

THE IMPORTANCE OF AGRICULTURAL COOPERATIVES IN POST-COMMUNIST ROMANIA

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Abstract

The new types of successful cooperative structures developed in European countries have stimulated a dialogue within Romania on the benefits and the opportunities brought by these structures. This subject is highly relevant for us taking into account that in a capitalized economy, agriculture is a simple and efficient response to its needs. Using case studies for different types of agricultural forms of cooperation, we outlined the main issues encountered in this field and we proposed systemic solutions which could generate a proliferation of cooperatives. Our results concern different pylons of efficiency such as institutional, fiscal, financial or social pylon. In order to effectively response to the economic dynamic, Romanian cooperatives must adapt to an extended and complex environment and must have the ability to find performance among resource-poor populations.

Keywords

agricultural policies, agricultural cooperatives, rural development

Introduction

Nowadays, searching for responsible ways to invest in agriculture has become an important topic in order to reduce poverty, to generate decent jobs and to improve alimentary security, and in the same time having in mind the respect of durable environment. In consequence, we should always think the agriculture through its possible consequence on the environment, and in the same time through efficient ways to increase productivity.

The International Fund for Agricultural Development (IFAD) underlines that farming has an important capital of risk, magnified by the recent dynamics of climate change, which has an important impact on smallholder farmers. To build resilience against insecurity conditions and to realize a more resistant, viable market place, different forms of association like agricultural cooperatives or producer groups have increasingly become an appropriate solution to support the farmers in obtaining higher revenues.

Taking into account the increasing need for the use of this instrument at a global level, we are questioning the Romanian approach of agricultural cooperatives as a form of modernizing the agricultural sector. In consequence, our article depicts the activity of agricultural cooperatives in Romania, their development and their importance in sustaining efficient productivity. In order to identify lacks of measures and improvements in our national case, we will analyze different agricultural cooperatives, focusing on their activity, their difficulties and we will propose solutions which could insert more opportunities for their development.

1. Literature review

In this part, we will try to depict a theoretical background in what concerns the approaches to cooperatives, or generally to the idea of cooperation in agriculture in order to benefit of bigger finances or multiple instruments to product and commercialize. The research developed in agro-science makes a difference between production cooperatives more

frequently used in Central and Eastern Europe and marketing /supplying (secondary cooperatives) used in other states of European Union, which outlines the importance of a vertical integration in a competitive agricultural sector. However, the existence of cooperatives is an European trend, based on the need for a greater bargaining strength in the economic survival.

What is the definition of agriculture cooperatives? Agricultural cooperatives can be defined as “groups of farmers mutually linked in the corporation, which they form and whose services they avail themselves of, in a double relationship of active participation and full membership. Their principle activity is not agriculture, as might be expected from their title, but it is the farmers’ concerted use of the means at their disposal to facilitate and develop their economic activities”. (Vienney,1980)

According to the International Cooperative Alliance (ICA), a cooperative is 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. More precisely, the values which are at the foundation of a cooperative are: self-help, self-responsibility, equality, equity, solidarity and democracy. As essential principles needed to form a cooperative and to bring it to the maximum level of efficacy, ICA mentions open membership taking into account that it is a voluntary organization, and also a democratic member control as it is formed of equal members and all choice influence each member. Another principle would be member economic participation because all members have to contribute with capital for their cooperative in order to reach its purposes. In addition to this, cooperatives have to be autonomous and independent, as the control has to be exercised only by its members who contribute with capital and who cooperate in order to be efficient, this cooperation being also another principle of the functioning of cooperatives. Complementary principles would be education, training and information, elements which contribute to the development and the adaptability of the cooperative to the dynamic of the market. Finally, as a last invariable principle, it is important to mention that the concern for community has to be a horizontal value, essential for a sustainable development. In consequence, the existence of cooperatives depend on committed members, values commonly approved, practical measures and structures, all interacting in a large ecosystem of institutions and activities.

