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# DEVELOPMENT OF COOPERATIVES IN THE REPUBLIC OF MOLDOVA

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**Abstract:** *The paper presents the review of the development of cooperatives in the Republic of Moldova during the post independence period. After the massive land privatization a large number of small scale agricultural producers occurred that hardly can compete with large scale producers. This preserves a state of underdevelopment of small farmers and of the rural sector. To identify problems that jeopardize cooperation processes and potential solutions a study on the development of cooperatives in the country was carried out.*

*The major problems and possible solutions were identified through a semi-structured survey that encompassed 150 agricultural producers purposively selected in North, Central and South regions of the country.*

*Addressing this critical situation can be made by coagulating dispersed efforts of small scale farmers to reduce costs of purchasing agricultural inputs and services, improve the access to post harvest, processing, transportation, financing, consulting services. Access to more stable markets and negotiation of better prices and better conditions of delivery can also be achieved through consolidated efforts agricultural producers' groups.*

**Key words:** *agriculture, small scale agricultural producers, agricultural cooperatives, marketing groups*

**JEL Classification:** *Q13, Q15.*

## INTRODUCTION

The agricultural sector plays an important role in the economy of the Republic of Moldova. It is a generator of demand, thus enhancing the creation and development of added value in other branches of the national economy such as trade, construction and financial services. At the same time, it faces several challenges, particularly small scale production, insufficient productivity and quality, as well as limited access to finance.

At the same time, small scale farms, including subsistence and semi-subsistence produce a large part of high value crops such as fruits, nuts, grapes, vegetables and potatoes that are mostly sold in open air agricultural markets. Meanwhile, the decrease of productivity in the agricultural sector is directly related to the lack of investments, capital and credit availability, factors that have resulted in farmers applying low yield technologies and drastically reducing their use of agricultural inputs.

Besides the above mentioned problems, there are other major obstacles that hamper the development of cooperation in agriculture such as the land consolidation, lack of the labor force, excessive bureaucracy, difficult access to financing sources, lack of strongly developed and supporting legislative framework, etc.

In terms of statistical aspects, there is big gap in elaboration of the official statistic data concerning the development of cooperatives in the Republic of Moldova.

Thus, cooperation is seen as one of the key solutions for the multiple problems faced by the cooperating agricultural producers, among which can be mentioned: the mentality that still links the notion of cooperative with those of kolkhoz; the lack of mutual confidence among cooperative members; necessity of enormous efforts for convincing people to cooperate; difficult process of establishing common vision referring to the objective of the cooperation; small share of success stories that could motivate farmers to associate; lack of management skills and of the integrity of the cooperative leaders; difficult and slow decision making process inside the cooperative.

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## **MATERIALS AND METHODS**

The paper on the development of the associations and partnerships of agriculture producers in the Republic of Moldova aims to provide valuable information on producers' cooperation in all three regions of the Republic of Moldova. The research is based on a modern theoretical and applied approach in terms of methodology, with an emphasis on field research methods, like face-to-face interview and questioning. The wide range of respondents determine the comprehensive character of questioning, allowing to identify the opportunities, major challenges and constrains for producers' cooperation. The use of this interactive methodology provides valuable knowledge for the design of the field support activities. Besides the above mentioned research methods, a series of other socio-economic tools have been used: analysis, synthesis, forecasts, comparative method, etc.

## **RESULTS AND DISCUSSION**

Cooperatives have become a social economic necessity, providing small-scale farmers a viable alternative to become competitive with large scale economic agents and increase bargaining power relative to suppliers of materials and agricultural markets.

At the same time, creation and development of cooperatives and other forms of associative agricultural producers must be seen as an evolutionary process that has as the main motivation factor socio-economic interests of small-scale agricultural producers.

Agriculture is an important sector of the national economy that can exploit and capitalize the potential of the country. Agriculture, including the primary production and processing industry has a multiplier role in the economy, generating demand and stimulating the creation of added value in other branches of national economy such as trade, construction and financial services.

The sector faces several challenges, namely, small scale production, large diversity of cultivars, insufficient productivity and quality, limited access to finance. It also faces bottlenecks in limited entrepreneurship capability and inadequate skilled and competent human resources.

Excessive fragmentation of agricultural land underlies a number of problems for the country's horticultural sector. In particular, the division of land into small plots did not allow intensification of the horticultural production and highlighting of the scale effect in the use of agricultural technologies, supply of inputs, processing, transportation, storage and marketing of horticultural products.

Specific climate conditions affect seriously the agricultural production because of often droughts, stormy rains associated with hail, early spring or autumn frosts.

