya, cooperatives handle, process, and sell poultry and supply growers with farm chemicals, feed, fertilizers, seed, and other input items. Cooperative leaders estimate that they provide between 50 to 70 percent of the inputs purchased by farmers. Other cooperative activities include providing manual spraying machines for farmers.

In Assiut, cooperatives supply growers with all required inputs. Other cooperative activities range from: providing extension training services to farmers through educational videos and sponsoring training sessions in cooperative-owned training centers; handling, processing and selling livestock and poultry; negotiating contracts with purchasers; selling biogas; and renting storehouses.

Cooperatives in both pilot Governorates assist members to maximize the return they receive for goods they produce. Input provision allows farmers to gain access to affordable, quality production supplies such as feed, fuel, fertilizer, and seed. And while marketing activities are nascent in the majority of the cooperatives, managers are working to negotiate prices and terms of sales with buyers and assemble growers' produce for sale to processors and exporters.

Issues in Cooperative Reform

Cooperatives thus have the potential to play a crucial role in providing services to farmers in the areas of input supply, extension and marketing. However, several elements compromise the full management autonomy of the multi-purpose and specialized cooperatives. While these organizations receive no direct financial subsidies from the Egyptian government, many of their members still view the GOE as controlling and guiding their activities. This feeling comes from two GOE intrusions in cooperative management, which are:

- The MALR has traditionally named one member to the Board of Directors of cooperatives at the Governorate and National levels. This is often an influential individual who may have a strong influence on cooperative policies and decisions; and,

- The MALR assigns technical staff to the cooperatives free of charge in order to manage many key cooperative activities, including profit-making ones, such as mechanization units or poultry farms.

Promoting Cooperative Reform

As part of Tranche V, RDI has been working with the MALR and cooperative leaders in order to promote the independence and sustainability of multi-purpose cooperatives in Egypt. This has been carried out through a series of meetings and workshops both in Cairo and in the pilot Governorates of Daqhleya and Assuit.

Through these efforts, MALR has agreed to renounce voluntarily its right to name board members for multi-purpose and specialized cooperatives and to allow and encourage cooperatives to hire and pay for the staff which are now providing services at GOE expense.

Cooperative leaders are also now actively involved in the process of reform, and positive strides have been made. Cooperatives in Daqhleya have recently held elections at the local, district, and governorate levels without intervention or nominations by the Government, and they are now making plans for how bestto provide self-funded staff that were once supplied by the government. In Assuit, elections have been scheduled for early January, and cooperative leaders plan to hire private managers for local cooperatives after these elections have taken place.

While reform is gradual, the groundwork has been laid for the cooperatives' conversion into profit-oriented, fully autonomous associations that respond directly to the needs of their members. These reforms should push a greater number of cooperatives to move in this direction and to increase the participation of their members in benefiting from the liberalized agricultural economy.

The following section discusses the specific work of RDI in cooperative reform in the pilot Governorates of Daqhleya and Assuit.

CHAPTER 2

RDI Activities in Cooperative Reform

RDI's work to ensure cooperative management autonomy and revitalize the cooperative system on the basis of efficiency and private initiatives has been carried out in two phases. First, RDI sponsored a series of meetings in order to determine which Governorates, and subsequently which cooperatives, would be most suitable for the pilot project. Second, RDI has held workshops in the pilot Governorates of Assuit and Daqhleya in order to prepare cooperatives leaders for managing their cooperatives and to emphasize to all stakeholders the nature of the new autonomous cooperative system in Egypt.

Phase I: Launching the pilot project

Engaging in cooperative reform: why focus on management and autonomy?

In pursuing the reform of cooperatives with the advent of government withdrawal, it was important to identify obstacles to reform and those factors most important in ensuring the survival and promoting the success of farmers' associations.

Competition, limited access to credit, and the removal of government subsidies are challenges facing all cooperatives in Egypt. With the withdrawal of government funding, cooperatives are faced with prospects of either adjusting and succeeding, or failing and disappearing. Liberalization therefore requires effective and innovative action on the part of cooperative leadership to reorient themselves to meet these challenges and pursue profit-making activities.

A number of factors affect the capacity of cooperative organizations to adequately adjust in response to changes in their external environment. Two of the most pressing factors are: autonomy from the government, and effective leadership and management.

