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THE PUBLIC POLICY HUB

Enhancing the Productivity, Competitiveness and Independence of Productive Cooperatives in Egypt

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2019

The opinions expressed in this paper are those of the authors and do not reflect AUC Policies or views.
They are published to stimulate further dialogue on issues and challenges facing Egypt
in an attempt to expose graduate students to practical policy solutions.

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Table of Contents

Executive Summary	4
What is a Cooperative?	5
The History and Evolution of Productive Cooperatives in Egypt	5
The Hidden Potential – Why an action is needed?	6
Problem Statement: Challenges to desired outcomes	9
Policy Options – The way forward	10
Conclusion	12
References	13

Executive Summary

The overall objective of this policy paper is to advocate for a bottom-up participatory approach to reforms impacting productive cooperatives in Egypt.

The promotion and expansion of productive cooperatives could be an important instrument for solving the pressing issues of economic development and social inclusion in a sustainable manner. Cooperatives are considered one of the driving forces of modern economies because of their contributions to economic growth and development in terms of increasing production, social empowerment and employment generation, where the cooperative has a fundamental and effective role in empowering those who otherwise could have been excluded from the market. A bottom-up reform through a participatory methodology to address issues constraining the development of productive cooperatives is, therefore, critical in reaching policy solutions that could provide a favorable environment for the establishment and operation of productive cooperatives.

Just like most cooperatives, productive cooperatives by nature play an instrumental role in providing opportunities for productive employment and income generation, as well as increasing the availability of goods and services, all of which also foster economic growth and tackle development constraints, such as lack of social protection, lack of empowerment and poverty. The productive cooperatives sector has assumed great significance in Egypt's socioeconomic development through supporting self-sufficiency and reducing dependency on imported produce by meeting the basic needs of citizens through diverse goods with distinct quality and competitive prices, especially shoes, leather products, furniture, readymade garments, textiles, knitwear, carpets, metal products, household appliances and various food products. Furthermore, cooperatives help in providing passenger transport services at a reasonable price across all governorates, and supporting large national industries, especially processing or assembly-type industries through supplying their intermediate inputs (i.e. parts and components).

Nevertheless, the history of setting up cooperatives in general and production cooperatives in particular in Egypt has not shown much success. Productive cooperatives frequently encounter serious economic difficulties, such as the supply of credit, the supply of inputs, and marketing.

This paper sheds light on the conceptual framework of productive cooperatives, identifies the distinctive characteristics of this type of enterprises and examines the economic and social relative importance of the sector. Based on the importance of the cooperatives sector at the international level, and because of the many local efforts in Egypt that are aimed at promoting cooperatives at large, this paper identifies areas which need to be attended to by suitable legislative and policy support and also examines selected international experiences, in order to draw lessons learned that can positively reflect on the situation in Egypt.

What is a Cooperative?

The International Labor Organization (ILO) defines a cooperative as, “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise” (ILO,2014). Cooperatives are believed to provide schools for practicing democracy and good governance first hand (ICA, 2013). They are by nature a participatory form of business with a democratic decision-making model where members participate in the ownership and management of the enterprise in which they work. Cooperatives ideally model good governance characteristics like transparency, accountability, predictability, participation and control. Members of a cooperative together raise the necessary capital, shoulder the risks involved, bear the losses, and share profits. Through their collective ownership, members take democratic decisions and participate in the governance of their cooperative.

Cooperatives play an instrumental role in providing opportunities for productive employment and income generation, as well as increasing the availability of goods and services, all of which also foster economic growth and to tackle development constraints, such as lack of social protection, lack of empowerment and poverty.