Irrigation is limited to small areas closer to larger rivers Nistru and Prut and some inland water reservoirs, due to high costs of irrigation water and insufficient quality of the water for irrigation.

The further development of the agriculture is strongly linked to creation and maintaining of a critical mass of population endowed with entrepreneur spirit, knowledge and specialized training, skills and able to work in conditions of the market economy. Creation of the human potential in the agriculture sector is a long lasting and capital consuming process.

In order to identify the key features of the agricultural cooperatives and other forms of associative activities a survey of agricultural producers was carried out. In the framework of survey 50 members, 45 non members and 43 former members of cooperatives have been interviewed using a semi structured questionnaire.

As major findings one can state that the average age of the interviewees is about 51 years with small deviation as 52 years for members of cooperatives, 47 years for non members of cooperatives and 54 years for former members of cooperatives.

The gender analysis of the interviewed members, former members and non members of the agricultural cooperatives shows that the gender balance is more visible among members of

cooperatives, while among non members of cooperatives or especially among former member of cooperatives the share of male persons is obviously higher (see figure 1).

This can lead to the conclusion that women are more compatible with work in cooperatives than men that is why the share of men among former members is so high.

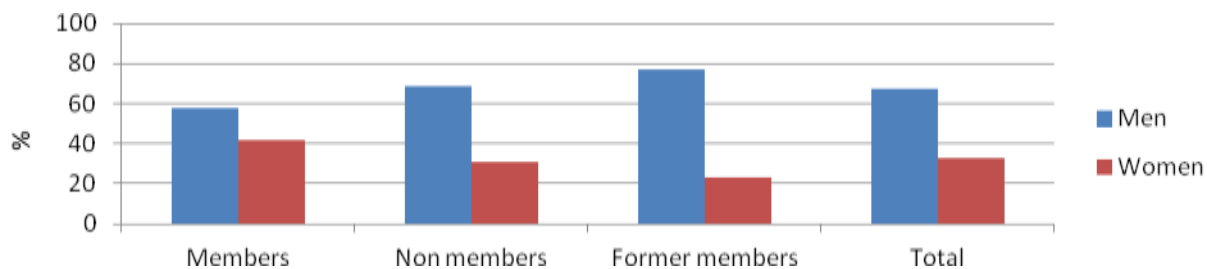


Figure 1. Gender structure of the interviewed members, former members and non members of the agricultural cooperatives

Source: elaborated by authors based on own data

The average experience in agricultural activities of interviewed persons is about 15 years that speaks about a rather good experience in agriculture.

Interviewed members of cooperatives have on average a 6 year experience and interviewed former members a 7-year experience of cooperative activity. The average number of members of cooperative is 28 members for existing cooperatives and 101 members in case of former members. This can lead to the conclusion that at present in the Republic of Moldova cooperatives that have on average about 30 members are more viable than those that have about 100 members.

A large part of the interviewees (about 29%) beside the agricultural activities have also another sources of revenues among which the most spread are providing technical services, lending storage or refrigerating capacities etc.

There are some obvious similarities concerning the size of the land owned by members and former members of the agricultural cooperatives that vary around the value of 9,1-9,5 hectares. This gives a hint concerning the average size of the potential members of agricultural cooperatives in conditions of the Republic of Moldova. In the same time the acreage of the land owned by non members of agricultural cooperatives is about 50 hectares (see figure 2).

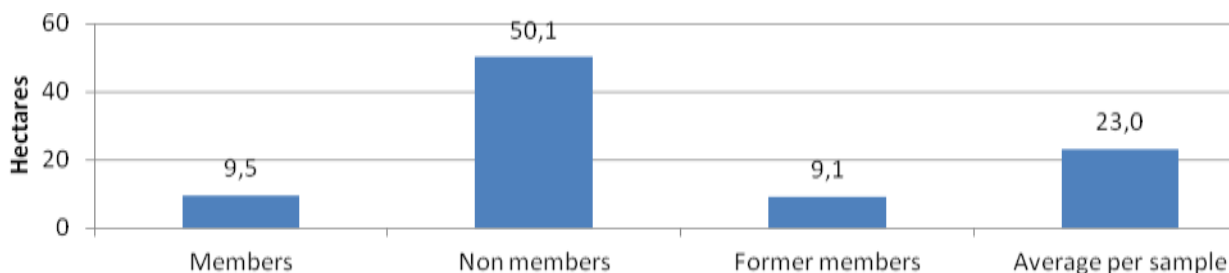


Figure 2. Average acreage of the land owned by interviewed members, former members and non members of the agricultural cooperatives, hectares

Source: elaborated by authors based on own data

In the same time a large number of farms work on the rented land. Thus about 50% of interviewed members of cooperatives, 36% of the former members of cooperatives and about 44% of the non members of cooperatives rent land for agricultural activities. The acreage of the land rented vary from about 30 hectares in case of the former members of cooperatives to about 258 hectares for non members of cooperatives. This picture again gives a hint that farms with an acreage larger than average are less motivated to cooperates with other farms or at least with those that are have smaller land areas.

