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## European Cooperative Movement – Background and Common Denominators.

Jarka Chloupkova

# European Cooperative Movement – Background and common denominators

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## Abstract

Influenced by the legacy of command economies, the recent agricultural cooperation in Central and Eastern Europe is, compared to EU countries, marked by a different pattern. Based on simplified ownership incentive approach, this paper distinguishes between the fundamental features of communist, post-communist and democratic cooperatives. While in most Central and Eastern Europe there are more production cooperatives than marketing / supplying (secondary) cooperatives, in EU countries the ratio is reversed in favour of the secondary cooperatives. The more common utilisation of secondary cooperatives that enable a vertical integration might be one of many reasons for more competitive agricultural sector in the EU. Based on circumstantial historical evidence, and the influence of internal and external factors, this paper identifies three common steps that form pre-requisites to a successful cooperative development. The paper closes with noting that these three steps might not be directly applicable to the CEEC situation.

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This working paper presents a collection of material for understanding a range of cooperative related issues and subsequently the base for paper entitled as: “Will post-communist cooperatives work?: Social capital dynamics and the performance of cooperatives”.

## 1. Introduction

In general, cooperation constitutes a natural part of people's culture that enhances an economic and social life of rural areas. Sociologists have known this fact for almost a century, and recently also economists have begun to take an interest in this topic. Although the social sciences still lack a consensus on how to quantify cooperation, several studies have found significant links between social indicators and economic growth (Knack and Keefer; 1997, Temple; 1998; Zak and Knack; 2001). The meaning of the word "cooperation" can be explained either in a broad term or more specifically, relating to the precise definition of cooperatives, which is introduced in box 1, on page 3.

The existence of cooperatives in the agricultural sector is induced by a number of biologically related conditions that imply greater uncertainty. Moreover, a farmer is always "small" in comparison with his trading partners. Driven by this economic force for survival, by joining together farmers tend to achieve a greater bargaining strength, which is indeed one of the main reasons why they form cooperatives.

The historical as well as recent experiences show that in some countries and some sectors cooperatives play a key role. Based on these favourable experiences and the fact that cooperatives have been called "schools for democracy", Hillbom (1998) states "there are correlations between progress towards democracy, moves towards a market economy and economic growth". As implied by this notion, Hillbom (1998) proclaims that cooperatives could play a major role in the process of EU enlargement.

The paper utilises a simple framework, depicting the need for a homogenous objective within the cooperative. With this framework, it is easier to capture some of the differences between production (primary) cooperatives and the farmer-owned marketing or supplying (secondary) cooperatives. The paper then examines the status quo of cooperative development in the countries of Central and Eastern Europe (CEEC). The main objective of this paper is to find common patterns leading to the success of cooperatives, and therefore the paper closely examines the cooperative development in various EU countries.

The paper is structured in the following order. After the theoretical background and approaches to cooperation, the practical reasons for banding together are elaborated. This section is followed by description of cooperative culture and political environs. Experiences from cooperatives operating worldwide are followed by the recent cooperative experience in Central and Eastern Europe. The issue of credit is elaborated as a separate section. Then, a considerable attention is given to examples of cooperative movements in the existing EU countries. Based on the country examples, the paper identifies the common denominators for setting up cooperatives, and the paper terminates in conclusions.

## 2. Theoretical framework

Cooperation in general terms determines the extent to which economies of scale and scope are exploited and the degree to which complementarities are recognised, exploited and utilised (Harris; 1998). Standard neoclassical economists suggest that economic agents will co-ordinate their actions and engage in industry development activities whenever the benefits from doing so outweigh the costs. Under the neoclassical model, there is little room for external agents to facilitate industry development. Assuming, there is an absence of externalities, then the market handles this most efficiently (*ceteris paribus*).

Despite the potential net gains, there are individuals and firms that are not able to co-ordinate their activities to take advantage of the gains. There are many reasons for this: Chloupková and Bjørnskov (2002a) mention the lack of social capital, Fulton (2001) points to the leadership problem, etc.<sup>1</sup> Whatever the roots of the problem are, one feature seems to be common - when information is costly to obtain, the information processing capabilities of participants limited, the peer-assessing mechanism hampered, individual participants will be tempted to act strategically and to try and obtain a bigger share of the “pie” for them. The following box defines an optimal cooperation.

### **Box 1: Definition of cooperation process and cooperatives**

*Cooperation can be defined as working or acting together for a common purpose or benefit (Webster's College Dictionary; 1991, p. 300). In essence, cooperation represents the process of interaction between (i) cooperatively committed members, employees and leaders and their expectations for the future, (ii) cooperative values inherited from the past and expressed in principles, programmes, statues, books, education material, etc, (iii) practical cooperative applications, structures, methods of activity, education, etc. also inherited from the past, and (iv) the environment of cooperatives, e.g. the government, the institutional structures of the society at large, the economic system, the values in the community, etc. (ICA; 1998)*

*According to the International Cooperative Alliance (ICA), a cooperative can be defined as a group of people who join together in a common undertaking in accord with the six principles that are as follows:*

- (i) Membership is open and voluntary.*
- (ii) There is democratic control, usually on the basis of one man, one vote.*
- (iii) Interest on share capital is limited.*
- (iv) Distribution of surplus proportionally, according to the level of transactions*
- (v) Cooperatives devote some part of their surpluses to education.*
- (vi) Cooperatives cooperate among themselves.*

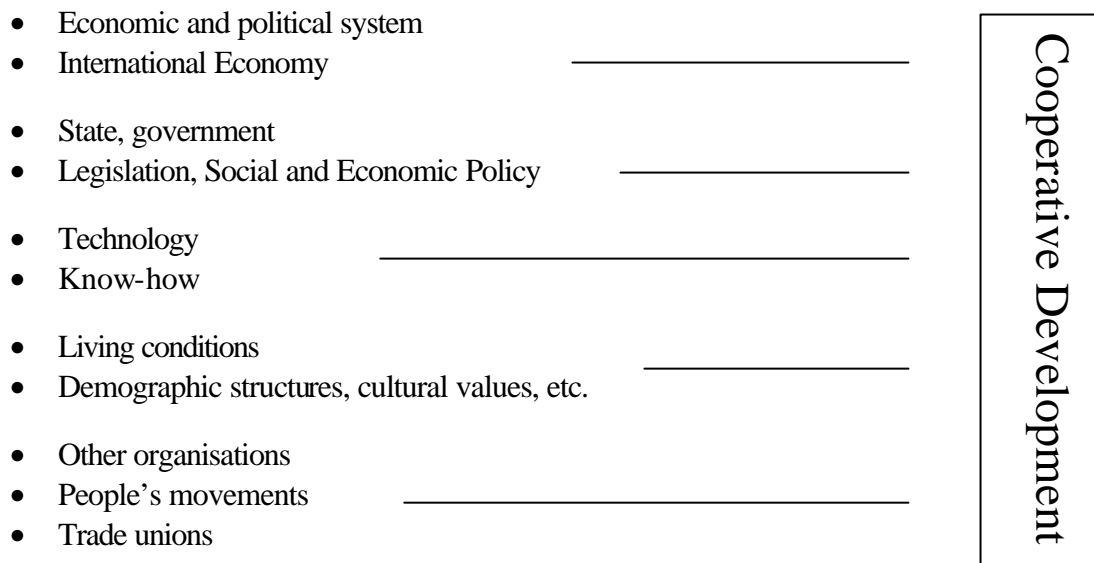
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<sup>1</sup> Social capital is usually defined by features, such as “trust, norms and networks that can improve the efficiency of society by facilitating co-ordinated actions” (Putnam, 1993, p. 167).

*Despite this stringent definition, some cooperatives not always obey all of these principles, for example Scandinavian cooperatives are less rigorous regarding principle (v) and (vi).*

Despite this theoretical definition, the application of cooperative principles to reality has always been a matter of priorities and compromises. These critical decisions pertaining to the cooperative movement must swiftly reflect the changing environs; the interaction between cooperative development and the environs is depicted in figure 1.

**Figure 1: Factors affecting the development of cooperatives**



*Source: ICA; 1998*

Furthermore, as most real-life situations, also the cooperative movement is characterised by uncertainty and by multiple interdependent agents with different short and long-term interests.

Influenced by the seminal work of Hansmann (1996) a framework that depicts ownership issue for explaining objectives of enterprises is considered.

**Figure 2: Ownership and objectives of processing enterprises on the agricultural sector**

	<i>Owners</i>	<i>Objectives</i>	<i>Enterprises</i>
(a)	Suppliers	Max. price	Farmer-owned cooperative
(b)	Labour	Max. salary	Employee-owned firm
(c)	Capital	Max. profit	Investor-owned firm
(d)	Consumers	Min. price	Consumer-owned cooperative

This simplified matrix illustrates that according to their ownership, various enterprises can have various, sometimes contradictory interests. Table 3 in the appendix then depicts the principal distinguishing features between cooperatives and companies.

### 3. Why should farmers cooperate?

For practical reasons cooperation has been one of the crucial means by which small farmers managed to survive. With the development of capitalism, when larger companies were selling inputs to farmers and buying produce from them, farmers have been forced to protect themselves from being picked off one by one, and generally exploited, they have pooled their buying power in order to attract lower prices from suppliers and pooled their selling power so that at the market one farmer cannot be played off against the other (Christensen; 1983).

For the purpose of pooling efforts and cooperating, some form of credible commitment is often required. The existence of a critical mass can also have a positive influence on collective activities. An external agent can help in rallying together a critical mass of participants and can assist groups to develop institutional arrangements that create assurance and credibility; this issue and examples are part of sections 8 and 9.

#### **Box 2: Agricultural cooperatives**

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

There is a scope for exploiting farmer-owned marketing or supplying cooperatives in order to ensure tighter vertical integration and to prevent that profits arriving from processing are not pocketed by middlemen and processors. Simultaneously, global issues, such as trade liberalisation and industry concentration reflect the need of transformation of cooperatives to seize the vertical integration opportunities.<sup>2</sup> Van Bekkum and Van Dijk (1997) claim that as the reasons for the existence of cooperatives are based on a number of structural characteristics of agricultural production and countryside life in the future cooperatives are likely to continue to play a relevant role in the agricultural sector; illustrative of this is also that new cooperatives are being established.

### 4. Cooperative culture and political environs

The structure and culture of agricultural cooperatives varies according to the weight agriculture has in the economy. Generally speaking, the strengths and weaknesses of cooperatives are “two sides of one coin”, rooted in the structure of cooperatives.

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<sup>2</sup> Viz. paper “The Economic and Historical Foundations of Agricultural Policy” for more information

Holmstrom (2002) states that “a cooperative must be organised around a homogenous interest” in order to perform well.<sup>3</sup> As an example of homogeneity in terms of the figure 2 can be given the uniform objective of milk marketing cooperative to achieve maximum per unit price for the supplied milk, and not for example the highest salaries. Table 1 then illustrates how interests can vary within the cooperative.

