A HISTORICAL ANALYSIS OF THE AGRICULTURAL COOPERATIVE MOVEMENT IN EGYPT: 1900-1982

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WORKING PAPER
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Preface

Dr. Ibrahim Moharrum has prepared this paper as part of the Agricultural Development Systems Project entitled: "Improving the Role of Agricultural Cooperatives in Egypt." This project, which began February 1, 1981, aims to assess the role and performance of agricultural cooperatives in Egypt vis-à-vis the national planning goals and the stated interests of cooperative members at the local level. In addition to Dr. Moharrum's papers, other reports providing overviews of rural cooperatives, are also part of the project. The other reports cover: "Agricultural and Multi-Purpose Credit Cooperatives" by Dr. Faris Shaker; "Agrarian Reform Cooperatives" by Dr. Mohd. Ramadan El Shohnah; "Specialized Cooperatives" by Dr. Fawazy El Shazly and Dr. R. I. Rochin; and "Socio-Economic Activities of Land Reclamation Cooperatives in Egypt" by Dr. Abdel Hameed A. Sharshar. All will be available as working papers of the ADS series. The author of this paper would appreciate comments and suggestions for improving this report. For questions about the study of cooperatives in Egypt, write to the following individuals.

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The cooperative movement in Egypt can be traced back as far as 1909 when a variety of cooperatives began to appear, including consumer, production, credit, and marketing organizations. Since then, a number of laws have been passed with the aim of organizing and improving the functions of these cooperatives. These laws reflect the historical stages through which the cooperative movement has evolved and the current relationship between the Government and cooperatives.

In order to understand the history of the cooperative movement in Egypt, it is necessary to take into consideration the nature of change in the ideology of the government prior to the 1952 revolution; as well as after this period of radical transition.

This paper provides an overview of the history of the cooperative movement in Egypt. The first phase recounts the dawning of the movement in 1909, and continues up to the July 1952 Egyptian revolution. The second phase encompasses the period from the revolution to the present day situation.
The First Phase: 1908-1952

The initial call for the establishment of cooperatives in Egypt was made by the "National Party," which was established by Moustafa Kamel to revive the Egyptian resistance against British occupation. Omar Loutfy was the first man in Egypt to organize farmers and low-class governmental employees into cooperatives, in order to confront the socioeconomic problems facing the people. Loutfy was also a distinguished member of the National Party.

Through Al Liwaa, the National Party newspaper, and also through lectures in the Party Club, Loutfy succeeded in massing followers.

However, the government's attitude remained one of suspicion due to a poor relationship with the National Party, which did not conceal its dislike of the British occupation and influence within the Egyptian government.

Furthermore, the early movement to develop cooperatives coincided with the occurrence of the Denshiway* incident, which the Party used to incite waves of people angered against the occupation authority. Party leaders believed that

*Reportedly, in the village of Denshiway, 20 farmers were accused of complicity in the murder of a British soldier and were subsequently hung. The soldier shot and killed a farmer from the village while hunting. The farmers claimed the soldier then died from the emotional trauma and fright following the accident. The British claimed he was murdered.
the proposed cooperatives might act, not only in an economic capacity but also would facilitate organizational and political activities.

Therefore, when Loutfy called for a special law to organize cooperatives, he was ignored. The government also ignored a proposal for cooperative law introduced by the Kheidek Agricultural Association at the suggestion of Loutfy, who was one of its members, in spite of attempts by Prince Hussien Kamel, the chairman of the association, to support the proposal.

However, resistance diminished when the government introduced a law for cooperatives to the legislative council in 1913. Furthermore, Lord Kitchener, the British ambassador in Egypt, asked civil employees to encourage farmers to join and establish cooperatives. Perhaps this unexpected transfer of occupation authority, and the resulting shift in the Egyptian government's attitude towards the cooperatives, contributed to the large loss incurred by the Egyptian Agricultural Bank, which was one of the biggest foreign firms in Egypt (since the majority of its capitalization was owned by foreigners). These losses were due to the inability of former borrowers to repay their loans after the economic crisis that crippled the country throughout 1907. Also, the "five feddan law" closed the door for small farmers to obtain loans
from this bank because of their inability to provide a guarantee for their loans to the bank.

However, according to the higher Legalization Council, the government's proposed laws were really intended to control cooperatives through dishonest and deceptive means and prevent them from engaging in any anti-governmental activities.

In a report by the chairman of this Council, Saad Zaglol claimed that the proposed law ran contrary to the intended goals of Egyptian cooperative development; leaving the cooperative under the influence of a British financial consultant, and thus under government control. Zaglol defied the proposed law and began to prepare another proposal for cooperatives at the request of the Council. However, his efforts were delayed by the First World War and subsequent British declaration of protection over Egypt.