Cooperatives play an unimportant role as a main market outlet for the majority of the responders. Thus, even in case of interviewed members of cooperatives less than 6% of responders mentioned cooperatives as a main market outlet, while in case of non members or former members of cooperatives no positive answers were registered at all. This shows the weak commercial orientation of the existing cooperatives comparing with wholesale companies and markets, open air agricultural markets, collecting companies, processing factories and other market outlets.

The most important activities that are coordinated through the agriculture producer group are related to trainings, input purchasing and marketing activities. To a less extent are coordinated through the cooperative such activities as: lobbying, production, storage, and transportation. Financing, packing and processing are the least coordinated activities inside the cooperatives to which belongs interviewed members of cooperatives (see figure 3).

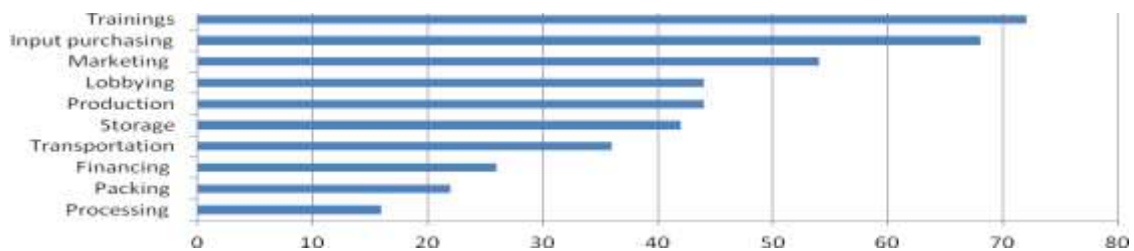


Figure 3. The most important activities coordinated through tyhe cooperative by active members, %  
 Source: elaborated by authors based on own data

There are some significant differences between activities coordinated through cooperation at present members and former members of cooperatives. First of all this is the degree of personal involvement in common activities that reached the level of 60-70% of interviewed active members and only about 30% of former members.

The second difference is related to the structure of priorities. Thus in case of active members these are “Trainings”, “Input purchasing” and “Marketing” activities, while former members mentioned among the most important “Input purchasing”, “Production”, “Transportation” and “Marketing” activities.

The opinion of non members concerning the most important factors that could motivate them to establish or join a cooperative is focused more on such issues as: getting a better prices for such agricultural inputs as seeds, fertilizers etc., having a better organized post harvest and sales activities, better access to agricultural machinery and equipment, better access to post harvest infrastructure, access to credits and grants.

A smaller importance is given to improvement of knowledge and skills, better access to infrastructure of roads, irrigation and energy, and better organized agricultural production. The least important issue is the mutual support and assistance (see figure 4).

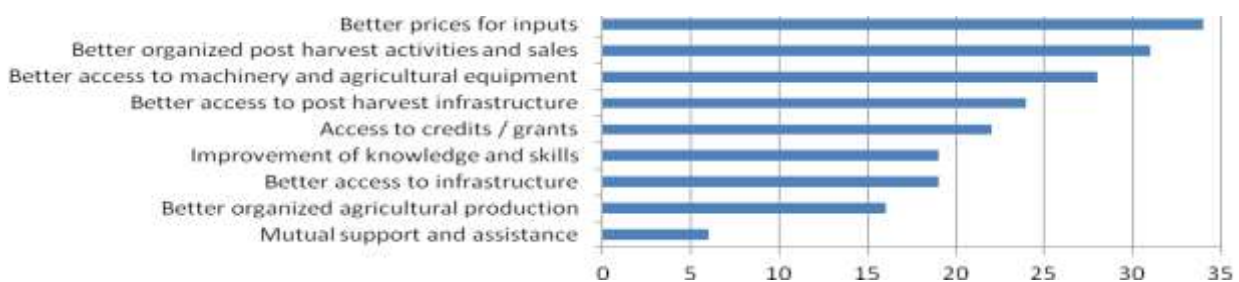


Figure 4. Factors that could motivate non members to establish or join a cooperative, %  
 Source: elaborated by authors based on own data

The level of participation in the decision making processes of cooperatives is rather high among interviewed members of cooperatives. Thus only 12% of these respondents mentioned that

they do not participate in the process of decision making, but they are interested to be involved in this process. In the same time 30% mentioned that they are involved in the decision making process but at insufficient level, while 58% mentioned that they are satisfied with the level of involvement in the decision making process.

