



***Promotion of rural development  
through agricultural co-operatives***

*ICA Europe - ICAO Workshop  
Budapest, 17-20 June 2001*

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*Promotion of rural development through agricultural co-operatives*

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Promotion of rural development through agricultural co-operatives  
Joint Workshop

Organised by ICAO – ICA Europe  
in collaboration with COGECA and MOSZ  
Budapest, 17-20 June 2001

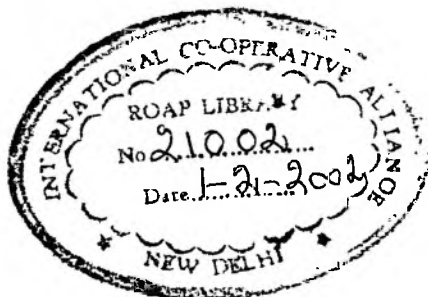
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Welcome  
Lars HILLBOM

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Dear co-operative friends,

This workshop was initiated by ICA Europe jointly with the agricultural organisation of ICA to discuss the promotion of rural development through agricultural co-operatives.

Agricultural population in Europe has decreased steadily over the last few decades. However, a core population must be maintained in villages as a workforce for a sustainable agriculture, capable of supplying the population with sufficient and safe food. In Sweden, a campaign called "The whole of Sweden should live" was launched some years ago. The aim of the campaign is to maintain rural population. One way of doing this is by providing multifunctional agriculture, regrouping farmers in co-operatives so that they may be more competitive in the market. In Western Europe there are many good experiences we are ready to share with the agricultural co-operatives of Central and Eastern Europe.

Agriculture is a crucial issue within the European Commission. Farmers and their organisations such as agricultural co-operatives must benefit from the financial support from the Community budget. Candidate countries are already taking part in many Community programmes aiming to assist CEECs make structural improvements to their agricultural and rural environment. In addition to primary agricultural production, projects to improve processing, marketing and quality are eligible for support, as are wider rural development measures. These support programmes are similar to Member States' agricultural and rural development programmes.

One objective of these programmes is to help create structures capable of applying the *acquis* immediately upon accession. The structure of agriculture is causing enormous problems for some countries. These cannot be resolved however without dealing with the issue of development of the countryside beyond agriculture in a broader sense.

Agriculture is a major issue in the enlargement process as well. The European Council meeting in Göteborg in June 2001 was an important

milestone for enlargement. The EU Summit has sent a clear message to the candidate countries. The heads of state and government have fixed two targets. The first is to complete enlargement negotiations by the end of 2002. The second is for the citizens of the best-prepared candidate countries to be able to take part in the European Parliament elections in 2004, as full members of the European Union. No specific dates have been fixed for the accession of individual countries. The core principles of the enlargement process, individual merit, differentiation and the chance to catch up are working well.

The enlargement process will only be successful if it is given adequate political and public support. The latter is an area where co-operatives and farmers' associations can do a lot. They can make a valuable contribution by becoming involved in the process of preparing for the accession to the European Union. This was the case with agricultural co-operatives in Western European countries.

We have come together for the first time to exchange our experiences in this area. Hopefully it will be the beginning of a process and we will soon meet again.

## Opening Remarks

Holger Hasle NIELSEN, Vice-President of ICAO

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On behalf of ICAO (International Co-operative Agriculture Organisation) it is a great pleasure for me to warmly welcome you to this workshop in Budapest.

First of all I give you the best regards from the president of ICAO, Churl-Hee Won, who was not able to be with us here due to important meetings in Seoul.

ICAO is the agricultural committee under the ICA umbrella and represents the interests of agriculture co-operatives. This workshop is a central activity for ICAO. And we are pleased to offer the workshop with ICA Europe and in collaboration with COGECA and MOSZ.

Participants come from Central and Eastern European countries, and for many of them it is the first opportunity to work together towards a common goal.

During the workshop there will be presentations from countries who have been dealing with these matters for many years. Therefore, I not only recommend listening to the speakers, but also actively taking part in the discussions that will follow. Please feel free to intervene and to ask as many questions as possible as we have no secrets in the co-operative movement.

Furthermore, we are looking forward to hearing about your countries, and to learn the background and expectations you have for development over the coming years.

The co-operative movement has developed differently in different countries. This is just as much the case for the agricultural sector. In some countries farmers have developed their agriculture cooperatives into a very strong position. Indeed in Denmark, my home country, agriculture co-operatives have a dominant position. Although we are only 5 million inhabitants, we produce agricultural products for more than 15 million inhabitants. 50 to 98 percent of this production is processed and marketed by the member co-

operatives. This position has developed over more than 100 years in competition with the private sector.

In some agricultural sectors, such as pork, grass and clover seed and fur-skin, the 50,000 Danish farmers are even dominating the international trade of agricultural products. This shows how important it is for farmers to work together and to trust collaboration.

In this process it is necessary to focus on the training and education of farmers. In addition, farmers have to be active and act themselves. Courses and meetings can help to find good and sustainable solutions.

The presentations in this workshop will include case studies on how things have developed under the different circumstances in the different countries.

But do remember, that the case studies cannot be copied as they have the local culture as fundamental background. However, you can view them as a source of inspiration for co-operatives in your local culture.

I wish you all again a very warm welcome to this workshop.



**Address of the Hungarian Government**  
Zoltán KÉKKŐI, Secretary of State, Ministry of Agriculture and  
Regional Development, Hungary

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I am honoured to have been invited to speak at this International Co-operative Alliance (ICA) and COGECA (General Committee of Agricultural Co-operation) two-day conference.

In addition, I was very pleased to receive this invitation because I have worked nearly 25 years in various co-operatives and my current position and duties have many links to the activity of co-operatives both in Parliament and the Ministry of Agriculture and Regional Development.

Hungary and the Central European region consider it a great honour that this distinguished event takes place in Budapest at the halfway mark between the Rio Conference and the Seoul ICA General Assembly. I believe the selection of the venue was not a matter of chance as almost all countries in our region have undergone particularly significant social and economic changes. Therefore, many regard our country (and rightly so) not only as a beautiful and interesting but also an exciting place to live. I hope our foreign guests will enjoy their stay here for a few days and that they will come back soon with their families as tourists to Hungary.

Now allow me to share with you some of my thoughts on this event.

In Hungary, the growth of industry and services has exceeded the EU average in recent years, but agricultural output has fallen steeply. A good indication of the magnitude of our losses is that pig and cattle stocks in particular have decreased by 50 per cent as compared to what they were ten years ago. Fundamental changes in land ownership and structure indicates that today over 80 per cent of the land is privately owned, and producers' co-operatives no longer dominate land ownership. Most of our food industry has passed into the hands of foreign and domestic monopolies as a result of privatisation which has been detrimental not only to those people who make their living from farming but also to those people who have some relation with the countryside. The number of the rural unemployed, mainly in small settlements, has increased significantly. Following a period of

transition, Hungarian food processing and trade was on the brink of collapse, but then has risen from its ashes again in many respects.

Producers' co-operatives and large-scale agricultural farms, which played a dominant role in the former socialist agricultural system, went through a deep crisis. Some of them were liquidated, others were transformed into limited companies or established a new co-operative organisation. So I am pleased to inform you that a promising development has taken place in the associative field. As a result of this development, over 700 new co-operatives have been formed over the last few years the majority of which combine more than 20,000 family farms in the framework of the so-called HANGYA Co-operation. These co-operatives have specialised in marketing the products of farmers, supplying materials required for production and, where their own funds have permitted it, also their processing. These co-operatives may extend their activity to any agricultural service with the aim of achieving a fair profit for their members. This established co-operative form is governed by a charter taking the form of a cumulative contract which calls for co-operation between members. Profits realised by this type of co-operative are shared among members. It is beneficial to members as the co-operative provides services to its members at a price close to the cost of production. In economic terms, it means that this form of co-operative is beneficial because it makes the production, supply, processing and consumption of goods cheaper, achieving a saving also at the national economic level. Furthermore, these co-operatives have an economically stabilising effect and curb inflation. If this form of co-operative is combined with a co-operative credit institution, then it provides support for investments needed by cash-poor farming enterprises. This form of co-operative can be chosen freely. Under advanced market conditions, common co-operative enterprises and associations bigger than a single co-operative society may be formed. Such associations may serve the members by protecting them in market competition from multinational companies.

In co-operative development, an especially useful help has been provided by the Danish Association of Co-operatives, personally by General Secretary Mr. Hasle Nielsen who is present at this meeting, as well as by the Belgian, Swedish, Spanish, German and Austrian co-operative federations. I would like to thank them wholeheartedly for their assistance.

Also, I would like to thank COGECA General Secretary Mr. Herbert Kellner who is also present. He is a prominent figure and a driving force in co-operative development in the Central European region which aims at strengthening and bringing into a beneficial position the marketing organisations of producers in an institutionalised form with the support of the European Union and by the use of the instruments provided by PHARE and the SAPARD rural development programmes.

It is no exaggeration to say that rural development can be facilitated primarily by creating an appropriate agricultural structure. Such a structure retains as large a number of rural population as possible in their living place, thus improving their living standard. Due to the specific features of the countryside, creating an agricultural structure that promotes the employment of the local population and improves their living standards must be based on an agriculture linking development to settlements, sub regions and regions. This approach ensures compliance with all the EU harmonisation requirements which not only assess big rural problems from the viewpoint of the agriculture but also provide a long-term solution to specific local problems by creating various links among full-time and part-time farms.

Despite changes in the budget of the European Union, it can be observed that 50 per cent of the budget directly relates to agricultural interest and subsidy issues and nearly an additional 30 per cent to employment. Commissioner Franz Fischler has recently stressed repeatedly that there is a need for a shift in the EU's agricultural and rural development policy. This is why we also think in Hungary that in the forthcoming future we have to find a method for developing our rural infrastructure and for allocating human resources to villages in order to reduce unemployment and migration, improve the living conditions of rural people and make rural lifestyle more attractive to the population as a whole. All this is reflected in the Hungarian SAPARD programme.

Government measures aimed at transforming the socio-economic structure can, however, be successful only if they are in line with the work of non-governmental organisations representing the interests of individuals. Of special importance are those co-operative organisations which, as already mentioned previously, combine individual producers, providing a secure

future through the processing and marketing of products for people who wish to make a living from farming.

With EU accession drawing closer, we cannot do without co-operative marketing organisations which constitute producers-owned slaughterhouses, dairy farms, warehouses, cold stores and food wholesale organisations, in order to carry out our business activities.

It is thought-provoking that currently there are only three non-governmental organisations in Hungary which bear the word "co-operative" in their names and which represent interests, and that there is a lack of a coherent national agricultural co-operative institutionalisation and market approach which would provide the necessary farm organisation and market strengths for farmers against monopolies.

It is the responsibility of farmers, farming institutions and interest representations rather than of the Government to create harmony in producers' interests and strengthen co-operation among various producers' groups in order to take concerted actions. The Government can be a real partner only if there are transparent interest conditions, retrievable databases and market stabilising targets based on mutual agreement. In addition, it is a requirement by the European Union for the adoption and harmonisation of the relevant legislation.

A new co-operative law was passed in Hungary in December last year which is consistent with the principles set forth by the International Co-operative Alliance. The Government assisted in excluding business shares over which there have been debates so far and which are inconsistent with the principles of association. Thus, it does not present an obstacle to the revival of agricultural co-operatives.

We wish to make use of the experience gained by ICA and COGECA as widely as possible. Good examples include the Danish pig and dairy co-operatives, the Spanish vegetable and fruit co-operatives, the Dutch and Belgian wholesale vegetable markets, the German wine co-operatives and the French cereals co-operatives as well as other co-operative associations which work well in other parts of the world and in which members have an interest.

We know there is not a single model that can be copied fully due to the specific features of a country. Nevertheless, all co-operatives have to operate in the interest of their members to make the rural population better off. We, Hungarians can be successful under the market conditions of globalisation only if the producers' price-related interests are realised using the co-operative instruments of concentrated supply against concentrated trade. Although being relatively small, through co-operative enterprises, producers may enjoy the benefits of large size. By the application of international co-operative principles, Hungarian co-operatives may, hopefully be suitable for integrating into the international co-operation.

To achieve such an international co-operation, we wish all of you a successful consultation.

The promotion of rural development through agricultural  
co-operatives

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How farmers' co-operatives can best assist their members in  
CEECs after EU accession

Pekka PESONEN, Chairman of COGECA's Co-operative Affairs'  
Committee, Brussels

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It is a great pleasure to be in Budapest. I am happy to provide you with some of the aspects that we in COGECA consider important for Eastern enlargement and the agricultural co-operative sector in candidate countries. We hope that experiences of the old Member States will be of some help to you. We also look forward to hearing about your methods and your traditions.

COGECA represents the interests of approximately 30,000 agricultural co-operatives throughout the EU. We have 12 million members and 700,000 employees. Our co-operatives trade about 60 per cent of the EU's agricultural produce. COGECA works in close co-operation with COPA in Brussels. In fact, most of the statements about EU agriculture are issued by both COPA and COGECA.

I am pleased to notice that several organisations from candidate countries are represented here today. In addition, delegates from the Balkan region emphasise by their participation the importance of our common future in Europe.

Eastern enlargement of the EU is seen as a necessity. European security arrangements and economic prosperity are mutually acceptable reasons for the further co-operation between nations in this part of the world. The enlargement process will bring stability to this region. It is beneficial to international politics and trade. This contribution must be respected especially by our WTO partners in forthcoming trade negotiations.

The EU' farmers' organisations COGECA and COPA have warmly welcomed with equal rights and responsibilities to the European Union our colleagues from candidate countries. We realise that this process is fraught with difficulties.

COGECA and COPA have invited Eastern European representatives to join us as observers in different working groups over the coming months. COPA arranged their first meeting on 8 June. COGECA will do the same in the 12 July presidents' meeting. In total 13 meetings will be held in Brussels, partly financed by the Commission. These meetings deal with the most important sectors of European agriculture, including crops, milk, beef and pork production.

Agriculture is perhaps the most diverse and at the same time the most difficult question in enlargement negotiations. However, regardless of the difficulties of the political process, in the end the agri-food sector will become a part of the Single Market.

European co-operatives have been recognised recently by at least two official initiatives from the European Commission.

Just a few weeks ago the Commission put forward a proposal for a European Co-operative Statute. At the moment it looks like the Council of Ministers will adopt the decision within the next few months.

#### **What does a European Co-operative Statute mean in practice?**

The European Co-operative Statute will enable co-operatives to operate throughout the European Single Market as a single legal entity. The objective of the proposal is not to replace national laws, but to complement them. There is a need for looking at the proposal in greater depth, something that will be done by COGECA working parties over the coming weeks.