Although the government ignored Loutfy, he succeeded in establishing the first Egyptian cooperative in 1909. Due to the absence of cooperative legislation, he established his organization under corporation law and called it a "union" instead of a "cooperative." This first union was dubbed the "Consumer Union of Governmental Employees in Cairo and Alexandria." Loutfy
also succeeded in establishing the first agricultural cooperative in Egypt in Shobra El-Namela in 1910. When a sizable number of cooperatives in this "union" were developed, Loutfy finally succeeded in 1912 in establishing a "central union" as a federal cooperative union to provide multiple services for union members, such as loans and credits and serving as brokers.

Although the government's effort failed and unsuitable political conditions persisted, the cooperatives established by Loutfy's efforts continued in their work after his death in 1913. But following his death, the cooperative movement lacked the unique strength of commitment to expanding cooperation. Subsequently, the number of cooperatives or "unions" did not increase to more than 55 through the period 1913-1920.

When the 1919 Egyptian revolution, under the leadership of Zaglol, succeeded in obtaining Egyptian independence, the atmosphere was then more conducive to national development and the first basic cooperation law was declared in 1923. But this law contained many weak points, especially its exclusive applicability to agricultural cooperatives only. Furthermore, the law did not contain any governmental role for providing financial facilities to cooperatives to help them in their operation.
During this time Ibrahim Rashad, one of the young dedicated members of the National Party, came home after he received his Ph.D. degree in Ireland as the first Egyptian specialist in agricultural cooperation. The English deputy Minister of Agriculture chose Rashad to establish the first government department for cooperatives based on his belief that Rashad might be "British" in outlook after nearly a decade of study in Ireland.

But Rashad made his acceptance of the appointment contingent on several stipulations, the most important of which was that government dominance over cooperatives must be temporary—"through a limited period." The length of this period was to be determined by the cooperative's success rate with increasing the peoples' awareness of cooperatives and also on execution of ambitious planning for cooperative education and training. This was to include study missions to send Egyptian students to Europe. Rashad's plan ended by establishing a general cooperative union to take over responsibility for the movement from the government.

Rashad felt he could not achieve all that he hoped for because of the continuing change of Ministers and their ignorance of cooperatives, especially since the majority of ministers followed the capitalistic ideology and thought
the cooperative movement a step toward communism. Yet, Rashad persevered in his attempt to establish cooperatives in Egyptian villages, choosing an effective group of employees to work with him and training them himself. These groups were the first Egyptians organized and trained to develop the cooperative experience. Although this effort succeeded in increasing the public awareness of cooperatives, it did not succeed in increasing governmental interest in cooperatives at the same level.

The most important obstacle facing the cooperative movement during this stage was the absence of a financial resource for cooperatives. When cooperative leaders demanded these financial sources to help cooperatives to achieve their goals, the government allowed cooperatives to take loans from the government fund in "Bank Misr." However, the total value of credit given to cooperatives did not exceed 1845 L.E. (Egyptian pounds) in 1926, and peaked at 6275 L.E. in 1927.

To confront the weakness of the initial cooperative law, the government declared a second cooperative law during 1927. With this law, the government allowed cooperatives to take credit from a special fund in "Bank Misr." Two hundred and fifty thousand L.E. were made available in 1927,
which was increased to 350 thousand L.E. in 1930. Yet, only 50 percent of the entire total number of agricultural cooperatives established at that time utilized this credit facility. Only 58 percent of the total amount of credit requested by these cooperatives during the period 1928-1931 was actually provided. This created the need for an additional financial resource more understanding of cooperative needs and requirements.

The government, in concert with foreign financial groups which dominated the Egyptian economy, finally recognized the necessity of risking financial support and established the Egyptian Agricultural Credit Bank in 1930 as a corporation involving the government and several commercial banks. One of the critical purposes of this new bank was to encourage the development and expansion of the cooperative movement in Egypt.

Cooperative leaders believed that by establishing this bank, the government genuinely wished to support and help cooperatives to achieve their goals. However, the shocking truth soon surfaced. Because of the increasing amount of credit provided to cooperatives during the initial years of the Bank's activity, (rising from 770 thousand L.E. in 1932, to 1363 thousand L.E. in 1937) and the continuing increase of cooperatives dealing with the Bank
(from 290 cooperatives to 501 during that same period), the Bank intended to adhere to the dominant capitalistic attitudes of government authorities by placing various obstacles in front of cooperatives requesting loans. These obstacles successfully decreased the number of cooperatives dealing with the Bank from 444 in 1938 to 383 cooperatives in 1944. The former number of cooperatives was so small that it equaled only 24.5 percent of the total number of agricultural cooperatives in existence that year.

When these facts became apparent to cooperative members they called for the establishment of an independent cooperative bank. The fact that the agricultural credit bank refused credit to nonagricultural cooperatives, encouraged dealing with individual farmers rather than agricultural cooperatives and forced the cooperatives to utilize unfavorable, specific types of credit, further fueled their demands.