**Table 1: Various cooperative stakeholders and their rational concerns**

Publics	Area of concern
Farmer/Members	(i) Good price, (ii) Equity price, (iii) Reduction of risks, (iv) Access to the market, (v) Continuity of farming
Customers	(i) Food safety, (ii) Wholesomeness, (iii) Product price, (iv) Marketing efficiency
Employees	(i) Financial benefits, (ii) Recognition/Pride, (iii) Working environment
Suppliers	(i) Price, (ii) Stability, (iii) Continuity
Government (state/local)	(i) Taxes, (ii) Prevention of oversupply, (iii) Law enforcement, (iv) Competition (i.e. no subsidies)
Society	(i) Sustainable growth, (ii) Preventing the outflow of resources, (iii) Education and services, (iv) Civil rights, (v) Pollution abatement, (vi) Employment provision
Landowners	(i) Good rent on land, (ii) Appreciation of land value

*Source: Based on Van Bekkum and Van Dijk (1997)*

Bogetoft and Olesen (2000) confirm that in order to secure cooperation, it must be beneficial for all groups of members to cooperate. In other words, no group of members should be able to benefit by leaving the cooperation. In the sake of cooperative’s efficiency, its management must pursue the members’ interests rather than their own (Ibid; 2000). In this respect, Fulton (2001) observed that due to their more heterogeneous interest, multipurpose agricultural cooperatives are more likely to become trapped in an inefficient state.

It would be desirable to correct the cooperative structure and iron out any discrepancy related to non-homogenous objectives. However, the cautious conservative tendency towards change can work against the cooperative itself. This conservative and democratic quality, whilst desirable in itself, becomes problematic within an environment that demands rapid decisions, such as giving up unprofitable activities; the leadership problem as presented

<sup>3</sup> “Markets vs. Managers” presentation by Prof. Bengt Holmstrom, Department of Economics, MIT, Cambridge, USA on April 25<sup>th</sup>, 2002 in Copenhagen.



by Fulton.<sup>4</sup> In some cooperative environments, common (planned) functions tend to become too rigid, too insensitive and tend to increase conflict between the demand for local autonomy and the traditional values of solidarity (Brazda and Schediwy; 1989). If the vague structure of aims of the cooperative allows it, this can lead to the stagnation, and even collapses of cooperatives, since some cooperative leadership fails to adapt to changing environments and incompetent leaders could persist in their functions until their retirement. A prerequisite for any successful structural change is a change in the state of mind of the elected leaders, at management level and with the members of cooperatives. In addition, the cooperative culture can lack honesty (e.g. the free rider problem) and thus it is imperative to ensure that each cooperative member has easily obtainable information about the other members.

Another aspect, which can act as a disadvantage to cooperatives, is that the traditional self-financing can be in conflict with the increasing need for investments. The basic aim to serve the needs of members has traditionally given cooperative organisations a local orientation. Brazda and Schediwy (1989) argue that cooperatives have not considered export opportunities, and by tradition, producer cooperatives do not enter the territory of other cooperatives, when they want to export. On the contrary, Bogetoft and Olesen (2000) state that Danish agricultural cooperatives are engaged in export to a great extent.<sup>5</sup>

Rooted in the traditional cooperative values, the process of adaptation becomes problematic and matters in cases when a decision should be taken as to whether it would be beneficial to transform into a joint stock company, obtain equity capital from source other than the members, sell cooperative shares on the stock exchange markets, expand by taking over private enterprises. ICA (1998) claims that cooperative organisations are moving from their traditional structure towards capital-associative systems.

Based on the down points of cooperatives described above, a New Generation Cooperatives (NGCs) have been introduced during the past decade in order to avoid some of the problems of traditional cooperatives relating to niche and special production (Bogetoft and Olesen; 2000). The elements, which make up the NGCs, are not in themselves new. What is new is the combination of elements and the relatively large number of cooperatives that share these characteristics. NGCs are particularly distinguished from traditional cooperatives by having closed membership and thus can exclude certain producers from becoming members. This can be advantageous if the producers have private information about other producers' (non-members) activities, and for obvious reasons cannot be exploited in cooperatives with open membership. The second distinguishing feature is the fact that can operate with tradable production rights (Ibid; 2000). Production rights can be bought when the cooperative is in start-up, or when there is an expansion of its capital or production. Production rights give both, a right to supply and an obligation to supply. Members can only supply in accordance with their production rights, and the cooperative can buy production from a third party at the member's expense if a member cannot fulfil his obligation to supply.

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<sup>4</sup> "Leadership in Democratic and Participatory Organisations" presentation by Prof. Murray Fulton, University of Saskatchewan, Canada at Øresund Seminar, Copenhagen, 17 April 2002.

<sup>5</sup> Danish Crown exports 80% of its output (Bogetoft and Olesen; 2000).

## **5. Cooperatives around the world**

The pattern of the cooperative structures is different in different parts of the world, depending on their initial stages of development. For example, in the least developed countries, there are only few cooperative organisations that would qualify to be members of the International Cooperative Alliance. In least developed countries, primary agricultural cooperatives are dominant type and credit cooperatives are connected to the primary agricultural cooperative (ICA; 1998). Furthermore, these countries might have various types of precursors of cooperatives, and more or less informal work groups belonging to the old culture. On the other hand, 25% of the developing countries have cooperative organisations that belong to the ICA (Ibid; 1998). The largest proportion of them seems to be the credit cooperatives, followed by agricultural, consumer, fisheries and workers' cooperatives.

In newly industrialised countries, such as South East Asia, ICA membership is quite high and cooperative organisations have been expanding since the 1970s (Ibid; 1998). Agricultural, credit, consumer and multipurpose cooperatives are the dominating types. In the industrialised countries with market economy, most countries have cooperative organisation that belong to the ICA. In these countries, consumer cooperatives predominate, closely followed by agricultural and insurance cooperatives. In industrialised countries the cooperative pattern is more diversified, with an increased level of credit cooperatives and housing cooperatives however they still constitute relatively small parts of the total cooperative sector. Credit unions account for the largest cooperative part, especially in the USA, Canada and France (Ibid; 1998).

## **6. Cooperatives in Central and Eastern Europe**

Based on the positive experiences from a number of cooperatives that exists in the EU countries, many sources advocate that cooperatives should be reintroduced in the post-communist European countries in order to iron out problems inherited from transforming their agricultural sectors (e.g. FAO; 1994, Hillbom; 1998). Before proceeding in the description of cooperatives in the post-communist countries, it is important to clarify the potentially misleading terminology.

Using the concept of figure 2, the "cooperatives" under the communist regime denoted agricultural production cooperatives, in fact collective farms. Within the theoretical conditions of this framework, these cooperatives most closely resembled landowners pooling their land in order to farm together for high return on their land achieved via the utilisation of economies of scale.<sup>6</sup> Despite the forced membership to these cooperatives, the objective of their members could be characterised as homogenous. What led to their malfunctions was a whole range of factors, from which the biggest obstacle was that they operated in command economies with constrained input and output opportunities. Despite the theoretical homogenous interest at the beginning of cooperative era, later it became

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<sup>6</sup> In a case when the state is the owner of the land, then its objective is state budget balance, and not necessary the highest return on land, etc.

common that also land-less people could joint the cooperative (see resemblance with the employee-owned firm in figure 2). This implies mixing two different objectives and arriving at heterogeneous interest of the cooperative. Although this negative effect during the communist regime was probably overshadowed with a more adverse impact of command economies, this mixture of contradictory interest must be considered for the reformed cooperatives of the free market.

Although it was politically advocated that collective farms were “joining resources and sharing benefits”, these “cooperatives” did not obey the principles set by ICA, nor were they agricultural cooperatives in terms of Vienney (1980) definition. This pseudo-cooperation was possible due to the artificially enforced third party mechanism. The following table depicts the importance of collective farms (known as cooperatives) before and after transformation.

**Table 2: Importance of agricultural producer cooperatives in CEEC**

Year	Share in total agricultural area (%)		Average size (ha)	
	1988	1997	1988	1997
Poland	4	3	335	222
Hungary	80	28	4,179	833
Czech Republic	61	43	2,578	1,447
Slovakia	69	60	2,667	1,509
Estonia	57	n/a	4,060	n/a
Latvia	54	n/a	5,980	n/a
Bulgaria	58	42	4,000	637
Romania	59	12	2,374	451

*Source: European Commission; 1998*

As table 2 shows, the number and the importance of collective farms (cooperatives) have declined during the last decade. These “survival” cooperatives have usually transformed into “new” cooperatives that comply with the ICA definition. Based on their previous operations, most of these transformed cooperatives continue to operate as production cooperatives. At the same time, the marketing and supplying cooperatives have emerged.<sup>7</sup> Although not always available in the statistics, the distinction between these two “cooperative” forms is imperative.

The following country examples illustrate the point that although available statistics might give the impressions that there are plenty of “cooperatives”, a considerable part of them are the production cooperatives (mainly reformed collective farms). The true cooperatives are not currently widespread in CEEC (Chloupková and Svendsen; 2002). What farmers would benefit from is the existence of cooperatives in the up- & -downstream sectors (see appendix for table 4 and 5, which compare cooperative structure in EU and CEEC). The role of these cooperatives would be further enhanced they operate as farmer-owned cooperatives; a proven structure in the Danish agricultural sector.

<sup>7</sup> Marketing cooperatives are based on vertical integration and horizontal coordination.

Current statistics from the Czech Republic illustrates that in 2000 there are 791 production cooperatives, with 262,000 members and 68 supply and marketing cooperatives, with 2,013 members. The production cooperatives have its market share estimated at 34% (Association of Agricultural Co-operatives and Companies of the Czech Republic; 2001). Despite the successful experiences with a whole range of “secondary” cooperatives, esp. credit cooperatives (kamelicky) in Bohemia and Moravia in the 19<sup>th</sup> and beginning of 20<sup>th</sup> century, the more recent history of communist regimes sheds some light on the fact that the current cooperative sector is dominated by the “leftovers” of collective farms, the production cooperatives. Nevertheless, Chloupková and Bjørnskov (2002b) warn that no government should engage in a direct involvement (e.g. subsidies) in order to help set up these cooperatives. Similarly, there are economic arguments for abolition of any costly third-party enforcement mechanism that keep reformed production cooperatives viable.<sup>8</sup> The current Czech cooperative scene is lacking more “real” cooperatives in the up-&-downstream sector that would strengthen the vertical integration in the agro-food chain. Based on the shared history during the communist regime in Czechoslovakia, the situation in Slovakia, where in 2000 operated altogether 801 agricultural cooperatives resembles to a certain extent the situation in the Czech Republic (Association of Agricultural Co-operatives and Trading Companies of the Slovak Republic; 2001).

