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# Food Safety and Value Chain Coordination in the Context of a Transition Economy: The Role of Agricultural Cooperatives

RESEARCH ARTICLE

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## ABSTRACT

In Albania development gaps in the area of food safety are calling for stronger vertical coordination within the agrifood value chains. The paper explores the possibility of vertical coordination being strengthened through the development of agricultural cooperatives and informal farmer groups. In two reported case studies, these organizations have been shown to be called into life by the need to advance vertical coordination. Moreover, the case studies reveal that downstream agribusiness agents, who normally oppose farmers' countervailing power, promote, support, and even initiate cooperatives and farmer groups, in order to implement food safety standards. The emerging cooperation among farmers not only enhances their participation in the value chain but also generates mutual trust.

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## 1. INTRODUCTION

Food safety is one of the major concerns of consumers both in developed and developing countries, with the latter facing more serious challenges (Jaffee 2001; Zhllima et al., 2015). Lack of compliance with food safety standards can be viewed as a negative externality which includes the costs in lost production, medical care, ill-health of other members of society, and surveillance and inspection (Henson & Trill, 1993). Many argue that ‘market failure’ is endemic and intervention justified (Swinbank, 1993). Public agencies are responsible for ensuring food safety enforcement, however, their capacity to do so in developing or transition countries is limited, due to weak institutional frameworks and high levels of corruption.

Albania is a post-communist (transition) economy that embraced market liberalization in the early 1990s. Since early transition, the country has suffered from political conflicts, high corruption, weak law enforcement and weak institutions. A number of development gaps have been manifested in the area of food safety (Zhllima et al., 2015).

Albania faces serious problems with the national food safety control system in terms of legislation, infrastructure and institutional capacity. The public agencies or inspectorates in charge of food safety control (including veterinarian services) have weak capacity to enforce standards especially at farm level while extension services have limited human and logistic capacity to advise farmers. Most farmers lack information or awareness about basic food safety, environmental and animal health/welfare standards and do not know which institutions are in charge of food safety or animal health and welfare standards control (Gjeci et al., 2016).

The weaknesses of the food safety control system and extension services represent major constraints to enforcing compliant practices of production and sale of food products. On the other hand, more than 4/5 of the farms in Albania are considered small farms (below 2 Ha), with limited access to finance, inputs and advisory services, resulting in low efficiency and limited capacity to comply with basic standards. As a consequence of these conditions, the performance of typical farmers is negative: in addition to frequently observed poor product quality and safety, the absorption of funds which are conditional upon meeting specific standards, such as the Instrument for Pre-accession Assistance Rural Development (IPARD) are also negatively affected (Gjeci et al., 2016; FAO, 2020).

The development of food safety standards in Albania is essential for its effective integration in to the European and global agricultural markets. So far, the lack of compliance with safety standards has negatively affected Albanian horticultural exports. While dairy/livestock products are

mainly channeled in the local market, there is a remarkable growth of horticulture exports, particularly greenhouse vegetables. There have been reported cases of shipments with greenhouse vegetable being returned from EU countries, due to high residuals, causing significant financial damage to the involved traders, namely exporters (Skreli and Imami, 2019a). Albanian consumers are likewise becoming increasingly concerned with food safety standards. Several studies (Imami et al., 2011; Zhllima et al., 2015; Verçuni et al., 2016) highlight the concerns of average consumers about food safety, particularly for livestock products, highlighting the consumer distrust in the public agencies in charge of the enforcement of safety standards.

The aim of the present paper is to explore the role of agricultural cooperatives, in the light of their relations with downstream agribusiness actors, in the adoption of the food safety standards in Albania. Generally speaking, achieving food safety is a crucial component of the broader task of the coordination within agrifood value chains. This coordination may call for a variety of governance structures which may range from market-based to hierarchical (Kireziova et al., 2016, p. 300). According to Ménard (2004) and Chaddad (2012), cooperatives combine elements of market and hierarchical governance and can be considered to present hybrid governance (cf. Kireziova et al., 2016, p. 300). Governance structures used for the purpose of coordination within the agrifood value chains have attracted considerable scholarly interest (Bijman et al., 2011; Zhu and Habisch, 2019). The key conjecture of the present study is that the employment of market and hierarchical governance is predicated on a variety of institutional prerequisites that cannot be assumed to be fully available in Albania in view of the persisting institutional deficits. In contrast, cooperatives present a platform for the mutual self-help activity which may be called into existence by the very lack of requisite institutions.