This proposal marks the development of European co-operatives in the Single Market. Cross-border activities and mergers have become more frequent. Perhaps the best known international merger of two independent co-operatives took place recently in Scandinavia, where two dairy co-operatives, Arla from Sweden and MD-Foods from Denmark joined forces. It is very probable that new Arla Foods is not the last of its kind.

The second Commission initiative is a political document on 'Co-operatives in Enterprise Europe', which will give the orientation for future EU policies in the sector. The first general draft for this paper was published in Sweden on 8 June 2001 at the 7th European Conference on Social Economy.

In this document, also known as the White Paper, co-operatives are referred to clearly as a market economy phenomenon. In addition the Commission estimates that the overall share of economic activity accounted for by co-operatives is larger in advanced market economies than in less developed economies.

According to this, our future is bright. Predictions about the enlarged EU and its economic prospects are very positive. Furthering market development both in old and new Member States will increase activities in our sector.

Membership of the European Union will bring new challenges but also opportunities for the economies of Central and Eastern Europe as they are faced with the Single Market. There is a need for a better understanding between the very different cultures. The role of organisations, like co-operatives or their national bodies cannot be overestimated.

The agri-food sector will change forever. Regional and national barriers of trade will eventually disappear. Food business seems to be developing towards two extremes: multinationals with logistical expertise and local businesses with superior consumer contact and knowledge. This trend is already clearly visible in international food markets.

A problem for most food businesses, including co-operatives, is their size. Usually co-operatives are too small to compete internationally and too big to act efficiently at a local market level. Access to finance continues to be a very specific problem.

### **How may we best assist our members?**

With agricultural co-operatives in general the answer is simple. In a long term only economically successful co-operatives can guarantee adequate support to their members. In an enlarged Europe and its Single Market this means adapting to the market mechanism. In this respect co-operatives do not differ from private companies.

Let us take a closer look at functions in which we have comparative advantage.



Co-operatives are an alternative which create market balance and stability by their existence. Farmer-owned enterprises must become involved in vertical integration in the market place. The same kind of approach has developed in consumer co-operatives with horizontal integration.

Market fluctuations are a major problem in several agricultural sectors. This is particularly visible in production like pork or eggs where there is very little public interference. In 2000 the Commission actually proposed a voluntary regulating fund for pork. Despite its rejection by the Council of Ministers, the Commission was urged to continue developing other market balancing measures. Supply management, by for instance production controls, is the instrument of a co-operative that has a substantial market share.

In addition to market balance successful processing and marketing enterprises could provide market return to their owners. This is especially important in today's markets where the share of primary production has declined while prices paid by consumers continue to rise. The farmers' share in an average food product is already less than 10 per cent.

As members of our co-operatives, farmers expect a concrete return on their investment, which under the co-operative form of entrepreneurship is difficult to deliver. To a farmer starting his business with a burden of debt a market balance or a theoretical top-up in market prices isn't necessarily enough. This has resulted in co-operatives becoming joint-stock companies. Another reason for this development is of course better access to financial markets.

Central and Eastern European co-operatives have an opportunity to show their ability to assist their members in a rapidly changing business environment. With membership of the EU you will experience a reform of national legislation, which has to be harmonised with the "acquis communautaire". Unfortunately this has been seen as a negative point in many of the candidate countries.

We think the best approach would be to take advantage of the new market opportunities. Only accepting common rules can do this. Permanent exemptions for instance in food safety or hygiene are extremely unlikely in a market of free movement of goods. Recent food scares have taught us this

valuable lesson. In addition, we hope that governments in candidate countries would support their agricultural sectors in their struggle to implement EU legislation. Consumer confidence is vital to us all.

Today, the origin of food is one of the main topics in the media. Certified trademarks or traceability systems could exploit this interest amongst consumers. Both of them are already widely used in the EU. The world famous Italian meat or the EU beef labelling system are clear examples. Farmers and their co-operatives could present themselves as a reliable partner in the food production chain.

Let me make it clear that a farmer alone cannot guarantee the safety or quality of food. It is a matter of participation in the food production process that makes the difference.

Educating members about upcoming changes is a specific co-operative responsibility. It will benefit members themselves. The relationship between co-operatives and their members will develop more towards a business arrangement or partnership. This is a reality in emerging sectors like agricultural tourism, non-food production and even in livestock production.

The co-operative way of producing has the advantage of being close to farmers' interests. Market power and economic success have to be followed by investment in the education of members. In this process COGECA is looking forward to helping you.

## The role of co-operatives in sustainable agricultural and rural development – FAO policies, strategies and programmes

János JUHÁSZ, Co-operatives and Rural Organisations Officer,  
Rural Development Division, FAO

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Promotion of rural development through agricultural co-operatives, the main theme of this workshop, is high on FAO's agenda. FAO's perspective regarding the role of co-operatives in food security and sustainable agricultural and rural development is provided by the World Food Summit Plan of Action. In the World Food Summit, convened by FAO in 1996, heads of governments pledged to foster the social and economic organisations of the rural population and included this in the Plan of Action adopted by the Summit as follows:

Governments, in co-operation with the private sector and non-governmental organisations, will:

- Foster the social and economic organisation of the rural population with particular emphasis on the development of small-scale farming, fishing and forestry co-operatives, community organisations and development associations, so that rural inhabitants may be actively involved in decision-making, monitoring and evaluation of rural development programmes;
- promote the empowerment of small-scale family farmers, fishermen and foresters, both men and women, to set up their own co-operatives and business undertakings, as well as farmers' and fishermen's financial and mutual institutions. (Commitment Three, Objective 3.5)

In accordance with this, FAO and, above all, its Rural Development Division, pays special attention to membership-based, representative self-help organisations of farmers, fisherfolk and foresters, in particular their genuine co-operatives. In spite of many failures and shortcomings, co-operatives are traditional organisations of mainly the poorer segments of society which have the potential to play an important role in developing a strong "social capital" in rural areas. This is a pre-requisite for food security and sustainable development.

FAO provides technical assistance in developing agricultural co-operatives based on principles and strategies delineated in the Strategic Framework for FAO 2000-2015. Capacity building of civil society organisations is one of the priorities set out in the Strategic Framework. Two important principles of FAO's endeavours are interdisciplinarity and partnership. The ACC Network on Rural Development and Food Security provides a good example of partnership operating on the principle of interdisciplinarity. This Network, with secretarial assistance from FAO, tries, through the establishment of Thematic Groups at country level, to bring together all stakeholders in the country in developing and implementing rural development policies, programmes and projects.

FAO aims to provide differentiated assistance in accordance with the diversity of the various countries. As an international development organisation, FAO focuses on technical assistance and tries to provide a neutral forum for international debate. It should be underlined that FAO is not a lending organisation and should be seen as an "honest broker" rather than a banker.

FAO approaches the problem of rural development and co-operatives in Central and Eastern Europe in a broader context than just agriculture. Promotion of sustainable rural livelihoods is one of the focuses of FAO's assistance programmes. In Central and Eastern Europe family farms are still striving to adjust to the new economic and social environment and fighting with a number of internal and external constraints such as inappropriate human capital, inadequate services and an incomplete institutional framework. Therefore, if sustainable livelihoods are to be developed, these should be the main areas of assistance.

Firstly, it is important to develop human capital and improve management capacities at all levels, especially at the local level. Secondly, and very importantly civil society organisations, including co-operatives, and thirdly, cultural assets must be built upon. Similarly, services must be improved, both agricultural and non-agricultural, as well as social services. Education and training is another crucial area. Last but not least, the institutional framework, including farm and non-farm organisations alike must be improved.

The above constraints will require the reconsideration (and perhaps also the reorganisation) of the use of the entire rural space. A participatory, democratic and community-driven approach will have to be developed for a better use of natural resources, with a focus on sustainable livelihoods. Moreover, sustainable community development is also a key area of rural development. The Rural Development Division of FAO focuses on two basic issues in this context: decentralisation of public institutions and capacity building of both farm and non-farm institutions and organisations. It is believed that, through this approach, differentiated income generation strategies for rural livelihoods will be developed and a contribution to developing sustainable livelihoods will be made. Here again it should be pointed out that FAO's scope is broader than just farm income generation, although it is agreed that individual farm income is still the dominant form of income generation. There is, however, an increased attention on the non-farm sector.

As far as agricultural co-operative development in Central and Eastern Europe is concerned, without doubt, the dismantling of former large-scale co-operative farms created a hiatus in the provision of services. Although the existence of genuine farmers' self-help organisations would be crucial in providing farm services, no massive emergence of new co-operatives can be observed in the sub-region. There are, of course, many good examples of newly emerging farmers' organisations. These, however, tend to call themselves something else than co-operatives, e.g. associations or unions in spite of the fact that they are actually co-operatives.

Co-operatives in agriculture have a number of obvious advantages. Economies of scale, reduced transaction costs, increased business safety and new services are but a few examples. When should the establishment of a co-operative be considered then? Co-operatives can be established when there are shared common problems and there is no available alternative solution. However, it would be a mistake to see co-operatives as a general panacea to any problem. In specific cases there may be other, and better, solutions than forming a co-operative (financial support by the state, services provided by the private sector, family members' help, etc). It is very important, furthermore, for the potential members to be aware that co-operative membership does not mean only advantages, it entails duties, too. However, advantages should always outweigh duties. In other words, there should be a trade-off for the members who join. Of course, leadership

ability must be present in the group of potential co-operative members, and a favourable legal and political environment is crucial.

Another major issue is: what should co-operatives deal with? Both co-operative leaders and members are faced with and must consider this problem. To answer the question, we should first have a look at the farm and food marketing chain<sup>1</sup>. It is composed of three sectors: the input, or upstream, sector, then the agricultural and farm production itself, and finally the processing and marketing, or downstream, sector. As time goes by, more and more inputs are purchased by the farmers and more and more value added product goes to the marketplace. So farmers should be both wise buyers and successful sellers.

What is the impact of this trend on the area which co-operatives should be involved in? Based on a 1972 FAO estimate of consumer spending on food in 1950, consumers spent 10 per cent in the input sector, 55 per cent in farm production proper, and 35 per cent in processing and marketing. By 1965 these proportions had changed dramatically, with money spent on farm production down to 35 per cent. In 1980 the proportions were 20 per cent, 20 per cent, and 60 per cent respectively. So already in 1965 only 20 per cent of the consumer's money spent in a shop went to the farmer. And this trend is continuing today. Clearly, organisations of food processing and marketing that are owned by farmers are absolutely necessary, and the most appropriate institutional form for this is the co-operative.

The relationship between the government and co-operatives is another important issue. In this context it should be emphasised that the co-operative should never be seen as any kind of government organisation, but rather as a fully autonomous body which functions on the principle of non-intervention by the government. The government's role is to provide favourable general framework conditions. But there is also a dilemma here: No intervention may also mean no assistance. There is a debate on whether co-operatives should receive a special treatment, any assistance from the government and if there exist legitimate ways of support from the government. The speaker's opinion is that co-operatives, particularly small farmers' co-operatives, do need government assistance and should not be treated just as any other enterprise. There are also legitimate ways of

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<sup>1</sup> Based on Panos Kolyris: *Co-operative Transformation Strategy - A Guide for Co-operative Managers*, Budapest, Hungary.

assistance, such as technical assistance, tax exemptions, guarantees for loans, and less regulatory legislation.

Co-operative capital formation is also high on the agenda of both development organisations and co-operatives themselves. Regarding financing, and the three major sources of financing, i.e. members' contributions, retained earnings, and borrowed capital, according to a recent FAO survey, the most "valuable" capital is the members' financial contribution. As a result of the members' increased financial commitment, the co-operative achieves higher efficiency and more participation of members both in the co-operative's business and its leadership. To be successful, co-operatives have to get the members' investment incentives right.

In FAO a number of various technical units deal, directly or indirectly, with co-operatives and provide technical assistance to them. However, the division that implements most of FAO's assistance programmes for co-operatives is the Rural Development Division. The Division's activities focus on two main areas. Firstly, it provides assistance in developing government co-operative policies and strategies, and co-operative legislation. In this respect the Rural Development Division is in a unique position: while FAO is a governmental organisation, the Division has longstanding experience and expertise in the field of rural co-operatives and can assist governments in a special way.

Secondly, institutional capacity building of co-operatives themselves is a very high priority for the Division. In the framework of its co-operative training of trainers programme aimed at helping developing countries and countries in transition transform their agricultural co-operatives into genuine self-help organisations, the Rural Development Division has published in English an innovative manual geared to encouraging greater membership participation, improving management and familiarising political and administrative decision-makers with new co-operative development approaches. The training manual is composed of seven modules, as follows:

- Understanding Co-operatives
- Participation & Learning
- Communication
- Organisational Development

- Co-operative Management
- Tools for Planning and Organising Co-operative Activities
- Participatory Appraisal, Monitoring and Evaluation.

Throughout these modules, the manual deals with ways in which trainers and promoters of co-operatives can support co-operative members and management in the development of their co-operative organisations. Its specific objectives are:

- to broaden the trainers' view of their role, the ways in which they can react to circumstances, and to increase their confidence in their own capabilities. In short, to increase their competence.
- to help the trainer become an effective facilitator and moderator. That is to say, someone who can offer new methods for dealing with problems and tasks, assist in solving conflicts, draw attention to alternatives and assist in the more effective operation of the co-operative.
- to equip the trainer with tools to act as a resource person, providing information to the co-operative organisation, its members, leaders and managers.
- to familiarise the trainer with participatory techniques which involve all parties concerned with the future of co-operative organisations.
- to support the trainer in the various tasks of raising awareness among co-operative promoters, members, decision-makers, leaders and managers of their problems/constraints as well as in their potential/capabilities, without taking the initiative away from them.

The manual guides trainers through the process of training by providing a standard structure in each module, including the following units: Objectives of the Unit, Key Learning Points, Teaching Strategy, and Reference Information. A range of examples and exercises are also given. The English version of the training manual has been published and is now being disseminated. The French version of the manual has been prepared and is being printed for publication. At the same time, the Spanish version has also been prepared and field-tested. A very much-needed new module on co-operative accounting is being prepared and will be added to the manual. In addition, a computer presentation on the use of the manual has also been prepared and is available.



The European farmers' union and agricultural co-operatives in  
an enlarged European Union

Herbert KELLNER, Deputy Secretary-General COPA/COGECA,  
Brussels

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First of all, I would like to thank the initiators of this International Workshop for inviting a COPA/COGECA representative to this event. As Deputy Secretary-General and having been involved for more than 25 years in the activities of these two European organisations, I am currently responsible for the development of our relations with the agricultural organisations of the applicant countries.

I would like to divide my presentation in two parts: Firstly, I will talk about the role and importance and the activities of COPA and COGECA at EU level; and secondly COPA's and COGECA's contribution to the development of agricultural representations in the 10 applicant countries of Central and Eastern Europe (CEECs) and the support we try to give to these organisations in getting prepared for accession to the European Union.