Meanwhile, recent evidence has found that cooperatives have shown resilience to financial crises and had greater levels of employment continuity over cyclical downturns (Birchall, 2013). In addition, they have provided sources of solidarity, empowerment and inclusion among their members. In most countries the majority of cooperatives operate in rural areas offering a sustainable livelihood for people in rural communities, thus preventing rural depopulation. The cooperative areas of activity are diverse and include agriculture, forestry, fishery, mining, water, health, electricity (generation and distribution), telecommunications, financial services, housing, construction, handicrafts and consumer goods and services. The cooperative sector accounts for 3 to 3.5 per cent of global gross domestic product (GDP). The world's 300 largest cooperative enterprises have collective revenues of USD 1.6 trillion (ICA, 2011). Cooperatives roughly employ 100 million worldwide (UN Report, 2009). Together with small and medium enterprises (SMEs), cooperatives are the most significant sources of new and sustainable employment (ILC,2007).

The History and Evolution of Productive Cooperatives in Egypt

This paper focuses on the productive cooperatives sector in Egypt as a potential vehicle of employment and addresses possible reforms needed especially where employment in productive sectors of the economy is an overriding national objective. The main activity of these cooperatives takes a productive nature where they are created by the producers of a commodity who co-finance the capital and employ it to the establishment of a cooperative economic enterprise. Members of the cooperative then receive their share of the profit after selling the product they produced. The cooperative enterprise does not only secure its members' sustainable employment, but allows them to participate in the ownership and management of the enterprise in which they work.

After the revolution in 1952, critical changes occurred in the establishment of government supported cooperatives in Egypt. In 1956, the government as part of the economic planning needed for industrialization, started implementing a five-year plan which aimed at creating a network of local cooperatives in almost every village. The government controlled most aspects of decision making concerning the main functions of the cooperative such as production, marketing, pricing as well as financing.

According to the provisions of the law of productive cooperation No. 110 of 1975, the productive cooperative structure in Egypt consists of 410 elementary cooperatives across the governorates and are classified by economic activity into 13 central cooperatives. The productive cooperatives in Egypt host various economic activities namely: construction, metal industries, readymade garments, computers & electronics, furniture & trading, public transport, freight, carpets weaving, textiles, leather, photography & printing...etc.

With the aim of bringing efficiency and effectiveness to the productive cooperative sector, the Productive Cooperative Union was officially founded in 1976 and governed by the Ministry of Local Development to unite, represent and serve productive cooperatives in Egypt. It collaborates with cooperative development agencies to develop the business potential, including entrepreneurial and managerial capacities, of handicraft industries and production services via providing technical assistance and legal advice. The union also stimulates a cooperative spirit and enforces principles of solidarity among its members through promoting education and training on the cooperative business model and its advantages.

It facilitates the establishment of international partnerships and alliances between cooperatives not only to boost commercial performance, but also increase their capacity to enter foreign markets.

Nevertheless, the history of setting up cooperatives in general and production cooperatives in particular, in Egypt has not shown much success. A lot of criticism has emerged as for amending Law No. 110 of 1975 to avoid the shortcomings pertaining to applying obsolete standards and requirements as well as redundant procedures.

According to the law of productive cooperation No. 110 of 1975 and the presidential decree No. 472 of 2016 amending Article 72 of Law No. 110 of 1975, the Productive Cooperative Union has become under the administration of the Ministry of Social Solidarity (Productive Cooperative Union).

The Hidden Potential – Why an action is needed?

• *Cooperatives and Small and Medium Enterprises (SMEs)*

Small and medium enterprises have become one of the important driving forces of modern economies, both developed and developing, due to their effective multidimensional contributions to economic and social development in terms of income generation, employment creation, and export promotion.

Most developing countries invested heavily in the establishment of large factories until the late 1980s, but at the turn of the century, there has been a significant shift in investment and the interest in small and medium-sized enterprises has begun. Through their economic experiences, countries began realizing that the capital intensive production models of large-scale enterprises may not necessarily accelerate the process of economic and social development, and do not reflect favourably on all segments of the society, because of the limited ability of these big enterprises in job creation. This is when small and medium enterprises have started playing an effective role in sustainable development for their greater ability to create employment opportunities and new production capacities.