Similarly, the Bulgarian cooperative sector is dominated by agricultural production cooperatives that produce 82% of wheat and 20% of the milk (National Union of the Agricultural Co-operatives in Bulgaria; 2001). While production cooperatives dominate the Bulgarian agriculture, there is no mentioning of solely “secondary” cooperatives in the up-&-downstream sector. This is despite the fact that after 1990, the export marketing organisations has been liquidated and now there is no foreign market outlet for the agricultural products, therefore “agricultural products, even in a little quantity, can be not sold” (Ibid; 2001).

Hungary is one of the countries where the need of new cooperative model was recognised and with the promotion of Count Sandor Karolyi, the Cooperative Development Foundation was established. Danish Federation of Co-operatives provided intellectual assistance in the development of cooperation and was also in charge of the clarification of conceptual issues (National Alliance of Hungarian Co-operatives and Producers; 2001).

In Latvia, the current influence of farmer-owned processing or value added cooperatives is very small and quantifying their economic importance is difficult (Latvian Farmers

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<sup>8</sup> “The original philosophy underlying the concept of state-sponsored cooperatives, namely to allow co-operators to learn by making their own mistakes, was gradually abandoned and instead the policy to prevent rather than to cure, was applied, covering cooperatives with a net of interventionist owners of inspection, inquiries, approvals required for almost every decision, secondment of staff and direct interference with the day-to-day management administered by an ever increasing, costly but largely inefficient development bureaucracy” (Muenkner; 1991). This illustrates that cooperatives can in certain conditions degenerate and thus become burden to the economy. In instances when cooperatives have political influence and thus are protected from their natural disbanding, they might become an additional burden to the economy.

Federation; 2001). The farmer owned cooperatives that have developed during the last decade usually operate on a regional level. The assistance to the formation of the new farm owned cooperatives represented by the Latvian Farmers Federation has come from Sweden, Denmark and the USA (Ibid; 2001).

Due to many objective and subjective reasons, cooperation is difficult and the Lithuanian cooperative development is slow (Lithuanian Association of Agricultural Cooperatives; 2001). One of the reasons is that small unproductive farms gain little profit, making it difficult to raise money for purchasing new machines, as well as for paying their service. The second reason is linked to an insufficient legal basis and inadequate support from the government (Ibid; 2001). The third reason is the lack of information and knowledge. The acceleration of the process depends significantly on the propagation and awareness of cooperation ideas. The fourth reason rests upon a rather conservative nature of thinking formed by five decades of command economy and the legacy of distorted cooperation of former collective farms (Ibid; 2001). The Lithuanian agricultural sector in 2000 had altogether 350 registered cooperatives with 12,000 farmer members (Ibid; 2001).

The situation in Poland, where collective farms never enveloped into a considerable proportion of the agricultural sector, is more favourable in respect to the “secondary” agricultural cooperatives. The statistics provided by the Polish National Council of Co-operatives (2001) show that in 2000, there were 1,100 production cooperatives, 1,691 farm supply cooperatives and 1,125 farm machinery cooperatives.<sup>9</sup> In addition, revival of rural producers’ groups in fruit, horticulture, and recently also in wheat and meat sectors is taking place. There are about 350 such groups in Poland, registered as companies, associations, individual economic entities, as well as cooperatives (Ibid; 2001).

When comparing the productivity of agricultural production cooperatives in Poland and the Czech Republic, the joint effects of historical legacies and competitive markets become clear. The productivity of agricultural production cooperatives, measured in 2000 as the average production per member, was approximately €8,900 in Poland and €5,900 in the Czech Republic.<sup>10</sup> The difference in the performance of the production cooperatives can be explained by the fact that under the communist regime, the agricultural sector was heavily collectivised while Poland never adopted a strictly collective approach to the sector. This has left the Czech Republic with a historical legacy of large-scale cooperatives that have yet to be fully reformed and disconnected from state interference and support. Thus Czech production cooperatives, to some extent, serve as a rural unemployment buffer, while in Poland this role is assumed (and to a larger extent) by the private sector (Chloupková; 2002a, Chloupková; 2002b). This persisting employment in agricultural production cooperatives in the Czech Republic at the beginning of transition, as well as most CEEC, is stimulated by the wrong market incentives and lack of infrastructure that reflects the need of

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<sup>9</sup> Farm supply cooperatives had 240,000 members, 125,000 employees and its market share was 32%. The farm machinery cooperatives had 200,000 members, 20,000 employees and its market share was 2.5%. The production cooperatives had 55,000 members, 50,000 employees and its market share was 3% (Polish National Council of Co-operatives; 2001).

<sup>10</sup> These differences are only exacerbated when controlling for characteristics such as agricultural yields or national wealth (Chloupková; 2002b).

private farmers. In this context, Bezemer (1997) and Schmitt (1993) confirm that production cooperatives are considered to have significant incentive and productivity problems such as free riding. Not surprisingly, Czech cooperatives dominate the market while the playing field in the Polish agricultural markets is far more equal and thus more competitive.

## 7. The issue of credit:

### **Box 3: Importance of credit**

*It is known that in the CEEC the process of transition from centrally planned to market economies, complemented by the removal of state subsidies lead to lowered profitability (OECD; 1995, Chloupková and Bjørnskov; 2002a). Furthermore, the process of transition made much of the existing agricultural capital and infrastructure unfit for the emerging agricultural structure, necessitating additional investment in restructuring production. As reformed credit institutions were reluctant to finance agricultural investments, usually due to the lack of collateral, financing, and especially long-term investments, became the crucial problem for the agricultural sector in the Czech Republic, as well as other CEEC (Chloupková; 1996, Hollis and Sweetman; 1998, Chloupková and Bjørnskov; 2002b).*

The issue of obtaining credit for the non-wealthy part of population can be an obstacle. As Adam Smith (1776; reprinted 1983) points: “Money, says the proverb, makes money. When you have got a little, it is often easy to get more. The great difficulty is to get that little”. Generally speaking, most institutions regard farmers as “too poor“ to save. Potential lenders are faced with borrowers whom they do not personally know, who in some instances do not keep written accounts or „business plans“ and who want to borrow small and uneconomic sums (Chloupková; 1996). In summary, the potential lenders do not know the risk under which they are lending - the screening problem. Thus lenders are not able to shield themselves against these risks, since borrowers, by hypothesis, are too poor to offer collateral (Suvová; 2001).

In addition, the enforcement of the legal system might be too weak to repossess any collateral that is offered. Also, an insurance against commonest hazards that afflict especially in developing countries small producers (e.g. drought, livestock disease and breakdown of equipment) can be difficult to obtain - the enforcement problem. The problems of inadequate information and difficulty in enforcing loan repayment reinforce one another. In such conditions markets for credit and insurance may simply not exist. However, in practice such markets often shrink to a small supply or short-term consumption loans; this is the case of lending to agricultural sectors in CEEC, including the Czech Republic.

Based on the successful history of credit cooperatives, it would be optimal if they could play a role in providing credit to farmers. That is why credit cooperatives have been set up. Credit cooperatives are in fact agricultural banks of one kind or another that specialise in meeting the needs of their members for any of the usual range of banking service. Furthermore, Hollis and Sweetman (1998) point out that local organisations can acquire information about borrower characteristics at a lower cost than banks. Furthermore, the historical evidence

from some European countries, including Denmark, suggests that cooperatives can act as a useful instrument in dealing with credit problems.

Some authors argue that credit cooperatives have developed alongside other cooperatives as a consequence of the success of agricultural cooperatives. Other authors (and country experiences) show that credit cooperatives were the first types of cooperatives, based on which other cooperatives developed (Kubacák; 1992). Authors arguing that credit cooperatives are an outcome of marketing cooperatives underline their claim by saying that the members of agricultural cooperatives needed credit and they needed an agency that would get a better price for their product than they could get in any other way. Other authors argue that first the farmers needed the finance to invest and then upon the success of credit cooperatives, they started to employ cooperative structures for non-credit purposes, such as marketing. This was for example the case of Germany and the Czech Republic. Above all, it is not the purpose of this paper to identify what was first – the egg or the chicken (the credit cooperative or the marketing cooperative), but to stress that the existence of cooperatives was build on trust (a feature of social capital), and vice-versa, the existence of trust enabled the success of cooperatives. Yet, there is a third approach to the credit cooperatives set-up – if they are not needed, e.g. if the potential market for such institutions is already saturated, they will not develop (Guinnane and Henriksen; 1998).

One of the success example of credit cooperative is “Credit Agricole” in France, apparently the second largest bank in the Western world, and it is not alone at that: Credit Mutuel and Credit Cooperatif are also important institutions. Another example would be the cooperative bank in the Netherlands, The Central Rabobank, is the second largest bank in the country. Its members are 990 local cooperative banks with 3,100 branches, 25,000 paid employees and one million individual members. The Raiffeisen and Popular Banks forming the DG Bank have made it the ninth largest in Germany. Most other countries have credit cooperatives. Only Spain has a bank, the Caja Laboral Popular, which plays the same kind of role in relation to worker cooperatives as most other cooperative banks do in relation to agricultural cooperatives (Van Bekkum and Van Dijk; 1997, COGECA; 2000).

Contemporary credit unions in poor countries have in some countries been flourishing as a “small sister” of the banks. They ordinarily consist of people with a common interest who save regularly with the union and who decide from their knowledge of each other’s creditworthiness who shall get a loan. As historical evidence point out, the existence of cooperatives might help to solve various problems that farmers are facing, nevertheless cooperatives are not always able to solve all problems, and as some authors (e.g. Munker; 1991) point out, even cooperatives can degenerate.

Despite the positive historical experiences with credit cooperatives their recent re-introduction in the Czech Republic proved as negative (Kubacák; 1992, Pithart; 2000).

## **8. Cooperative experience from EU countries**

This section examines the development of cooperatives in the fifteen EU countries in order to look for common patterns, such as the role of government on their long-term

performance. As Hollis and Sweetman (1998) point out, referring to historic organisations is valuable as their long histories can provide guidance on issues that cannot be addressed in institutions formed only a decade ago. A summary of the current status of cooperative development and the importance of cooperatives in the countries' economies is contained in tables 4 and 5 in the appendix.

### **Austria**

The social situation of the rural population in Austria was a direct reason for the founding of the first Raiffeisen cooperative, the Raiffeisenbank in Muhldorf in 1886. This cooperative banking system, named after its inventor Friedrich Wilhelm Raiffeisen, became widespread within ten years all over the country and resulted in a set-up of 600 "Raiffeisenkassen" (Van Bekkum and Van Dijk; 1997). This bottom-up development of Raiffeisen cooperatives was supported politically by the Austro-Hungarian Monarchy and financially by regional parliaments. Consequently, the financial support provided by the Raiffesenbanks led to the establishment of storage- and commodity cooperatives; the first storage cooperative was established in 1898. The first dairy cooperative was set up in Tyrol, in the early 1880s, and the support of the Raiffesenbanks made it possible to speed up the founding of dairy cooperatives throughout the region.