It is noteworthy that this conjecture stands in marked contrast to the main thrust of scholarly investigations into the prospects of agricultural cooperatives in post-socialist transitional economies (e.g., Valentinov and Curtiss, 2005; Gardner and Lerman, 2006; Wolz et al., 2020; Bijman et al., 2012). Despite the heterogeneity of transitional economies, many of these investigations tend to see these prospects in a pessimistic light. The typical problems of cooperative development in transitional economies are found to include “cultural burdens” (Gardner and Lerman, 2006) originating from the mental association of cooperatives, by many farmers, with the socialist collectivized agriculture. The emerging cooperatives often suffer from the problems of collective action and member opportunism. These problems often arise out of the pronounced lack of trust among farmers. Very often there is a lack of understanding

of the benefits that cooperation may bring. Legislation and taxation have not always been favorable for cooperatives; some cooperatives are quite inactive or do not fulfil the essential cooperative principles. Given these problems, Hagedorn (2014, p. 555) identified a set of prerequisites of cooperative sustainability, which include “overcoming the communist legacy of mistrust against cooperative organizations, convincing members by building trust, coping with fundamental collective action problems, constructive communication..., finding cooperative leaders able to cope with members’ opportunism and a facilitating state encouraging the development of cooperatives”. Hagedorn’s list suggests that the development of cooperatives requires more prerequisites than the formation of investor-owned firms or the evolution of public organizations and regulations. The present paper brings forward an opposite argument: in the area of food safety in Albania, market and public solutions are not satisfactory, and cooperatives emerge to fill the gap. Moreover, the lack of trust among farmers is real but does not need to be an insuperable hindrance to cooperative development, as cooperatives are able to produce their own social capital. Furthermore, even the possible lack of farmers’ understanding of the economic benefits of cooperation can be compensated by external drivers related to the need for better vertical coordination and the better enforcement of food safety standards. As Swinnen and Maertens (2007) explain, the growing role of “private vertical coordination” is a phenomenon which itself has strong transition-specific rationales.

Kirezieva et al. (2016, p. 300) provide a helpful summary of the ongoing debate about the role of cooperatives in ensuring food safety in the broader context of the coordination processes within the agrifood value chains. Whereas some studies show cooperatives to outperform investor-owned firms (Hoffmann, 2005; Cechin et al., 2013), other studies arrive at opposite conclusions (Pennerstorfer and Weiss, 2013; cf. Kirezieva et al., 2016, p. 300). Kirezieva et al.’s (ibid) own findings show that the studied cooperatives in the Netherlands and Belgium play an important role in the food safety management of fresh produce chains, with the larger cooperatives tending to suffer from the problems of insufficient member commitment. This finding is also particularly important in the Albanian context where member commitment is often problematic due to the “bad memories” of cooperation remaining from the socialist period. In Albania, similar to other transition economies, there have been many examples of failed collective action initiatives, very often because of the lack of trust which has been identified by Bijman et al. (2012, p. 113) as the typical problem of cooperative movement in the post-communist New Member States of the EU. However, recently a growing interest and willingness to cooperate among Albanian

farmers has been observed, and a few cases of functional cooperatives or farmer groups have been identified (ISETN, 2017).