Through its significant role in the promotion of entrepreneurship, capital finance, and the provision of facilities and services, cooperatives are known to have supported the establishment and development of SMEs “Cooperative enterprises provide the organisational means whereby a significant proportion of humanity is able to take into its own hands the tasks of creating productive employment, overcoming poverty and achieving social integration” stated the former United Nations Secretary General Boutros Ghali, in his report to the General Assembly, the United Nations in 1994.

• **Cooperatives and the Sustainable Development Goals:**

Cooperatives also have an important role to play in achieving the Sustainable Development Goals (SDGs) which are set by the United Nations General Assembly for the years 2030 and address global challenges including those related to poverty, social inequality, environmental degradation, climate change, prosperity, peace and justice. In a policy brief by the International Labour Organization (ILO) and International Co-operatives Alliance (ICA), the relevance and importance of cooperatives in the attainment of the sustainable development goals are highlighted. cooperatives are seen as an “inherently sustainable business model, contributing to the triple bottom line of social, economic and environmental sustainability” (ILO, 2014) for the following reasons mentioned below



With respect to **poverty reduction**, cooperatives play an instrumental role in providing opportunities for sustainable employment and income. Cooperatives are influential in identifying business opportunities for their members, helping the disadvantaged among them, mitigating individual business associated risks and mediating members' access to financial and physical capital.

Such services help members earn a living and improve their economic wellbeing. Cooperatives also contribute to poverty reduction through supplying their members and the society at large with good quality goods and services at affordable prices.



Cooperatives represent 32 per cent of the global market in the agricultural sector (Bibby, 2014). Cooperative business model has greatly helped producers in agriculture and farming by solving many of the problems they confronted in production, **thus increasing food security and good nutrition**. Agricultural cooperatives help producers

overcome the challenges they face by offering their members a variety of services to solve problems such as lack of access to high-quality inputs; shortage of access to loans; deficiency in transport and, marketing services.



Cooperatives ensure **good health and wellbeing** by delivering affordable healthcare services where public healthcare is insufficient or not accessible. It is estimated that health cooperatives serve over than 100 million households worldwide (IHCO).



Cooperatives support access to **quality education** by increasing household incomes thus enabling people to meet their educational expenses. In many examples where local governments, particularly in remote areas, were unable to finance building new schools or support existing ones, cooperatives assisted in the provision of quality education by establishing their own schools that served both youth and adults (ILO, 2014).



Cooperatives contribute to **gender equality** by expanding women's access to economic opportunities, which reflects favorably on women's social inclusion and empowerment. Women's participation in cooperatives is increasing in many parts of the world. Women constitute a large majority (95%) of the consumer cooperatives membership in Japan (Suzuki, 2010); and in Spain, almost half of the of members of workers' cooperatives are women (CICOPA, 2011). In some countries, women are encouraged to take leadership roles and engage in management activities. Data from countries in East Africa indicates that women participation in financial cooperatives boards is on the rise with a share ranging from 24% in Kenya to 65% in Tanzania (Majurin, 2012).



Where both the public and private sectors have been unable to provide **access to clean water and sanitation** infrastructure, cooperatives have often filled the gap to set up water delivery and sewerage systems. In the United States, there are 3,300 water cooperatives that supply clean water and provide wastewater services to remote and rural areas at a reasonable price (University of Wisconsin Center for Cooperatives, 2013). In India, too, more than 92,000 housing cooperatives have helped with the provision of clean water and adequate sewage disposal to 2.5 million housing units (Khurana, 2010).

Cooperatives are becoming more involved in generating electricity and providing energy access to consumers in rural populations in both developed and developing countries. In the United States, 864 cooperatives are serving 42 million electricity consumers (University of Wisconsin Center for Cooperatives, 2013). Likewise, electric cooperatives have installed distribution lines to provide electricity to 30



million people in rural communities in Bangladesh (ILO, 2013). Cooperatives have also been visible in the generation of ***clean and renewable energy*** like solar and wind power. In the United Kingdom, at least 30 renewable energy cooperatives were registered between 2008 and 2012. Similarly, almost 60 per cent of new energy cooperatives formed in Germany in 2011, were operating in the renewable energy sector (Bilek, 2012).