Cooperative autonomy

As has been outlined, government control of cooperatives in Egypt has traditionally entailed various forms of financial and managerial support. It has also, however, served as an excuse for government interference and this, in turn, has been an excuse for the non-accountability of management and the discounting of farmers' views. Interference has disempowered both the leadership and the members, and it is now important to emphasize cooperative independence from the government sector. This is the first step in pushing cooperatives to greater accountability to their members and pursuing profitable activities.

Cooperative leadership and management

Strengthening member services through successful cooperative entrepreneurship is a

precondition for cooperative survival in an increasingly competitive market. Farmers need services effectively and efficiently delivered to answer their economic and social needs, and qualified and competent leadership and management must be prepared and able to deliver these services.

- The Board of Directors

A cooperative's board of directors is primarily responsible for determining the cooperative's overall purpose and ensuring the cooperative's performance toward that purpose. To meet these responsibilities, boards engage in many activities such as hiring and directing managers and setting and monitoring policies. The board should lead the cooperative into the future by explicitly defining both direction and ultimate ends.

The success of the cooperative will ultimately depend upon the capacity of its directors to provide the vision and direction needed not only to survive, but to develop and prosper. It is therefore important to develop the capacity of the board of directors to improve both their personal and collective contributions to the overall development of the cooperatives as a business.

- Management

The short to medium-term top priority task in cooperative reform is to improve the business efficiency of cooperative organizations in order to secure their survival. In many instances it is critically important to improve management. Cooperative leaders need to recognize that managers lacking business talent should be replaced and cooperatives should consider offering new managers performance related rewards. Boards have to devolve considerable authority to managers to permit speed and flexibility in decision making, and managers must have the capacity to be able to effectively run profit- and service-oriented cooperatives.

- Clarifying the organizational mission of the cooperative

It is important to start the planning of any cooperative by developing a shared mission and set of goals for the operation. A mission statement defines why the cooperative exists and what it has been created to accomplish. A business plan is based on these mission and goals, fleshes out the operations of the cooperative and outlines what needs to happen to make the cooperative succeed.

Without a mission statement as the ultimate guide, it is difficult to write a business plan. And without a clear understanding of the economic and social functions of the cooperative, leadership and members will be in a difficult position to judge cooperative management. Therefore, a clear statement of cooperative purpose, underpinning a strong statement of the principle of cooperative management, empowers professional cooperative managers and at the same time improves the ability of members to assess management performance.

Establishing selection criteria of the cooperatives

After defining the objectives of cooperative reform, RDI worked in close consultation with MALR and CAAC to select the pilot Governorates and to determine the selection criteria of the cooperatives who were to be involved. Through a series of meetings involving representatives from MALR and CAAC, RDI explained the points of the program, fielded comments and suggestions, and selected the pilot Governorates of Daqaleya and Assuit to participate in the project. Staff meetings at the Governorate level resulted in the selection of four multipurpose village-level cooperatives in each Governorate.

RDI worked in conjunction with MALR and CAAC in order to determine the factors most important in evaluating the strength of the cooperative. Stakeholders cooperating with RDI emphasized that support should be provided on a select basis only to cooperatives with a potential for successful adjustment and the capacity to make necessary changes. It was important that the pilot projects did not maintain failed cooperatives through artificial means, and RDI and stakeholders therefore focused on those factors which indicated longevity and potential for success. This included cooperatives' physical assets, management qualifications, association activities and financial viability.

RDI chose the cooperatives based on a number of criteria, including:

- *How many feddan* the cooperative has;
- *Financial status* of the cooperative (including money on deposit, profits and losses, and current accounts);
- *Status of the Board of Directors* (including how many members, qualifications of the Board, and activities);
- *Employee figures* (including number of full-time and part-time employees, number of agricultural engineers, accountants, secretaries, clerks, and others);
- *Location status* (cooperative building owned, rented, or provided by the government; are the cooperative stores owned, rented, or provided by the government);
- *Association activities* (amount of fertilizer, seeds, animal feed, machines in use, marketing activities, etc).

Leaders' qualifications. In order to train board of director members and management, it is important that these individuals, first, are actively interested in improving their cooperatives, and second, possess a minimum level of qualifications in order to make this happen.

