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## CHAPTER VI

# AGRICULTURAL COOPERATIVE STRUCTURES IN THE PERSPECTIVE THE NEW CAP IN ROMANIA 2014-2020

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### ABSTRACT

In the current period, there are a number of structural changes in the Western agribusiness, in all its components, dominated by increased retail sales of food, increasing quantities of food at the expense of traditional industrial supply system effects, storage and transport.

Food system evolves subject to factors such as quality of agricultural production, its level of intensity, rural development, environment and food safety issues.

The current food system relies on proper functioning, organization and size of family farms. Even though the average size of family farms is increasing, concerns are growing larger on weakening their market power phasing out of non-agricultural components of the agri-food sector.<sup>78</sup> Hence, the results tend to self-sufficiency of the family farms and constraints on their ability to achieve large. Even if technological advances allow volume expansion of manufacturing activities that can be performed by a family, the need to preserve family organization prevents structural changes in the system.

Growing gap between the size of family farms upstream and downstream trading partners dictate the expanding need for inter-sectoral coordination in the agri-food sector and therefore improves the potential role that can be played by cooperatives.

However, coordination in the agri-food sector can be achieved by means of both cooperative and non-cooperation: market contracts, specifications, production management contracts, insurance resource providing contracts, pricing, marketing channels, and agricultural cooperatives.

On the other hand, agricultural cooperatives are exposed to more intense competition and capital requirements are increasing. To take full advantage of this power, they need to adopt organizational strategies that allow them to be flexible and respond to members' needs, while ensuring access to needed capital. These strategies often can lead to the emergence of new patterns of cooperation that look increasingly different from traditional patterns of cooperation and increasingly investors like companies.

**KEY WORDS:** agricultural cooperatives, agri-food sector, farms, product chain

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<sup>78</sup> Heffernan, W. (1999): *Consolidation in the Food and Agriculture System*, Report to the National Farmers Union

## **INTRODUCTION**

In this paper we want to achieve in terms of development of Romanian agri-food sector, from the role of family farms, their potential association and cooperation in 2014-2020.

Common Agricultural Policy by the European Agricultural Fund for Rural Development (EAFRD), the European Regional Development Fund (ERDF) and European Social Fund (ESF), to take steps to encourage economic diversification in rural areas and improve the quality of rural life .

Important reforms of the CAP occurred in recent years especially in 2003 and 2008 were applied in order to make the agricultural sector more market-oriented. The 2003 reform introduced a new system of direct payments, known as the Single Payment Scheme, the aid was not linked to production (decoupling) and the single payment scheme intended to guarantee farmers more stable incomes. Farmers could decide what to produce allowing them to adapt production to demand.

In 2008, they made changes to the CAP, based on the 2003 reform package, so any help would be decoupled agricultural sector by 2012. European Commission presented a Communication on “The CAP towards 2020 the food, natural resources and territorial challenges of the future” which present options for the future CAP, in consultation with other European institutions and stakeholders. This was followed in October 2011 by a set of legislative proposals relating to: direct payments and rural development support, aids and refunds; support to vine, the common organization of agricultural markets and financing, management and monitoring of the CAP. These proposals are designed to ensure that CAP is effective in ensuring a competitive and sustainable agricultural sector, while encouraging the vitality of rural areas, this latest series of reforms to be in place by early 2014.

The starting point of our research approach is to assess the impact of the implementation of measures financed by the RDP 2007-2013 the economic dimensions of farms and their potential for development in the next period.

In the period 2007-2013, the National Rural Development Programme included a measure of potential success, as shown by the number of contracts is measured 112 “Setting up of young farmers”. Total volume of investments was 38,042.501 thousand Euro, which represents 9.41% of the target of 404,256.166 thousand Euro and payments were worth thousands Euro 66,827.489 (61,994.874 thousand euros represents payments EAFRD) representing 20.14% of the allocation. By the end of 2012 were held seven sessions during which the submission of projects was submitted 22,494 public projects worth 630,074.066 thousand euros. Of the 22,494 submitted projects were selected following the Selection Committee meeting 13,446 projects, of which 12,719 were contracted projects (number reflects contracts remaining operating system due to canceled contracts) and 94.5% of the RDP target of 13,631 projects with a total investment volume of EUR 223,252.600 thousand euros