It is important to mention that the cooperatives which constitute the object of our analysis do not concern the cooperatives in their traditional and controlled form within communist regimes, but we have in mind the new generation cooperatives, which are flexible according to the changes imposed by a capitalized agriculture or by a high technology used by the global concurrence. Comparing to the traditional cooperatives which focuses on marketing raw commodities or supplying, the modern cooperatives focuses on value-added products. Other features noticed at the new generation cooperatives refers to the delivery rights, closed membership, a higher level of initial equity investment and finally transferability and the opportunity for appreciation or depreciation in the value of delivery rights. (Ševarlić, Skoko, Nikolić, 2007)

The latest changes which took place at the global level of competitiveness, more precisely the privatization processes, the emergence of a new form of daunting marketing, global processes of privatization and deregulation, the concurrence between privately owned and corporate agribusiness, have changed the relation between states, private actors and producers. However, these changes bring new uncertainties especially for the small holder farmers. This is the main reason which makes the agricultural cooperatives a solution to deal with uncertainty, taking into account that “their advantage, at least in theory, lies in having a better chance to pull together a variety of assets in the form of economic capital

(credit, land, and financial investment), social capital (networks that improve collective bargaining and marketing potential), and human capital (investment in member education and capacity building) that could enhance the options of individual members, reducing socioeconomic risk and empowering rural populations”. (Vásquez-León, 2010)

From a judicial point of view, having in mind that agricultural cooperatives are judicial structures which influence the economic sector, it is always relevant to search the difficulties encountered by the institutional instruments in correlating the gains of productivity and the direct results of unprocessed agriculture. Also, scholars have noticed that the constitution of an agricultural cooperative as a factor of power within the market, “has very times reached the establishment of a contract between agriculture and nation, more precisely rarely has proved that cooperation is better in efficiency than competition”. (Antonin, Nieddu, 2000)

In what concerns the economic justifications for forming cooperatives, researchers have mentioned two main elements, more precisely the need for “institutional mechanism for individual producers in order to bring economic balance under control because of excess supply induced prices, and institutional mechanisms to countervail opportunism and holdup situations encountered when markets fail.” (Cook, 1995)

2.1 Paradigms of practice in Romanian agricultural cooperatives

In 1908, Constantin Stere, an ideologue of the Poporanist trend, who wished to form cooperative farms for peasants in order to unleash them from aristocratic control sustained that multiple European countries which rejoice in a high level of industrialization, have understood that despite technical evolutions, they do not have to neglect the human nature of the people, therefore cooperation forms of activity had to be sustained and helped to grow. Until communism, the development of associative structures has known an ascendant trend, interrupted by the excessive political use of cooperatives and the strong attachment to property. As for our capitalist period, starting from 1990, the importance of associative structures has been recognized only at a legal and theoretical level, but there are still problems concerning the practical forming of cooperatives.

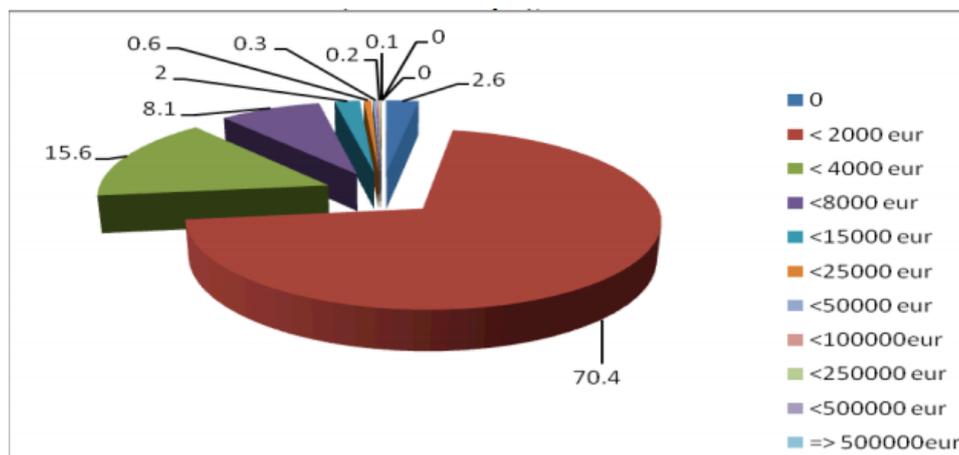
In what concerns the legislative frame, Romanian law provides for three types of rural associations: farmer associations; cooperative associations; and non-governmental organizations (NGOs), which are subject to different rules of registration and taxation. However, only two laws concern the agricultural cooperatives, more precisely law number 566 of 2004 regarding agricultural cooperatives, and another law of 2005 regarding cooperation, which stipulates the possibility of forming either a cooperative society based on capitalization, either an agricultural cooperative society. It is important to mention that we define cooperative society based on capitalization as an association of physical persons formed in order to capitalize personal products purchased by direct distribution or by processing and direct distribution, whereas agricultural cooperative society is an association of physical persons whose object is collectively exploiting agricultural surfaces detained by its members, collectively working for land improvement, sharing utilities and machines, and finally capitalizing agricultural products.