Association activities. Cooperatives range from those which provide virtually no services to their members to those whose activities cover a wide spectrum of services both

to farmers and to their larger community. It was important to select cooperatives which provided a significant number of services such as input provision, marketing, and mechanization to members in order to maximize the benefit that training would achieve. Inactive cooperatives which provide little to no services would be poor candidates for a reform program based on improving *promising* associations and not maintaining those which had, for all intents and purposes, already failed.

Financial status. Economic insolvency is generally a serious constraint to adjustment, preventing even good management from making necessary changes. Cooperatives must be financially viable institutions in order to sustain their activities and increase the quality and range of services offered to members. Cooperatives that are incurring losses obviously face prohibitive obstacles to making the transition to autonomously run, financially independent institutions. It was therefore important to select associations that had positive current account balances and that had turned out profits in the past year in order to maximize the benefit of reform activities.

Phase II: Project implementation

Upon selection of the cooperatives, RDI held workshops in Daqaleya and in Assuit in September and October 2001. The workshops had two primary purposes: first, to work with cooperative leaders in defining the organizational mission of their cooperatives and in clearly delineating the respective roles of the board of directors and of the cooperative manager. This was designed to improve managerial capacities of cooperative leaders and prepare them for fully autonomous governorance. Second, workshops were designed to underscore cooperative independence from local and national government control. Working with cooperative leaders to set time frames for when free elections for board members would be held, cooperative and government officials agreed on the preeminence of cooperative autonomy and the importance of independent managment.

Promoting cooperative autonomy

Promoting autonomous governorance of the cooperatives is key to decoupling these associations from government control. As has been discussed, the Minister of Agriculture has traditionally had the prerogative to appoint members to the cooperative Board of Directors at the governorate and national levels. With the launching of RDI's cooperative reform project, however, Minister Yusef Wali has agreed not to appoint any members to the boards in Assuit and in Daqhleya.

This decision was finalized in a memorandum submitted to Dr. Yusef Wali by Dr. Saad Nassar, the Chair of the Agricultural Research Center and Director of APRP, 29 January 2001. This memorandum underscored the importance of cooperative autonomy and specifically stated that "local cooperatives are to nominate their own directors by themselves." Additionally, cooperatives will now "establish the administrative boards from

the elected members only." Dr. Wali agreed to the provisions of the memorandum and approved RDI's action plan.

Elections for the board of directors were held in Daqhleya November 3 to 7. These elections determined board members for cooperatives at the village, district, and governorate levels, and entailed no government involvement in the electoral process.

Plans have also been put in motion for free and fair elections in Assuit for cooperative board members to be held in the third week of January, tentatively scheduled for January 19, 2002. As in Daqhleya, these elections will be for cooperatives at the village, district, and governorate levels.

Improving the managerial capacity of cooperatives

The Ministry of Agriculture also has plans to remove government-paid technical staff from the cooperatives. In order for this to be effectively accomplished, however, managerial staff and the board of directors of cooperatives must have a clear understanding of their roles and responsibilities in operating effective and profitable cooperatives.

Recognizing this, RDI has begun the process of training cooperative board members and staff in improving their managerial skills. These training sessions have focused on brainstorming with cooperative leaders about the respective duties of the board of directors and of the cooperative manager, and in defining the organizational mission of the cooperatives. This has helped board members both to focus on improving the services provided by the cooperatives as well as to clarify their responsibilities and those of the manager. This will assist cooperatives in hiring their own managers or in determining by whom and how their cooperatives will be run in the future.

Primary responsibilities of the Board of Directors identified in workshops include:

- Setting a plan of action for the cooperative for the year
- Providing production inputs
- Monitoring the financial activities of the cooperative
- Supervising the work of the manager and professional staff
- Guaranteeing efficient and effective implementation of cooperative policies and plans of action
- Calling for regular meetings of the general cooperative
- Responding to members' requests and work to integrate them into policy

Primary responsibilities of cooperative managers as identified in workshops include:

- Implement the work plan of the cooperative from decisions of board
- Prepare regular reports about the activities of the cooperative, including feasibility studies of proposed projects
- Maintain responsibility for all cooperative projects
- Supervise and support cooperative technical and support staff
- Attend all board and General Assembly meetings
- Undertake responsibility for all financial and managerial tasks of the cooperative
- Supervise and follow up duties of receiving and distributing agricultural inputs
- Work with the board to devise new ways to improve the work of the cooperative

Ensuring sustainability: follow-up training and support

In order to guarantee a common understanding of the new responsibilities and opportunities for cooperatives, RDI sponsored a joint workshop involving cooperative leaders and government officials from Daqhaleya and Assiut held on 25 November in Cairo. This workshop had two purposes: first, to reemphasize the importance of cooperative autonomy and effective management; and second, to bring stakeholders together to discuss the future of cooperatives and strategies for expanding reform efforts to all cooperatives throughout the two Governorates.