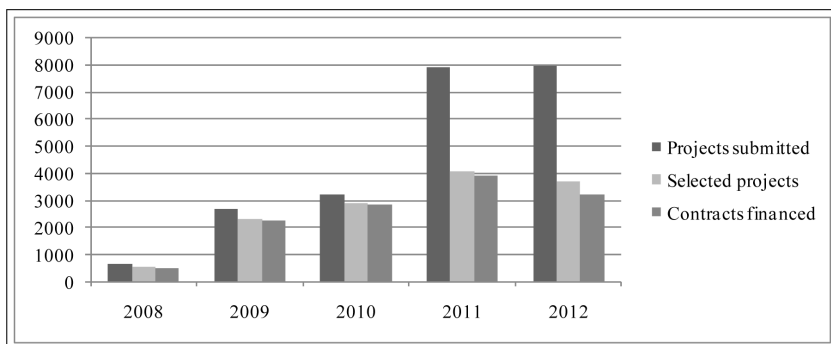
(55% of the RDP target of 404,256.166 thousand Euro). The graph and table below presents the projects submitted and funded as 112 in 2008-2012.

**Table 6.1.** Status of projects funded by the RDP session deposited in 2013

Measure	Projects submitted		Selected projects		Contract/Grant Decision concluded		Payments
	No.	Public value (EUR)	No.	Public Value (EUR)	No.	Public value (EUR)	Public Value (EUR)
<b>112</b>	22,494	630,074,066	13,446	339,118,514	12,719	317,686,035	223,252,618
<b>121</b>	8154	3,008,189,083	2,378	971,622,667	1,955	726,186,945	463,514,442

*Source:* Ministry of Agriculture and Rural Development, Status of projects submitted by RDP.

**Figure 6.1.** Evolution of the projects submitted and funded as 112, 2008-2012.



*Source:* Ministry of Agriculture and Rural Development, Status of projects submitted by RDP

The ultimate objective of this measure, improve and increase the competitiveness of the agricultural sector by helping young people and supporting the modernization and compliance with the requirements for environmental protection, hygiene and animal welfare, workplace safety, and improving farm management by renewing generation their heads without increasing the active population employed in agriculture.

Family farms established by 112, the farmer has complete knowledge of technology, management and marketing, which it constantly refreshes the purpose of engaging in activities complete, competitive and profitable.

The young farmer (are encouraged women under 40 years) can engage employees in peak periods of the year (e.g. field work). If the size is larger farm

may employ 1-2 employees, (e.g. works with low-tech, which requires a great deal of work and managing transport feed or manure volume).

Farmer is mandatory member of professional associations and part of the structure of one or of several cooperatives, which provide its upstream factors producției animal and its capitalization. In these circumstances the farmer remains the absolute owner of his means of production (land, livestock, farm machinery and equipment) and the products of his labor. The size of their holdings (greater than that of semi-subsistence) and age-specific dynamic, young farmers install new holdings can follow both individual market integration path, or become members of producer groups.

To note here is how a firm founded by 112 could be achieved effectively increased economic dimensions to develop power in a market increasingly uncertain.

An important consequence is that the resulting family farms size production units in agriculture are limited by the size of the family.

This limitation derives directly from the difficulties mentioned above, the supervision and monitoring as minimizing the use of hired farm labor in farm size implies a constraint that can be controlled by a family. It is therefore known family farms tend to perform an activity in small, leading to a weak underlying hierarchical organization of agriculture.<sup>79</sup>

Interesting here how they could achieve the organization of work, any constraints on the social division of family agriculture.

This reasoning is based on the inability of the organization to reduce the cost of family labor supervisory employee who is particularly acute in agriculture, for the following reasons:

1) Workers activities, technological reasons, can not be controlled and therefore can not be effectively monitored,

2) Production results are inherently uncertain due to unpredictable natural phenomenon, and therefore are not clearly related to the efforts of the workers, which mean that they can not be held accountable for their work.

The overall objective of Measure 121 “Modernization of agricultural holdings”, aimed at increasing the competitiveness of the agricultural sector through a better use of human resources and production factors. Within Those measures were supported investment in machinery and equipment performance against current agricultural structure and agricultural buildings adapting investments to meet EU standards and competitiveness of agricultural holdings. During the reporting period (year 2012), 284 projects were contracted (number reflects contractile remaining operating system due to canceled contracts) and 0.64% compared to the target of 44,458 projects.