Against this backdrop, in the Albanian context marked by numerous weaknesses of the public sector (especially related to food safety standards enforcement), the present paper will address the following research questions: *What role do cooperatives play in enforcing the food safety standards and advancing vertical coordination? Why and how do buyers interact with cooperatives in order to coordinate the task of ensuring sufficient food safety within the agrifood value chains?*

The following section (Section 2) develops a conceptual framework that reviews the state of the art on the role of cooperatives in coordination within agrifood value chains and reflections on the specific institutional conditions of Albania. Section 3 consists of the methodology whereas Section 4 presents case study evidence on how an Albanian cooperative and an informal farmer group promote the integration of farmer-members into the value chains, help them acquire new competences and social capital, and facilitate the coordination within the agrifood value chains in such a way as to support the enforcement of the food safety standards. The last section (Section 5) provides the conclusions and recommendations.

## 2. COOPERATIVES AND THE COORDINATION OF VALUE CHAINS

Cooperative scholars have long acknowledged the diverse contributions of cooperatives toward economic coordination. Shaffer (1987, p. 83) noted that the market mechanism may enable optimal allocation of commodities that are already produced, while failing to achieve “macro coordination” which “requires a mechanism to provide reliable information on future supply, demand, and prices prior to important production decisions”. If cooperatives contribute to macro coordination, they improve the efficiency of market outcomes (cf. Bijman et al., 2012, p. 110). From an institutional economics perspective, cooperatives are sometimes seen as a distinct coordination mechanism based on trust and reciprocity (Borzaga and Tortia, 2017). Sykuta and Cook (2001) suggest that in the modern agrifood systems, agricultural cooperatives play two major roles: the development of countervailing power and facilitating the coordination among the system participants. Whereas the former role has been a traditional rationale of many cooperatives in the Western world since the beginning of the Industrial Revolution, the latter one is much more recent and has been induced by the growing complexity and interdependence of the modern agrifood

system. Sykuta and Cook (ibid) argue that cooperatives may be effective coordinators if they promote an atmosphere of trust between members and the cooperative management (ibid). Trust becomes particularly important with the growing information asymmetries and transparency requirements which tend to increase the transaction costs of the contractual relations between farmers and investor-owned firms (ibid).

Bijman et al. (2011) devote a seminal text to the role of agricultural cooperatives in the coordination of agrifood value chains. The authors note that “one of the most interesting at the same time most challenging characteristics of the cooperative is its dual nature”, a concept systematically elaborated by Draheim (1955). The dual nature means that cooperatives present a firm and a social group at the same time (ibid). The economic and social dimensions of the cooperative may reinforce each other, but they may also be mutually conflicting. The overall argument of Bijman et al. (2011) seems to be that the social dimension of agricultural cooperatives tends to limit their effectiveness in fulfilling the task of coordination. The authors establish that “in agricultural cooperatives, higher levels of vertical coordination can be achieved at the expense of inclusion (some members will be excluded in the process)” (ibid, p. 88). Thus the task of coordination may confront agricultural cooperatives with several dilemmas. The “social capital dilemma” indicates that a contribution of cooperatives toward vertical coordination may entail the side-effect of strengthening the hierarchical power of professional management (ibid, p. 95). The “democracy dilemma” points to the high likelihood of “conflicts of interest [that] may arise between individual members and the cooperative as a supplier to other agents in the value chain” (ibid). Furthermore, as a result of the “hierarchy dilemma”, “cooperatives face a trade-off between hierarchical and democratic elements when trying to strengthen vertical coordination” (ibid, p. 91). These dilemmas seem to provide some theoretical support to Kirezieva et al.’s (2016, p. 299) findings that the large cooperatives contributing to the food safety management of fresh produce chains “may suffer from lower commitment of members”.