Interviewed members of cooperatives show a high level of trust to decisions made by the management of cooperative. Thus 78% of respondents mentioned that they are confident and 14% of respondents mentioned that they are very confident in the decisions made by the management of cooperative. Just 4% of these respondents mentioned that they are not confident and other 4% that they are not confident at all in the management decisions. What is important to mention is the lack of neutral evaluation of the level of trust in the decisions made by the management of cooperative.

Among the most frequently mentioned reason for leaving a cooperative were mentioned the lack of mutual trust between agricultural producers. Another reason was the lack of effective communication and mutual support between cooperative members. Closely related to this is the lack of understanding between the producers on sales and processing the agricultural land. In some cases the reason for leaving the cooperative was the lack of management skills of the administrator and the fact that all incomes were going into the pocket of the cooperative administrator.

Lack of market outlets for large quantities of agricultural products and therefore the unstable economic situation of the cooperative members also were mentioned as a negative factor. As a result of different negative factors many cooperatives were disbanded and in the situation when there were no other cooperative in their region many agricultural producers decided to work individually.

In the opinion of the non members of cooperatives the main risks of the cooperation among farmers are related to the “Lack of mutual trust between agricultural producers” – 87% of respondents, the “Lack of proper management abilities for cooperative in my village” – 67%, “Lack of supporting policies at central and local level”, -60% and the “Unclear statute of the proprietorship over the cooperative assets” – 58% of respondents. “

Some other risks such as “Lack of knowledge about advantages and disadvantages of the cooperation between agricultural producers”, “Lack of success stories of cooperation in my field of horticultural production”, “Difficult coordination of the common production and marketing policies”, “Insufficient communication between members of the cooperative” and the “Lack of technical support for members of cooperatives“, are perceived as being less important.

What is important to mention is the equal appreciation of the “Lack of mutual trust between agricultural producers”, “Lack of proper management abilities for cooperative in my village” and the “Lack of supporting policies at central and local level”, as the most risky factor both by interviewed members and non members of cooperatives. On the other hand the “Lack of technical support for members of cooperatives“ is seen by both members and non members as the least risky factor for cooperation.

Only about one third of interviewed non-members of cooperatives mentioned that they want to create a cooperative , about one quarter have no willingness for it, and almost 42% of the respondents have hesitated to give a clear answer with this respect (see figure 5).

The situation is quite similar in case of joining an existing cooperative. In this case the share of persons hesitating to give a clear answer was of about 33%, about 27% have a rather high willingness and 13% a very high willingness to join an existing cooperative while about 16% and 11% have a low and very low willingness to do it (see figure 6).

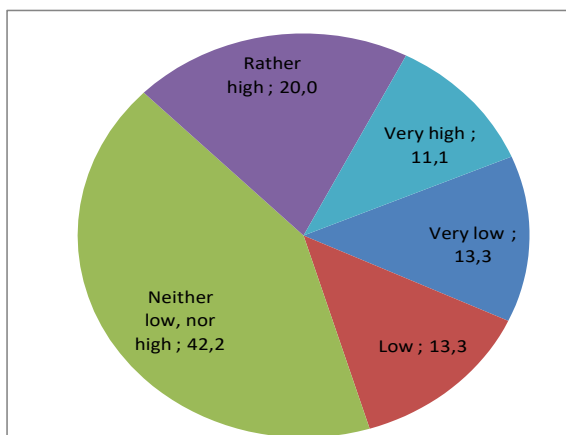


Figure 5. Willingness to create a cooperative among non members, % of respondents

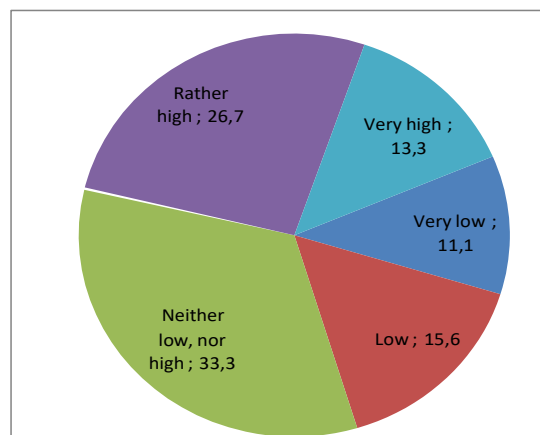


Figure 6. Willingness to join a cooperative among non members, % of respondents

Source: elaborated by authors based on own data

Despite the negative experience, the share of former members of cooperatives willing to create a cooperative is about 30%, some 35% of respondents do not want to create a cooperative and another 35% did not give a clear answer. While asked about joining an existing cooperative the distribution of answers was almost the same (see figures 7 and 8).