Their efforts resulted in the third cooperation law (1944) which called for the establishment of an independent cooperative bank to serve all kinds of cooperatives, not only agricultural organizations. On this basis, 850 cooperatives collected about 250 thousand L.E. as capital for this bank
and also registered the banking association officially as a financial cooperative.

As Rashad had predicted, the government was far from serious about giving the cooperatives the freedom necessary to be more independent organizations. The government attempted to convince cooperative leaders that it had decided to change the agricultural credit bank to a cooperative bank in stages, putting an end to nonindividual loans and concentrating only on dealing with cooperatives.

This change was to increase the capital of the agricultural credit bank to allow cooperatives to pay the total amount collected for establishing their new bank, sharing in the capital of the agricultural credit bank. However, this ambitious plan dissipated when all that actually changed was the bank's title, to the "Agricultural and Cooperative Credit Bank," while the supposedly "new bank" continued its policy of discrimination against cooperatives. The ratio of cooperative credit divided by the total credits provided by the bank actually decreased from 24.9 percent in 1949 to 21.3 percent in 1952.

Although the agricultural cooperative movement prior to the 1952 revolution included 1,701 cooperatives; 507 thousand members; total capital of
about 662 thousand L.E., financial reserves of 436 thousand L.E., net savings of 122 thousand L.E., and a total value of patronage of about 4882 thousand L.E., the momentum of the cooperative movement was thwarted by the weaknesses of its restricted capabilities and a general bias against cooperatives within the government. The average number of members of a cooperative was about 298, and the capital average for each cooperative was about 383 L.E., i.e., the average share of each member in this capital was only 1.3 L.E. which was most likely responsible for the very limited cooperative credit resources; restricted cooperative services which provided an average of only 9.63 L.E. per person, which was totally insufficient to satisfy the member's needs.

II. The Second Phase: 1952-1982

Despite the political and economic transformation after the 1952 revolution, the government continued its policy of dominating the cooperative movement. Whereas, before the revolution the government projected a more subtle posture, after the 1952 revolution the government took clear and decisive action to control the movement.
Only 42 days after the revolution, agrarian reform laws were issued; such laws forced each farmer to join a cooperative in order to receive any land and benefits through the redistribution of large land holdings. These agrarian reform cooperatives were completely under government control and supervision, which supported these cooperatives with different types of aid. This led to relatively improved economic status for the agrarian reform members.

Therefore, the General Cooperative Conference in 1955/1956 recommended adaptation of the same types of cooperatives to nonreform areas as well, since the government sponsored cooperatives were ironically a success. The Conference, however, did not want the same level of government dominance spread with new support.

The government issued the fourth cooperative law in 1956 (No. 317), reserving itself expanded authority and control over all agricultural and nonagricultural cooperatives, especially the right to disband the Board of Directors of any cooperative at any time. Cooperatives were to be under the management of a governmental employee with the full right to make decisions without relinquishing any rights to the members and eliminating their opportunity to object.
In the beginning of 1957, the government created the "Cooperative Credit Program" and applied this to the nonagrarian reform cooperatives as a five-year program. This program was developed to improve the credit system on all levels and change the "Agricultural and Cooperative Bank" to a complete cooperative bank. The bank, therefore, stopped dealing with individual farmers and concentrated on dealing only with cooperatives. A bank employee was appointed as a supervisor of each cooperative, responsible for delivering the credits to cooperative members.

In spite of the dominance of the government and the bank over the cooperatives insured by this program, the program failed to achieve its goals. Instead of changing the bank to a complete cooperative bank, the government nationalized it in 1962, then changed it to a complete governmental organization. Instead of improving the credit system in order to increase the ratio of refinancing of credit, this ratio decreased from 80 percent in 1950 to 61 percent in 1964. Moreover, the agricultural and cooperative bank became dependent upon commercial banks to finance its needs.

Bank credit from these commercial banks was approximately 7.7 million L.E. in 1952, increasing to 24.2 million L.E. in 1957 and jumping up to
141 million L.E. in 1965. At the same time, cooperatives did not succeed in improving their own financial power; the maximum (deposited in cash) in the bank was 16.9 million L.E. in 1965, while in that same year the cooperative credits from the bank were 72.5 million L.E. (i.e., the self financial ratio in the cooperative movement did not cover more than 23.3 percent of the total amount of its financial needs).

The cooperative movement remained dependent upon the government, which owned the commercial banks which provided about 76.7 percent of its credit needs. Moreover, cooperative members' claims about inaccuracies or mistakes in their account sheets increased dramatically.