COPA is the association of all national farmers' unions at EU level. Currently, it counts 28 member organisations and represents the interests of more than 7 million agricultural producers vis-à-vis the European authorities in Brussels, i.e. the Commission, the Council of Ministers, the European Parliament, the Economic and Social Committee, and the Committee of the Regions.

On the occasion of the Conference of Stresa in 1958 where the first steps were made towards the development of a Common Agricultural Policy (CAP), the Commission expressed the wish for close co-operation with a single representative European farmers' organisation. In response to this wish, COPA was launched no later than September 1958.

COGECA, the association of all national agricultural co-operative organisations in the EU, was founded in September 1959. Today, it consists of 17 member organisations. As the spokesman of more than 33 000 co-operative enterprises involved in the supply of farm inputs as well as in the processing and marketing of farm products, COGECA represents the interests of farmers who are the joint owners and who control the

management of these farm businesses. More precisely, in an increasingly liberalised and market orientated Common Agricultural Policy, co-operatives provide farmers with a fair share of the added value the co-operative members earn from the products they put on the market. This contributes to securing their income.

In addition, COGECA promotes the development of relations and cross-border collaboration between co-operatives.

COPA and COGECA are complementary organisations as is illustrated by the joint secretariat they run since 1962. Furthermore, they produce joint position papers, not just on all questions and issues relating to the CAP but also relating to all other EU policies that are of any importance for agriculture.

An important component part of COPA's and COGECA's working structure are the more than 50 mostly joint working parties and specialist committees which deal with horizontal questions as well as with all agricultural commodity sectors and in which experts participate from all national member organisations. Decisions are taken by the Presidia of the two organisations, which meet, on a monthly basis. In total, there are some 250 to 300 meetings per year.

COPA and COGECA members also participate in large numbers in the official Advisory Committees of the European Commission.

### **What are COPA's and COGECA's views on the forthcoming enlargement of the European Union ?**

In November 1995, COPA and COGECA took a positive stance on the enlargement strategy of the European Union. In their position paper, their *inter alia* requested an appropriate preparation period and pre-accession aids, as well as adequate transitional periods after accession and the implementation of the Community regulations and directives ("acquis communautaire") in the applicant countries.

In 1996, with the financial support of the PHARE programme COPA and COGECA began a comprehensive study to identify the national representative organisations of farmers, agricultural co-operatives and young farmers in the 10 CEECs. The purpose of this exercise was to initiate

contacts and discussions with these organisations, and then to develop a bigger project to support the efforts made by the agricultural organisations concerned in their preparation for accession.

From July 1999 to October 2000, together with CEJA, the European young farmers' organisation, COPA and COGECA carried out a PHARE project funded with 2.5 million euro in the 10 CEECs over 15 months with a view to:

- strengthening the democratic and independent representation of farmers and their co-operatives in the agricultural production sectors, the food industry and in farming, food processing and marketing;
- increasing the efficiency of the national representative organisations as interest groups at national and international level;
- improving their knowledge of the rules governing the internal market in the farming and food sectors as well as other policies, conditions and market mechanisms prevailing in the European Union and in Central and Eastern Europe;
- conveying expertise and experience in organisational structures and institutional matters.

In total, no less than 55 national agricultural organisations from the 10 CEECs took part in the project.

COPA or COGECA delegated an expert from one of their member organisations to each applicant country for 12 months. These experts were assisted by a national expert from the country concerned and by an interpreter and secretary in the national office specifically set up for the project.

The main activities, which were co-ordinated with the national Ministries for Agriculture and the Representations of the European Commission, were to do with:

- seminars and workshops in the CEECs;
- fortnight-long practical training courses for representatives from CEEC organisations and EU Member States;
- exchanges of young farmers from organisations in the applicant countries and in the EU;

- finally, a two and a half day seminar in Brussels with high-ranking representatives from the Commission, the European Parliament, the Economic and Social Committee, COPA, COGECA and CEJA.

The Commission officially assessed the project as a great success, but it also concluded that the development work that has been undertaken must continue.

Therefore, COPA and COGECA signed a new contract on 31 May for another 12 months new project for which 2 million euro have been granted.

The novelty of the new project is that the Commission will financially support the participation of representatives and experts from CEEC organisations in 15 meetings of different bodies of COPA, COGECA and CEJA. The purpose of these meetings is to enable the agricultural organisations from the applicant countries to get gradually acquainted with the work of the agricultural interest groups in the EU whose allies they will become in the next few years.

Another new component of the follow-up project will be the organisation of two development/training seminars in each country. These, each lasting two days, will involve elected board members and high-level staff of the national organisations.

On 8 June, the COPA Presidium already had a joint meeting with representatives from the national farmers' unions of all applicant countries, including Cyprus, Malta and Turkey.

On 12 July, there will be a first COGECA Presidium meeting with the Presidents of the national co-operative organisations of the applicant countries, which will also be attended by the Commissioner for Agriculture, Franz Fischler.

I have tried to give an overview of the role of COPA and COGECA, their importance and the actions they take. I have tried to give you some insight in their views on the enlargement of the European Union and their contribution to the enlargement process.

Lastly, COPA and COGECA have endeavoured efficiently to defend the interests of farmers and their co-operatives in the European Union for more than 40 years. It is their wish to be able to welcome in due time their future members from the applicant countries as strong and equal partners in an enlarged European Union and so jointly and successfully to continue to defend the "European model of agriculture" as part and parcel of our European economy and society.

Remaining locally successful in a globalised world – the  
development of Dutch farmer-owned businesses

Gert VAN DIJK, General Secretary, National Co-operative  
Council (NCR) of the Netherlands

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This lecture was intended to give a picture of the big issues in farmer-controlled businesses in the Netherlands today, along with suggestions from experience which may be helpful in the future.

There are many reasons to co-operate, both in Holland and in the countries represented by the audience. First, there is countervailing power to other business, second is market access- the most important, because soon you will be in the European Union. There is fantastic potential, provided you have market access. The third reason to co- operate is efficiency, the fourth is risk management, and the last is regional income and employment.

A modern co-operative consists of employees, who are very important stakeholders, the management, the social environment, the ecology, and the final consumers, who are the most important stakeholders. A co-operative is a business like any other business. The only difference is that you have special shareholders which are called members, and the sole purpose of the business is consumption. Nowadays the term "farmer-controlled business" is often used for describing a co-operative.

Today, unless the farm product is part of a package of high quality marketing services, prices for farm products will decrease continually. This is the experience in Holland. It will be the case in other countries unless their farm products form part of a complete marketing services picture.

We try to get our fair share of consumer expenditures for our co-operative members. So marketing is the key issue for co-operatives in the future.

The questions are how to develop marketing instruments in the hands of farmers, and how to develop entrepreneurial capacity. There are managers, and there are entrepreneurs. A manager is someone who makes a business run. But an entrepreneur tries to develop new concepts and sees new market opportunities.

When you are very vague, many people agree with you. But when you are very precise, very few people agree with you. And in business usually the final decisions are made by only one person. This is an issue we have to face in co-operatives.

Farmer-controlled business, Dutch-style, is firstly an extension of the farm. And secondly the co-operative has to perform well in transactions (prices, quality), in ownership, and in general in the market position of the co-operative (the group and all its members). A good performance consists of getting a fair price for the farmer, and the development of supply chains. If a co-operative is tied to just one big private business, it is completely dependent on the price fluctuations of that business. To avoid this, co-operatives try to get as close to the final consumer as they can (known as vertical integration). Unfortunately, trying to achieve a stake in the big retail companies is very difficult, because nowadays they are extremely powerful. In Western Europe, the whole market for fruit and vegetables is controlled by just five big buying groups. These five groups have 80 per cent of the market.

Some people think that when you join a co-operative, competition stops. No. A co-operative is formed to organise competition among farmers according to quality. The best co-operatives have two principles: the first is discipline in the business. The second principle is that better quality gets a higher price, even among co-operative members.

The value added is very small at the farm level, but increases with price competition and quality agreements, and at the consumer level value added is very high. In the end, we would like to have our own brands.

When a co-operative is approaching its own brands, it can consider buying a business which is not a co-operative at all. For example, if a wine co-operative wants to export to Germany, Holland, etc., it can control this area by buying a share of the importing company. It is a wise thing to do, and it is not expensive to own part of a wholesaler. This is called second line activity, and it is a way of having a position in the market, as well as of gaining experience.

### **How are farmers related to business?**

There are two kinds of co-operatives. The first is high degree, where you control transactions and finance. The second is low degree, where the co-operative just gives access to the farmers and does business for them, but usually is financed by somebody else who gets the profits first, and the farmers get what is left over.

Now, by way of sharing experiences, it is a fact that a co-operative needs discipline regarding quality and price differentiation. It can also offer access to special markets for special co-operative members. In the future, consumers will have computers that show them the farms and factories where products are produced. Buyers and consumers will require the co-operative to have a "web cam" showing them the conditions in which produce is grown, and lets them see how reliable the quality is.

Capital scarcity is all too often the reality today for a co-operative. Farmers have to accept liability, and accept that part of the profits is used for non-allocated reserves. This is the long route, because you cannot have access to credit, etc. The short route is to buy delivery rights by getting shares in the co-operative, and then members are owners and have the residual claims, too. However, it is a fact that in most countries farmers are not so lucky; in fact, banks generally do not like lending money to farmers. Most banks know nothing about farming and are too lazy to study farming. In Holland the co-operative banks helped farming co-operatives get started, but this is a hard thing to share because it is very difficult to copy.

A farmer-controlled business (FCB) needs capital which is risk bearing and permanently available. However, farmers don't like investing in the business, because they want to use the money themselves. If they decide to leave, they want to be able to take their capital with them. Farmers think, "I have a co-operative and I should get profit, even if I don't invest".

Another problem is the transfer of ownership titles to the new generation of members, linkage to delivery rights, and the determination of the value of "shares-plus-delivery rights". The constant theme in this is the autonomy of the farmers, who as I mentioned are a very important group of stakeholders in the FCB. You must be careful to maintain the importance of the farmers, and keep them informed, and this applies to the financial structure,



management profile, and business organisation. The co-operative is based on business to business relationships, and farmer directors must be trained for this. I advise catching farmers when they are young.

Size is an important issue, because big buyers need big suppliers, and co-operatives need talented people, who in turn need the right heterogeneous environment in which to work. And finally, if you are a bigger company you can attract more talented people, especially for marketing purposes.

Now, about creating member loyalty and commitment: This was a big topic 100 years ago, 50 years ago, 10 years ago, and remains a big topic today. My advice to you is to make benefits visible. Again and again, tell people what the benefits to them are. Make clear to members the mutuality of the co-operative, because they must put something into it, not just expect it to give to them. And finally, the three cornerstones of the co-operative: democracy, solidarity, and competition. Democracy does not mean just collecting everybody's opinion and then drawing an average; this is useless. Democracy means that in the co-operative there are leaders who hold power, but if I am a member, I can control that power. There should be no misuse of power. Solidarity means that although all members are different, they have a common interest in belonging to the co-operative. Competition means the co-operative can only improve its business if members improve their quality. So, if some members can achieve high quality, they should get the incentive of better prices.

Here is an example of a Dutch co-operative with a competition problem. A market had been built up for the export of ornamental trees to the United Kingdom. After five years they achieved a market position, and had UK buyers. Then, because business was booming, it happened that the members of the co-operative could sell their trees to anybody at very high prices. The co-operative told them they needed their trees for the client in the United Kingdom. Some members agreed to supply the trees, but only in return for higher prices. The co-operative manager refused, because there was a long-run agreement with the buyer. So a number of members stopped supplying trees to the co-operative, the market position was lost, and the co-operative never got it back, all because 20 per cent of the members refused to supply. These are "free riders", people who when the crunch comes do not co-operate, and threaten the position of the whole business and of their fellow members. This is the ugliest problem in a co-operative.

The key question for co-operative management is the motivation of the 10 per cent of the members who are in the leading position. Many co-operative leaders make the mistake of focussing on convincing the 10 per cent of the members who do not trust. This is a big mistake although in this 10 per cent are many members who have good ideas. These members have to be involved in the processes, but the main efforts have to be targeted to regional and local leaders. A well-structured pyramid in the co-operative society keeps free riding to a minimum. But it can be a self-fulfilling prophecy. Members think, "the co-operative is not serving me well, I will sell elsewhere", and then the co-operative cannot do its job efficiently. In Holland, one thing that prevents too much free riding is that the country is very small. There can be social pressure among co-operative members not to sell outside, because it is easy to see when this happens. Other countries have different social systems, of course.

Dutch co-operatives have been successful because they are close to the final consumer. What about auctions countervailing the competition of the big five buyers? Auctions are still successful in the flower business, 90 per cent of the product is sold this way. However, vegetable and fruit auctions are no longer successful because the five big buyers refused to buy there, they wanted to set their own prices. Then the 17 co-operatives merged into Greenery International to counterbalance the power of the big buyers. They threatened the retailers, and Greenery International almost collapsed. Then they tried another policy, which has been much more successful, working in partnership with the big buyers to give them a total made of services and products which they wanted. In other words "If you can't beat them, join them".

Another interesting situation is that of a German buyer which had five different big exporters supplying its fruit and vegetables. The German buyer bought shares in one of the weaker exporters in order to keep them at a certain level, giving them a margin which was high enough to prevent them from going bankrupt, but too low to keep the business healthy, thus keeping them there for several years. Suddenly however, the exporter went bankrupt, and the German buyer got into trouble because the remaining four suppliers could not absorb the remaining 20 per cent of the business, and this taught them a lesson in co-operation. Nowadays in Holland, the co-operatives even import products from New Zealand, Greece, or Argentina,

because their buyers want it, so they have to. By the way, it is ironic how the anti-trust people work. When two co-operatives merge, it can be a problem, but when one, two, or five big retailers rule all of Europe, it seems not to be a problem. There is a political issue as well, but as soon as you have joined the EU, things will be better.

If you ask the question “Can co-operatives be international co-operatives, a force against globalisation?” then you may reply that from a business perspective this is very feasible. But problems come from cultural differences, language, and the fact that different farmers feel they have invested to a different extent in another country's co-operative.

Reports and case studies from CEE countries

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**BULGARIA**    **National Union of Agricultural Co-operatives**  
Atanas GANEV, President

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President of the National Union of Agricultural Co-operatives in Bulgaria  
The idea behind the Ownership and Use of Farm Land Act adopted by the 7th National Assembly was to restitute the property of land using the principle of land consolidation, i.e. not to admit a further fragmentation of land. Unfortunately, following the amendments made to the above Act after 1992 and in contrast to other former socialist countries in Central and Eastern Europe, this process is limited to restitution, resulting in the further fragmentation of land. And this is a serious problem for Bulgaria.