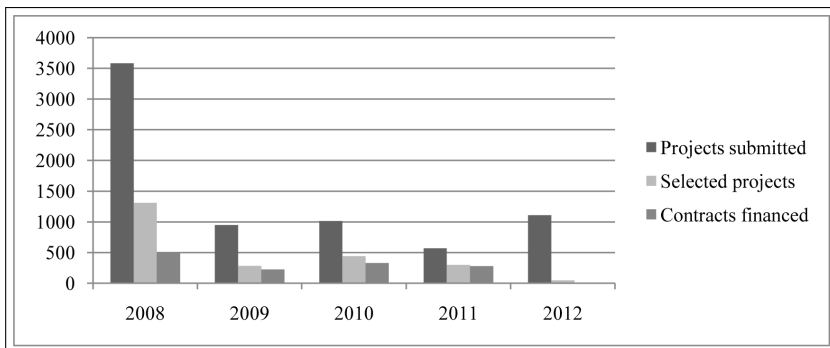
The value of contracted projects is 130,026.535 thousand euros, representing 11.31% of the amount allocated. Total volume of investments is 328,923.541

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<sup>79</sup> Johnson, N., Ruttan, V. (1994): *Why Does Farms So Small?*, World Development, vol. 22(5), pp. 691-706

thousand euros, representing 15.02% of the target of 2,190,191.612 thousand Euro and payments were made worth 83,659.897 thousand Euro (76,412.077 thousand Euro EAFRD), representing 7.28% of the allocation.

**Figure 6.2.** Evolution of the projects submitted and funded as 121, in the period 2008-2012.



*Source:* Ministry of Agriculture and Rural Development, Status of projects submitted by National Rural Development Program

In the period 2008-2013, of the 7,224 projects submitted were selected following the Selection Committee meeting 2,378 projects, of which 2,012 were contracted projects (number reflects contracts remaining operating system due to canceled contracts) and 4.53% of the National Rural Development Program target of 44,458 projects with a total investment volume of 1,866,877.630 thousand Euro (85.24% of the National Rural Development Program target of 2,190,191.612 thousand Euro) and contracted with a public 766,497.796 thousand euros.

By the 2012 approved projects were supported:

- 144 semi-subsistence farms, that which represents 0.69% of the target set in the National Rural Development Program. In the economic crisis, difficult access to credit for small farmers caused a few semi-subsistence farms that have received support to access measure 121, although since 2011 for 141 beneficiaries of the measure that aims to achieve investment through measure 121 was approved a separate allocation);
- 1,783 holdings of members associative forms, representing 26.73% of the 6,670 target set in National Rural Development Program holdings;
- 81 holdings of associative forms, representing 12.09% of the target of 670 set in National Rural Development Program holdings;
- 239 farms that produce and use renewable energy which is 53.71% of the RDP target of 445 farms.

This negative phenomena can be explained in the context of economic and financial difficulties in which is found the national economy, especially agriculture productive. To initiate and develop investments that contribute to employment and economic resources and material exploitation of the rural area, a number of local farmers face real difficulties in accessing both, but especially the exposure refund / credit conducted. Rising costs charged by financial institutions for credit and collateral value diminishing due to these loans, customers are placed in extreme difficulty, that anticipated funding required to repay or to bring additional guarantees to the initial continued funding support and run.

Moreover, priority funding had other economic sectors at the expense of agriculture, coupled with the decrease mistrust in lending to agriculture.

Since the absorption of European funds depends heavily on expanding number of potential beneficiaries by making a large number of semi-subsistence farms into productive farms-commercial nature, by:

- boost crop production and animal
- by supporting micro-level entrepreneurs with financing projects for both the investment and support for the current business expenses costs;
- measures to encourage and support the acquisition of agricultural land for the growth of land run / farm, is necessary to extend and supplement sources of funding, especially for start-ups and family farms, with appropriate credit instruments is required for current business and startup investment microfarm activities.

Also, given that the private beneficiaries of unfunded investment loans from National Rural Development Program can benefit from guarantees for guarantee funds governed by the laws in force, and may not use such financing solutions on the Romanian market offered by credit institutions are required legislative amendments to ensure adequate national funds schemes being implemented.

Given the negative consequences that may arise if the situation described would lead not regulate the maintenance of large and important agricultural land fallow, agricultural production for self-consumption of cantitativși poor quality, unable to generate sustainable income for the modernization of rural areas would yield a high rate of unemployment and non-collection of huge sums of money with which operators / viable economic agents could contribute decisively to the consolidated budget. We believe that an immediate priority support given to farmers susținereași its monitoring programs specific financial and economic projects, created and supported nationally by the concern of state institutions that aim to eliminate tax evasion in the agricultural field for producers and traders , pursuing sound growth and fair local producers.