Despite the heavy load placed on cooperatives in 1962, the government increased their responsibilities to include representation of farmer's rights, through the only "political party" in Egypt at that time. The government declared that the "Socialistic Arab Union" as the party was called, could no longer remain politically neutral, as a cooperative should. Instead, the cooperative was to serve as a politically active representative body for farmers in the union.
In 1963, the government decided on a special law to give full authority to transfer all agricultural cooperatives to the agrarian reform cooperative system. Through this law, the "Agricultural Production Organizing Project," the government was managing, financing, supervising and thus fully controlling all agricultural cooperatives in Egypt.

This project lead to multi-dimensional problems for cooperatives. Cooperative members became very dissatisfied with routine procedures and services available to them. Accounts of corruption, mistreatment and mistakes involving farmer's accounts with cooperatives increased dramatically; along with a decrease in direct benefits for farmers. The cooperative marketing system became fully controlled by government agencies. Governmental agencies continually disrupted the cooperative mechanism, dissolving the majority of cooperative bodies of directors, and preventing general assemblies of those cooperatives from meeting.

After the 1967 war with Israel the ruling regime finally allowed criticism to be aired. Cooperative leaders then called for a new law in order to decrease the governmental influence over cooperatives. However, this law, which was passed in 1969, placed continued restraints on the agricultural
sector, as did the first cooperative law. Still, there was a significant change in the governmental authority over cooperatives. This law allowed agricultural cooperatives to establish "The Central Agricultural Cooperative Union" (CACU) to oversee and represent the agriculture movement, which still remained under the strong control of the government.

Established in 1970, the CACU was plagued by government interference from the outset. Furthermore, the government took the opportunity to fill positions on the board of directors with the same men who had governmental trust as political leaders in the "Arab Socialistic Union." However, this was finally prevented when "the correction motion" by President Saddat reorganized the board of directors of the Cooperative Union.

One of the political leaders supporting this motion became the chairman of the CACU. At the same time, he also became the chairman of the agriculture committee in the parliament ("Egyptian Congress"). This duo political power provided a unique opportunity to make some improvements in the cooperative union mechanism. A special group for review of cooperative accounts was formed, branches were established for the union at all
governorates and districts, a program was started for upgrading agricultural
cooperatives in 13 districts in eight governorates, an ambitious training
program was prepared and executed on different levels internally and abroad
and six specialized cooperatives were established in six main crops.

Also, Egypt joined other arab cooperative movements by forming the
"Arabic Cooperative Union," located in Cairo. This paved the way for
establishment of an "African Cooperative Union," joined by "The International
Cooperative Alliance," and culminated in the General Cooperative Conference,
which brought together 6 thousand members for the first time in 20 years.

Unfortunately, the Central Agricultural Cooperative Union (CACU) still
managed to make some mistakes, among these were misleading political
activities. This, in turn, caused union leaders to turn against the CACU and
motivated them to seek political revenge. This was achieved through unfair
hiring practices, which disproportionately swelled union ranks at a cost of about
566 thousand L.E. in 1974 for only 3 thousand employees. This expanded the
cost of per diem and transportation expenses for members of the board of
directors of the union to 555 thousand L.E.
During the summer of 1976, an intense struggle erupted between the cooperative union and the government resulting in Law Number 117 (1976) which changed the financial credit power of CACU. The government charged members of the board of directors with corruption and misuse of union funds for private benefit. It took six years for the "May 1982" court to clear the board of all of these charges. However, the damage was already done, since the government was unwilling to wait for a court ruling. Instead, under Law 824 (1976) the government went ahead and fired the board of directors of the union. A month later, the government disbanded the entire union itself, putting an end to the only organization protective and representative of agricultural cooperatives in Egypt.

As the court declared six years later, the whole struggle was politically motivated due to the union's attempts to secure more freedom for cooperatives and to free them from governmental dominance. Yet, the net result of this incident was a loss of public support and faith in cooperatives in Egypt, as well as a disdain for any organization even remotely associated with a cooperative movement.
During the period between 1976-1980, after the union was disbanded, the government withdrew most of the services which were performed for cooperatives by village banks, which were branches of the "Agricultural Credit and Development Bank." This was the same old "Agricultural and Cooperative Credit Bank" owned by the government. This was the darkest period in the history of the Egyptian cooperative movement, as most of their activities were stopped and most of their employees, buildings, and stores were switched to the village banks.

Another new law for agricultural cooperatives was passed in 1980 (Number 122) to give governmental agencies further control over cooperatives to prevent a repeat of the previous mistakes supposedly made by cooperatives. Under this law, the CACU was reactivated as an umbrella organization but with less power than before.

In 1982, when the new cooperative law came into effect, cooperatives were officially re-registered and new elections of a board of directors took place. The current plan is to re-establish the cooperative structure before October 1982, in order to restore cooperative activity in Egypt by 1983.

cg 5/6/83 P5