The average area of land owned by a farmer is 2.25 hectares. This is not the true amount of redistributed land, because there have been several generations in the last 50 years. Over four heirs are now inheriting the land that was put into a former co-operative farm. This means that after partition of succession, every owner will receive less than 0.6 hectares of land, spread out all over the village, in accordance with the land category.

The imposition of the wrong model of agrarian reform, and the liquidation of the old structures by law did not result in reconstruction, but in the total destruction of Bulgarian agriculture. More than 50 per cent of crops and livestock were destroyed. The funds for buildings and hydro-amelioration systems were slashed, and production fell by over 50 per cent.

The situation of the agricultural sector in the country and world trends mean that one of the main alternatives for efficient agriculture is to concentrate land use and to begin with land consolidation. This process will be expensive, and each owner will receive only about 0.6 hectares. From this point of view, the establishment of agricultural co-operatives and other organisational forms of joint cultivation of arable land is a necessity. The agricultural co-operative is preferred by our small farmers, because this form meets their interests best and has a long tradition and experience. Through this form and through the collective use of land, conditions are created for a modern agricultural sector.

Consequently, the fate of Bulgarian agriculture rests with the fate of agricultural co-operatives. This form offers better possibilities for the implementation of modern and competitive agricultural production. Despite facing big legal, administrative and political difficulties and obstacles over the last 9 years, our farmers have established new agricultural co-operatives of land owners with share capital. The Bulgarian public is increasingly convinced that agricultural co-operatives have no other serious alternative and there, the people see some hope and salvation. So, they are strengthening their position as basic structural units, economic subjects and producers of goods in Bulgarian agriculture. The area of arable land in agricultural co-operatives is considerable. There are now 3,173 agricultural co-operatives in the country, regrouping 1.5 million members cultivating about 50 per cent of the land. The average amount of arable land in an agricultural co-operative is about 800-900 hectares. Agricultural co-operatives produce about 82 per cent of wheat, 77 per cent of barley, 90 per cent of cotton, 87 per cent of rice, 85 per cent of sunflower seeds, 57 per cent of sugar beat, 59 per cent of Soya beans, 45 per cent of maize, 38 per cent of grapes and over 20 per cent of main fruits - apples, plums, cherries, peaches and apricots. We produce less vegetables and cow's milk - 15-20 per cent. Consequently, agricultural co-operatives play a decisive role in the food industry of the country. They also provide most of the forage for the co-operators' own livestock. With the market chaos now prevailing in Bulgaria, people rely on their agricultural co-operatives for employment, income growth, and for fulfilling numerous social functions. In addition, co-operatives play an important part in providing public utilities in local communities.

The macroeconomic environment creates a lot of difficulties and disturbances for agricultural co-operatives. There are negative effects on prices, taxes and bad conditions for credits and insurance on the one hand as well as inflation and the lack of a proper market on the other. Turnover is low and there is a lack of investment capital. The financial resources of agricultural co-operatives are scarce, or even inexistent.

We still have no reason for optimism and we are not sure that in the coming years the economic situation, which is decisive for the development of agricultural co-operatives will significantly improve. With the adoption of the new Co-operative Act in 1999, new difficulties were created for agricultural co-operatives. Agricultural production is now undertaken solely

on lands rented by co-operative members. The basic constitutional rights of the citizens and the co-operative principles have been infringed. A strange thing is happening - the co-operators are renting land from themselves, from their own legal entity which they established for that purpose.

Because of the lack of records (of, for instance, deeds of ownership, deeds of succession, etc) and because of expensive notarial procedures, all procedures associated with concluding rental agreements are hardly feasible. As a whole, economic conditions surrounding agricultural production are extremely unfavourable to all agricultural producers, including of course agricultural co-operatives.

Price liberalisation did not bring any protection to the agricultural producers. On the contrary, they are even worse off now. The income created in agriculture is flowing down to the suppliers of inputs, to the purchasing organisations and to the middlemen. There are no real mechanisms to protect the interests of agricultural producers. The rate of increase in prices for machinery, spare parts, fertilisers, other chemicals, fuel, etc. greatly exceeds the rate of increase of the purchase prices for agricultural products. This results in an increasingly widening gap, to the disadvantage of agricultural producers. Credit policy is also expressly unfavourable to agricultural production. Therefore the competition policy implemented (of imported goods on the local market) is contradictory and rarely in the interest of agricultural producers. So, the development of our own agricultural production is hampered.

By now the financial means provided for by the State Fund for Agriculture and the ones from the SAPARD programme are definitely insufficient. They will support only 3-4 per cent of wheat production and, with existing formalities and distribution, they will hardly reach the basic productive structures, and especially not agricultural co-operatives. Regardless of all this, we are confident that the economic and social role of agricultural co-operatives will increase in the future.

In order to overcome the financial crisis it is in, the state needs to radically change its attitude and its negative policy with respect to agriculture, especially with regards to agricultural co-operatives. The financial support of agriculture is necessary, especially now with the forthcoming accession of our country to the European Union.

These are only part of the problems preventing our adaptation to European Union agrarian policy and standards. The bad situation the Bulgarian economy is in must be changed, heavy bureaucracy currently burden it. It is only through changing the approach and by providing a state-guaranteed direct support and subsidising of agriculture, inclusive of agricultural co-operatives, that we will be able to overcome the latter's financial helplessness and worsening economic results.

We also need support from the European Union's institutions and the International Co-operative Alliance in the following ways:

Firstly, for the Bulgarian government to prepare and put forward a Bill, according to which a preferential and easier financial regime for the agricultural sector will be put into place by the public and financial institutions over a period of 2 or 3 years to implement concrete price measures. These will encompass the whole sector and all those engaged in land cultivation and agricultural production - co-operative associations, leaseholders and farm households. This can be done through direct subsidies, dedicated preferential credit lines, and investment programmes. Our agriculture shall not just rely on assistance from abroad. A redistribution of national income will occur in favour of the agricultural sector.

Secondly, we need a new mechanism for funding food processing co-operatives, factories producing agricultural machinery, spare parts, fertilisers, etc., as well as for decreasing the prices of fuel to the agricultural producers.

We are still missing the long-term strategy, and the means to protect the interests of our own agricultural production, as well as development of the markets for agricultural products in the EU countries, Russia, CIS and the Near East. There is no production, if there are no markets for it, and the natural conditions for agricultural production in Bulgaria are very good.

Our non-governmental organisations find it hard to communicate with the relevant public bodies and organisations in the agricultural and co-operative sectors. They are neither assisted nor supported in developing properly and in being a consistent and constructive opponent to the public authorities in their area of activity.

We have the deep desire to join the International Co-operative Alliance, but because of a lack of funding we are not able to at this stage. For that reason, our relations with similar agricultural co-operative organisations from Central and Eastern Europe and from other countries in the world are unsteady.

I want to express my deepest gratitude to Roberto Rodrigues and Gabriella Sozanski for their invitation to come and participate in this useful and interesting meeting of agricultural co-operative organisations here in Budapest. Furthermore, I want to express my special gratitude to our Hungarian hosts with whom I have always had wonderful friendly contacts and relations. I hope we will be able to help each other.



BOSNIA AND HERZEGOVINA      Co-operative Federation of Bosnia and Herzegovina  
Mehmed OSMANOVIC, General Secretary

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Bosnia and Herzegovina's co-operative movement has a centennial tradition. The first economic institution based on co-operative principles was founded in a little town called Derventa in 1888. Agricultural co-operatives come from the Sava River region, where the first one was founded in 1904 in a village called Tolisa which is near Orašje.

At the beginning of the First World War, there were 207 agricultural credit co-operatives and six dairy co-operatives, while in 1938 there were 544 agricultural co-operatives affiliated in three associations, the head offices of which were in Sarajevo. During that period the co-operative movement of Bosnia and Herzegovina developed according to the European one. This was cut short by the Second World War.

Halfway through the 1990s, the understanding of modern co-operatives was strengthened. This was reflected in the regulations and in the constitutions of the former Yugoslavia and of Bosnia and Herzegovina, one of its five republics. These regulations included the issue of co-operative property, and the return of nationalised co-operative property was announced. But the next new war stopped all that.

By the end of 1991, just before the Bosnian war, 751 co-operatives were registered. However, it is difficult to determine whether all of them have actually been active. Among them the following sectors were represented: Housing (445), agricultural (190), crafts (54), youth (45), transport (13), catering (3), savings and credit (1).

The recent war divided the state, and co-operatives were divided accordingly. The Co-operative Association of Bosnia and Herzegovina has been working hard to unite the Bosnia and Herzegovina co-operative movement. Now, activities are being directed towards the harmonisation of inter-entity regulations of the whole territory.

Recently, a survey was made of co-operatives in Bosnia and Herzegovina, looking at some basic indicators, estimates and suggestions. We will

mention some of the actual problems that co-operatives face at the moment, and which are the result of an inadequate agricultural policy and relations with co-operatives.

The greatest problem is lack of funds required for current business and investment programmes. Credit is available for an interest rate of under 2 per cent per month, but agricultural production cannot afford it, as the coefficient of capital turnover, which depends on the biological cycle, equals one.

Poor economic power and general social insecurity in Bosnia and Herzegovina cause our co-operative movement additional problems. As a result, co-operatives are unable to fulfil their role in the social and economic policy of the state, although natural resources and 50 per cent of the agricultural population are able to provide employment for refugees and displaced persons, as well as the means for repatriation.

The second problem is lack of trust of the government in the co-operative movement and very poor support to re-affirmation of the movement in general.

Politicians do not recognise the function and the position of the co-operative movement at an international level. In fact, co-operatives have a bad connotation inherited from the previous political system. The latter ignored co-operative principles and values.

The absence of an adequate agricultural policy is directly reflected by the present status of agricultural co-operatives and other rural organisations.

Agricultural production strategies are lacking too, encouragement measures are insufficient; institutional level solutions to these problems do not exist either; tax policy is extremely bad and not stimulating for producers – therefore, under such conditions agricultural co-operatives and other rural organisations are hardly able to survive. Such a situation has been partially worsened by the presence of some international organisations and institutions, which applied the wrong policy. They did not support co-operative organisations and associations and did not take into account co-operative principles of the movement. At the same time they promoted other companies.

The third problem is co-operative property – an unsolved question, especially agricultural one. Part of the co-operative property belongs to the state, and needs to be privatised. The other part was created through the joint efforts of co-operative members. This part, on the other hand, should be distributed among the co-operative members. Now, it is not possible to separate one from the other. The state tries to prove that the majority belongs to it, and at the same time most of the co-operatives try to prove it as co-operative property.

The Bosnia and Herzegovina co-operative movement can be described as legally undefined. Regulations at the Bosnia and Herzegovina level are not present yet. There are only regulations at entity levels, which are partially in contradiction

In future there is a process of harmonisation of these regulations and possibly adoption of new ones at Bosnia and Herzegovina level.

Bosnia and Herzegovina is a state in transition and it has to fulfil some preconditions for joining the EU. Problems regarding the acceptance of EU standards are very great and multiple for us.

In accepting EU standards, we expect full support from the Western world, the EU and from institutional partners. We also expect a certain understanding regarding our post-war economic situation, the devastation and poverty the country is suffering from as a consequence, together with the 50 year old bad connotation of co-operatives during which the basic co-operative principles and values were not respected. We need your support in areas of co-operative legislation, as well as for defining rules of behaviour based on solutions accepted in developed countries of Western Europe.

What more is there left to say? We need support for everything we have lost, especially during the last war. Our main source of support is the state, but it is not enough for the survival of the movement. The greatest problem is the lack of credit available for business deals. We need expert and modern education of managers and workers, especially in financial and book-keeping jobs that use modern electronic equipment.

In particular, we expect a corresponding support by the international co-operative movement for the Bosnia and Herzegovina one.

Most of our villages have been devastated during the war. Over million people have nothing to help them get to their native land, to cultivate it and breed cattle, to build new or renovate old houses etc. It is necessary to find international support for the reconstruction and revitalisation of multi-ethnic villages which could be then be known as “co-operative villages”.

Czech Republic      The Association of Agricultural Co-operatives and Companies  
Miroslav MOZNAR, Member of the Board

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Czech agriculture and co-operatives have a long and rich tradition. They have known periods of advancement, turbulent war and post-war years, and even times of revolution. Agriculture would always provide the nation with the most important thing of all – bread. And in both good and bad times agriculture gave our nation something more – certainty and “farmer common sense”.

The development of agriculture in the past 150 years is closely connected with the agricultural co-operative movement which enabled farmers to purchase what they needed for farming and sell their agricultural products much more advantageously. In addition, they have had easier access to bank loans. The co-operative movement significantly helped individual farmers and agriculture as a whole to overcome hard times.

Present day agricultural co-operatives (co-operatives of owners, agri-business and production) which constitute an important group of agricultural entrepreneurs within Czech agriculture, follow in this tradition.

**Basic figures for the Czech Republic for the year 2000 :**

Total area of the Czech Republic	78,866 sq. km
Number of inhabitants	10.3 million
Number of employees in the national economy	4.6 million
Real GDP growth	3.1 per cent
Rate of unemployment	8.9 per cent
Inflation	3.9 per cent
GDP/per capita	12,500 euro

**Basic figures for agriculture:**

Total area of agricultural land	4,279 thousand ha
Total area of arable land	3,096 thousand ha
The share of agricultural lands in LFA	59 per cent
Total forested area	2,630 thousand ha
Total area covered by water	159 thousand ha

*Promotion of rural development through agricultural co-operatives*

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Number of employees in agriculture	174,000
Number of employees in agricultural co-operatives	60 000
Number of employees per 100 ha of agricultural land	4

**Structure of main crops (thousand ha):**

Cereals (total)	1650
Oil crops	405
Leguminous crops	40
Potatoes	69
Sugar beet	61
Grapes	11
Hops	6
Orchards	49
Fodder crops	717
Grassland	940

**Cattle and pigs (in thousands of heads):**

cattle (total)	1,582
cows	611
dairy cows	530
pigs (total)	3,594
sows	293
Poultry (total)	32,043
cattle per 100 ha	35,1
pigs per 100 ha	112,7

**The share of different kinds of business enterprise on agricultural land (thousand/ha):**

Agricultural co-operatives	1,071
Business companies	1,561
Self-employed	826
State and other companies	35
Total	3,493

Over the last ten years, Czech agriculture and its agricultural co-operatives have been through transformation, privatisation and restructuring. It is still dealing with the consequences of price liberalisation, a significant decrease

of production and the losses that have resulted as a consequence. For the economy, agriculture was the main guard against inflation and thus significantly contributed to maintaining social peace.