Most of these single cooperatives have joined together in regional organisations, so-called "Landeszentralen", which formed a base for their top representation, the "Osterreichischer Raiffeisenverband" in 1898. Thereby a three-tier federate structure, consisting of primary cooperative, regional association, federal association, was created.

The most important building stone in regard to the legal framework is the Cooperative Law ("Gesetz über Erwerbs- und Wirtschaftsgenossenschaften") from 1873, updated by numerous amendments. It defines a cooperative as an association with an unlimited number of members, which has to support the income and to serve the economic interests of its members. Van Bekkum and Van Dijk (1997) argues that this is a typical product of the short (1867-1873) laissez-faire liberalism period in Austrian history, resulting in a number of not binding flexible, regulations that can be modified by cooperative statutes. Second important law is on auditing ("Genossenschaftsrevisionsgesetz") from 1903 that favours self-regulating principle over state control. Furthermore, there are special laws regarding to cooperative bankruptcy and cooperative merging, which reflects the tendency to reduce the financial responsibilities of cooperative members and the formation of larger cooperatives and stipulates that mergers can take place only between two cooperatives (Ibid; 1997).

Since 1977, mainly due to the on-going concentration of agriculture, the number of agricultural cooperatives has decreased. Despite this fact, an average Austrian farmer is member of at least three cooperatives (Ibid; 1997). This illustrates strong incentive for membership in voluntary organisations, and as Chloupková and Svendsen (2002) argue can suggest a reasonably high level of social capital among the farming population. Although dairy, farm supply, livestock and meat, fruit and vegetables, wine and service cooperatives represent the Austrian cooperative sector, the credit cooperatives are important. Austrian Raiffeisen banking group is the largest private bank in Austria with a cooperative structure



and owned by its 1.7 million members; its market share in the credit-banking sector is about 20-21% (Ibid; 1997).

In relation to the CEEC, Austria's cooperatives are involved in Hungary's sugar production due to historic connections. A number of dairy cooperatives have expanded to Slovakia and the Czech Republic. Also, the Raiffeisen Banking group has started a number of operations, as fully owned subsidiaries and joint ventures in Poland and Slovakia. In addition, about 16 Slovenian cooperatives are members of the Austrian national Raiffeisen organisation (Ibid; 1997).

## **Belgium**

The history of Belgian cooperative movement is marked by its development in three distinct movements: Christian, socialist and non-aligned (Van Bekkum and Van Dijk; 1997). This cooperative movement, which originally started in the marketing sector, as consumer cooperatives, is linked to the history of the Belgian labour movement at the end of the 19th and the beginning of the 20th centuries.

Because of ideological and political reasons linked to the development of the Belgian labour movement, producer cooperatives are virtually non-existent in Belgium. The absence of legal statute for an agricultural cooperative, where cooperatives are not seen as societies, but as corporations, no doubt reinforces this situation (Ibid; 1997). In fact, cooperatives are regarded as the type of corporation that meets the least regulations by law.

Unlike France, where the cooperative movement is organised according to sectoral groupings (producer, agricultural, consumer), in Belgium, as in Italy, the cooperative movement is structured on an ideological and inter-cooperative basis. Christian and socialist cooperatives were based on opposing ideology. The objective of the socialist cooperatives was put in place in order to fight against the capitalists and merchants, and to supply goods and services to workers at low prices. Gradually cooperation became a vehicle for social change, in itself an alternative to the capitalist system (hence the conflicts with trade unions and the party). In contrast to the social cooperatives, the aim of Christian cooperatives was to give material help to workers, to unite the social classes and halt the rise of socialism. Nevertheless, both movements have developed their commercial activity that suffered from capitalist competition.

Every Belgian cooperative is a shareholder owned one (Ibid; 1997). Belgian cooperatives are in particular active in the horticulture, meat and dairy sectors. Although a large number of cooperatives are involved in the dairy sector, approximately half of the total Belgium milk supply is collected by two private companies (COGECA; 2000).

## **Denmark**

It is the purpose of this paper to elaborate this section more than other countries' sections. The reason is not only the geographical origin of the paper, but more importantly, the Danish cooperative movement being an illustrative model used worldwide. As the underlying

objective of this paper is the assessment of agricultural cooperatives, the broad experience with the Danish consumer cooperative movement is not included.

The origins of the Danish cooperative movement are linked to rural population that had learned about democracy and democratic responsibility at the folk high schools. These products of the folk high schools were active in the liberal party of opposition and in the development of the cooperative movement and their local experience consequently helped them in the larger political associations of the liberal opposition (Jensen; 1975). The educational reformer, N.F.S. Grundtvig, played an influential role in this movement. Parallely to this by-product of the constitutional battle, agricultural cooperatives also evolved as a response to the agricultural depression, in particular the dramatic change in the grain prices, in Denmark, and countries that served as outlets for Danish agricultural produce, such as the Great Britain. Unlike in the Great Britain, a Danish farmer was the owner of his land, and no assistance was given to him to cover for the losses, he was left to his own mercy. Having no alternative, the Danish farmer opted for cooperation. In addition, he changed his production methods, and replacing his grain growing, where Denmark lacked the comparative advantage, for the production of milk and rearing of pigs. By grouping, farmers pooled their selling power, so that on the market one farmer could not be played off against the other.

This bottom-up approach in the evolution of Danish cooperatives illustrates that the cooperative movement was not started by a circle of philanthropists, or landlords for the purpose of benefiting the practical farmer. The group of farmers that promulgated the cooperative idea was a dominant one in the sense that it owned  $\frac{3}{4}$  of all arable land. It was also a well-to-do group in terms of per capita income (Henriksen; 1999, p. 59). The first cooperative was the dairy cooperative in Hjedding, established in 1882, established on the initiative of the farmers, financed by the farmers and managed by the farmers (Christensen; 1983, p. 103). Farmers were jointly responsible for any debts that might be incurred, and profits were divided among the members proportionally to the amount of milk each of them delivered.

In essence, cooperatives provided market access to a small farmer, who on his own had a negligible bargaining position and who otherwise, would not be able to market his produce. Consequently, the upswing of cooperatives contributed to the development of smallholdings. Direct advantages of cooperative operation included, (i) economies of scale on transportation, (ii) quality packaging, and (iii) regular dispatch of a uniform quality and quantity that can only be achieved through large-scale organisation. Perfect packing was an absolute necessity in preserving the excellence of butter. Other benefits included regular weekly financial settlement from the dairy. The farmers also received a share in the profits of distribution and thus pocketed profit that would otherwise go to the middlemen. The constitution of the dairy cooperative stipulates that members must for a fixed period, originally up to ten years, recently only few years; bring all their milk, except what they needed for household use, to the cooperative dairy. Heavy fines were imposed for infraction of this rule. Strict rules were laid down relating to proper feeding of the cows, sanitary milking, etc. (Christensen; 1983).

This attempt at creating cooperative dairying was an immediate success since better quality butter was produced. With this approach, it became possible to standardise output, and in turn demand higher prices. Technical improvements that upgraded both the quantity and the quality of the butter were introduced. Soon the cooperative dairy butter surpassed the celebrated 'Estate Butter' for which Denmark had been famous and the cooperative movement spread to other sectors (Haagard; 1911).

Driven by the incentive for dairy cooperative establishment, the need to get together, and borrow the necessary capital from a savings bank arose. Members of the dairy cooperatives had an unlimited liability towards their debts. The original funds for construction purposes were repaid in installments, while the starting capital was supplied by a guarantee paid by each member. When the original loan was repaid, a new loan was taken from the bank. The financial resources obtained were handled over to the original members who all alike proceeded to repay the new loan. Saving banks were thus directly interested in the development of the dairy cooperatives (Ibid; 1911).

Cooperatives were governed in a democratic way, usually each member had one vote, irrespective of the number of cows he possessed. Farmers, members of the cooperative, elected the board of directors who appointed the dairy manager, usually a specialist in the field. Local cooperatives were free to join into a central federation, which aimed at developing the industry by expositions, conferences and collection of material.

This movement awakened farmers to the scientific possibilities of dairy production and of cattle breeding. Among the economies was the skimmed milk, saved for feeding hogs, which consequently stimulated the bacon industry, and thus brought about the opening of cooperative slaughterhouses. This in turn led to the building of cooperative slaughterhouses and pork packing societies. The first cooperative abattoir was formed in 1887. The cooperative slaughterhouses were organised in similar pattern as the cooperative dairies. Members enter into an agreement to bring all of their hogs to the cooperative slaughterhouse, even though they are offered higher prices elsewhere. A slaughterhouse or bacon factory on cooperative lines has following advantages (i) the commission paid to dealers is saved, (ii) the difficulties experienced by existing slaughterhouses in disposing of the offal become reduced when the cooperators became interested in its utilisation, (iii) the cooperators would share between them all the profit.

The cooperative movement also has a characteristic history in the cooperative egg export society. Price of eggs shows great fluctuation. The temptation to hold back eggs in autumn before selling and shipping them was therefore very great, and to this temptation many of those who handled the eggs in Denmark in the eighties and nineties of last century succumbed. As Denmark exported a significant portion of eggs to Great Britain, there were many middlemen between the hen and the English consumer. The farmers, or rather the farmer's wives, gradually learnt to increase their profit by holding back the eggs one or more weeks during the latter half of the year. The hucksters who collected eggs from the farmers were equally clever, and the merchants, who bought from the hucksters or had their own collectors, likewise tried to improve their position by the same shortsighted policy. The result was that more and more Danish eggs arrived in England in a bad condition.

The means of detecting stale eggs were less developed in those days, and thus serious complaints from large English importers were received by the Royal Agricultural Society of Denmark in 1889. The Society tried to influence the farmers and local buyers of eggs by means of reports in the agricultural and local daily papers, explaining how dishonest it was to sell stale and kept eggs as fresh, however without an impact. The merchants and shippers were also in difficulty, as if they refused to pay farmers for eggs manifestly kept or even partly spoiled, farmers would sell to competitors, and they would not receive any eggs themselves, neither fresh nor bad. The price for eggs, as delivered by the farmers, had therefore to be fixed so as to allow for incurred losses. Fresh eggs were, therefore, during about one-half of the year quoted considerably below their real value.

Local societies emerged as a response to this unsatisfactory state, the members of which bound themselves to deliver their eggs weekly and never to send any stale eggs. This was a step in the right direction, but had only a local application, and did not influence the trade and export of eggs as a whole. In 1894 an attempt was made by the Agricultural Society of Horsens to get the egg producers all over Jutland to combine to form one large society for the improvement of the egg trade. The society was formed, but failed to secure the necessary support. The same result followed similar attempts at other places.

In order to get egg-producers interested in the egg trade, it was not enough to ask them to improve the quality of eggs sold to dealers. It was necessary to go the whole length, to do away with the hucksters and agents who travelled the country districts to collect eggs, and to form a society not only for collecting, but also for trading in and exporting eggs. A system of marking eggs was proposed by which it could be seen at once from which producer any egg had been delivered.