In the workshop, all stakeholders signed a memorandum of understanding submitted to Deputy Prime Minister Dr. Yusef Wali. This memorandum indicated an agreement on the part of all signatories that cooperatives are now responsible for paying for the cooperative managers. Specifically, these cooperatives have the right to retain the services of the current government-appointed technical staff (to be paid by the cooperative), hiring new management, or working without a manager. Additionally, the memorandum reaffirmed cooperative independence from the government, and specified that all members of the boards of directors are to be freely elected, with none appointed by the government.

Cooperatives in both Assuit and Daqhleya have thereby highlighted the key services that their cooperatives will provide, and all demonstrate a clear understanding of the professional obligations of the board and managers. However, the process of reform is not complete, and RDI is now taking key steps to consolidate the progress made and ensure that cooperatives successfully move towards democratically-based autonomy. The following section will flesh out directions for the future for all key stakeholders, including cooperatives, the government, and RDI.

CHAPTER 3

Directions for the Future

Significant progress has been made through the cooperation of the MALR, cooperative leaders, and RDI in reforming the cooperative system in Egypt. If cooperatives are to make the successful transition to the private sector and fulfill all the needs of their members, however, they need to continue to focus on solving their management and financial problems. Additionally, the government also needs to clarify its own role in supporting profit-oriented cooperatives.

Future goals identified by cooperatives

Conversations with cooperatives leaders and members highlighted goals shared by the majority, if not all, of the cooperatives in the pilot program. Specifically, cooperatives are interested in pursuing the following activities:

- Increasing agricultural production.
- Developing marketing capacities in order to tap into external markets as well as increase domestic sales.
- Providing a larger amount of agricultural inputs for plant and animal production to farmers at the lowest possible cost. This includes spreading and promoting agricultural machinery.
- Participating in rural development activities, including providing services to rural women.
- Improving cooperative storage facilities.
- Developing closer cooperation with other cooperatives in order to disseminate information and skills learned and to improve the performance of all cooperatives in the governorates.
- Implementing schemes of crop intensification and agricultural modernization.
- Sponsoring awareness raising campaigns designed to provide information to the community on the activities and services provided by the cooperatives.
- Integrating farmer education with environmental issues through extensionists.

Further areas for reform: challenges facing cooperatives

If cooperatives are to pursue the numerous activities that they have delineated, they must overcome the bottlenecks delaying further progress. Two significant obstacles to achieving these goals are: first, a perceived lack of money to carry out their activities; and second, a lack of skilled managers capable of promoting these activities.

Financing

Cooperative activities necessitate a level of working capital, and not all cooperatives are financially solvent at the present time.[2] All cooperatives in the pilot program, however, have realized profits in the past year. In spite of this fact, several cooperatives in the pilot Governorates cited the need for more financing—especially in providing credit to members—if they are to expand their activities.

- Cooperative leaders need to have a firm conceptualization of how to overcome the challenges of providing services to their members *without* the managerial direction or financial support of the government. It must be reaffirmed that cooperatives will no longer receive governmental subsidies, and that they are now responsible for guaranteeing cooperative profits. Forty years of governmental control has limited the ability of cooperative leaders to manage their cooperatives independently and their ability to think creatively about how to solve their own internal financial problems. Shifting attitudes will likely be the longest part of the process of cooperative reform, and it will only be with time and additional workshops and training sessions that these attitudinal changes will take shape.

- Cooperatives are responsible for hiring competent managers and accountants. In order to run profit-oriented cooperatives, cooperative leaders must not only understand that it is now their responsibility to guarantee financial solvency of the cooperatives. They also must hire qualified individuals who possess the knowledge and tools in order to make this happen. The majority of the cooperatives face the need for concrete improvements in their financial management systems. Cooperatives must make sure that management and staff are capable of running profit-oriented cooperatives. If current employees do not possess the necessary qualifications, leaders need to hire new staff capable of ensuring cooperative viability.