### **Agricultural co-operatives in the Czech Republic**

The share of agricultural co-operatives in the exploitation of agricultural land is currently 30.6 per cent. Their share of agricultural production is approximately 34 per cent (between 32 and 42 per cent – it varies according to individual commodities). Many federations regrouping co-operatives according to products are being established now. 68 marketing co-operatives mainly in the milk, meat, fruit, vegetables, potatoes, oil crops and egg sectors are active in the marketplace.

Co-operatives play a very important social and economic role. They contribute to maintaining employment in rural areas, they care about the environment and provide public services which include non-agricultural activities and services for citizens. They answer the demands of the multifunctional role of the European model of agriculture and support lasting sustainability. They give their employees greater social security and cultural standards of work.

In preparing to join the EU, we have enhanced the multifunctional character of agriculture, not only in food production but also in landscape development, the preservation of rural areas, animal welfare, food safety and the development of further services with an environmental character. In the past this approach was connected with the reduction in the size of Czech agricultural production. The result of this was a drop in gross agricultural production by 30 per cent. Nowadays we are trying to mend this mistake in our negotiations with the EU.

There are many reasons for our support of multifunctional agriculture in the Czech Republic. In the past these aspects were neglected.

### **The Association of Agricultural Co-operatives and Companies (AACC)**

The viability and position of agricultural co-operatives in the transformed market economy has been convincingly demonstrated above. After a period of transformation and structural changes we now face a period of economic and business stabilisation which should make the co-operative advantage

more obvious. Furthermore, it is necessary to start from the association of economic and social aspects, to strengthen the co-operative identity and to look for new marketing possibilities.

The AACC has a considerable share in enforcing the co-operative principles which are internationally recognised. The AACC was established in 1993 as a result of the creation of the Czech and Slovak Federal Republics and the conclusion of the transformation process. The main objective of the AACC is to promote the business activities of its members, to defend their interests and to provide advisory services.

The organisational structure of the Association is based upon direct membership of agricultural co-operatives, trade companies and other legal entities whose delegates elect their representatives onto the various bodies of the Association at the regional organisation conference and the Czech Republic national conference.

Co-operatives in the Czech Republic are developing in difficult local and international conditions. It has been shown that co-operatives are a competent and suitable legal form of business activity in rural areas. This does not mean, however, that we want to preserve the co-operative way of farming as it is now. Instead, we wish to develop it under the rapidly changing conditions to fulfil its mission and to meet the growing competition. And that is a challenging task for the co-operative movement internationally.

Agricultural co-operatives are a legal form of business activity in the Czech Republic. No special code on agricultural co-operatives exists. The Co-operative Association with the active part of AACC is preparing such a special code. Agricultural co-operatives must be legally defined as a special type of enterprise providing public services in rural areas where they are the main guarantee of employment, reflecting the important role of co-operatives in the social infrastructure of the village. Just like in Western Europe, co-operatives are in many regions the only entrepreneurs assuring the viability of the rural area. It was calculated in Germany that 1 DM spent on keeping farmers in the mountainous or sub-mountainous areas saves 4 DM of state money in expenditures for social and other purposes.



Farmers are looking for a way to get out of the difficult economic situation using their own means. They are associating themselves for retail purposes by establishing retail and processing co-operatives. This way they try to face the pressure of multinationals and they are nearing the conditions in the EU where this form of association is quite developed. And doing this is of course a precondition for getting support.

**ESTONIA**      **Estonian Co-operative Association**  
Jaan LEETSAR, Chairman of the Board

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In Estonia, the first organised co-operatives were founded according to the German model by the Baltic Germans and later by the Russians. During the second half of the 19th century, as a result of buying out the local farms from the previous landowners, Estonians began to participate in co-operative activities. The very first co-operatives with Estonian farmers' participation were the credit and insurance co-operatives.

The development of co-operatives accelerated after the land reform of 1919, due to the sudden increase in the number of new private landowners. Before the economic crisis, almost every major type of co-operative had been created in Estonia, together with central societies.

The Estonian Co-operative Association (Eesti Ühistegeline Liit) was founded on 25 November 1919. By 1939, co-operative activities in Estonia had reached what could be considered the most progressive level in Europe. The Co-operative Association united 14 central co-operatives and 3,046 local co-operatives, the total number of the members being 283,768.

From 1940 to 1951, co-operatives were abolished in Estonia, their lands and property were nationalised and have remained in the state's possession up to the present day.

In 1992, the Estonian Co-operative Association was refunded on the basis of legal succession. In order to reach its objectives, the Association is active in the following spheres:

- It propagates ideology, principles and trends in co-operation;
- In the interest of its members, develops co-operation with various government institutions and third-sector umbrella organisations;
- Participates in the preparation of bills and suggests amendments;
- Promotes co-operation with international co-operative organisations and participates in joint projects;
- Promotes co-operation consultation activity; organises co-operative related study days and training, drafts and publishes study materials and literature;

- Publishes a newspaper “Co-operative News”, collections, annuals, a lexicon and other publications;
- Organises co-operative consultations, seminars, meetings, conferences and congresses;
- Follows and develops new trends of co-operative activities;
- Creates co-operation related national programmes;
- Creates foundations in order to develop co-operation.

By 1 March 2001, the Estonian Co-operative Association consisted of 15 central co-operatives and associations and 45 co-operatives, with around 40,000 private and legal persons as members.

### **A brief summary of the present state of Estonia and co-operatives**

Over the last decade, rural life has undergone major changes all over the world, including Estonia. The communist system has collapsed, farms and big land properties have replaced collective farms. Global capitalism is taking over post-socialist economies. One can clearly notice “the power of money” permeating politics, the social sphere, the communal economy and agriculture. Big land properties, estates, are emerging in rural areas. Industries processing agricultural products and markets are under the control of globalised industrial monopolies. In rural areas, there is no network of co-operatives to be taken seriously. Dairies held by co-operatives only process 25 to 30 per cent of raw milk. As for other fields, co-operatives hold practically no market share.

As the result of foreign investments made over the previous years, the amount of capital taken out of Estonia as profit has increased considerably. It is estimated to amount to 8-13 billion kroons per year, that is 10 000 kroons per capita per year (children and retired people included). On the other hand, this serves to give us an approximate idea of the cost of lacking co-operative activities. A major share of the money would have stayed in Estonia if we had had a national co-operative economic system.

The importance of hired labour has increased considerably, especially in rural areas. When speaking in the social-economic sense, Estonian society is out of balance. Our economic and political independence is facing serious threats. Can we continue our existence as a national state, belonging to its

real owners, or must we serve the foreign capitalists, only acting as a hired-labour farmhand?

We must analyse the changes that have taken place because of the concern for the future of our children. We need to objectively assess the processes that are taking place in the society and their future development. Estonia needs guidelines for national development in the future. We now understand that co-operation is the most efficient tool for securing the self-governing status of Estonia, helping to develop our economy and to decrease unemployment, especially in rural areas.

Although the Government of Estonia had declared its support for co-operatives, in practice no support is given. At the same time, new co-operatives fail to fight foreign economic monopolies. Furthermore, representative organisations of co-operative character (for example, the Estonian Co-operative Association, which employs only one person) are unable to fulfil their functions, due to a lack of funds, not to mention representing Estonian co-operative activities in the European Union and abroad. Estonian schools give students practically no tutoring on the basics of co-operatives. The training for adults also fails to fill the gaps.

What is the solution to the problem?

- Political opportunities – use tools of political co-operation to revoke both the political and economic power and localisation of the global system (David C. Korten)
- Increase the nation's awareness of opportunities provided by co-operation such as education and training, offer compulsory training.
- Define national priorities, based on the land, natural and soil reserves and on the economy based on these reserves and recreate a co-operative system supported by the state and resources mentioned.
- Use national measures to support national capital – national measures are used to enhance the competitiveness of economic co-operation. Preferential rights will be clearly given to native citizens and organisations established by them.
- National support of co-operation – develop specific national programmes.
- International co-operation between co-operatives – globalise co-operation.

Finally:

- Political space must be revoked for the nation (political and national institutions must be relieved of “the power of money”, citizens’ associations must be given legal opportunities for participation in the exercise of state authority).
- Organisations of economic space (restoration of economic co-operation, based on national capital).
- Settlement of any issues, related to social sphere, should be delegated to local authorities.
- Sustainable and balanced use of natural reserves.

**HUNGARY** National Federation of Agricultural Co-operators  
and Producers (MOSZ)

László FILIPSZ, Leader of the Secretariat

**HANGYA** Co-operative Association

Zoltán SZABÓ, General Secretary

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### **Producers' co-operatives and their successors**

In the decades following World War II, an organisational and production structure similar to that of other Eastern European socialist countries evolved in Hungarian agriculture.

The key components of this structure in Eastern European countries, except for Poland, were large-scale farms, which were established under political pressure in accordance with the Soviet pattern. Although they operated in the form of co-operatives, they were more like, in fact, state farms. Despite the obvious advantages of large-scale production, the agricultural and food sector was wrestling with many problems in the majority of the countries concerned and in many cases could not even secure a steady supply to the population. Unlike in these countries, agriculture in Hungary evolved into a successful and profitable sector of the economy.

In the early 1980s, in terms of quality and quantity agriculture in Hungary achieved a level comparable to that in well-developed countries, and often better. This success is due to a number of reasons, in particular the relative openness of the system in adopting market economy elements, recognising personal and group interests, and providing opportunities for interest-driven enterprise. With the planned economy elements losing importance, these opportunities continuously expanded and gained ground, although differently in the different sectors of the economy and in organisational structures. This difference was especially striking between the state-owned organisations and the organisations operating in the form of a co-operative.

All this was particularly relevant to agriculture where members and managers increasingly made use of the opportunities to create autonomous and democratic co-operatives, although these opportunities were always limited by politics on the one hand and by the relevant laws on the other.

Co-operatives that were originally organised exclusively for collective production in practice fulfilled a double role. Large-scale (collective) production was essentially carried out within a corporate structure over which members working as employees had only limited control. At the same time, co-operatives gradually fulfilled the classic role of co-operation by organising, supporting and promoting the integration of the members' (and the related other producers') own farms, known as the "household plot" or 'small-scale production'. It allowed a complementary interconnection to be established between the large-scale, extensive production and the small-scale, intensive production, while making use of the advantages of both production schemes. It was one of the keys to the success of Hungarian agriculture.

In 1990, when the system changed, there were 1,360 farming co-operatives in operation who owned 80 per cent of the land. Co-operatives had 1 million members at the time, 50 per cent of whom were active and the other 50 per cent pensioners.

Co-operatives expected that the changes in the system would involve a higher level of co-operative autonomy and an extension in members' ownership rights. However, the opposite occurred. The new political regime wanted to build a market-oriented economy in the agricultural sector by closing down existing co-operatives, allocating assets among members and developing members' private farms. Since most members did not accept this concept, the Government tried to bring about changes first by introducing restrictive measures and then, from early 1992, by enacting laws.

Act II of 1992 provided for a compulsory "transformation" process for co-operatives. Its key elements were as follows:

- The division of co-operatives' assets among existing members (as well as former members and their heirs, who represent a very large group). In practice, this was a distribution of shares. This, however, did not change the co-operatives' operating principle, including the "one member - one vote" principle.
- The permission for members to withdraw from a co-operative, allowing them at the same time to withdraw assets equivalent to their respective share in order to start farming independently.

Only 5-6 per cent of the members chose this option and the value of assets withdrawn was less than 10 per cent. Nevertheless, managing the co-operatives became increasingly difficult mainly because agriculture suffered from a general crisis (in the case of Hungary, primarily as a result of loss of the former Eastern European markets). The situation was further aggravated by additional legislative restrictions, which the Government imposed on farming. The so-called Indemnification Act forced co-operatives to auction most of their land. Then, in 1993, an additional law made it compulsory for co-operatives to transfer all the land they used into private ownership. A law adopted in 1994 prohibited legal entities, including agricultural co-operatives, from acquiring land. Since then, co-operatives may only farm leased land, which further increases their costs.

Despite a minor upturn in the middle of the 1990s, agriculture has been in continuous crisis. Even now, production does not exceed 60 per cent of the output in 1989 and farming incomes are less than 70 per cent of the national average.

For these reasons, a number of co-operatives had to file for bankruptcy. In addition, their number has decreased because, as experience gained over the past decade has shown, co-operatives do not have the same legal protection as other enterprises and are exposed to state interventions. As a result, many co-operatives were made to become limited companies. This process has been accentuated by open discrimination against "old type" co-operatives by the Smallholders' Party, the junior party of the ruling government coalition formed after the general election in 1998, who is in charge of the Ministry of Agriculture and Regional Development. At the Ministry's initiative, Parliament adopted a law in December 2000 forcing co-operatives to purchase at their 1992 nominal value not only the shares allotted to non-members in 1992 but also those allotted to members (and their heirs) who had withdrawn from co-operatives since. Doing so would involve filing bankruptcy proceedings against most co-operatives.

The National Federation of Agricultural Co-operatives and Producers (MOSZ), the organisation representing the interests of the co-operatives affected and whose legal predecessor was the National Federation of Agricultural Co-operatives operating since 1967, has applied to the Constitutional Court, requesting that this law be abolished. In spring of this



year, the Constitutional Court declared the law anti-constitutional and annulled it.

However, the fact remains that most of the co-operatives affected will become, sooner or later, private limited companies since the New Co-operative Act, which was adopted concurrently with the aforementioned law, forces co-operatives to do so. An essential provision of this Act is that co-operatives would be made to purchase all their shares within five years, something which in most cases is not feasible financially.

MOSZ, which since 1971 has been representing Hungarian agricultural co-operatives in the International Co-operative Alliance, has relentlessly protected its members from politically motivated attacks. As, however, operating as a co-operative became increasingly disadvantageous in Hungary, it warned, as early as 1997, that unless a positive change occurred, co-operatives would disappear altogether from agriculture. Developments in recent years have proved that this warning was justified. Currently, the number of operating co-operatives is about 800, which is less than two-thirds of their previous number. They cultivate a third of the farmland, producing nearly 50 per cent of the products on the market. They pay sixty billion HUF annually to the state budget and employ about 130-140 thousand people. This compares to the half a million employed previously.

The transformation of "traditional" co-operatives into private limited companies is expected to continue. Unfortunately, the intensity of operation is decreasing as more and more co-operatives and a considerable part of production is subcontracted (for example to a private company formed by the co-operative). Because of the disadvantageous business conditions, dozens of co-operatives go into liquidation every year.