The Albanian context for the development of agricultural cooperatives is interesting in that it is marked by small farm size combined with the failure of the public sector to ensure the enforcement and monitoring of food safety standards (FAO, 2020). Whereas these conditions call for strong vertical coordination within the agrifood value chain, the effective collaboration between agribusiness players and farmers is hindered by the fact that many farmers are small and poorly informed about the food safety requirements (ibid). This collaboration is more likely to succeed if farmers engage in horizontal cooperation

schemes which help to realize economies of scale, for example in the operation of the certification systems such as Global Good Agricultural Practices (GAP).<sup>1</sup> An additional key advantage of horizontal cooperation is the mutual monitoring between neighbouring fellow farmers. In view of the weakness of the public sector, this sort of horizontal cooperation among farmers is likely to receive support from the agribusiness players that might otherwise be interested in weakening the initiatives that might improve farmers’ countervailing power. Paradoxically, in Albania, these players are even found to catalyze the cooperative activities among farmers, thereby introducing, as it were, a top-down element into the processes that, in the Western context, have been historically marked by self-organization and bottom-up orientation. Given the support of agribusiness players, agricultural cooperatives in Albania can become essential platforms helping farmers to adapt to the requirements of the agrifood value chains, primarily by developing new competences required for effective vertical coordination.

From an institutional economics perspective, the role of cooperatives in attaining food safety in Albania can be usefully illuminated by the contrast between markets, states, and institutions known as the commons and involving “voluntary participation, shared purposes and pooled resources” (Lohmann, 2015, p. 38; cf. Ostrom, 1990). While markets and states present the dominant governance structures in modern societies, the commons can be taken to constitute the historically prior and primordial form of governance. In the course of economic development, many activities organized by the commons are transferred to markets and states, which however are also not free of their own limitations (Lohmann, 2015; Ostrom, 1990). The functional niche of the commons can be derived out of these limitations, some of which are described by Lohmann (2015, p. 36) as follows: “markets by definition develop around common interests expressed in terms of property, price and prospects, leaving unresolved many issues characterized by indeterminate ownership, unaffordable prices, insufficient demand, inadequate supply, uncertainty and indifference. Liberal democratic governments may genuinely be confounded by the challenges and paradoxes of minority rights and, more importantly, the proper treatment of those bent on the supremacy of their own versions of the public good”. In Albania, the issue of food safety highlights the limitations of the problem-solving capacity of both states (due to severe public sector failures) and markets (due to the insufficient integration of farmers into the market mechanism). In the Albanian context, cooperatives can be considered to be a variety of commons whose crucial common property resource is the collective awareness and implementation of food safety standards.

If public and market solutions for food safety control were present, farmers could have implemented these standards individually. Given that the satisfactory public and market solutions are currently missing, the expectation is that the commons taking the form of agricultural cooperatives arise to fill the functional gap.

If agricultural cooperatives promoting food safety standards and vertical coordination more generally are supported by agribusiness agents, as it seems to be in Albania, then the theoretical justification of these organizations adds a new layer of complexity to Hansmann's (1996) seminal theory of enterprise ownership. In explaining the occurrence of various forms of business organization in the Western world, Hansmann distinguished between market contracting costs and ownership costs for various types of stakeholders maintaining transactional relationships with the firm in question. In this setting, farmers are shown to join agricultural cooperatives in order to avoid high costs of contracting with agribusiness agents, while enjoying relatively low costs of ownership (*ibid.*). Hansmann considered contracting with agribusiness agents to be costly for farmers primarily because of the latter's exploitative behavior, such as the tendency to put farmers at a disadvantage by abusing market power and information asymmetries. Contrary to Hansmann's assumptions, this exploitative behavior does not seem to prevail in some cases in Albania. Here, food safety does not present a context where farmers must seek to protect themselves against opportunism or other abusive behaviors of agribusiness agents by creating countervailing power through cooperatives. Rather, farmers interested in adopting food safety standards are supported by agribusiness agents, and maximize this support by supporting or creating cooperatives which make the meeting of food safety standards an object of mutual self-help.