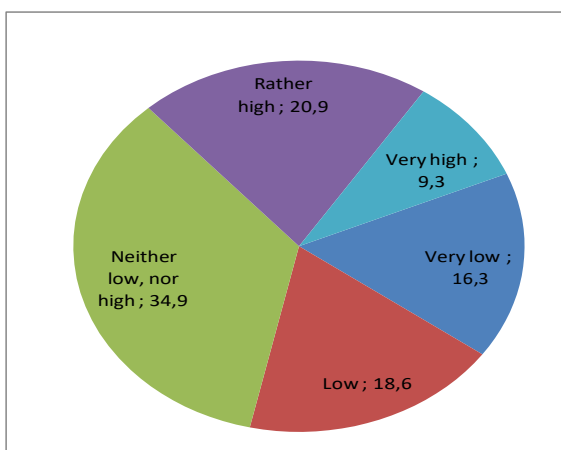


Figure 7. Willingness to create a cooperative among former members of a cooperative, % of respondents

Source: elaborated by authors based on own data

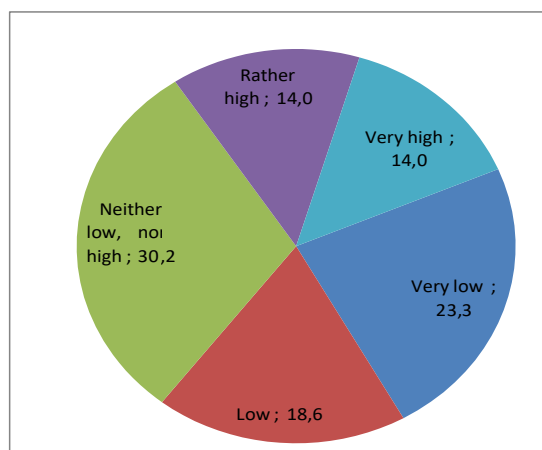


Figure 8. Willingness to join a cooperative among former members of a cooperative, % of respondents

Evaluation of the further development of their cooperatives by their members is quite careful. Thus about 76% of respondents forecast a slight increase and 2% a strong increase of the number of cooperative members. About 14% of them think that their number will remain the same. While 6% assumes a strong decrease and some 2% a slight decrease of the members of their cooperative. Thus one can draw a conclusion of a rather static vision of the interviewed members concerning the evolution of their cooperatives.

## CONCLUSIONS

Understanding how collective action can help address the inefficiencies, coordination problems or barriers to market access is particularly important and this paper helps at providing key learnings on how best to use collective actions to promote profitable and inclusive value chains.

Even the poorest farmers typically have some formal and informal connections to markets, although the main production may be subsistence oriented. Thus the key challenge is to ensure better and more profitable market integration for this group.

Cooperatives have become a social economic necessity, providing small-scale farmers a viable alternative to become competitive with big economic agents and increase bargaining power relative to suppliers of materials and agricultural markets. Currently cooperatives in Moldova are in a quite complex and difficult situation given the multiplicity of managerial, financial, legislative and consultative problems they face. At the same time, farmers are not yet fully aware of the importance of support and mutual assistance to develop cooperatives and other forms of associative activity.

Low productivity, low investment capacity and poor access to markets appear to be evidence that the association in agriculture intervention is the only solution for the survival of small farmers. Nevertheless, development of cooperatives has not yet become an obvious priority for subsidy system in Moldova and is not sufficiently supported through financial and technical assistance national and external projects.

#### *Recommendations*

- The increase of the number of cooperative members and further merging of cooperatives into larger association will contribute significantly to the increase of their bargaining power versus retailing sector and middlemen.
- Agricultural and rural development policies have to be more focused on strengthening cooperative movement that will solve as a side effect a range of problems faced by agricultural producers such as land fragmentation, scientifically based crop rotations, input purchase, access to finance, marketing and other ardent problems.
- There is a strong need in setting up a permanent platform for communication and cooperation among agricultural producers, political structures, science and extension services.
- In order to improve the institutional situation could be useful establishment of a Cooperative Development Agency following the example of other countries.
- Involvement of the state in developing associative structures could take the form of improving and adjusting the legal and regulatory framework to the real needs of small producers, including the introduction of a flat tax in agriculture, improving the advisory services, ensuring a fairer distribution of subsidies, developing and promoting sector specific policies.

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