Nevertheless, successors of the former producers' co-operatives are still present in considerable numbers in the agricultural sector. Following the New Co-operative Act, they may continue to exist for another five years. By the end of this period (or even sooner if an amendment is made to the Act), these co-operatives will cease to exist. As a result of the natural generation renewal, members who enjoyed the benefits and carried the burdens of this type of co-operatives for forty years will also disappear. This process now seems to be irreversible. Thus, the organisation representing the interests of co-operatives must develop new structures to avert or to mitigate the

damages resulting from reorganisation and from adjusting to new circumstances and to continue representing the interests of farmers whether they operate in co-operative or other form.

### **"New" co-operation in Hungarian agriculture**

Decisive factors affecting the Hungarian agricultural sector after 1990 included the change in the structure of ownership, the transformation both of the structure of production and of farm organisation which were previously built on collective ownership. The elimination of common ownership, by creating the conditions for large-scale agricultural production, did not and could not essentially and directly contribute to the establishment of well-operating private farms. This was one of the main reasons (besides a number of external factors, such as loss of market, financing, problems, etc.) for the downturn in the sector in the 1990s. The creation of an ownership and legal environment for the agricultural sector relying on private ownership and family farms was not timed well to coincide with the consolidation of private enterprises which could have understood this new context readily and be able to produce efficiently. The omission of the legal and farm organisational aspects of transformation is seen as critical, because Hungarian producers may only obtain a subsidy from the CAP farmers supporting system if they meet certain structural, legal and economic criteria.

While this process led to an impairment in the position of collective farms (state farms and co-operatives formed to carry out core common agricultural activities) which had achieved major successes in particular prior to 1985, it offered new outlooks for private farms, which prior to 1990 had cultivated a mere 4 per cent of the farmland. The profitability of collective farms declined in the second part of the 1980s, primarily because of the intensification of crisis phenomena resulting from the transformation processes which occurred in the early 1990s. Critically, ownership and structural change in the agricultural sector were not embedded in a coherent and well-thought agricultural policy but were rather a function of the current policy (and its constraints).

There were serious contradictions in the economic philosophy behind the controversies. As a member of the Cairns group and anticipating a cut in agricultural subsidies, the Hungarian agricultural sector carried out developments aimed at intensifying and increasing the size of farms until the 1990s. At the same time, the agricultural policy of the European Union has followed an essentially opposite direction by enhancing the viability of family farms and, more recently, by putting more emphasis on sustainable development. The physical and intellectual conditions for changing over to a fundamentally different economic philosophy have developed only to a limited extent over the past decade, which may be regarded as one of the major deficiencies in our preparations for EU accession.

Transformation of ownership and farm organisation was a particularly sensitive issue in relation to co-operatives. In the formerly successful Hungarian model, co-operatives were seen as a kind of farming in which farmers, who under political pressure were made common owners of their previously independent agricultural properties, carried out agricultural activity as employees. Creators of the legal and economic environment aiming to establish a new agricultural structure did not, however, raise awareness that the market position and profitability of the operation of private farmers in the European Union results not only from the support system but also from the development of co-operatives in harvesting, processing, warehousing and marketing of agricultural products the proceeds of which have a higher profit margin and add to the income of farmers. Due to the lack of clear regulation, the need for a shift in the agricultural model is most glaring among the new, independent agricultural entrepreneurs. Act II of 1992 spread confusion by introducing the term "external shares", institutionalising equity investment which is alien to the co-operative system in the co-operative law. Regrettably, the typical features of co-operative identity and system organisation as exist in the EU are not yet fully understood by Hungarian agricultural entrepreneurs. Moreover, most Hungarian policy-makers are not aware of the different philosophy underlying system organisation. For instance, the Hungarian public (and regrettably also policy-makers) see dairy co-operatives as specialised cattle farms, whilst elsewhere in Europe it is seen as a processing plant producing milk and dairy products for a market.

The need for a change in the co-operative model was recognised in 1992 by the Count Sándor Károlyi Co-operative Development Foundation. The

Danish Federation of Co-operatives provided major assistance to the Foundation in the organisation of co-operatives built on the basis of newly emerging family farms and in the clarification of conceptual issues. Due to the different legal, economic and social environments, the adoption of Danish experience gained with the co-operative system presented a major adaptation challenge. It is especially difficult to adapt to the Hungarian context the European practice in which farmers, to promote their economic interests, establish a framework of co-operation among co-operatives for the procurement of inputs as well as for marketing a particular sector's products, although independent farms are active in a number of sectors. The differences between the so established (single-purpose) co-operative built on a single product line and the multi-purpose co-operative system covering a number of sectors are not yet understood by many farmers, thus not contrasting the transparency of a single-purpose co-operative with the simplified organisation of a multi-purpose co-operative which bear all responsibilities (thus providing full coverage). In other words, the consistent application of the European model of co-operatives depends to a large extent on when farmers understand the relationship between independent agricultural production and its responsibilities on the one hand, and the advantages of promoting common economic interests on the other. This process of recognition has become perceptible from 1994, and as a result of all the organisational work undertaken, the establishment of co-operatives as local organisations according to the European practice has started gradually.

On the producers' side, the essential conditions for co-operative system development have been created to such an extent that 14 farmers' communities showing willingness for local co-operation have established the Co-operation of the Hungarian Producers' Supply and Marketing Co-operatives. Their aim is to have, through the concerted action of members, a bargaining position that is better than what can be achieved by pursuing individual interests. They hope to achieve it by organising the commodity base initially for the processors and subsequently acquiring the ability to organise processing capacity. The change of Government in 1998 has improved the political conditions for self-organisation by encouraging in the 1999 agricultural regulation the formation of the so-called "new co-operatives". In addition, it will cover part of the costs related to the formation of co-operatives and provide support for working capital provision of co-operative start ups. Thus, the agricultural portfolio granted

in 1999 HUF 15 million<sup>2</sup> non-refundable state subsidies for the formation of new type co-operatives. This budgeted sum was used up within a short time, therefore the Ministry of Agriculture and Regional Development issued bonds which were redeemed last year. The Decree on Agricultural Subsidies issued this year has provided for the granting of state subsidies: the Government contributes HUF 15 million for turnover replenishment for each new co-operative aiming to have sales above HUF 75 million.

Due to the lack of clear concepts outlined above, organisations were not only established within this framework of co-operation among co-operatives. Indeed, the National Federation of Hungarian Farmers' Circles (MAGOSZ) also organised co-operation among co-operatives which, however, did not include single-purpose organisations but mostly multi-purpose organisations at county level. Repeated sector regulations have resulted in the considerable strengthening of new type co-operatives. Now there are some 500 local co-operatives out of which 364 have become members of the organisation named "HANGYA". The 500 co-operatives operate with about 40,000 private farmers whose production was valued to be around HUF 40 billion in 2000.

The HANGYA organisation, which basically copies the way European co-operatives are organised by sector, now brings together some 140 warehousing, 85 fruit and vegetable, 60 pork marketing, 30 poultry marketing, 25 wine production, 18 goat and sheep farming, 10 dairy and 10 organic farming co-operatives. 19 machinery co-operatives have also joined this organisation for organising joint procurement and marketing. Co-operatives, which are specialised according to their product line, form sectoral co-operatives, which foster equal opportunities for small- and medium-sized agricultural enterprises through market organisation.

To ensure efficient operation, resolutions adopted at the 1999 general meeting of the HANGYA organisation provided for the establishment of federations as legal persons out of the most active HANGYA co-operatives, including:

- the federation of warehousing co-operatives (for crops),
- the fruit and vegetable federation,
- the federation of pig farming co-operatives,

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<sup>2</sup> 1 Hungarian Forint (HUF) = 0.00382954 Euro

- the poultry marketing federation,
- the goat and sheep farming federation.

Despite dynamic growth, the process of changing the co-operative system cannot be considered closed. In this respect, it is of decisive importance that co-operative bonds have not been clearly defined in the Act on Co-operatives adopted in 2000. Thus, organisations which clearly endeavour to operate as equity investment business companies or transform to such companies may continue their operation as co-operatives.

It is still an open question whether Hungarian producers, like their European counterparts, will hold a strong position at all levels of production. Thus the new co-operatives which increase in number, improve their organisation and acquire an increasing market share should aim to turn a bargaining co-operative position into a real co-operative position along the entire product line.

POLAND      National Co-operative Council  
                 Alfred DOMAGALSKI, Chairman

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Until 1990, the farmers' co-operatives were responsible for marketing almost all of the agricultural production of individual farms in Poland. The co-operative sector also contributed largely to food processing and to various services for farmers as it does in EU countries. These co-operatives however were not under the full control of the farmers. The state interfered strongly in co-operative affairs.

The result of such a policy which persisted for almost half a century was the loss of confidence of farmers in their own co-operatives. After the beginning of the transformation of the system in 1989 a large number of co-operatives encountered economic problems and went into liquidation largely because of government policies and the farmers lack of interest.

The smallest losses were met by dairy co-operatives that market about 80 per cent of milk production as well as by co-operative banks that still have a dominating position in financial services for farmers.

Nevertheless, recently we can observe among farmers a trend towards coming back to their co-operatives. It seems to be a stable process, but it is the duty of co-operatives themselves to begin providing more information and education after the neglect of the last few years.

Another interesting phenomenon last year was the appearance of rural producers' groups mainly in the fruit and horticultural sectors, and also in the wheat and meat sectors. Today there are about 350 such groups all over the country. They are registered as companies, associations, self-employed individuals, in some cases also as co-operatives. Last autumn Parliament passed a special Law on producers' groups and they founded their own union organised along the co-operative pattern.

The atmosphere created by the authorities and mass media around co-operatives, in particular during the first part of the transformation of our system was very unfavourable to the co-operative movement. Co-operatives were treated as inefficient enterprises typical of socialist economies. Legislative decisions taken by Parliament destroyed the co-operative

movement and exposed it to the unfair market competition. In financial and economic matters co-operatives were treated in a worse way than private companies.

This situation is changing gradually, but we are still far away from the solutions in use in developed countries. Unfortunately it is impossible to correct now all the losses sustained by co-operatives as a result of the decisions of the state authorities.

Poland has adopted a very ambitious programme of adjusting its economy to EU requirements that will last until 31 December 2002. The range of adjustment tasks is enormous, especially in the agriculture and food sectors. In that field agriculture and food legislation makes about 40 per cent of the whole *acquis communautaire*. According to the government's decision, Poland must adapt and realise the whole *acquis communautaire* and create institutions that will be able to manage the agricultural market in Poland along the lines of the institutions managing the CAP in EU countries.

The building of a new administration able to manage a so complicated agricultural market may run into difficulties, as was the case in building the administration to start and manage the SAPARD programme. We will have to establish in Poland registers of farms, of animals, of agricultural land and a programme of veterinary protection. We will have to adjust the borders control system to protect them as EU borders and to solve many other problems in order to observe the rules in force in EU countries.

Our food-processing sector will have enormous problems meeting EU standards. That sector is very dispersed in Poland and the majority of plants do not fulfil EU standards. For example in the meat sector, according to the statistics for 2000, there are in Poland:

- 2796 slaughterhouses (and only 19 with EU authorisation);
- 2784 plants of jointing meat (15 with EU authorisation);
- 2649 meat processing plants (23 with EU authorisation);
- 683 minced meat production plants (6 with EU authorisation);
- 79 cold storage plants (2 with EU authorisation);
- 377 poultry slaughterhouses (24 with EU authorisation).



In Poland there are also 428 dairy plants, of which 19 fulfil EU requirements. Another problem is that only 35 per cent of the milk purchased fulfils EU norms. We will have to phase out from the purchasing system over the next 2 to 3 years the milk that does not fulfil EU standards. This will be a difficult and painful process.

One of biggest problems will be adjustment to EU standards. In Poland there are now 57 plants concerned, but none of them fulfil EU norms. A special programme has been adopted according to which one plant in each region (voivodship) will be adjusted to the norms.

The work on the adaptation of the legislation to EU requirements is very advanced in Poland. There are however many problems in putting them into force mainly because of the lack of financial resources.

Laying the foundations of a modern agricultural market is crucial for Poland. A good opportunity to restoring such a market is farmers' co-operatives and rural producers' groups mentioned above. The assistance to these groups from our Western partners and from EU institutions would mean a lot to us. The establishing of many training centres (at least one in each voivodship or region) is necessary. The centre should train a thousand people (2 to 3 people for each community) who are prepared to organise on a new professional rural producers' groups. The groups should be oriented mostly not towards producing but rather towards the storage, package and trade of agricultural products.

The groups should be closely linked to the wholesale markets, supermarkets and processing plants being built in the meantime. In the future we can think about organising their regional or sector unions or federations for export activities on the basis of the groups.

Countries such as Poland which at the same time are experiencing changes in their economic system and have to adapt themselves to EU requirements need assistance from their Western partners and from EU institutions. Such assistance unfortunately has been too little too late. A good example is the two year delay in starting the SAPARD programme so vital to the Polish countryside and to agriculture. European Union farmers are disappointed because of complicated procedures and very tough requirements when they apply for participation in such programmes. The earlier start of the

SAPARD Programme would have helped modernise our food processing system, which is still to a large extent owned by co-operatives.

ROMANIA      The Foundation for Rural Associations  
Adrian IORDACHE, President

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European Union Member States as well as the CEEC countries need a strong Europe politically and economically prepared to compete on world markets and to respond flexibly to the changes brought about by world development. We have to take into account the fact that the current socio-economic situation in CEECs differs greatly from that of the EU. Market liberalisation, the elimination of customs duties, the breaking of mutual economic links, the uncritical imitation of the EU in certain fields, mistakes made during the transformation process all led to the economic crisis that still exists in these countries.

Romanian co-operative history has strong links with co-operative evolution in Europe. The first consumer co-operative society appeared along with a credit society in 1852, only eight years after the first co-operative was established in Europe. The latter was started by 28 weavers from Rochdale in England, who established a consumer co-operative known as the "Rochdale Society of Equitable Pioneers".

It seems natural, therefore, that in 1895, Romania became one of the Founding Fathers of the International Co-operative Alliance together with Great Britain, France, Italy and Belgium. Starting in 1919, several laws on co-operatives were put into effect in Romania (in 1919 and 1929, with additional articles in 1930 and 1938), which stipulated how co-operatives should be organised and function along democratic principles. This was the time of the emergence of the "Central House of Co-operation", the "National Bank's Department for Co-operatives Aspects" and the "National Institute for Co-operation". Romania was then known as "the granary of Europe" and the cereal prices were negotiated in Braila, a city near to the Danube River.

So, the preparatory period with regards to Romania joining the EU is very important for Romanian agricultural reorganisation. Indeed, Romania has to adopt the European model of agriculture based on the main four pillars of:

- Family farms
- Co-operative and farmer organisations

- Food safety and consumer protection
- Environmental protection and landscape preservation

The SAPARD programme, although delayed, is the last hope for agricultural and rural development. Civil society must ensure those farmers and agricultural producers who are able to give their contribution for the future of Romanian agriculture benefit from the SAPARD programme.