Speaking of ***decent work and economic growth***, cooperatives, by nature, play an instrumental role in providing opportunities for employment and income generation. Cooperatives roughly employ 100 million people worldwide (United Nations General Assembly, 2009). Meanwhile, recent evidence has found that cooperatives have shown resilience to financial crises and had greater levels of employment stability over cyclical downturns (Birchall, 2013). It is suggested that employee-owned businesses yield higher financial returns and provide greater levels of productivity than other business structures (Logue, 2005).

The cooperative enterprise does not only secure its members sustainable employment, but also allows them to participate in the ownership and management of the enterprise in which they work; and this sense of ownership is what brings about many significant outcomes.



There are several examples where cooperatives have contributed to the ***sustainable natural resource management*** by encouraging more accountable practices in doing business. In Italy, cooperatives contribute to more sustainable use of resources in fields as energy, recycling and construction (Osti, 2012). In Indonesia too, cooperatives promote ways to conserve forestry resources (Stories.coop).

More than 125 environmental cooperatives in the Netherlands educate farmers with measures of sustainable agriculture and farming (Renting, 2001).

Problem Statement: Challenges to desired outcomes

Despite the widely held consensus among different actors that the cooperatives sector is most suited to addressing poverty and exclusion and provide a tangible solution to the rampant unemployment problem, the history of setting up cooperatives in general and production cooperatives in particular, in Egypt has not shown much success. The productive cooperatives sector faces many challenges and is not delivering the desired outcomes. Productive cooperatives frequently encounter serious economic difficulties, such as the supply of credit, the supply of inputs, and marketing.

The main reason preventing the establishment of functional productive cooperatives is insufficient finance. Most of those who try and establish productive cooperatives are poor, and this explains why most productive cooperatives are, in fact, under-financed. Credit is intended to supplement the amounts members need to raise

to finance the cooperative; however, credit sources are scarce and very expensive, especially in rural areas. Thus the significance of cheap and available sources of credit is extremely important.

The price of input is a crucial factor in the final pricing of any product. It is clear that in a market economy, for the productive cooperatives to survive the competition, they should offer good quality products with competitive prices and hence will seek to purchase the inputs from the cheapest possible source. Naturally the prices of inputs are high, which is not for the benefit of the cooperatives at all.

Marketing the produce of the cooperative entails that each productive cooperative must prepare an effective marketing plan which would take into consideration elements such as storage, packaging and delivery in a way that allows it not only to survive the intense domestic competition, but also to expand into foreign markets.

Policy Options – The way forward

Despite the crucial role cooperatives play in the economy of the nation, the history of setting up cooperatives in general and production cooperatives in particular, in Egypt has not shown much success. There are areas which need to be attended to by suitable legislative and policy support.

Policy Alternative (1): Adopt a bottom-up reform through a participatory methodology to address issues constraining the establishment of a functional productive cooperatives sector in Egypt, explore the prospects for future developments and shed light on the most important mechanisms for implementation.

With an understanding of the actual and potential contribution of cooperatives to sustainable development, there should be opportunities to make cooperative issues acknowledged and their voices heard.

The business environment in Egypt remains challenging for productive cooperatives, hence there should be a coordinated and structured dialogue for developing and implementing policies with the objective of promoting the business potential of productive cooperatives. Special measures are to be taken in order to create an enabling environment:

- ***An enabling regulatory, legal and institutional framework*** is essential to encourage a viable productive cooperatives sector. A productive cooperative's conducive legal, regulatory and administrative environment has certain requirements, most of which are lacking in Egypt. The productive cooperatives, in accordance to law and practice, should receive no less favorable treatment than that accorded to other enterprises, thus a revamping of laws and policies is necessary. A participatory policy and law-making process is a crucial prerequisite to develop legal frameworks and efficient administrative practices that support the establishment and growth of cooperatives e.g. registration procedures, taxation policies, and accounting standards.