*Understanding cooperative business culture is a prerequisite for the formation of a cooperative start-up success depends on understanding cooperative values and principles that will make the company different from other companies. Forming a cooperative should not depend on the knowledge of a*

*few individuals. The training process should involve cooperative education of all stakeholders to ensure that co-operative values and principles are truly understood.*

*The educational process should cover also the mutual obligations of members and co-operative. After forming the cooperative, a continuing education program, cooperation could develop and understanding, acceptance values, principles by new members, managers and employees. Without such a plan, the cooperative identity will remain only with those who have formed.*

In Romania, the National Rural Development Programme (RDP) in 2007-2013 included two measures with a direct effect on restructuring and consolidation of holdings, the proposed European regulation for rural development in an attempt to speed up structural transformation of agriculture of the new Member States (adhering after 2004).

It is transitional measures 141 “Support for semi-subsistence farms” and 142 “Setting up of producer groups”, designed to accelerate the integration of the market for smaller farms, resulting from the restructuring of the agricultural sector in former socialist countries.

By far 141 subsistence farms were supported to restructure individual, based on a development plan that requires better market integration, as long as the measure 142 are granted for a collective activity of market integration through joint marketing products. The two paths of evolution can remain separate, but can also combine: theory, it is desirable that the beneficiaries of support for semi-subsistence farms to be members of a producer group, thus increasing the chances of a stable presence in the market.

During the reporting period (year 2012) 13,525 projects were contracted 17.76% respectively compared with the target of RDP 76,172 projects. Public value of contracted projects is 101,437.500 thousand euros, representing 21.65% of the amount allocated. Payments were made representing 12.03% of the allocation.

Of the 88,846 submitted projects were selected 48,512 projects, of which 46,958 were contracted projects (number reflects funding decisions were made after funding decisions have stopped for various reasons and for which payments were factuat) or 61.65% of the target RDP 76,172 projects and public value of 353,282.959 thousand euros.

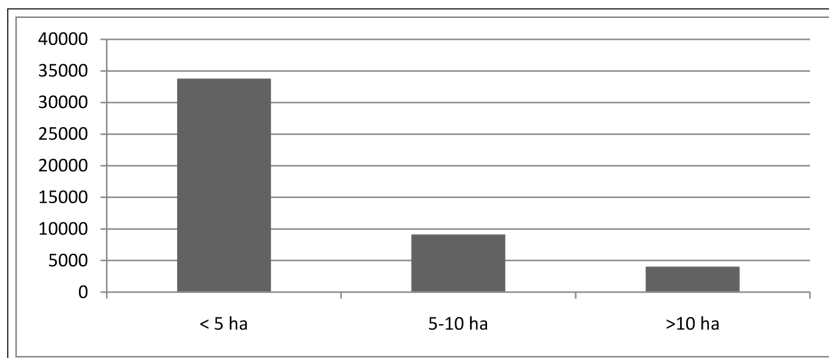
Regarding the distribution of approved projects by the physical size of the holding, the situation is as follows:

- holds the largest share category "Size <5 ha" (71.97% of all projects approved for this measure) with 33,797 approved projects and public value of 254,299.500 thousand Euro;
- Category "5 ha ≤ size <10 ha" accounts for 19.46% of all projects approved for this measure, with 9,140 approved projects and public value of 68,680.459 thousand Euro;



- Category "size  $\geq 10$  ha" accounts for 8.56% of all projects approved for this measure, with 4,021 approved projects and public value 30,303.000 thousand Euro.

**Figure 6.3.** Distribution abroadate projects as 141, according to farm size.



*Source:* Ministry of Agriculture and Rural Development, Status of projects submitted by RDP

This positive intention of the authorities implemented by defining the mechanism of selection of beneficiaries of the measure 141, had generally beneficial effects in practice (many beneficiaries are members of associative forms), but below expectations in terms of quality. Today, most associations are professional representation and not commercial. If the measure 142, where there is no selection procedure is provided explicitly that both members and group projects may submit other measures.

The Measure 141 “Support for semi-subsistence farms” is supported farms whose production is primarily intended for their own consumption and also market some production, the restructuring of production in the sense of greater market integration.