The law regarding agricultural cooperatives provides different distinction within this category of association. First of all, there are services cooperatives which assure services for small producers, oriented on small and medium farms which do not dispose of technical means for agricultural works taking into account that investing in expensive machines for small holdings is not a justifiable action. Secondly, Romanian law stipulates the existence of acquisitions and sale cooperative, which has a primary organizational function, by offering a platform both for the acquisition of technical material and means, and for selling agricultural products. This type of cooperatives is due to tame the competition between

small producers and extended merchants within the unregulated market. Thirdly, Romania has cooperatives which process agricultural products, by developing processing units and assuring a permanent presence to small, qualitative brands. Other type of cooperatives is manufacturing and small-scale industry cooperatives, exploitation and management cooperatives and finally financing agricultural cooperatives.

According to the Institute for Social Economy, agricultural cooperatives would be a strong instrument for smallholder farmers, as they dispose of some important economic advantages, throughout we can mention the reduction of intermediates in the distribution chain, risk reduction in what concerns products sale, the increase of producer's influence in the price negotiation with buyers. In addition to this, the agricultural cooperatives offer a constant and trustful income to farmers, a proper and efficient supply of prime materials for the production process, and a new perspective for producers in order to adapt their technology.

In 2012, took place the conference “Associations of farmers- key actors of social economy in rural space” in order to identify the new challenges, difficulties and opportunities, which reunited different actors with influence in the rural development, such as special representatives of the Minister of Agriculture, the Institute for Social Economy and different representatives of agricultural associations. Researchers outlined that persons who live in rural environment are highly dependent on agriculture, difficult activity taking into account the reduced productivity and the limited access to the market for the farmers. According to data furnished within the conference, Romania encounters different systemic problems such as an extreme segmentation of agricultural lands in very small distinct exploitations (Romania having the biggest number of agricultural exploitations in European Union). However, 99% of the agricultural exploitations are individual subsistence farms, the degree of association in agriculture being much reduced. As we can see in fig. 1, according to the most recent data furnished by Eurostat and the General Agricultural Investigation from 2010, the most frequent exploitations have a small economic dimension, which implies disparities between investments and gains. In addition to this, the investigation realized at a national level showed a high level of land externalization through foreign investors.



Source: Eurostat and Recensământul General Agricol, 2010

Fig.1. The structure of Romanian holdings according to their economic dimension

The main conclusion was that the Romanian government has to change the legal and practical approach from thinking the cooperatives as organizational forms of production instead of thinking them as representative forms of association.

2.2 Diagnostic of the current state of cooperatives

In performing a diagnostic concerning the current situation of agricultural cooperatives, we used case studies, through a qualitative research method in order to depict main problems encountered on a specific level by important actors in agricultural field, and by extenso general difficulties of agricultural cooperatives. We chose to analyze the activity, the programs and the official data of five different structures, such as two agricultural cooperatives Borcea de Jos and East Champion Union, a consumer cooperative SuperCoop Târgul Neamț, and finally two representative structures such as National Federation ProAgro and CentroCoop.

Our analysis focused on the activity of agricultural cooperatives, on the main obstacles related to Romanian fiscal system, Romanian policy for agricultural cooperatives and the government support for the development of cooperatives. The agricultural cooperative Borcea de Jos, the first structure we analyzed, is a cooperative specialized in animal growth, more precisely sheep and cattle, which is currently searching for funds in order to benefit of a land sufficient enough for the number of animals detained. East Champion Union is specialized in processing and preserving fruits and vegetables, also in search of funds through the Agricultural Chamber in order to build a compost factory for mushrooms. The problems encountered are similar: the access to external funds and subventions and a difficulty to access European programs. In what concerns the National Federation ProAgro, it is a platform which reunites professional organizations in agriculture and sustain their development, their cooperation and information sharing. The problems emphasized concern the need for internalization of agro-alimentary cooperatives, a better support for export at the governmental level, the lack of specialized leaders for cooperatives and the risk of land alienation to foreign investors as from 1st of January 2014, each person has the possibility to buy arable land in Romania. The members of National Federation ProAgro also deplores the lack of adaptability of government to current needs, such as the adjustment of taxes in what concerns pig growth, taking into account the embargo given by Russia to European Union, change which could determine the cooperatives specialized in pig growth to enter in insolvency. Measures such as the delay in VAT payment or improvement of measures against unfair competition having in mind the important illegal quantity of pork which is negotiated on black market at very small prices.