Yet, despite the likely vertical coordination advantages of agricultural cooperatives in Albania, their prospects of success may seem doubtful in view of the generally negative memories of compulsory agricultural cooperation during the period of socialism (Bijman et al., 2012, p. 113). A certain optimism in this regard is warranted by the fact that some forms of genuine informal collective action did exist in Albania even during that period. A notable example is the rotating savings and credit schemes which persisted after the decline of socialism. These schemes involved no formal or written binding agreements and were strictly voluntary while being enforced primarily by reputation mechanisms (Imami et al., 2020). Thus it is unsurprising that a number of empirical studies show that the willingness of Albanian farmers to cooperate positively responds to the availability of social capital, operationalized as a composite indicator taking into account the history of farmers' participation in formal and informal collective action (Skreli et al., 2011; Kola

et al., 2014; ISETNJ, 2017). Farmers' perception of effective leadership likewise positively affects their propensity to cooperate (ISETNJ, 2017). Moreover, it does not seem far-fetched to suggest that once agricultural cooperatives are called into existence by the coordination imperatives of the agrifood value chains, they may operate as generators of new social capital.

To be sure, these estimations are to be seen against the background of some of the typical problems of agricultural cooperatives in the Western hemisphere, such as the deteriorating social capital, member apathy, and conflicts induced by the heterogeneity of member interests (*cf.* Iliopoulos and Valentinov, 2018). Many of these problems seem to be explained by the effects of "dual nature" (Draheim, 1955; *cf.* Bijman et al., 2011; Iliopoulos and Valentinov, 2017) or the high "social capital-dependence" of cooperatives (Valentinov, 2004) in an environment where the social capital resources have been continually dwindling. Given the lack of social capital, the coordination pressures emerging within the agrifood value chain only served to exacerbate these problems (*cf.* Bijman et al., 2011). Yet, whereas in the Western context the coordination pressures may overuse the social capital resources of the existing agricultural cooperatives, in Albania they provide an impetus to the accumulation of social capital which is needed for the development of agricultural cooperatives as coordination devices. This means that if cooperatives emerge primarily as such devices, then the dilemmas pointed out by Bijman et al. (2011) may be avoided, at least in the short term, especially if cooperatives themselves generate their own new social capital.

A look at the available empirical literature reveals that the membership in voluntary associations and cooperatives is often found to facilitate trust and other forms of social capital (e.g., Putnam, 1993; Hooghe, 2003; Freitag, 2003; Knack, 2003; Degli Antoni and Portale, 2011). Of particular relevance to the present paper are the findings of Sabatini et al. (2014) who draw on a unique dataset on the population of the Province of Trento in Italy. The authors conclude that "unlike any other type of enterprise, cooperatives have a particular ability to foster the development of social trust. This result supports the view that the development of cooperative enterprises... may play a crucial role in the diffusion of trust and in the accumulation of social capital" (*ibid.*, p. 635). These findings suggest that, from the standpoint of international experience, the conjecture about the capacity of the Albanian agricultural cooperatives to forge new social capital does not seem to be off the mark. Moreover, informed by these findings, the conjecture invites a rethinking of the static view that, given the low availability of social capital, a high social capital-dependence of cooperatives lowers the prospects

of cooperative survival (cf. Valentinov, 2004, 2007), as this view underestimates the endogenous generation of social capital by cooperatives themselves. The possibility of the generation of social capital likewise explains why the contribution of cooperatives to the vertical coordination of the agrifood value chains may allow them to circumvent the “social capital dilemma” pointed out by Bijman et al. (2011). In terms of Hansmann’s account of the role of agricultural cooperatives, the capacity of cooperatives to generate their own social capital may radically lower the costs of farmer ownership and this gives a boost to the prevalence of this organizational form.

These arguments are discussed in this paper in the light of two case studies representing two different agrifood value chains in Albania.

### 3. METHODOLOGY

This paper is based on case study research. Following our research question, the case (corresponding also to the unit of analysis) is the interaction between the buyers and cooperatives (or farmer groups) aiming at ensuring food safety standards in the respective value chains.

The two cases selected are: (i) interaction between one of the largest horticulture wholesalers/exporters in Albania (Doni Fruit) and an informal farmer group that supplies it; and (ii) the interaction between one of the largest Albanian dairy processors (Erzeni) and a cooperative (Myzeqeja Farm – one of the few successful farmer groups, which is registered as a cooperative according to the Albanian legislation (ISETN, 2017)). Our research questions have guided the selection of these two cases. In both cases the relationships between the buyer and cooperative/group of farmers have been heavily motivated by the need to address food safety concerns.