Society with branches all over the country began operations in April 1895. Each branch has its distinctive number, and each member has his number with his branch. Before the eggs are delivered to the collector for the branch, each egg is marked by means of a rubber stamp with the number of the member and the number of the branch, and those two numbers prove the origin of the egg, so that when a "spotted" or stale egg is delivered it can be at once be seen who is the offender. At the packing and exporting warehouse the trademark of the society is stamped on each approved egg next to the two numbers. As a result, Danish eggs re-entered the English market and the export of Danish eggs during the first three years of the society's activity has increased sevenfold.

Based on the success of cooperatives, the Danish farmers soon found it necessary to carry cooperation a step further, for example to control the distribution of their produce in England, which was the chief market for many Danish agricultural products. Danish farmers formed a cooperative export association. As cooperation was not confined only to the selling of farm products and buying of merchandise and farm supplies, the improvement societies emerged, such as, cooperative fertilizer plants and canning factories. Another example was the maintenance of cow and swine improvement and breeding societies and seed-testing organisations (Haggard; 1911). The breeding of cattle, horses, swine and sheep was promoted by cooperative societies. The central societies aim was to improve breeding

of farm animals by keeping accounting systems of the quantity of milk produced per cow, its content of butter fat, as well as the relative cost of maintenance. The first central society was established in 1895. Almost every need of the farmer was supplied through one or more organisations of this kind. In addition, there were societies for accident insurance against hail and other storms, and for the insurance of livestock (Ibid; 1911).

While in most countries credit societies were developed before or simultaneously with other cooperative undertakings, credit cooperatives came very late in Denmark (Christensen; 1983). This could be explained by the existence and operation of local savings banks (also known as parish savings banks) that filled the need in providing credit to the cooperative undertakings (Guinnane and Henriksen; 1998). Despite this success of local savings banks, dissatisfaction in cooperative circles, and the feeling that joint and cooperative action in monetary matters would be a desirable action, led to the formation of the Central Cooperative Committee in 1898. The original idea was to arrange monetary matters, and that cooperative societies were to be financed by their own members. Therefore cooperative societies and savings banks formed a bank, and became its members by taking shares in a fixed proportion to the total turnover of the cooperative societies or paid money to the savings banks. The first Danish cooperative congress that took place in 1903 and at a cooperative congress in 1906 a committee draw up a scheme for the bank (Haggard; 1911). This bank started its operations in 1914, was organised and owned by the cooperative societies, with its headquarters in Copenhagen and branches in provincial towns.

The bank was chartered to carry on a general banking business. The capital stock consisted of shares subscribed by cooperative societies in proportion to their yearly turnover. This capital stock served as security for the bank's obligations. The shares in the bank were limited to cooperative societies, cooperative credit and savings associations, savings banks, banking associations consisting of at least five persons, and other societies or associations of which the bank may approve, as well as municipalities and municipal institutions. Neither private individuals nor profit-making corporations or partnerships were accepted as stockholders. Private people were allowed to cooperate by joining a "bank society", which then became a member and took share in proportion to the number of its individual members. Further kinds of members were the cooperative village banks (Christensen; 1983). The bank was governed by a general assembly that consisted of delegates representing the regional branches. In addition, there was a committee of representatives, equivalent to a board of directors with a responsibility of the general supervision of the bank. Furthermore, this committee also elected the manager and a small executive committee. The objective of the bank was to obtain higher prices for bank drafts in sterling or marks, to grant cheaper loans, to provide higher interest on deposits, but primarily to be ready to support every reasonable cooperative scheme submitted to it.

With a successful start of the bank, its prosperous undertakings were interrupted by war-related affairs and its operation was revived in 1925 as "Dansk Andels og Folkebank" (Danish Cooperative and Folk Bank) (Henriksen; 1997).

## **Finland**

Finland has always been a country of small and free farmers, owning their farms, with a tradition of working together and cooperating. Cooperation spread rapidly after the formation of the Pellervo Society (now Finn Coop Pellervo) in 1899 (Van Bekkum and Van Dijk; 1997). Finland differs from most other countries in the sense that a central organisation was formed before cooperatives were formed in any greater extent; a top-down approach.

Since the beginning of the 20<sup>th</sup> century cooperatives have played an important role in the processing and marketing of agricultural products, with market shares exceeding 50% for most products. Also consumer cooperatives played an important role in both selling inputs to farmers and agricultural products to consumers. Apart from the beginning of the Finnish cooperative movement, the government has been neutral towards cooperatives and has not given any direct advantages compared to other forms of enterprises.

Van Bekkum and Van Dijk (1997) points out the legislation from 1901, 1954 and 1989 that influenced the development of cooperatives in Finland. The practical cooperative development in the past few years, as well as the general situation in Finnish agriculture, has been largely influenced by Finland's admission to the EU in 1995. Agricultural cooperatives were forced to adapt their structure – to rationalize their commercial activities from producer- to consumer oriented. Prior 1995, Finnish agriculture was very much influenced by its national agricultural policy, which was based upon high price subsidies. The Finnish food industry was very centralised with big secondary processing and marketing cooperatives. With the EU membership the price support subsidies were stopped and the agricultural cooperatives were obliged to comply with a new legislation on competition and competitive behaviour. The former federative structure with the big secondary cooperatives, such as in dairy and meat sector, was in conflict with this legislation and had to be changed. With the EU membership, the agricultural producer prices dropped and this was another reason why Finnish cooperatives had to rationalise their structures in order to decrease costs.

These days, memberships in a cooperative in Finland is open in the sense that cooperative by-laws may not block new members joining in or fix the number of members. However, restrictions may be imposed in the membership based on the general purpose or the business sector of the cooperative. Also entrance fees make it possible to prohibit new members' entrance into a cooperative. Some agricultural cooperatives do not accept new members. Membership in a cooperative is voluntary in the sense that a member can freely resign the cooperative. However, the by-laws may prohibit a new member to resign within a certain time period (maximum of 3 years). Membership of a cooperative may not be transferred but can be inherited (Ibid; 1997).

According to the law, each member pays a minimum of one cooperative share to the cooperative (Ibid; 1997). The maximum or minimum of the share capital or the cooperative capital is not regulated by the law. At the end of the membership, the member or his assignee has the right to redeem his part of the share capital (or part of it) in nominal value, providing that the solidity of the cooperative makes this possible. Entrance fees are usually not refunded. Unless otherwise stated in the by-laws, the members of a cooperative do not carry a personal responsibility of the liabilities or debts of the cooperative.

Finnish agricultural cooperatives can be described as one-purpose cooperatives, as they concentrate strongly on the business benefiting the members by producing and marketing the raw material of the members.

## **France**

Although agricultural cooperatives existed in France as early as the 12<sup>th</sup> century, the beginning of the modern cooperative movement commenced at the end of the 19<sup>th</sup> century. A big influence on the development of cooperatives in France had the wine cooperatives (Gueslin; 1990). In the wine growing areas in southern France, at the start of the 20<sup>th</sup> century, it was often claimed that the cooperatives were “the daughters of poverty” (Rinaudo and Gavignaud; 1990). Around 1890, the owners of the destroyed vineyards in Charentes began instead to breed dairy cows and this gave rise to the creation of dairy cooperatives. In 1904, during the large wine crisis, several wine growers joined together to produce and market their wine. Until WWI, agricultural techniques were improved, markets for agricultural products expanded, and the number of cooperatives increased. During the inter-war period, public authorities and farm organisations began to collaborate and it was a time of growth and restructuring of the cooperatives. The economic and wheat market crisis in the 1930s led to the development of cereal cooperatives and in 1936, the “Bureau du Ble” (Wheat Office) was established (Van Bekkum and Van Dijk; 1997). The creation of national associations of cooperatives began in 1945 on the order of the government. After WWII, farmers increased production and agricultural cooperatives increased in numbers. Nevertheless from 1960s, agricultural cooperatives transformed and experienced concentration.

In France, the cooperative society (“Societe Cooperative”) is a society, founded as an commercial or a civil society, which has the purpose to decrease the cost price of certain products and services, and to improve the quality of products to be delivered to or by the members. Legislation on agricultural cooperatives is laid down in Book 5 of the Rural Code.

Since France is the second world’s largest agricultural exporter, its cooperative sector is structured in a pattern to reflect this need; this is true especially in the dairy, cereals and wine sector. Agricultural cooperatives as a whole hold a market share of 30% (Ibid; 1997). Generally, French farmers are members as well as participants in cooperatives. Exceptions to this rule are the possibility of trading with non-members and the possibility of non-participants becoming members. Business with non-members is legally allowed, but restricted to 20% of the cooperative turnover. Certain provisions can also stipulate that individuals and legal entities who will not use the cooperative services, but who intend to

contribute to the cooperative achieving its objectives by providing capital, may become members. In the case of investor-members, voting rights are proportional to their shares.

## **Germany**

In the 1840s Germany was the birthplace of a system of credit cooperatives that grew to become highly successful during the latter half of the 19<sup>th</sup> and first part of 20<sup>th</sup> century. There were limited liability and mainly urban cooperatives, so-called Schultze-Delitzsch banks, and unlimited liability Raiffeisen and Haas cooperatives. After a relatively slow start, Raiffeisen cooperatives in Germany grew with astonishing rapidity at the end of 19<sup>th</sup> century. In 1885 there were only 245 Raiffeisen cooperatives, but in 1919 over 14,500 cooperatives with 1.4 million members (Hollis and Sweetman; 1998).

The influence of the first cooperatives set-up by Schulze-Delitzsch, and the first law on cooperatives from 1867 (Prussia) and consequently the law of the Reich from 1889, is in essence still valid today. These laws, facilitated the creation of cooperatives by limiting their civil responsibility, assured solid management for the cooperatives thanks to the institution of compulsory inspection by controlling bodies, but also introduced restrictions with respect to operations carried out with non-members. The success they obtained in their lending operations resulted not only from the members knowing personally who was borrowing, and for what purpose, but also from their strong incentive to ensure that all loans were repaid. Each cooperative operated in a very small region, and thus members could have information about each other without great effort (Ibid; 1998). Furthermore, these cooperatives were subject to annual audit, which forestall the mismanagement by cooperative's directors.

The example from the former German Democratic Republic is illustrative for the CEEC. After the reunification of Germany, in addition to the marketing and supplying cooperatives, there exist restructures agricultural production cooperatives, the so-called "Landwirtschaftlichen Produktionsgenossenschaften"- LPG, that became member of the national Raiffeisen organisation.

## **Greece**

Agricultural cooperatives in Greece are in a pre-eminent position compare to other types of cooperative. Such farming cooperatives have their roots deep in Greek history. Informal associations for the common rearing and marketing of sheep, known as "tselingata", have a long and honourable history of their own. They exist in Greece for more than six centuries, although more formal cooperatives, both industrial and agricultural, were set up in 1780 in order to finance and organise the production and export of purple cotton yarn.