Given the farm structure survey data from 2007, in Romania this would be very required. If the total of 3.9 million agricultural holdings registered in Romania in 2007 (farm structure survey), exclude the approximately three million subsistence farms considered strictly by Eurostat (farms with an economic size of less than 1 ESU) remain of interest to agricultural policies 866000 holdings. Of these, however, 63% producing mainly for own consumption and 35% producing mainly for direct sales (which usually are not recorded), which means that selling mainly formalized (the bill) is practiced only about 2% of holdings of more than 1 ESU (generally those with legal personality).

*In Romania, remains relevant difficulty finding a viable formula for the implementation of Measure 141, which would have long-term positive effects,*

*namely the obligation to register as sole beneficiaries (PFA). It is clear that this recording opportunity with invoices proving marketed production growth, but the commercial behavior of these farms, PFA (minority all small farms) are in contradiction with mainstream practices (sometimes imposed by intermediaries) and support 1,500 Euro per year could not offset the difficulties they may face in marketing freelancers production.*

However, it remains far claimed 141: number of beneficiaries increased from about 16,000 in late 2010 to about 46,000 in June 2012. Among the beneficiaries of 2010, 76% were holdings under 5 ha, 15% of farms between 5 and 10 ha, and 9% holdings over 10 ha, and hence there is an interest of small farms to market integration, and with this and to strengthen the farm.

Since the association of agricultural production has remained somewhat limited to the consolidation of entities created in the early '90s (General Agricultural Census of 2010 recorded 1,390 farms yet organized as corporations or agricultural associations, operating a total of about 550,000 ha), attempts concentration of supply by producers association for joint marketing production continued with the support of the SAPARD program and continue with the measure 142 RDP.

The general objective of the measure 142 "Setting up producer groups" aimed at increasing the competitiveness of primary agricultural and forestry by developing a balanced relationship between producers and the processing and marketing sectors and adapting production in terms of quality and quantity to the consumers.

Setting up producer groups, their organization and operation, aims lead to adaptation of production to market requirements, ensuring joint marketing of products, including preparation for sale, centralization of sales and wholesale distribution of products, adding value to the common output and better economic management of resources and results, establishing common rules regarding information on production, particularly with respect to quantity, quality and type of offer, paying special attention to products obtained in adequate quantities for manufacturing and marketing network.<sup>80</sup>

The results are still below expectations, and understanding the causes that hinder the development of producer groups can help the new rural development program for 2014-2020.

At the end of 2010 were backed up by 142 only 14 producer groups, with 801 members, specialized (6 units on field crops, dairy 4 by 2, the grazing animals and two groups on broiler. By the end of 2011 the situation was stationary only 16 groups of producers were benefiting from the measure 142, but in 2012 several groups have made efforts to benefit from the support provided by this measure (in June 2012 had signed contracts funding 35 producer groups).

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<sup>80</sup> Zugravu, A., Turek, M. (2013): *Rural economic development*, Lambert Academic Publishing

*Because of this situation can be explained in the context of current business practices, where small producers generally produce for own consumption and sell their small surplus directly to the farm gate or in peasant markets, using certified manufacturer (exempt from VAT), while producer groups must pay tax, which discourages associative forms.*

Moreover, the latter also face unfair competition from imports market, quantities and prices at which goods are brought from abroad charges are often underestimated. On the other hand, modern distribution networks prefer to work with medium and large producers are able to satisfy the requirements of the specifications, especially on product quality and delivery deadlines.

*In 2010, most countries more than half of farm managers have only practical experience. In 2010, the largest share of the farm manager only has practical experience (97%) was in Romania.*

Training is a training measure or activity provided by a trainer or a training institution that aims primarily to acquire new skills related to farming or farm-related activities directly saudezvoltarea and improvement of existing ones.

Support under measure 111, differs significantly between Member States, the participant ranges from less than 50 Euro in Luxembourg and Estonia more than Euro 2,500 in Finland.

Vocational courses are usually clearly separated from active work. They show a high degree of organization (time, space and content) of a trainer or a training institution. The content is designed for a group of students (for example, a curriculum any).

In Romania, the implementation of the measure 111 Training can be explained by contextual and institutional reasons that may have an influence on the different level of support for rural development. First agricultural context and specific needs (age and education level of farmers, agricultural intensity, productivity and land). Secondly the need to improve environmental skills of farmers and other operators can be met by the national / regional specific.

A farm structure survey data shows that the share of farm only practical experience decreases when increasing the size of holding: in 2010, 88% of managers of small farms had only practical experience this share was 26% for large farms.

Full agricultural training in relation to farm size shows that: the ratio of farm with the highest level of training full agricultural training was only 4% in small farms and 34% on large farms. For most European countries, the share of farm practical experience increases from younger generations to older generations, while the share of farm full level of training similar decreases.