The paper pursues the design of the single rather than an embedded case study design. Two rationales justify our choice for a single-case design, namely “*extreme case* or an *unusual case*” rationale (the case deviates from theoretical norms or even everyday occurrences) and “*revelatory case*” rationale which is valid when a researcher has the opportunity to observe and analyse a phenomenon previously inaccessible to social science inquiry. The interaction or cooperation between the buyers and cooperatives being studied is both unusual (buyers usually adopt an attitude of dominance over farmers) and revelatory (it is a novel phenomenon at least in the context of a transition economy).

Our paper looks into the contradictions and complexity which characterize our research questions. While the expectation based on literature and intuition is that the

buyer would not be interested in stronger horizontal cooperation among supplying farmers, in the specific context of our case studies there appears to emerge a contradiction – buyers are interested and make efforts to strengthen the farmers collective action in order to achieve an important goal, such as higher standards. In this context, case studies, through their narratives, are particularly apt to address complexity and contradictions (Flyvbjerg, 2006; Iliopoulos and Valentinov, 2017).

We conducted in-depth interviews with representatives of two farmer groups and their respective buyers. More specifically, five interviews were conducted with actors related to the case study on the dairy sector, of which one interview was with the manager and owner of Erzeni (a dairy value chain leader) and four interviews with the manager and member farmers of the Myzeqeja Farm (cooperative). Another three interviews were carried out with actors related to the case study on the horticulture sector, one representative of the Doni Fruit (a value chain leader in the horticulture sector), one representative/leader of a farmer group supplying Doni Fruit and another one with the programme officer of the Swiss Agency for Development and Cooperation (SDC) RISI Albania project, which has supported their cooperation. The following section provides more insight into profile of these actors.

Though the research questions (why and how) call for open-ended questions, the interview questions focused on a description of the parties in cooperation, the need for and cooperation set up, food safety as a major motive of cooperation, other motives of cooperation and cooperation sustainability issues. The presentation of case studies follows the above structure.

Interviews were conducted face-to-face by two of the co-authors of this paper. The first round of interviews were conducted during December 2019 while the second round of interviews during July 2020. Interviews lasted on average around one hour. Notes were taken during the interviews and were analysed by using simple content summarizing approach and qualitative content analysis, with the aim to sum up the most relevant topics emerging from the interviews.

### 4. CASE STUDIES

#### **CASE 1 – COOPERATION BETWEEN ERZENI DAIRY PROCESSING COMPANY AND MYQEJEJA FARM**

The case study structure consists of the parties in cooperation agreement, the need for and cooperation set up, food safety as a motive for cooperation between parties, motives other than food safety and cooperation sustainability.

## THE PARTIES IN THE COOPERATION AGREEMENT

This case study casts light upon the relations between one of the leading dairy processors in Albania, Erzeni company,

and one of the rare cases of functional agriculture cooperatives in Albania, Myzeqeja Farm. Following, we provide an overview for both Erzeni and Myzeqeja Farm (**Box 1**).

### ERZENI MILK PROCESSING COMPANY

Erzeni is one of the 3 largest dairy processors in Albania. It is owned and run by an Albanian family. It was established and it is still located in Berat (south Albania) and it has been operating for more than 25 years. Erzeni has been growing constantly. The company has implemented EUR10 million in investments in the last years, relying on the latest technology from Italy.

Erzeni produces a wide range of products including different types of cheese, using cow and small ruminant milk, yogurt, butter and other dairy products. Erzeni products are available in all supermarket chains in Albania. The company puts a strong emphasis on quality and safety standards, which is achieved both by advising farmers and through investment in modern production technology, cooling storage system etc.

### MYZEQEJA FARM

Myzeqeja Farm is a group of farmers (cooperative) located in Gore (village) in the municipality of Lushnje. Members are located in Gore and the nearby village of Lumth. The local population has been autochthonic for hundreds of years and has high social cohesion and were part of one (state run) cooperative during planned economy.