Management

As has been indicated, management problems are one of the key factors behind the stagnation of agricultural cooperatives. This includes:

- a lack of appropriate organization and division of labor,
- a lack of awareness among managers and members of boards of directors regarding their responsibilities,
- a lack of professional managers, and
- low levels of loyalty by members towards the cooperative.

[2] Credit and agrarian reform cooperatives generally depend on fees collected from services provided, undistributed dividends, returns from productive projects, and members' share purchases. Loans obtained from PBDAC represent the main source of finance for land reclamation cooperatives.

RDI's activities in the pilot Governorates have begun to sdve these concerns, but there is still much work left to be done on this issue. Cooperative leaders need to develop an even clearer understanding of their responsibilities in running profit-oriented member-driven associations. This will necessitate further workshops and meetings in the pilot Governorates involving both members of the Boards of Directors and cooperative managers.

New role of the government

Government officials from the local to the national level are now in the process of redefining their role in the cooperative system as cooperatives are moving towards independence. Officials are supportive of this process, and are coordinating with CAAC and the Cooperative Reform Committee[3] in order to determine what needs of the cooperatives should be met by the government.

The government now sees itself as working in a supervisory capacity, specifically engaging in the following activities:

- Registration of cooperatives
- Propose legislation regulations and changes
- Ensure the availability of official data and information
- Participate in strengthening relationships between cooperatives which serve different but complementary functions, such as agricultural cooperatives with consumer and productive cooperatives.
- Verify that cooperatives are following financial and administrative regulations.

The Cooperative Reform Committee submitted a policy for reform of the cooperatives to the Minister of Agriculture, and Minister Wali approved this proposal November 2001. The approval of this reform policy by Dr. Yusef Wali is a strong positive indicator of the government's support of cooperative reform and autonomous development within the liberalized agricultural sector.

This policy is the culmination of several years of dialogue between all stakeholders and delineates the responsibilities of the various actors in cooperative reform. The strategic areas for reform include: democratic structure and autonomy; capital resources and financial management; developing the organizational structure of the cooperative system; main activities of the agricultural cooperatives; increasing and modernizing agricultural production; human resource development; and reforming the legal and regulatory environment.

[3] Ministerial Decree 1658/2001 formed the cooperative reform committee, a specialized committee designed to provide a channel for dialogue between all parties concerned with cooperative reform. The aim of the committee is to promulgate a new policy for the agricultural cooperative system for approval by the Minister of Agriculture.

Specifically regarding the government's new role in the cooperative system, MALR has endorsed the Committee's recommendations that emphasize the government's role in eliminating market distortions to enable cooperatives to provide effective economic and social services to their members. It is therefore important that the government create a legal and regulatory environment for cooperatives conducive to the management of autonomous cooperatives.

The role of RDI: perspectives on the future of cooperative reform

Cooperative leaders and government officials are pleased with the results of the workshops sponsored by RDI, and are looking forward to future cooperation with RDI in further promoting the autonomy and managerial capacity of the cooperatives.

RDI and stakeholders agree that it is now important to expand cooperativereform efforts horizontally to include all multipurpose cooperatives in Assiut and Daqhleya. With this goal in mind, RDI is working with governmental officials and cooperative leaders to plan Governorate-wide conferences involving a larger number of stakeholders. These conferences will be organized through the Central Cooperative Unions of the two Governorates, and will bring together the leaders of *all* multipurpose cooperatives in the pilot Governorates.

These conferences will be an opportunity for cooperative leaders to come together and learn from each other and benefit from the experiences and best practices of cooperatives throughout the Governorate. Local level cooperatives will therefore strengthen communication and cooperation among themselves, allowing for future farmer-to-farmer learning opportunities.

CONCLUSION

In a free and open market, agricultural economic development relies on private businesses to provide goods and services. However, private markets do not always function with impartiality to all. Farmers suffer from market imperfections, such as inadequate information, input and output monopolies, and extensive price and market risks. Transaction costs, including information costs, negotiations, monitoring, coordinating and enforcing contracts, are usually substantial. These risks and costs may prove particularly onerous for small holders.

Rural organizations can play a vital role in filling the void left by the reduced public sector presence in agriculture. Because they represent the collective interests and needs of individual farmers, they can more effectively and efficiently utilize their combined resources, moderate market forces to their members' benefit, and provide them with social and economic services that are seriously lacking in rural areas. This includes providing extension services, assistance with contract farming arrangements, crop inputs, and credit.