*The share of farm with the highest level of comprehensive training falls to the younger generations to older generations of heads of farms in Europe, promising a higher proportion of large farm managers educated in the near future. The share of EU farm managers – 28 (except Italy) with only practical experience is between 72% and 75% for generations under 35, 35-44 and 45-*

54 years, while this percentage is 80% for the 55-64 generation and 94% for the generation of 65.

The share of farm basic training as the highest level is higher for generation 45-54 years, with 17% less for the generation of 65 to 5%. In most countries, the share of farm full agricultural training decreases with age classes of farm manager.

Training, information and advice to farmers and other actors working in rural areas are important instruments foreseen in the EU rural development policy for the period 2007-2013 to achieve policy objectives. Evolution and specialization of agriculture requires, in fact, an appropriate level of technical and economic training, including expertise in new information technologies, appropriate raising product quality, results of research and sustainable management of natural resources, including the requirements for eco-compliance and application of production practices compatible with the maintenance and enhancement of the landscape and environment.

Use of advisory services by farmers would also allow, and to help improve the sustainable management of their farms and adapt, improve and facilitate the overall performance of holdings by strengthening the human potential in agriculture and forestry.<sup>81</sup>

The great diversity of implementation between rural development programs shows that joint administration of rural development measures and allows adaptation to the different conditions of EU agricultural and direction of the main issues of interest.<sup>82</sup>

## **PROSPECTS FOR RURAL AREAS IN ROMANIA**

After accession Romania has crossed the stage where competition has forced local businesses to adapt to new standards of efficiency and quality, or to leave the market. The international financial crisis has left its mark on Romania, since the minimum values of GDP / capita, which show a large discrepancy compared to the European average. Thus, if in 2001 was only about 6.000 euros (compared to a European average of 20.000 euros) reach 2010 11.400 euros compared with 24,400 euros in EU-27, i.e. a jump from 29% to almost 46%, although Romania is still the second lowest in the EU (after Bulgaria), this indicator.

If the early 2000s agriculture's contribution to GDP (gross value added of agriculture, forestry and fisheries in the total gross value added) was almost 15%, its evolution are currently on a downward curve for the first time down under 10 % in 2005 and reaching a low of 6.5% in 2010. Although we

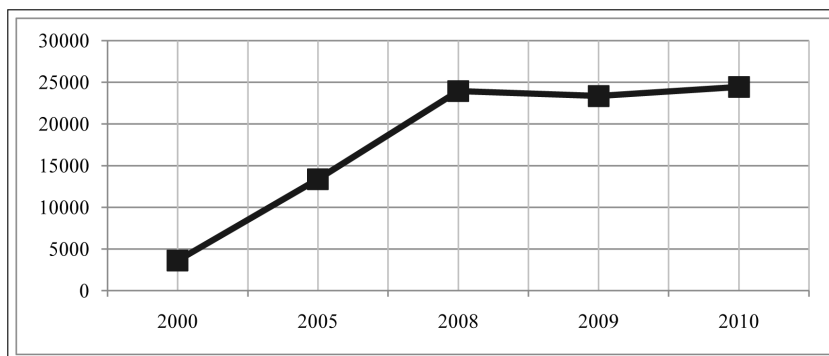
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<sup>81</sup> Giurca, D., Luca, L. (2012): *Strengthening farm*, Publishing House, ISBN 978-973-709-624-1.

<sup>82</sup> Turek, M., Zugravu ,A. (2013): *Agricultural cooperatives in rural development in Romania*, Lambert Academic Publishing

talk about convergence here, the share of agriculture is still double the average former communist countries that joined the EU in 2003 (NMS-8, including Poland and Hungary recorded 3.5% contribution of agriculture to the economy in 2010) and even three times higher than the European average EU-27 (1.7%).

**Figure 6.4.** Evolution of GDP / capita in Romania, in the period 2000-2010.



Source: NIS, TEMPO database.