- The government should facilitate ***an autonomous system of finance for productive cooperatives*** with innovative microfinance schemes that ensures the availability and access of credit. In this context, the possibility of channeling funds meant for SMEs through cooperatives should also be examined.

- ***Stimulating cooperative entrepreneurial spirit through education and training***

Strengthening the productivity of productive cooperatives and their competitiveness by providing training and capacity building to members and staff of cooperatives in order to develop their entrepreneurial, technical, and managerial skills and improve the quality of goods and services they produce. Italy possesses a long tradition of cooperativism, and the Italian cooperativism provides a model that has become a global benchmark. For example, Project Coopilot aims to provide innovative responses to the youth employment challenge in the European Union, by stimulating cooperative entrepreneurial spirit through education and training (Leite, 2017).

Policy Alternative 2: Introduce tailored support services by the government, where appropriate, to incentivize productive cooperatives that meet specific outcomes like tax benefits, loans, grants and special procurement provisions. These procedures generate short-term wins that are not meant to induce a leap forward; however, they offer quick- yet unsustainable remedies to the problem. Short-term wins are critical to realizing the needed large scale change. Nevertheless, to sustain significant improvements over the long-term, a more comprehensive vision for change is essential.

Policy Alternative 3: Find an alternative model of business and introduce new organizational forms of small-scale productive units. The history of setting up productive cooperatives in Egypt has not shown much success. With the many challenges facing the productive cooperatives sector in Egypt, the disestablishment of these cooperatives exists as an option; however, should such an option become a reality, it has to be noted that the members of these cooperatives will lose all the networking, gains of organization and support they may have formerly attained through those cooperatives, and all opportunities the economy may have been able to gain, in terms of employment creation and income generation, will be missed.

Conclusion

The cooperative model is a possible solution for the pressing problems of development in Egypt, but the business environment in Egypt is restrictive to the development of a vital productive cooperatives sector. The productive cooperatives sector has assumed a great significance in Egypt's socioeconomic development through supporting self-sufficiency and reducing dependancy on imported produce. This is done through meeting the basic needs of citizens for diverse goods with distinct quality and competitive prices; providing passenger transport services at a reasonable cost across all governorates; and supporting large national industries, especially processing or assembly-type industries through supplying their intermediate inputs (i.e. parts and components).

Despite of the relative signifiance of the productive cooperatives sector in the Egyptian economy, it faces many challenges and is not delivering the desired outcomes. It would be inaccurate to suggest, however, to abandon the cooperative model. A productive cooperative's conducive legal, regulatory and administrative environment has certain requirements, most of which are lacking in Egypt. In fact, there are areas which need to be attended to by the suitable legislative and policy support. Therefore; a participatory approach to reforms that addresses issues constraining the establishment and development of productive cooperatives in Egypt has become a necessity. It would also be inaccurate to understate the importance of policy preferences that generate short-term wins, but evidence suggests that support services are not sufficient to warrant sustainable outcomes. Alternatively, a comprehensive vision is what needed for consolidating gains and sustaining long-term change results. The conclusion reached by this paper is that if production cooperatives are set up on the basis of the buttom-up reform demonstrated above, the sector would contribute towards realizing equitable growth and social development.

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The Public Policy HUB is an initiative that was developed at the School of Global Affairs and Public Policy (GAPP) in October 2017. It was designed to fill in the policy research gap. It provides the mechanism by which the good ideas, plausible answers, and meaningful solutions to Egypt's chronic and acute policy dilemmas can be nurtured, discussed, debated, refined, tested and presented to policymakers in a format that is systematic, highly-visible and most likely to have a lasting impact.

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