The establishment of the independence of the agricultural cooperative in Egypt has been a policy objective of the GOE, and many donors, for several years. In the pilot projects of Assuit and Daqhleya, RDI is now addressing the most important of the few remaining reforms required to allow cooperatives to function as they should.

The objective of RDI's reform efforts has been to confirm and reinforce the economic, managerial and financial independence of the multi-purpose and specialized cooperatives. This has included ensuring that they successfully complete the transition to profitable, well-managed, representative organizations, which promote and protect the interests of their members.

These reforms began with the workshops held in Assuit and Daqhleya, in which government officials affirmed their commitment to relinquishing managerial and financial control of the cooperatives, and where cooperatives themselves mapped out their own roles and responsibilities in the new privatized economy. Following these workshops, cooperatives have held elections for new independent Boards of Directors in Daqhleya, and cooperatives in Assuit have set the election dates. Additionally, the government has committed itself to removing public-sector managers from the cooperatives. Cooperatives are now determining their own internal working structure and defining the roles of all pertinent actors within the cooperatives.

As the predominant rural organization found throughout the Egyptian countryside, these cooperatives have great potential to meet the expanding service requirements of producers. These reforms are the first steps in moving cooperatives toward successful, profitable associations who respond to and meet the needs of their members within the private sector.

APPENDIX I

Profile of the cooperatives in Daqhleya

Cooperative Mit Ali, Mansoura District

- *How many feddan* the cooperative has: 1092
- *Financial status* of the cooperative: Capital: LE 20,057; Money on deposit: LE 218,700; Reserves: LE 155,415; Profits: 7322; Size of transaction: LE 332,407
- *Board of Directors:* 7 members, with a director, secretary, and treasurer
- *Location status* (cooperative building owned, rented, or provided by the government; are the cooperative stores owned, rented, or provided by the government): The cooperative building is owned by the cooperative; the cooperative has six stores.
- *Association activities:* 70 percent of agricultural inputs are provided by the cooperative to the farmers. They are engaged in an agricultural mechanization project, and provide animal feed. They have manual spraying machines.

Cooperative Mit Il-Aamil, Aga District

- *Feddan*: 2457
- *Financial status* of the cooperative: Capital: LE 44,465; Money on deposit: none; Reserves: LE 196,338; Profits: LE 16,983; Size of transactions: LE 33,177
- *Board of Directors*: 7 board members, with a director, secretary, and treasurer. They had not received training prior to RDI's workshops.
- *Employee figures*: One manager with a BS in Agriculture; 2 Deputized staff.
- *Location status* (cooperative building owned, rented, or provided by the government; are the cooperative stores owned, rented, or provided by the government). Cooperative building and the four cooperative stores are provided by the government.
- *Association activities:* Provides 50 percent of agricultural inputs and seeds to farmers. Has a poultry breeding station with approximately 15,000 hens. Has manual spraying machines.

Cooperative Dikirnis, Dikirnis District

- *How many feddan* the cooperative has: 2130
- *Financial status* of the cooperative: Capital: LE 15,140; Deposits: 0; Reserves: LE 196,224; Profits: LE 7,972; Size of transactions: LE 244,616
- *Board of Directors*: 7 board members, with a director, secretary, treasurer. All board members have been trained.
- *Employee figures*: The Director has a degree from the Technical Agricultural Institute; there are also 8 Deputized staff.
- *Location status* (cooperative building owned, rented, or provided by the government; are the cooperative stores owned, rented, or provided by the government). The cooperative building is private property; the cooperative has five stores.

- *Association activities:* Provide 50 to 60 percent agricultural inputs including seeds. The coop has a poultry breeding station with 10,000 hens.

Cooperative Khazindar, Talkha District

- *How many feddan* the cooperative has: 1779
- *Financial status* of the cooperative: Capital: 20697; Deposits: none; Reserves: LE 169,467; Profits: LE 13,270; Size of transactions: LE 231,091
- *Board of Directors*: 7 board members, with a director, secretary, treasurer. Three were trained.
- *Location status* (cooperative building owned, rented, or provided by the government; are the cooperative stores owned, rented, or provided by the government). Building is private property; the cooperative owns three stores.
- *Association activities:* Provides 50 percent agricultural inputs including seeds. The coop has a poultry breeding station with 10,000 hens.