At the same time, it is obvious that a major difficulty aspirations convergence in terms of income workforce remains in agriculture, more oversized compared to EU standards. Although located in a mitigation process, employment in agriculture and forestry in 2010 represent approximately 19% of the total workforce, a huge gap to the EU-27 (4.7%) and even to the new Member States (e.g. Poland 10.1%, Hungary 5.5%, Bulgaria 14.7%), not to mention countries such as France (2.6%), the UK (1.9%) and Germany (1.8%)

**Table 6.2.** Distribution of the average resident people in Romania between 2000-2012 (thousand persons)

Equality	Area of residence	Year				
		2000	2005	2010	2011	2012
<b>Male</b>	Urban	5938	5704	5644	5617	5594
	Rural	5042	4857	4807	4806	4800
<b>Female</b>	Urban	6359	6197	6174	6160	6143
	Rural	5116	4999	4837	4830	4818

Source: www.insse.ro

The large number of people working in agricultural activities is a first indication of low levels of labor productivity and disguised unemployment in the sector.

For comparison, in 2001, the share of those working in agriculture and forestry in the civilian population of working age was 9.7% in Bulgaria, 6.1% in Hungary, 19% in Poland, and the average for the whole NMS-8 have value 14%, while in the old members indicator was 4%. At the opposite pole is Romania (44.4%). Closing the gap and close to the average (about stagnant) old members were quickly made in the decade that followed, so that the farming population in 2010 to reach 9% in NMS-8.

*The meaning of agricultural cooperatives* – Social division of labor is based on the delegation of activities to specialized suppliers, and this delegation is opposed by the impossibility of adequate supervision of hired labor and the need to preserve the autonomy and independence of farmers. Constrained social division of labor is manifested in two ways, each of which provides incentives for family farms to provide business services through cooperative organizations.

The first disadvantage of small size family farms is unable to achieve external economies of scale discussed in the previous section. Although, according to Johnson and Ruttan (1994),<sup>83</sup> agricultural cooperatives, these savings could arise from cash savings or political distortions, they constitute a real source of reducing production costs and improving market access. However, these savings is limited by the size of the farm, which can be efficiently managed by a family, a family size that can be reached, and the need to coordinate parceled units represented by producers – owners. The second disadvantage is the fact that companies positions upstream and downstream of production fragmentation and farmers do not face difficulties in monitoring and surveillance characteristic agriculture. They are usually organized hierarchically.

Therefore, the upstream and downstream firms have significantly larger dimensions than individual family farms. Historically, this has led to family farms tend to present a more competitive industry structure than the upstream and downstream firms in the agro – food, were placed at a disadvantage in terms of increasing their ability to negotiate up – and downstream trading partners, on an equitable basis.

Competition between farmers can exert extreme downward pressure on prices, which may require individual owners to sell their land. Moreover, the disadvantage farmer is not only the danger of monopoly rates of up and downstream companies, but also in their lower ability to combat opportunistic behavior from these companies. As indicated by Hansmann (1996),<sup>84</sup> farmers face significant risks of their trading partners exercising opportunistic expo-

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<sup>83</sup> Johnson, N., Ruttan, V. (1994): *Why Does Farms So Small?*, World Development, vol. 22(5), pp. 691-706

<sup>84</sup> Hansmann, H. (1996): *The Ownership of Enterprise*, Cambridge: The Belknap Press of Harvard University Press

priation of quasi-rents on their specific assets. The only alternative that is compatible with both small independent retention ownership and adequate economies of scale and market potential for survival is creating collective forms of government represented by agricultural cooperatives.

As suggested by the theory of social division of labor, agricultural cooperatives purpose is to allow the self – supply of goods and services economic actors whose delivery is excluded by constraints on the social division of labor. As the above discussion has shown, specific agricultural constraints on the social division of labor result in the dominant role of family agriculture suffering from reduced capacity to perform large scale business and reduced market power. The first disadvantage of family farms, their inability to capture external economies of scale, is overcome by cooperative machines, specialized cooperatives, credit unions, and a variety of rural cooperatives that provide benefits to rural households.

Such cooperatives are an extension of individual family farms, making it possible to combine the advantages of organizing family savings in large-scale production of goods and services required. The second disadvantage of family farms, reduced market power compared to their trading partners upstream and downstream. These cooperatives also fail to capture the economies of scale of business organization maintaining economic and legal independence of their members (which of course must fulfill their obligations to their cooperatives).

The previous discussion suggested that the cooperative economic organization of agriculture is closely linked to family farms. This means that, as long as family farms continue their existence as players in the agri-food cooperatives are required to keep their core role.<sup>85</sup>

However, in order to achieve this, cooperatives may use a very diverse range of organizational strategies. The choice of specific strategies is crucial to the ongoing processes of structural change dramatically transform the organizational structure of agri-food of western countries.