If the SAPARD programme is not used as was foreseen to support agriculture and rural development, the transition period and the Romanian accession will bring social and economic distortions and pressures on Romanian farmers and agricultural producers.

The Romanian farmers and agricultural producers will face the enlargement of the European Union to the East and the pressures for further trade liberalisation by the WTO. In these conditions Romanian farmers will not be able to compete with the farmers from Western European countries if farmer organisations and co-operatives will not support them. The support has to come from inside.

The expectations of Romanian farmers, their organisations and co-operatives are no different to the expectations of farmers, co-operatives and farmers associations of EU countries. These are:

- for farmers' incomes to be comparable with those in other sectors;
- for farmers organisations and co-operatives to be recognised as legal entities representing and defending the interests of the farmers at national and international level;
- for farmers organisations and co-operatives to be recognised as a consultative body in the elaboration of agricultural policy on agricultural support;
- for farmers to receive back some of the VAT paid on agricultural inputs through their organisation and co-operatives;
- for farmers through their co-operative associations to be competitive both at national and European levels and to match the skills and development of the major customer business in the downstream section of the food chain;
- to promote the quality of agricultural and food products by improving production, processing and packaging systems in accordance with

consumers' requirements and interests both as regards food safety and production techniques which strive to implement the quality systems in Romanian food industry;

- to develop environment friendly and appropriate welfare practices in order to preserve the countryside for future generations;
- to promote advanced training for farmers and the extension of the services available to them (technical assistance, marketing requirements, existing regulations) as well as the promotion of the identity and the value of co-operation amongst the young (potential future members).

I want to emphasise once again that the young generation represents hope for Romanian agriculture, because they are not spoilt by the communist mentality. They will be more open and flexible towards understanding what the co-operative movement means and how to co-operate in order to establish co-operatives which will play an important role in rural development. For the development of Romanian agriculture, setting up co-operatives in rural areas is crucial. During the process of pre-accession Romanian agriculture has a good opportunity to create the right mechanisms in order to establish the co-operative system.

Another interesting aspect is the chance for young farmers to have access to agricultural information through "distance learning" which is an alternative way of giving access to agricultural information. Strictly related to this issue is the demand for information in rural areas useful to the people involved in farming. But, for the time being the advisory system is very poor and has no impact on farmers. In addition, there is still a lack of information in the Romanian countryside. So, civil society and farmers' organisations are playing an important role in providing free access to know-how and agricultural information in order to protect and promote the values of different rural areas of Romania.

Sustainable rural development is based on private agricultural structures (family farms) with a viable economic activity, which has to be fructified on internal and external markets.

However, the development of co-operatives will be possible only if a co-operative banking system is set up. This system will facilitate the access of farmers to low interest credits in the medium and long term. Moreover, the

advisory system, the collection, processing and marketing of agricultural production are the essential pillars, which will support the set up of the real Romanian farms and farmers. Co-operatives, as the organisations, which represent the economic interests of farmers, have as a task: input supplying, marketing agricultural products, advice giving and extension services.

In this context, the social and economic interests of the farmers will be represented at national and international level by farmers' organisations and co-operatives, which at national level become a partner in the dialogue with government to create proper agricultural policies. The promotion of agricultural policies at national level will give Romanian agriculture a new trend, taking into account food security, consumer protection, environmental protection and preserving the rural cultural environment.

It can be mentioned that Romania has many interesting rural regions, not only because of agriculture, but also because of their historical and agricultural potential, such as Maramures, Bucovina, Transylvania, Oltenia and Dobrogea.

In this context, sustainable development in rural areas requires the support of viable co-operatives. With a proper infrastructure in rural areas, farmers will have access to markets and to information, and consequently, different regions from Romania will have the opportunity of becoming prosperous.

Also, we have to take into account the fact that the great potential offered by rural areas could be a challenge for the Romanian economy. It could develop profitable activities such as agri-tourism, handicrafts, animal breeding, fruit growing and wine production.

Once again, we have to understand rural development as a main field of activity for the Romanian economy. If new opportunities to develop rural areas are not created, a lot of people will be affected, and finally confronted with a lack of financial support and waste of resources.

**SLOVAK REPUBLIC**      **Association of Agricultural Co-operatives**  
                                         **Vaclav FABRICI, President**

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In the late 1980s, Slovak agriculture was on par with agriculture in Europe. Over the last few years however, transformation, privatisation and structural changes have taken place in this field. Agricultural co-operatives are struggling through the consequences of a considerable inhibition of production, a liberalisation of prices, a reduction of subsidies and credit. Despite all this, the results achieved so far show that in agricultural production the co-operative form of farming is still predominant. Agricultural co-operatives manage 65.4 per cent of agricultural land. The share of agricultural co-operatives in Slovak agriculture is shown below:

cereals	66.9 per cent
gains	60.4 per cent
costs	58.9 per cent
cattle	64.0 per cent
pigs	71.0 per cent

The average area of agricultural land per co-operative is 1,537 ha.

Over recent years, development in agriculture and in the co-operative sector had been strongly affected by government agrarian policy. Nevertheless, the economy as a whole has been decisive in creating the right conditions for the agricultural sector. One of the decisive factors affecting agriculture is the decrease of economic growth in the Slovak Republic during the period in question. For the last two years, real annual GDP growth is approximately 2 per cent, whereas in EU countries it is almost twice as high.

The multi-functionality of agriculture is not being respected. Obviously, beside the production of foodstuffs, landscape protection and overall improvement are concerned. The status of agriculture has a decisive impact on the condition of village inhabitants. As long as there had been functioning and prosperous agricultural co-operatives, wide agricultural and non-agricultural production was developing and there were no problems with either unemployment or with co-operatives fulfilling their social role, because production had produced sufficient resources to do so. The

reduction in agricultural production was responsible for approximately 200,000 people leaving agriculture and becoming unemployed. This is extremely negative for the lives of the village and country population in all aspects.

A short-lived partial recovery, lower losses in the sector and annually increasing real domestic support of operation and investments did not, however, result in stabilisation, but rather in higher investment risk in land enterprise. In this period of decreasing economic performance, increasing debts and decreasing standard of living, agriculture is particularly badly hit.

The 1993 concept of agricultural and food policy became gradually outdated. Although the basic goals remain almost unchanged with respect to Slovakia's ambitions to join the EU, the concept needs updating. Primarily, preparation for EU accession must be completed, and EU legislation must be gradually included into our legal system, along with other rules and economic tools applicable in the EU within the Common Agricultural Policy. Accepting EU rules will require a considerable increase of domestic subsidies and, therefore, of the domestic prices of agricultural products. Prompt accepting and consistent observation of these rules could resolve the key problem, namely the income level of the sector. In our opinion, accepting EU tools is already interfering with government budget limitations due to the low efficiency of the economy as a whole and high, non-production social costs.

The key document for the current government's policy should have been the Concept of agriculture and food industry in the Slovak Republic up to 2005. Our Association co-operated in the preparation of the document primarily in the issues related to the goals and the priorities of agrarian policy on the one hand, and the provision of better enterprise conditions on the other. This document was amended and then approved by the government, but Parliament did not have enough political will and responsibility especially with regards to the aims of and the level of support for local agriculture.

The agricultural policy report, with regards to preparation for EU accession, has been presented in the National Accession Programme. The pre-accession strategy has the following main priorities:



- to achieve equivalent technological and technical levels of agricultural and food production and of productivity of work;
- to achieve equivalent health and hygiene legislation, i.e. to harmonise food hygiene and control legislation, including requirements, inspection bodies and provision of compatible measures for protection of EU outside borders;
- to support structural changes in agriculture and the processing industries with the aim to increase competitive ability and the general development of countryside;
- to adapt and strengthen the administrative structures necessary to legislation for the domestic market and for agricultural policy.

Analytical studies and model simulations of their impacts in Slovak agriculture were the starting point for the acceptance of the Common Agricultural Policy. Another basic document for the accession process is the *Programme of Development in Agriculture and the Food Industry up to 2001*, prepared in 1999.

In preparing to accept the structural and countryside development policies the following activities took place:

- the updating of the classification of agricultural areas according to EU criteria for claiming allocations in mountainous and in other disadvantaged areas;
- the preparation of the Slovak Republic Countryside Development Plan, which was approved by the government and put to the European Commission for approval;
- the establishment of a payment agency for SAPARD, named Slovak Payment Agency (SPA), to receive and manage EU pre-accession support funds.

Our Association expressed support for the accession of Slovakia to the EU. However, we request that the Government prepare this accession in such a way as to give our agriculture the same conditions in the EU as the other member countries.

**SLOVENIA**      **The Co-operative Union of Slovenia**  
Franci AVSEC, Legal Advisor

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With a surface of 20,250 km<sup>2</sup> and 1,989,000 inhabitants, Slovenia is one of Europe's smallest countries. It has an above average share of rural areas. According to the OECD typology of regional indicators at local level, 57.3 per cent of Slovenia's population lives in rural areas that cover as much as 89.1 per cent of the entire country's territory. The level of urbanisation is low due to the past policy of polycentric development. Numerous towns and villages are the dominating settlement pattern in Slovenia. Among EU Member States, only Austria and Ireland have comparable shares of rural population.

Due to varied climatic, geological and other conditions, a considerable share of agricultural land in Slovenia is situated in less favoured areas (LFAs). Slightly less than 43 per cent of the national territory, that is 780,000 ha, is described as agricultural land. Only about a third of this land is used for cultivation, and grassland and permanent meadows cover the major part of the agricultural land in use.

Agriculture is a small sector of the Slovenian economy, contributing around 3 per cent to the GDP and accounting for about 5 per cent of total employment. These shares have decreased since the beginning of the 1990s and are expected to decrease further, mostly due to the growth of non-agricultural sectors of the economy. Over a half (56 per cent) of the territory of Slovenia is covered with forests which are a very important natural resource.

**The role of agricultural co-operatives and of other farmer-owned structures in Slovenia**

By the end of 2000, there were 180 registered primary agricultural and forestry co-operatives in Slovenia. Nearly all active agricultural and forestry co-operatives are affiliated to the Co-operative Union of Slovenia, which counted, on 31 December 2000, 105 member co-operatives.

Farmers' co-operatives are involved in input supply, marketing and other services. To this day, co-operatives continue to play an important role in

agro-services. They market about 70 per cent of all output sold by agricultural producers (both agricultural companies and private farmers). This portion is most important for milk and livestock, but is considerable also for wheat, maize, wine, fruit and vegetables.

Farmers' co-operatives supply their members and other farmers with fertilisers, insecticides/herbicides, agricultural equipment and other inputs. Since they own more than 500 retail stores in the countryside, they also supply the wider rural population with consumer goods.

Nearly all agricultural and forestry co-operatives established special financial institutions – savings and loans services (SLS) - which collect savings from farmers and other individuals. Assets are mostly in the form of money orders from agricultural co-operatives and other purchasers of agricultural products and of wood, as well as the salaries of the co-operative employees, pensions and other types of income.

SLS also grant loans to farmers, other individuals and their founders. As of 31 December 2000, there were 59 SLS in operation in Slovenia, all members of the Association of Savings and Loans Services. The Association also enjoys the status of a Savings and Loans Service. Savings deposits in the SLS amount to 31.8 billion tolar, which represents 4.4 per cent of the national currency savings in Slovenia. Half are sight deposits and the rest are time deposits for periods ranging from one month to one year. The volume of long-term deposits is very low. The balance sheet amounts to 43.5 million tolar<sup>3</sup> (excluding the Association of SLS) which represents 1.5 per cent of the total assets of the Slovene banking system. Savings and Loans Services have approximately 200,000 clients who are mainly farmers. However, some are people employed in co-operatives, pensioners and other rural residents. SLS activities as a whole have been highly successful. In the last thirty years, no SLS has gone bankrupt, none has needed to use a bank or state guarantee to meet its obligations, none has had assistance from the national budget and SLS have therefore not been a burden on taxpayers. This testifies to the successful farmers and to co-operative management.

According to data gathered by the Co-operative Union of Slovenia, 22,653 farmers were members of agricultural and forestry co-operatives affiliated

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<sup>3</sup> 1 Slovenia Tolar (SIT) = 0.00456026 Euro

to the Union on 31 December 2000. These farmers' co-operatives employed 3,921 persons in 2000.

### **Government policies in favour of co-operative and rural development**

The Act on Co-operatives contains a programmatic provision according to which the Republic of Slovenia will enhance the development of co-operative business forms with suitable economic measures. In addition, co-operatives may be granted special treatment in their business operation (Art. 3).

During the privatisation process, co-operatives were allocated a capital share of up to 45 per cent in 45 food processing companies listed in the Co-operatives Act annex. Although the actual capital share of co-operatives in food processing companies turned out to be lower than expected for a number of reasons, the measure improved the market position of co-operatives in the food producing chain. It also improved the financial state of co-operatives, which, on the other hand, could be forced to give back the nationalised property which was transferred to them with or without consultation. It should be stressed here that the major part of agricultural land and forests has remained in private ownership since World War II.

There is little special treatment for co-operatives. For instance, patronage rebate can be linked to tax reduction, if based on operations of co-operatives with their members. The new Act on Agriculture (Ur. l. RS, 54/00) provides support for producer organisations, which could be organised as specialised co-operatives or other legal entities, while, in reality, the activities of most existing co-operatives are multipurpose.

Slovenia adopted the Act on the Promotion of Balanced Regional Development (Ur. l. RS, No. 60/99), setting up a basic institutional framework for the implementation of the acquis under the Regional Policy and Co-ordination of Structural Instruments chapter.

According to the Act on the Promotion of Balanced Regional Development, the key institutions responsible for implementing structural policies at national level are as follows: the Structural Policy Council, the National Regional Development Agency, and the Fund for Regional Development and the Preservation of the Settlement of Slovenian Rural Areas. Other

bodies competent in implementing structural policies are the ministries that allocate development incentives. From these sources, also some farmers' co-operatives have been given special support for restructuring measures.

Owing to the political and agricultural significance of areas with less favourable conditions for agriculture (LFAs, Less Favoured Areas), a mechanism of support for agriculture in less favoured areas has already been developed. The goals to be attained in the less favoured areas encompass economic, social and environmental principles: the compensation of higher production costs due to unfavourable natural conditions, the combating of the abandonment of farming and out-migration from the remote rural areas, the preservation of the cultural landscape and integrated rural development. In the Decree on the designation of less favoured-areas (Ur. l. RS 62/00) aligned with EU typology (Council Regulation 1257/99), the criteria for designation of less favoured areas were laid down. These areas include hilly and mountainous areas, other less favoured areas and areas with specific natural disadvantages.