The modern form of agricultural cooperatives originated at Almyros in 1900. This cooperative granted credit to its members and purchased costly farm machinery that were used in common by its members. The growth after that was sharp enough to justify legislation, and for this foreign example from Germany and Austria was used that terminated



in Law of 1915 that accelerated further growth of cooperatives. A system of cooperatives was built up which was (and is) as highly articulated in its organisational structure and its comprehensiveness. The objective of defending the professional interests of the peasantry could not be fulfilled on a national level until the General Federation of Peasant Associations of Greece (GESASE) had been established in 1958 (Goussios and Zacopoulou; 1990). Nonetheless on a local level and especially in certain regions, where the cooperative movement had already been developed in the inter-war years, the organisation of a peasants' movement gave the impetus to the formation of a peasants' union and cooperative lobby movement (Ibid; 1990).

These first-degree cooperatives that services the local farmers are at the base of the structural pyramid. This base is composed of about 7,000 cooperatives of local level and almost 750,000 individual farmers are their members. The usual role of these cooperatives is to supply goods, seeds, fertilisers, foodstuffs, and to store produce. These cooperatives often operate small food-processing plants such as olive-mills and fruit and vegetable packing stations and, as agents of the Agricultural Bank of Greece, they supply credit to their members. Regional Unions are second-degree cooperatives, which perform the similar functions for the local cooperatives as they do for their members in situations when it is an advantage to have a larger body covering a larger area. This is usually the case for buying cheaper or gaining economies of the scale. National Central Unions and Regional Central Unions are the third-degree cooperatives. They usually market specific products or group of products, and they may process them as well.

Paseges (The Panhellenic Confederation of Agricultural Cooperative Organisations) is at the top of this abstract pyramid, a fourth-degree type of cooperative. The Paseges represents a forum within which initiative decisions about national policy are taken. Paseges is thus the main representative body of the cooperative movement and represents them when dealing with government. Paseges then provides all its member cooperatives with information and consultancy services. There is no conflict of interests when assisting member cooperatives to become more effective and while lobbying the government for more support on a non-party negotiating. Paseges claims to be non-political, and thus cannot be identified with any one political party; for fear that its opposition will be one day in power, and also because it must mobilise what political support it can to bring pressure on the government in the interest of its movement. For example discussions between Pasages and the government that started in 1975 and went through many phases and number of different legal drafts resulted in law change in 1979. In particular, much of the old law of 1915 was retained, consolidated, however also some important changes were included; for instance, before 1979 it was always unclear whether cooperatives could handle the processing of certain foodstuff. That is why every new factory was liable to be the subject of dispute with private enterprise. So it was with the supermarkets for ordinary consumers set up by the agricultural cooperatives.

To make the political game more complex, there is General Confederation of Agricultural Societies, which functions as a propagandist body that is allied with the left in politics and is far more overtly and one-sidedly political than Paseges. There are about five consumer cooperatives, which are agricultural cooperatives with consumer in control, although most supermarkets are not owned by cooperatives.

## **Ireland**

In 1846, when the great famine and agrarian outrage was rife in much of Ireland, peasants joined their forces in Vandaleur's Ralahine and Manufacturing Cooperative Association. Beginning with 52 elected members, the association rented the land from Vandaleur, paying in barrels of wheat and barley, and obtained livestock and the use of farm implements and effects in return for an annual interest payment on their capital value until such time as it could afford to buy them. The members received wages in the form of labour notes, which they could trade at the association's own store or exchange for coin for outside spending. At first the members found communal living difficult to get used to, but the experiment proved a success, although it lasted only 2 years.

After the collapse, half a century passed before cooperation in any form was revived. Then Sir Horace Plunkett came and his teaching successfully re-installed the cooperative movement in Ireland. During his lifetime, at the end of 19<sup>th</sup> century, he created a very strong cooperative movement in Ireland. At that time Ireland was under British rule and government was not involved in the cooperative movement in any sense. The first real agricultural cooperative, a dairy cooperative, was established in 1889. In 1894 the Irish Agricultural Organisation Society (ICOS) was established by Plunkett to support and promote the cooperative movement. The first rural cooperative was created in 1895 and the first livestock auction cooperative in 1955 (Van Bekkum and Van Dijk; 1997).

Farmers formed cooperatives as a means to give them economic independence from landlords and merchants, this was of an importance to the butter export to Britain, but the quality of butter was poor. It came chiefly from Denmark where new methods of butter making had been introduced. Although the new techniques gradually became accepted in Ireland, Horace Plunkett saw that an action would have to be taken if they were not to be entirely taken over by middlemen. It was not an easy task. Opposition from business interests and from various movements in the tangled web of Irish political and social life were encountered, but the most serious difficulties were the ignorance, timidity, hopelessness and mutual suspicions of the farmers themselves. Thus, the first cooperative creamery established in 1889 and 30 more followed in the next five years. By 1904, the turnover of the cooperative movement had grown by 900% (Ibid; 1997, p. 87).

Important and successful in the Irish cooperative history were also Irish loan funds, despite episodes of corruption. They emerged as a response to the 1822 famine, when charitable donation of £ 55,000 was given for the formation of the "Reproductive Loan Fund Institution" (RLFI). These loan funds achieved an extraordinary penetration rate in an extremely poor country, with a very small capital base and no government finance (Hollis and Sweetman; 1998). The Irish economy saw the existence of the Irish Loan Funds that were established by donations, or interest free loans from altruistic individuals. By 1843 there were about 300 funds operating across Ireland. However, during the 1880s and 1890s, many supposedly "charitable" loan funds were taken over by profiteers who abused the system (Ibid; 1998).

The legislation which governs cooperatives, “The Industrial and Provident Societies Act” that was created in 1893 and hence it is a British legislation was last revised in 1978. It contains no details regarding the behaviour of cooperatives, although the courts have made some clarifications. For instance, a cooperative can remove a member who is not doing business with the cooperative; a normal cooperative share can never have a value greater than its nominal value; and, when membership is terminated, cooperative shares are repaid at a nominal value (Van Bekkum and Van Dijk; 1997). There is no legal definition of a cooperative, however, most cooperatives adhere to the ICA’s principles on cooperation.

## **Italy**

The most developed cooperative sector in Italy is composed of mixed, production, service, housing, and agricultural-oriented cooperatives. This cooperative movement is represented by three national organisations: “Lega Nazionale delle Cooperative e Mutue”, “Confederazione delle Cooperative Italiane”, “Associazione Generale delle Cooperative Italiane”. These organisations include all types of cooperatives (consumer, agricultural, producer, etc.) that facilitate trade among them.

Individual cooperatives are organised in unions, known as “consorzi”, with local, regional, national or international responsibilities that play a fundamental part in the Italian cooperative movement and its development. These consorzi provide the cooperatives with services of a very varied nature or raise funds, which the cooperatives could not obtain on their own.

The socialists and the Catholics were particularly involved in the promotion of the cooperative movement. They both found the cooperative movement an impressive tool for social aggregation, although from different points of views. The socialists spread labour cooperatives among farm labourers keeping in close contact with the claims laid by the resistant leagues (Donati et al; 1990). On the contrary, the Catholics operated in the credit sector, creating a network of associations destined to organise the rural middle classes not reached by the socialists (Ibid; 1990).

The “Casse Rurali” of Italy were also modelled very closely on the German Raiffeisen credit cooperatives, and were successful in the North of Italy (Hollis and Sweetman; 1998). Researchers attribute this difference to different sources. While Putnam (1993) claims that this dissimilarity in performance is due to different levels of social capital in the Northern and Southern Italy, Galassi (2001) argues that such differences are not due to social capital, but other factors such as environs and institutions. As factors mentioned by Galassi (2001) are reflected in most social capital measures, the sources of the reasons might be very similar. Whatever the reasons, the impacts are clear, Casse Rurali raised funds through public deposits, and they obtained loans from saving banks secured through the unlimited liability of the members. Members were required to work gratis for the cooperative, and fines were imposed on members who failed to attend meetings (Hollis and Sweetman; 1998). In the North of Italy, where these cooperatives were relatively successful, the Casse Rurali obtained most of their funds through current and savings accounts, while in the South, where they were much less common, loans from banks were more important. Some Casse Rurali

developed into savings institutions, and often these institutions had deposits 2-3 times as large as their loan portfolio with the excess being placed in saving banks (Ibid; 1998).

Cooperative enterprises in Italy are legally recognised mutual associations. The legal framework is laid down in article 45 of the Italian constitutions. The law on cooperatives was reformed in 1992 with the intention of increasing flexibility with regard to the financing of cooperatives. Each cooperative is submitted to a number of obligatory principles or rules, which have to be fulfilled when establishing a cooperative. For instance, the minimum number of members is fixed at 50 for consumption cooperatives, 15 for production and worker cooperatives, and 9 for other types of cooperatives, which comprise also the agricultural cooperatives (Van Bekkum and Van Dijk; 1997). Cooperatives are exempt from taxes on legal persons and local taxes, if the total remuneration of the members is more than 60% of the other costs making up the added value of the undertaking, and if this figure is between 40 and 60%, the tax is only half of the normal rate.

## **Luxembourg**

The first agricultural “rural cooperative” was founded in 1873. Numerous local cooperatives were subsequently set up throughout Luxembourg at the turn of the century, including local producer associations, wine-growers cooperatives, dairy cooperatives, Raiffeisen banks and breeding cooperatives. After the WWII, the creation of a single professional organisation “Centrale Paysanne Luxembourgeoise” centralised the cooperative sector.

The legal requirements for cooperatives are laid down primarily in the grand ducal decree from 1945, which revises the act of 1900 on agricultural cooperatives (Van Bekkum and Van Dijk; 1997). This is amended by the act of August 1986. Furthermore, the act of 1950 on trading companies determines the organisational structure of trading cooperatives (Ibid; 1997).

There are two types of cooperatives in existence in Luxembourg, agricultural and trading cooperatives. Agricultural cooperatives (e.g. joint purchase of goods for farm enterprises, purchase of machines and tools for common use and joint purchase of agricultural products) may only have minority membership of non-farmers. The minimum number of members permitted is five (Ibid; 1997).

## **Netherlands**

The first cooperative for the joint purchase of artificial manure was founded in 1877, the first cooperative-owned dairy factory in 1886, the first cooperative vegetable market in 1887, the first cooperative sugar factory in 1889, and the first cooperative strawboard factory in 1900. Recently, cooperatives in the Netherlands play an important role in dairy, farm supply and banking (COGECA; 2000).