Another structure we analyzed is CentroCoop, an association of multiple consumer cooperatives, which deplores fiscal instability, unsuitable legislative framework such as the abrogation of the internal audit or the devolution of the role of cooperatives federations from economic actors to representative actors. Finally, we analyzed the consumer cooperative SuperCoop Târgul Neamț, specialized in four sectors of activity, more precisely in agro-alimentary products acquisition directly from the producer, the processing of agricultural products, sales and public alimentation. The main problems invoked concern the payment of VAT at the acquisition of agricultural products and the misunderstanding of the role of cooperatives by political actors. An example would be the

dissolution of the Cooperative Solidarity Fund or the legislative change which permits an easy sale of active assets of cooperatives.

Table 1. Diagnostic of current state of agricultural cooperatives in Romania

Systemic difficulties and constraints	Possible solutions
Excessive bureaucracy in accessing funds	Acceleration and flexibility for control process Providing technical assistance to obtain funds for infrastructure, equipment and technical resources
Inadequate finances Low production quality due to lack of qualitative infrastructure, high credits and high energy costs Intensification of foreign competition	Development of purchasing hubs Development of regional cooperation through active partnerships Development of new proposals for financing instruments through European programs or foreign partners
Tax pressures Lack of facilities adapted to current and specific needs Unfair competition (many producers do not pay VAT and sell on the black market products)	Reduced VAT on certain branches Predictability of fiscal system Market segmentation on sectors (agriculture, distribution, consummation) in order to dispose of adapted measures and actions
Reluctance of farmers caused by the previous experience of cooperatives under communist era and forced collectivization	Rural campaigns to disseminate theoretical and practical information about the facilities and gains of cooperatives. Also, it would furnish information about how to gain access to market, finance and appropriate technology
Unsuitable law for commercially oriented cooperatives	Participatory and consultative approach in defining the national policies by the government, through working groups or debate with representative actors such as cooperative federations
Weakness and lack of experience of cooperatives	Training for local services providers The creation of a national department for marketing studies and feasibility, whose main attribution should be to provide active information and data to cooperatives Workshops for staff, committee members and ordinary members of cooperatives

Source: Based on personal data processing

After processing the data from our case studies, we tried to find a common problematic background and to propose solutions for each systematic difficulties encountered by the agricultural cooperatives in Romania. As it is noticeable, the nature of the problems is diverse, starting from institutional issues to collective mentalities and past experiences.

Conclusions

After the collapse of socialistic model of economy in Romania, we have witnessed a paradigmatic change in what concerns cooperatives, from politically controlled structures to

collective and accountable agricultural cooperative, from external interventions to democratic forms of cooperation, from the attachment to land to an attachment to market. This transition, however, has not improved the efficiency and readiness of cooperatives, which still have problems in adapting to new economical changes such as globalization and liberalization, or the competitiveness of private agricultural companies. In what concerns the Romanian approach to agricultural cooperatives, we noticed that if in practice we witness the emergence of new cooperative organizations, Romania has not adopted new laws concordant to the evolution of cooperatives, has not provided new forms of investments, neither an equal system of reward to farmers who obtain just a part of the price paid by consumers.

Our research has shown that agricultural cooperatives represent one of the main factors involved in the rural development, based on the creation and the exploitation of resources, on a new social model of cooperation and on a capitalized form of solidarity. Also, being a decisive factor in the economic growth, they are indirect job providers. However, the common conception regarding cooperatives such as a risk for smallholder farmers to relinquish their land, the unsuitable legislative framework and the absence for new financial instruments are strong constraints to the development of agricultural cooperatives. These structures are still at an early stage of development and their reconstruction should be attached to a new modern concept based on competitiveness, regional active partnerships, data sharing and proportional relation between investment and gain.

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