SAPARD addressed two priorities: the improvement of production and marketing structures in agriculture and the food-processing industry and the economic diversification and improvement of rural infrastructure. The first priority consists of on-farm investment support and investment support in food processing (dairy and meat, including fish) sectors, while the other aims at stimulating economic diversification of farms and construction and improvement of rural infrastructure.

The Co-operative Union of Slovenia and other farmers' organisations expressed the view that the proposed amount of SAPARD funds allocated to Slovenia is far below expectations. It is feared that all co-operatives will not achieve enough support in order to improve the current position of and meet the requirements of their future members.

### **The main problem areas in adapting to EU standards**

Co-operatives suffer from some disadvantages. One of them relates to scale. Although several plans for mergers and restructuring under public support are being considered at present, it is improbable, due to a highly-dispersed land ownership structure, that the pace of restructuring of agricultural co-operatives will move at the same speed as it is advancing in the more concentrated food processing industry and, even more so, in retail.

In addition, the competition the co-operatives face will increase as the trend of substituting direct income subsidies to producers with market subsidies continues.

In co-operatives with facilities for processing, grading, storage and similar operations, huge investment will be necessary in the coming years to enter the Single Market where stringent hygiene and animal health standards are in place. It is, however, unrealistic, to expect co-operatives to meet the financial requirements from their own resources.

The new banking legislation (the Banking Act and the Decree on SLS Adjustment to the Banking Act) has major implications for SLS operations. The Banking Act requires SLS to implement a number of organisational and financial changes by the end of February 2004.

The banking legislation imposes the same criteria and requirements for SLS operations as for commercial banks. That means they must fulfil requirements regarding minimum share capital (equivalent to 1 million euro); capital adequacy; risk management, bank accounts and reports of internal and external audit; and liability for deposits. Savings and Loans Services and their founders are unable to fulfil these requirements on an individual basis. The majority of SLS are unable to ensure the required minimum capital. Therefore the only solution is for SLS to organise themselves on a regional level, or to form a pan-Slovene association of Savings and Loans Services.

The Associations of SLS of Slovenia is suggesting the use of financial support (grants) to restructure - integrate savings operations in particular for SLS which are in a critical situation (due to bad investments by farmers, co-operatives and other legal bodies); additional finance to increase the capital base of the integrated pan-Slovene SLS; support from institutions such as the PHARE programme, EBRD, SAPARD for developing information systems, financial consultation and education, etc., to enable the SLS to adjust to international competition.

Assistance from Western partners and EU institutions can be in several fields:

*Promotion of rural development through agricultural co-operatives*

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- the exchange of knowledge and experience about successful organisational (institutional) development of agricultural co-operatives, which is based on continuous improvement;
- providing an adequate legislative and institutional framework for rural credit co-operatives;
- promoting the co-operative image in general and in particular in agriculture,
- training members, managers and employees in agricultural co-operatives;
- taking into account the specific features of agricultural co-operatives in market organisations for certain agricultural products;
- financial aid for investment in various storage, grading, packing and processing facilities in order to meet EU standards and market requirements.

**YUGOSLAVIA Co-operative Union of Yugoslavia**

Vojislav KNEZEVIC, President

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**The economic and social role of agricultural co-operatives and farmers in the Federal Republic of Yugoslavia**

In Yugoslavia's economic structure agriculture occupies a very important position. Its participation in the configuration of the country's overall social product is around 20 per cent. Rural population accounts for around 17 per cent of the total population and the active rural population accounts for around 24 per cent of the total active population.

Individual farmers characterise the majority of agriculture. They own around 85 per cent of arable land, around 95 per cent of cattle and over 95 per cent of farm machines. Those farmers produce over 80 per cent of the total food production in the country.

However, these individual agricultural farms are small family farms that are not economically strong enough going through the period of transition from being natural producers to being producers of goods. Most of those individual farms own around 3 hectares of arable land and have 2 to 3 heads of large livestock (mostly horses and cattle).

Over the last few years, especially after the abolition of the maximum land ownership, there has been a tendency toward the enlargement of lands. As a result we now have individual farms of over 50 to 100 hectares although their number is still insignificant.

Small individual agricultural farms, as isolated economic estates, could not survive on the market without economic co-operation. The best example of such co-operation is agricultural co-operatives. In Yugoslavia today there are over 1,200 agricultural co-operatives that are formed by farmers and their chief aim is to organise production on individual farms, provide reproduction material, take on market surplus of goods and find markets for those products.

Yugoslavia is a country with a rich co-operative tradition. The first agricultural co-operative in Serbia was founded 105 years ago. The



contribution that agricultural co-operatives made to the development of agriculture on individual farms in the past period has been enormous. Thanks to the organisation of farmers in co-operatives a noticeable progress has been achieved in raising the technology level in production, in the development of new plant species and of cattle breeds, and in better market conditions. Apart from this, agricultural co-operatives have played a significant role in the development of infrastructure and other necessities in rural areas. A number of roads, waterworks, electrical and PTT networks have been built in rural areas with the assistance of agricultural co-operatives.

Agricultural co-operatives continue to be the main factors in the development of agriculture on individual farms, but under worsening conditions. For the last ten years Yugoslavia has experienced economic sanctions that have been imposed by the international community. For this reason a serious economic crisis has occurred in this country. Thanks to farmers, agricultural co-operatives and all of agriculture, Yugoslavia was able to carry on despite lengthy economic sanctions. Under very difficult circumstances agriculture achieved the level of production that met all the country's food needs and there has been no need for imports. In addition, because the earnings of city dwellers remained low, the prices of rural products were relatively low so that they were available to the poorest as well.

The scope of the work performed by co-operatives has become wider. Today, many agricultural co-operatives, in addition to organising primary production by farmers, own processing facilities, refrigeration plants, slaughterhouses, dairies, wine cellars, etc. In this way they aim at rounding up the production process. Nevertheless, most processing and refrigeration plants and other facilities are still held outside agricultural co-operatives.

All agricultural co-operatives are united in district and republican associations and in the Co-operative Union of Yugoslavia.

### **Government policies supporting co-operatives and rural development**

In the country's economic policy agriculture is one of the priorities. In this respect the country has rural policies that are aimed at encouraging producers to increase production. This year in the Republic of Serbia,

considerably larger funds have been set aside for “the rural budget” which gives various subsidies to farmers. For example, premiums to milk producers have been raised; a premium has been introduced for the production of sugar beet; a bonus is paid for breeding stock; resources for various selection measures in cattle breeding as well as for the veterinary care of animals are provided. In order to lower the costs of production, the country has cancelled the excise duty for mineral fertilisers, crop protection chemicals, seeds and planting materials, machinery, fodder etc. The debts that the producers owe the country for unpaid taxes have been deferred as well as their obligations to the country’s reserves of goods. Diesel fuel has been provided to farmers for sowing at a cost that is lower than the commercial rate etc.

However, the ten-year economic embargo and very difficult economic conditions have had major consequences in agriculture that were mostly felt by farmers and agricultural co-operatives. Yields have dropped due to downgraded agricultural technology, the number of cattle owned by co-operatives has significantly plunged; farm machinery has become obsolete and worn out. Most importantly, there has been a drastic aggravation in the economic position of co-operatives and co-operators. Even under such circumstances the number of co-operatives has not diminished but continues to rise. This points to the fact that a better form of organisation of farmers like agricultural co-operatives has not been found.

By adopting the Law on Co-operatives in 1966 the country clearly defined the position and role of co-operatives in the new socio-economic conditions and more strongly established agricultural co-operatives as important factors in agricultural development and organisation of farmers. An opportunity is given to co-operatives for their free development under market economy conditions. Their basic activity has been the strengthening the economic position of co-operators. This means that their objectives aim to provide the following:

- Economic autonomy and the strengthening of individual farms as economic players and assistance for their faster transformation into producers of goods;
- assistance to farmers to become more easily integrated in the market economy;
- the protection of co-operators interests in their business relations with the processing industry, commercial firms, etc.

Such a concept has been widely accepted in practice and the number of co-operatives has been increasing rapidly since the above Law was adopted.

### **The main problem areas for adaptation to the European Union's standards**

Agriculture is an area offering the widest possibilities for adaptation to European Union standards. A number of our producers, mainly in the food industry, have already obtained ISO 9001 certificates. With regards to foodstuffs the adjustment of our legislation to the European Union's standards is now under way. We would like to emphasise that Yugoslavia's production prospects for the production of organic food are vast. The Law on Organic Food Production has also been passed. Yugoslavia has big comparative advantages in fruit and cattle production; and produces many sows for the Western European market. We think it is especially important that there is no production of genetically modified food in Yugoslavia.

### **Areas of assistance that are required from Western partners and European Union institutions**

Yugoslav agriculture, despite very favourable production potentials and opportunities, cannot be rapidly transformed into a modern and market-orientated rural production without significant investments in new programs and means of production. Moreover, there have been no investments in agricultural development for the past ten years as agriculture operated without profits, and there have been no other sources of capital. For these reasons Yugoslav agriculture needs first of all capital assistance for investment in development to help activate important resources existing in agriculture. Yugoslavia's economic possibilities are such that the capital necessary for investment in present production and agricultural development cannot be obtained from its own sources. Therefore, aid from our Western partners and from European Union institutions is essential.

The lack of working capital for stimulating current production is a different problem. Many facilities in cattle breeding, including both those owned by farmers and those in the remaining public sector, are now completely un-operational. The banking system in Yugoslavia cannot give loans to agriculture in keeping with agricultural requirements. This is why agricultural producers are in such a difficult position: they have no

resources that they could invest in production for the purpose of enlargement and greater efficiency in the use of resources.

## Field Trip

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The conference was followed by a field trip to two co-operatives in Hungary.

### **Marketing Co-operative of Elderberry Producers, Vál (Bodzatermelők Értékesítő Szövetkezete, Vál)**

Elder production started 10 years ago in the Vál area. The area of production of individual farms increased continuously up until 1998 when the co-operative had established by 12 local farmers. The number of members is increasing rapidly, and now the co-operative has 178 members in the whole of Hungary. These are concentrated however, in the North-West and the North-East hilly parts of country. The total cultivated area owned by members is around 1000 ha. The members are farmers who carry out this primary agricultural activity individually.

The main objective of the co-operative is to sell the production of the members. For this reason the co-operative organises the processing of the elder to pulp or jam or soft drink. The co-operative owns the processing licence. The co-operative also provides stocks for planting as well as advisory services to help production. In addition, the co-operative prepares tenders and applications in accordance with the demand from members.

The co-operative's highest authority is the board of directors, which includes 5 members in its decision-making. The day-to-day running is done by the managing director. The board of directors is elected for 5 years by the general assembly and the managing director is appointed by the president of the co-operative for an undetermined period.

10 % of the sale price is collected to cover the daily expenses of the co-operative. In addition, income is generated for investment out of the contribution of members. Contributions are determined by the General Assembly and are in proportion to the members' business activity. Further income is generated from the advisory services and from other services as well. Furthermore, the co-operative applies for state subsidies to finance further investment.

The main goals of the co-operative are to:

- obtain the highest market price for its goods;
- increase its market share;
- stabilise the level of production;
- produce a greater proportion of processed goods.

The co-operative is a member of the “HANGYA” Co-operative Association.

**Táncsics Agricultural Co-operative, Nagyalácsony (Táncsics Mezőgazdasági Szövetkezet, Nagyalácsony)**

The co-operative was established in 1948 for the common cultivation of land in the village of Nagyalácsony. In 1962 the co-operatives of four other villages (Dabrony, Kisszőlős, Somlóvecse and Vid) amalgamated with the co-operative in Nagyalácsony, and in 1972 the area of co-operative farming was enlarged by the co-operative of Iszkáz. In 1981 the co-operative purchased a meat processing plant in Devecser. The co-operative has 443 members the majority of which are employed by the co-operative.

The co-operative has the following divisions:

- plant production
- animal husbandry (large-scale pig farming and dairy farming)
- meat processing
- technical services (transport, maintenance of machines, joiner’s shop)

Plants cover a total area of 4252 ha of which 3576 ha are crop land, 474 ha grass land, 1 ha forest land and 201 ha are set aside. The main products are grains (wheat, corn), oil seeds and fodder.

The animal husbandry division includes 2440 heads of cattle, of which 956 milking cows. The yearly milk production is around 7 million litres (over 7000 litres/cow). There are 5751 pigs of which 483 sows.

The total income of the co-operative last year was around 1 billion HUF (about 3,8 million Euro).

The general assembly elects the presidium of which the leaders of each division are also members. The president of the co-operative is also the

manager of the co-operative. Most of the members of co-operative are also employees in the co-operative.

The main goals of the co-operative are to:

- increase efficiency in primary sector agricultural production;
- reduce production costs;
- provide social benefits to its members;
- stabilise the economic position of the co-operative as a common enterprise.

The co-operative is a member of the MOSZ (National Federation of Agricultural Co-operators and Producers).

## Conclusion

Holger Hasle NIELSEN

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The Workshop has been very intensive and the participants have exchanged a lot of information and taken part in many discussions.

The participating countries have opened this workshop by giving a short presentation on their economies. Many of them were very open and pointed out serious problems which are not solved yet. Many of the problems were quite simple, such as the lack of a co-operative structure, the lack of support from official authorities, the lack of trust from members, the lack of a strong national co-operative organisation and the lack of money to put the right structure into place.

Even these apparently simple matters are not as easy to tackle as they appear, because there is little or no experience to build upon.

On the other hand there were very good presentations from international organisations, regional organisations and personal experience from experts.

These interventions were inspiring and the discussions that followed showed that the cases brought forward were valid in Eastern as well as in Western countries.

The examples also showed that a lot of results can be achieved if there is a common goal and will. It is a long ongoing process and even the most advanced countries and co-operative movements always have problems to deal with even if they are more advanced.

The participants concluded by agreeing that it was very helpful to listen to other countries' activities and problems as it demonstrated that they have much in common. Discussing things together gave hope to participants, and new ideas on how to go about tackling their problems in their home countries.

It was a widely held opinion that workshops like this will be needed also in the future.



It was recommended that the participating countries maintain bilateral contacts in the future.

In addition, it was recommended to keep close links with ICA Europe, ICAO and COGECA. These organisations will do their utmost, in their given capacities, to help. Other organisations are also willing to assist.

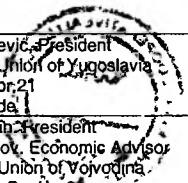
It was recommended that countries seek assistance and financial support from the programmes existing in Europe, such as PHARE programmes for instance, and that the organisations represented here maintain good relations with the programmes and be willing to give guidance to those co-operative organisations which request it.

*Promotion of rural development through agricultural co-operatives*

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International Co-operative Alliance

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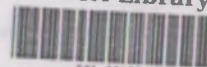




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