The first cooperative banks came into existence towards the end of 19<sup>th</sup> century, the Raiffeisenbank being formed as a unified affair in 1889 in Utrecht and the other Creditbank, for the south of the country, in Eindhoven. The members of each were themselves

independent cooperative banks, directly responsible to their own individual members. They survived the depression and the war and grew rapidly thereafter, as in 1970s they merged. Agriculture and the related banking sector benefited greatly from the Marshall Aid.<sup>11</sup>

The Dutch law regards the cooperative as an independent form of association (Van Bekkum and Van Dijk; 1997). Apart from a few stipulations, the legal rules for associations apply to cooperatives. There are also specific rules applicable to cooperatives, which concern the legal definition, distribution of voting power, regulation of the association, board of directors, forms of liability, etc. (Ibid; 1997).

## **Spain**

First attempts to set up agricultural cooperative businesses took place at the beginning of the 20<sup>th</sup> century. In 1913, the first National Congress for cooperatives was held, where 255 cooperatives were represented. During the era of the Second Republic (1931-1936), Spain's agricultural cooperative system whose fundamental ideology is based upon the social doctrine of the Catholic Church developed strongly. During the Civil War (1936-1939), development and progression of the cooperatives ceased (Moyano et. al.; 1990). The Franco regime essentially reformed the cooperatives in accordance with its own ideological principles. The absence of any developed welfare state in Franco's Spain of the 1940s and 1950s, and the outlawing of independent trade unions under his regime was helpful to the early development of the Mondragon group (named after a priest from Modragon that helped facilitated the development of cooperatives). It benefited from the excellence of Franco's cooperative laws and from the favourable tax arrangements, which such enterprises enjoy.

Recently most cooperatives are active especially in marketing of dairy, wine, olive oil and fruit and vegetables. Similarly as in Italy and Portugal, cooperative regulations are laid down in the constitution. Spanish constitution explicitly states that its "public powers should promote cooperative societies by means of appropriate legislation" (Van Bekkum and Van Dijk; 1997). Cooperative law elsewhere in Spain effectively insists that there should be an identity (or near identity) between those who work in a cooperative on the one hand and those who own and control it on the other. Spanish cooperative law is superior in other more detailed respects as well, and thus cooperatives enjoy a complete holiday from corporate taxation over the first ten years.

## **Sweden**

The first Swedish farm cooperative was formed in 1850. County agricultural societies and grange associations spawned local farmers' cooperatives which purchased farm inputs and marketed members' crops. However one of the biggest obstacles these cooperatives faced was that no legislation applicable to cooperative associations existed - they were governed by legislation for joint-stock companies. The government adopted legislation concerning cooperatives in 1895 (Ibid; 1997). As a result, cooperatives could form associations

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<sup>11</sup> One third of the Marshall Aid went to agriculture.

without having to adjust for joint-stock company laws. Following the adoption of the new law, several producer cooperatives were created.

By the 1930's, the combination of the Great Depression and crop surpluses resulted in an agricultural crisis as prices hit all time lows. The government interceded with a number of measures that constituted the root of Sweden's agricultural policies. In 1947 it was decided by the government that crop and food prices would be fixed. Thus, the cooperatives gained strength under Sweden's protective agricultural policies that stimulated both agriculture and cooperation.

Currently, there are about 50 agricultural cooperatives in Sweden, mainly focusing on marketing, meat processing, farming and forestry. The rules on market competition in Sweden are laid out in the Swedish Competition Act (SCA). When the SCA was first enforced it contained no exemption rules for cooperatives (Ibid; 1997). New rules regarding cooperatives came into force in 1994. The SCA provides exemption for cooperative associations as long as they abide the following rules and the cooperative has the legal form of an association. Most cooperatives in Sweden abide by the following cooperative principles: equal payments for cooperative costs (e.g. distance neutrality), one member, one vote, equal prices for member products. To enter a cooperative, farmers must meet the quality and environmental requirements of the cooperative and pay a modest fee. To leave the cooperative, the farmer must give a written notice in advance (1-6 months) and then he receives his entire equity (with no interest) within a few months if he is retiring, or after a few years if he still farms (Ibid; 1997).

## **Portugal**

While farmers' associations have a fairly old-established tradition, the cooperative movement is a more recent issue (OECD; 1975). In the period after the 1974 April revolution, several thousands of cooperatives were established in Portugal. This "cooperative boom" was possible due to a positive attitude of Portuguese newly formed government towards the cooperative principles – renewal and democracy (Ibid; 1975). In the same period, huge pressure was laid upon the cooperatives to form federations and unions. Aim of the Federations was to coordinate the representation of the interest of the respective sectors. Cooperatives in the southern part of Portugal were founded in areas where huge areas of land, owned by large landowners, were split up according to land reform and distributed among farmers. Cooperatives in the northern part however arose as joint businesses of small farmers.

Similarly as in Italy and Spain, also in Portugal are cooperative regulations laid down in the Constitution. Besides that, the basic legal framework under which Portuguese cooperatives work can be found in the Cooperative Code ("Codigo Cooperativo") of 1996 (Van Bekkum and Van Dijk; 1997). In principle, a cooperative is a legal entity with variable capital and composition, with the purpose to satisfy the economic, social or cultural needs of its members. According to the "Codigo Cooperativo", each member must have one vote in the general assembly. The minimum number that can form a cooperative is set at ten. Membership in cooperatives is, in principle, open to everyone. To be accepted as a

member, one has to be a farmer, apply to either the board or the general assembly and acquire at least three shares. In general, members are allowed to leave the cooperative at any time. Departure arrangements are laid down in the by-laws, including the procedures for paying back the value of one's shares. In most cases, by-laws stipulate the obligation for members to deliver their total production to the cooperative, or obtain all products from the cooperative.

## **United Kingdom**

The first cooperatives in the United Kingdom were established in 19<sup>th</sup> century as consumer cooperatives. Consumer cooperatives were the means whereby workers could assure themselves of supplies of unadulterated food and other well-made goods at reasonable prices instead of being dependent for them upon shopkeepers. In 1867 the first farmers' cooperative was established. In the succeeding years and through most of the following century the cooperative movement mainly developed in the supply sector, while little progress was made in marketing. Until the 1920s agricultural cooperatives advanced slowly, but after the collapse of the federal Agricultural Wholesale Society, agricultural supply cooperatives diversified their activities including processing, marketing or technical or management services for their members.

Even in the recent days, agricultural cooperatives are not as strong in Britain as in some other European countries, partly because public boards, such as Milk Marketing Board, undertake a high proportion of agricultural marketing (Flynn and Hawkins; 1990). Nevertheless, England had a positive experience with Lending Charities, which operated on the revolving loans principles in the time period of 1480 – 1660 (Hollis and Sweetman; 1998).

Current British law does not provide a clear definition of a cooperative, but there are incentives to steer the development into introducing a Cooperative Bill (Van Bekkum and Van Dijk; 1997). Cooperatives can be registered under either the Industrial and Provident Societies Act, or the Companies Act, both regarded as enabling acts (Ibid; 1997). The expression "Farmer Controlled Business" is increasingly used to designate all organisations, including cooperatives, in which farmers hold both control and the majority of shares in the ownership structure (Ibid; 1997).

## 9. Common denominators for a cooperative set-up

Based on the evidence from the fifteen EU countries, and supplemented by the theoretical background this section identifies the following factors as the most influencing and chief in the set-up of cooperatives (for illustration c.f. table 6 in the appendix).

Step 1: Economic threat

Economic threat is linked to the technical economies of scale and /or political development (external factors). In Denmark it was the response to the imposed threat of inexpensive import of grain and the non-existing protection of tariffs, which caused production deviation when Danish farmers devoted themselves to the production of value added animal products, such as bacon and butter, that was produced from cheap primary products (cereals). The immediate need to market these products, plus, the misuse of the town merchants (another, consequential form of threat/stress) mobilised the farmers to form cooperatives.

Similarly, in many other European countries (Germany, France) the formation of cooperatives was also a response to threat imposed on farmers during industrialisation. In Ireland the threat came from famine (1831), which has triggered the alternative mechanism of survival, i.e. cooperatives. 110 years later, the same kind of threat of survival was imposed on Spain, when the Basque country was in ruins as a result of civil war (1941). These external circumstances of threat of survival triggered the „alternative way/method“ of survival, with the hope of prosperity, which resulted in the formation of cooperatives.

However, in countries such as Belgium and Italy, the cooperative movement, is based on ideological basis. The evidence implicitly illustrates that these ideological basis of the cooperative movement not only gathered people of similar believes, but have developed as a response to some type of threat.<sup>12</sup>

In the same pattern, the evidence illustrates a long history of six centuries in regard to Greek cooperatives. Were they formed on any base of threat or stress? Probably “yes“, they emerged as a base for survival. The evidence also illustrates, that with no circumstances of threat, as in the United Kingdom, where the function of cooperatives was especially in the agro-marketing services substituted by public boards, i.e. the Milk Marketing Board, the cooperatives have not such a strong base.<sup>13</sup>

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<sup>12</sup> Sociologists claim that people with similar background, believes, etc. are more likely to cooperate than a heterogeneous group of people.

<sup>13</sup> Implies to cooperatives in the agricultural sector, British consumer cooperatives have long tradition.



Step number 1 therefore illustrates the incentive for cooperatives formation, being a threat of famine and a response to avoid its adverse effects.

#### Step 2: Marketing of the cooperative idea

The second factor enabling the set-up of cooperatives is the existence of more internal factors, the legal and/or structural constraints or opportunities.

The historical evidence identifies the importance of a charismatic leader (e.g. priest or member of elite) as in Germany - F. W. Raiffeisen (1848), Hermann Schulze-Delitzsch, W. Haas (1883), United Kingdom – Robert Owen (1771-1858) and the Rochdale Pioneers (The Robert Owen Museum; 2002, The Rochdale Pioneers Museum; 2002), Ireland - Horace Curzon Plunkett, the son of English aristocrat who had experience in USA and became interested in cooperatives, Spain - Fr. Jose Maria Arizmendiarieta, priest of small town of Mondragon, who had himself fought in the civil war, was influenced by the social doctrine of the church, he sought to heal the wounds inflicted by the war by ministering to the social and cultural needs of the suffering population.

However, this step may not to be necessary. As the Danish evidence suggests, farmers with the minimal help of government have set-up their successful cooperatives. Nevertheless, even Denmark has in some sense a charismatic leader, the educational reformer N.F.S. Grundtvig who promoted not directly the cooperative movement, but through the famous “high schools movement” taught the farmers the basic principles of democracy and democratic responsibilities.

#### Step 3: Political environs

Evidence from a number of countries shows that favourable political climate and targeted lobbying efforts helped the cooperative movement to enhance their successful performance. Efficiency on the cooperative level is defined as providing greater benefits to its members despite the potential externalities for the greater society – either positive or negative. Thus, the efficiency of cooperative lobbying is examined in terms of the benefits it provides to its members, not by its impact on the larger welfare (Fulton; 2001).