In the 1980s, West European cooperatives have entered a new era of business environment unusually difficult and hostile continues to the present era. Major challenges facing stiff competition cooperatives then include strong food and agricultural conglomerate nature and lack of funding caused by deterioration of the capital markets. These challenges are found a number of internal constraints, which became known as property rights issues, also known incentive problems of agricultural cooperatives.<sup>86</sup>

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<sup>85</sup> Valentinov, V. (2007): *Why are Cooperatives Important in Agriculture? An Organizational Economics Perspective*, Journal of Institutional Economics, vol. 3(1), pp. 55-69.

<sup>86</sup> Cook, M. L. (1995): *The Future of U.S. Agricultural Cooperatives: A Neo-Institutional Approach*, American Journal of Agricultural Economics, vol. 77(5), pp. 1153-1159

Because of these problems, agricultural cooperatives members are discouraged to invest in significant capital<sup>87</sup> and were unable to take effective collective decision.<sup>88</sup>

These problems have led to many conversions of cooperation oriented investors and experimenting with new models of cooperation. Chaddad and Cook (2004)<sup>89</sup> organized these models have limited traditional cooperation, on the one hand and cooperation oriented investor on the other hand.

The authors argue that cooperation models can be distinguished by the way in which property rights are defined and assigned to the key stakeholders of the company. Between the polar forms of traditional agricultural cooperatives and investor-oriented firm, this identifies five nontraditional models of cooperation: proportional investment cooperative, cooperative investors States, we co-generation cooperatives with people seeking capital, and co-investor.<sup>90</sup> A number of issues raised famous economists in the establishment and functioning of cooperatives.

*Property rights issues in agricultural cooperatives* – A situation in which existing members or non-members can use as a resource for their individual benefit, and property rights are not well established in a way that foster to bear the full costs of their actions and / or receive all the benefits generates. This situation is typical for cooperative members, open. A situation in which a member's residual net income generated by an asset is less than the length of productive life of the asset

*Time horizon problem* – Occurs with a long-term investment, there is a disincentive for members of the cooperative, but shows revenue growth opportunities. This problem is particularly severe in terms of investment in research and development, advertising and other intangible assets.

*Problem portfolios* – A situation in which cooperative members, the lack of transferability, liquidity, and assessment mechanisms for the exchange of residual claims are not able to adjust their asset portfolio to suit the cooperation of their personal risk preferences. In cooperative investment decision is “tied”

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<sup>87</sup> Cook, M. L., Iliopoulos, C. (2000): *Ill-Defined Property Rights in Collective Action: The Case of US Agricultural Cooperatives*, in C. Menard (ed.) *Institutions, Contracts and Organizations: Perspectives from New Institutional Economics*, pp. 335-348, London, UK: Edward Elgar Publishing.

<sup>88</sup> Iliopoulos, C., Hendrikse, G. W. J. (2009): *Influence Costs in Agribusiness Cooperatives: Evidence from Case Studies*, *International Studies of Management and Organization*, vol. 39(4), pp. 60-80.

<sup>89</sup> Chaddad, F., Cook, M. (2004): *Understanding New Cooperative Models: An Ownership-Control Rights typology*, *Review of Agricultural Economics*, vol. 26(3), pp. 348-360.

<sup>90</sup> Valentinov, V. (2009): *Third Sector Organizations in Rural Development: a Transaction Cost Perspective*, *Agricultural and Food Science*, vol. 18(1), pp. 3-15.



to the decision of patronage and therefore the investment point of view, member's suboptimal portfolios. As a result, members try to encourage cooperation makers to rearrange the cooperative investment portfolio, even if risk reduction means lower expected returns.

*Control problem* – A case of divergence of interests between the membership and the board of directors and management. If the information provided and external pressures exerted on the capital market are presented in the cooperative and members on the Board of Directors may have/or experience in exercising effective control function, the cooperative works with a disability.

*Influence costs problem* – A situation in which members seek to influence the collective decisions to their advantage. Assets in all cooperatives are not transferable or tradable, members of the cooperative can not escape, remain with their option especially if decisions are taken collectively cooperatives.<sup>91</sup>

Parasitism derives from the appearance and manifestation of all the problems mentioned above. New Generation Cooperatives are closed membership cooperative that usually does not vary the number of members, but delivery rights are inter-changeable. In addition, the interrelation member – owners to acquire rights-based delivery expected patronage.

Given these basic rules, you can create a secondary market delivery rights sold to new members, following approval by the cooperative. Delivery of the product itself is regulated by complex marketing contracts, which include also the evaluation of product quality.

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