Profile of the cooperatives in Assiut

Cooperative Mosha, Assiut District

- *How many feddan* the cooperative has: 4938
- *Financial status* of the cooperative: Capital: LE 29,785; Profits:-4778; Reserves: LE 673,987; Deposits: LE 291,962
- *Board of Directors:* 9 Board members; all have received training.
- *Employee figures*: The director has been hired by the cooperative, as well as seven employees.
- *Location status* (cooperative building owned, rented, or provided by the government; are the cooperative stores owned, rented, or provided by the government). The cooperative building is private; and the four stores are private.
- *Association activities:* The cooperative has a share in the Poultry National Company of LE 40,389.

Cooperative Mer, Qosiyya District

- *How many feddan* the cooperative has: 4341
- *Financial status* of the cooperative: Capital: LE 33,778; Profits: LE 450; Reserves: LE 362,679; Deposits: LE 310,000.
- *Board of Directors*: 9 members; all previously trained.
- *Employee figures*: The manager is appointed by the government; they also have two staff hired by the cooperative and two provided by the government.
- *Location status* (cooperative building owned, rented, or provided by the government; are the cooperative stores owned, rented, or provided by the government). The cooperative building is rented; and the cooperative has two rented stores.
- *Association activities:* The cooperative has a share in a poultry company of LE 14,230; a gas company of LE 1000; and growing cattle of LE 6851

Cooperative Abnub, Abnub District

- *How many feddan* the cooperative has: 5300
- *Financial status* of the cooperative: Capital: LE 34,639; Profits: LE 1; Reserves: LE 184,607; Deposits: LE 184,621.
- *Board of Directors*: 8 members, all previously trained.
- *Employee figures*: Director provided by the government; 5 staff members have been hired and two are provided by the government.
- *Location status* (cooperative building owned, rented, or provided by the government; are the cooperative stores owned, rented, or provided by the government). The cooperative building is privately owned; and the cooperative owns three stores.
- *Association activities:* The cooperative has invested LE 2525 in a poultry company and they own a gas store and a club.

Cooperative Beni Morr, Il-Fith District

- *How many feddan* the cooperative has: 4541
- *Financial status* of the cooperative: Capital: LE 19,294; Profits: LE 4,659; Reserves: LE 98,194; Deposits: LE 18,000. Transactions reached more than LE 700,000 in year 2000.
- *Board of Directors*: 7 members; all of whom have been trained.
- *Employee figures*: The manager is provided by the government, as well as two staff members. They have hired one staff member.
- *Location status* (cooperative building owned, rented, or provided by the government; are the cooperative stores owned, rented, or provided by the government). The cooperative building is privately owned, as well as the cooperative store.
- *Association activities:* The cooperative owns LE 4750 shares in a poultry company.

APPENDIX II

List of Interviews

Cairo
Dr. Amr Moussa, RDI, 29 October and 10 November
Mr. Samir Shihatta, RDI, 31 October
Mr. Steve Joyce, RDI, 31 October
Eng. Ahmed Sadik, Central Authority for Cooperatives, 3 November
Mr. Mohammed Nour, RDI, 10 November

Daqhleya
Eng. Abdel Hamid Khattar, Undersecretary of Agriculture, 5 November
Eng. Fathi Abul Kher, General Manager for Cooperatives in Daqaleya, 5 November
Mr. Abul Abez Osman, Chair of General Cooperative Society, 5 November
Mr. Asabi, Director of Al-Khazindar Cooperative, Takha District, 6 November
Mr. Ibrahim, Director of Mit Al-Aamil Cooperative, Aga District, 6 November
Mr. Said, Director of Mit Ali Cooperative, Mansoura District, 6 November
Mr. Mahmoud Abdu Riz, Director of Dikirnis Cooperative, Dikirnis District, 6 November

Assiut
Eng. Farouq Moussa, Undersecretary of Agriculture, 27 November
Eng. Salah Ali Hassan, Director of cooperatives in Upper Egypt, 27 November
Eng. Abdel Aziz, General Manager for cooperatives in Assiut, 27 November
Mr. Abdel Salem Ali Mustafa, Mosha Cooperative, Assiut District, 27 November
Mer Cooperative, Qosiyya District, 27 November
Abnub Cooperative, Abnub District, 27 November
Mr. Amr Ahmed, Beni Morr Cooperative, Il-Fith District, 27 November