In Greece, where agriculture employs relatively more people than elsewhere in EU, the organisation for agricultural cooperatives with its propagandist body “General Confederation of Agricultural Societies“ has a relatively higher influence over the affairs of the country. Elsewhere, the cooperative movement is borne on conflicting political observations, such as the case of agricultural cooperatives in Belgium and Italy. Gueslin (1990) gives the example of United Kingdom in the crises of 1930s, when first the Labour (1931) and then the Conservatives (1933) promoted the cooperative as a feature of their economic policy.

While on the national level cooperatives are represented by their national organisations, on the EU level they are represented by COGECA (Comite General de la Cooperation Agricole de la C.E./General Committee for Agricultural Cooperation in the European Union). COGECA represents the general and specific interests of EU agricultural cooperatives vis-à-vis the EU institutions and promotes relations between cooperatives across borders. For similar purposes exist the INTERCOOP Europe and the International Cooperative Alliance (ICA).

## **10. Conclusions and recommendations**

Cooperation is one of the proven avenues how farmers can pull their efforts to gain a stronger position at the market. Thus agricultural cooperatives play a stronger role in countries where agriculture has until recently been predominant (e.g. Greece and Spain), and in countries with large agricultural export (e. g. Denmark and France).

A fundamental difference between the cooperatives in EU countries and the CEEC exist. While the existence of farmer-owned marketing or supplying cooperatives is more common in the EU countries, the existence of production cooperatives, usually composed of landowners and employees, dominates the CEEC agricultural sector. Poland is the exception to this strong producer cooperative structure. The malfunction of production cooperatives during the communist regime was a consequence of a mix of reasons, primarily rooted in the command economy and forced membership. These factors probably overshadowed the non-homogenous objective of the cooperatives, or the lack of social capital - more salient features. With the restructuring of these cooperatives, the communist legacy in the new cooperatives is slowly vanishing. However, compared to the restructured cooperatives, private farms are not burdened by this inherited legacy of the communist regime. Furthermore, the reformed cooperatives are not necessarily structured around a uniform objective, making its members and board pursuing different goals and objectives.

The paper then turns to the EU countries experiences, and identifies common steps and patterns to the cooperative development, consisting of (i) economic threat, (ii) marketing of the cooperative idea, and (iii) political environs. Contrary to most EU countries, the evidence from Finish cooperatives exhibits that the government first provided the organisational structure for the functioning of cooperatives, a top-down approach. This was possible due to the high social capital, partly given by the possible self-selection into cooperatives, presented in rural areas in Finland. However, due to the lack of social capital in CEEC, this top-down approach cannot be recommended. In addition, evidence from a number of European, as well as international cooperatives show that organisations that depend on government help were more fragile and tend to lose their activity focus.

For the success of the cooperative, it is imperative to ensure that all cooperative members have good information about each other without great effort, and do self-select into the cooperative. When this peer-assessing mechanism is hampered, individuals start to act strategically for themselves rather than for the benefit of the group. Historical evidence from German credit cooperatives show that they were regularly audited, and thus, unlike the Irish loan funds, were more successful in recovering losses incurred by frauds. This German-Irish

difference in approach is often justified by the difference in rates of emigration that, among other factors, back-points to the higher level of social capital in Germany. Beside lower level of social capital, Irish credit cooperatives, compared to German cooperatives received substantial governmental assistance.

Despite these three steps that determine cooperative development, this approach cannot be directly applied in the CEEC, due to the fundamentally different situation. In fact, these three steps were probably present in the development of the cooperative movement in CEEC, e.g. the development of credit cooperatives, known as kámpelický, during 19<sup>th</sup> century under the promotion of Dr. Kámpelík. However, due to the discontinuity of the natural cooperative development caused by the command economy of the communist regime, the cause of the malfunction of current CEEC cooperatives is most likely attributed to this communist legacy.

**Appendix:**

**Table 3: Principal distinguishing features of cooperatives and companies:**

	<i>Cooperatives</i>	<i>Companies</i>
<i>Primary motive</i>	- to provide for the common needs of the members	- to make profits for the shareholders
<i>Voting rights</i>	- based on principle, one man, one vote, regardless of the size of shareholding: control is shared equally between the members	- based on the size of shareholding: the biggest shareholder has the greatest degree of control
<i>Rate of return on investment</i>	- the shareholder is investing not primarily for the return he will get on his money, but because he is a beneficiary in other ways, whether as a user of its services, a customer for its goods or a worker	- paid at a full commercial rate or a dividend paid on equity capital
<i>Profits</i>	- distributed in such a way of work or custom rather than what they have contributed financially in share capital. Though they are differences from one country to another, they are all distinguished by the fact that ownership and control rest with members: workers are entitled to membership by virtue of their employment in the coop	- paid at a full commercial rate or a dividend paid on equity capital

**Table 4: Cooperatives and market shares in different sectors and countries**

	<b>Austria</b>	<b>Belgium</b>	<b>Denmark</b>	<b>Germany</b>	<b>Greece</b>	<b>Finland</b>	<b>France</b>	<b>Ireland</b>	<b>Italy</b>	<b>Luxembourg</b>	<b>Netherlands</b>	<b>Portugal</b>	<b>Spain</b>	<b>Sweden</b>	<b>UK</b>	<b>Czech Republic</b>	<b>Estonia</b>	<b>Poland</b>
<b>Dairy</b>																		
<i>Dairy products</i>	94	50	95			96		97	38		82		40		55		25	75
<i>Milk</i>				70	35		49			80		82		95		55		
<i>Cheese</i>					50													
<b>Meat</b>																		
<i>Meat</i>				30		69								40		25	5	
<i>Pork/pigs</i>		20							12		35		25		25			
<i>Beef</i>	20						34		15						10			
<i>Abattoirs</i>			89					70										
<b>Farm input/supply</b>																		
<i>Supply</i>			57	50		41					54		70	70				32
<i>Fertilizer</i>							60			75					30			
<i>Cereals</i>	65				49		74		17	75			35		25			
<i>Feeding stuff</i>							45			60								
<i>Seed &amp; plants</i>										95								
<i>Wholesale</i>								65										
<i>Eggs</i>			50			50	40		8				20	15				
<i>Potato starch</i>			79								100							
<i>Olive oil</i>					60				11				75					
<i>Wine</i>				40	50		52		55			49	70					
<i>Fruit &amp;</i>		72	20						25			45	30		32	28		8

vegetables																		
Flowers										95								
Oilseeds														50	3			
Cotton					20													
Forestry						33								60				
Animal Breeding						100												100
Fur			97															
Sugar	100						28	7		63								
Tobacco							100	30										

Source: COGECA; 2000, Polish National Council of Co-operatives; 2001, Estonian Co-operative Association; 2001, Association of Agricultural Co-operatives and Companies of the Czech Republic; 2001.

**Table 5: Top agricultural cooperatives in selected EU and CEE countries (above 10% market share)**

Country	Cooperative	Sector	Market share (%)
Austria	Bergenslandmilch	Dairy	36
Belgium	AVEVE	Supply & services to agriculture	25
	BELGOMILK	Dairy	20
	COVAVEE	Meat	20
	VMV	Fruit & Vegetables	20
	BZU	Dairy	10
Denmark	Danish Crown	Slaughter house	80
	MD Foods	Dairy	90
	DLG	Supply	27
	Landsforeningen Den locale Andel	Supply	25
	Steff Houlberg	Slaughter house	12
Finland	Osuuskunta Metsaliitto	Forestry	33
	Valio	Dairy	69
	Hankkija	Supply	41
	Atria Ltd.	Meat	31
	HK Ruokatalo	Meat	28
Italy	Gruppo Conserve	Fruit & Vegetables	40
	Gruppo Cavivo	Wine	12
	AVI-COOP	Poultry & rabbit breeding	15
Sweden	Arla	Dairy	64
	Swedish Meats	Meat	75
Estonia	E-Piim	Dairy	15
	Saaremaa	Dairy/meat	10
	Estonian Animal Breed	Animal Breeding	100

	Central Oil	Cereal (oil)	50
Lithuania	KOTENAS	Trade in oilseed rape & cereals	10
	VEGETABLE CENTRE	Trade in vegetables	25

Source: COGECA; 2000, Estonian Co-operative Association; 2001, Lithuanian Association of Agricultural Cooperative; 2001.

**Table 6: Summary of common denominators of cooperative development in current EU countries**

	Economic threat	Marketing of cooperative idea	Political environs
Austria	Dire situation in rural areas	Friedrich Wilhelm Raiffeisen	Political support by the Austro-Hungarian Monarchy, Financial support by regional parliaments, and Legal framework of the “Gesetz uber Erwerbs- und Wirtschaftsgenossenschaften” from 1873
Belgium	Cooperative development along three political lines: Social, Christian and Non-aligned		
Czech Republic	First cooperatives in financial services of agriculture, started as a economic defense against most institutions that were in hands of the aristocracy	Frantisek Cyril Kamplek	Cooperatives created in politically stable and relatively free environment of rural movement and radicalism against Austro-Hungarian dualism and pursuit towards economic autonomy
Denmark	Threat of cheap imported grain	N. F. S. Grundtvig	No government interference, truly a farmer’s movement
Finland	Top-down approach followed after the establishment of Pellervo Society in 1899 by the government		

France	Dire situation of farmers in southern France	Wine farmers	Government created national associations of cooperatives
Germany	Dire situation in rural areas	Friedrich Wilhelm Raiffeisen and Herman Schulze-Delitzsch	No direct government interference. The Cooperative Act is based on principles of self-help, self-responsibility and self-governance
Greece	Ancient tradition		Highly hierarchical structure with propagandist body that is in charge of lobbying at the government
Ireland	Famine in 1831	Sir Horace Plunkett	No direct government interference. Legislation “The Industrial and Provident Societies Act”
Italy	Cooperative movements developed along three lines, distinguished by the adherence either towards Socialist or Catholic framework		
Luxembourg	Cooperatives influenced by the international movement of the Raiffeisen-type and other cooperatives	No particular person	Creation of professional organization – Centrale Paysanne Luxembourgeoise after the WWI
Netherlands	Cooperatives have been set-up as instruments of countervailing power and came into being only when farmers’ position in the market demanded corrective action. For that reason, cooperatives are always highly specialised and single-purposed	No particular person	The position of the Dutch government towards cooperatives has always been a neutral one
Spain	Started in Basque country that suffered by civil wars	Fr. Jose Maria Arizmendiarrieta	Based on the social doctrine of the Catholic church Spanish constitution explicitly states that public powers should promote cooperative societies
Sweden	Result of Great depression and crop surpluses	No particular person	Government interceded with a number of measures that constituted the root of Sweden’s agricultural policy until recently
Portugal	Major establishment of	No particular	This cooperative boom was



	cooperatives after revolution of 1974	person	possible due to a positive attitude of Portuguese newly formed government towards cooperative principles
United Kingdom	First set-up consumer cooperatives as a mean whereby workers could assure themselves of supplies of unadulterated food at reasonable prices	Robert Owen	No direct government interference

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