The main cooperative activities are milk collection and marketing, input provision, and agricultural machinery services. They started as a group of 12 farmers that began to cooperate for producing animal feed (silage) in 1999. The cooperation in the early days consisted of joint manual work related to animal feed production. Thus, we can assume that while such cooperation was useful, it also was exposed to relatively low risk: no joint investments or joint sales of milk, which may be exposed to higher opportunistic risk and thereby require more trust and better organization.

In 2004 they were registered as an association and in 2014 as an agriculture cooperative. Until 2006, the members cooperated only for animal feed production. When they received support from Heifer International, a charity organization, they enlarged and extended their activities. Then there was a need to professionalize management, as also they shifted to joint milk collection and sales. They started milk collection activity in 2006. Heifer International has provided support since the early days of transition to this group of farmers.

Currently the cooperative has 31 members and provides services to 44 other farmers. Some of them are in the process of joining the cooperative as members. Only 7 members are men, the rest are women (who participate actively in assembly and decision-making) because most men are more engaged in activities outside agriculture. This is the way it has been from the early days of the cooperatives. Most members are in the range of 45 – 65 years old, only 2 are below 45.

For all the members (farms), the main orientation and source of income is dairy cattle. Most member household farms have 2–5 head, 7 members have 7–15 head, while one has 20 head. They sell milk, calves and heifers and produce most of the animal feed themselves.

Since the cooperative is relatively small, it has a simple organizational structure. The structure consists of the general assembly (all members), which has elected a president and an executive director, both of whom are dairy farmers. The assembly approves decisions and regulations. The meeting which takes place before or in the beginning of each calendar year sets and approves the strategies or orientation for the full year for the cooperative. Considering the small size of the cooperative, there is no executive board.

While the president and the executive director carry out their work on a voluntary basis, the administrative work is done by an accountant who is employed on a part-time basis. The cooperative also engages an external accountant who certifies the financial statements, while three farmers review financial documents, which are also shared with the members. The assembly meets every four months, where the Executive Director reports to the assembly financial results and other important issues. Financial transparency is crucial to keep the trust of the cooperative members.

*“There is transparency. Farmers are informed about everything. Therefore, there are no conflicts”,* stated MK, who is a member of the cooperative.

Currently the cooperative serves as the unique milk selling point for its members and other farmers. Although the members have not been forced by the cooperative to sell exclusively to/through the cooperative, there are no cases reported of farmers selling through other channels. The reason is that the cooperative offers the best terms compared



to other buyers present in the area. The cooperative also provides mechanical services for producing animal feed at a lower price than other service producers and provides some of the inputs for its members. The members also sell calves and heifers. While the selling is carried out individually the cooperative facilitates market contacts or arrangements. Veterinarian services are also obtained individually. However, the cooperative facilitates the relations with veterinarian who treat the members better (eg. applying lower prices). But for specific needs, the cooperative hires the veterinarian to provide group trainings. They continue to run a joint collection point with cooling tanks as well as agro-mechanic equipment (eg. for ploughing land), which they use jointly. Thus farmers still benefit from both higher milk prices and lower mechanical services prices when compared to other farmers who operate outside the umbrella of the cooperative, according to the interviews with cooperative members.

From the early days, this farmer group has been managed by PJ, who is a dairy farmer. PJ enjoys the sympathy and trust of the local community but also of other stakeholders in the agrifood sector. During the period of communism (planned economy, which lasted until 1991), PJ has been youth secretary<sup>2</sup> of the area where the cooperative is located as well as technical director within the cooperative structure operating in the area.<sup>3</sup> He was well-known and had earned and developed leadership skills already when he was young. PJ is very active in lobbying or advocating for the cooperative. He has held frequent meetings with MPs and senior level representatives of the Ministry of Agriculture to present them the cooperative/farmers needs and problems.

In order to strengthen the trust and relationship among members, the cooperative organizes social events, several times per year, including dinners/lunches, and excursions where they spend more time together. On the other hand, the cooperative leader (executive director) meets every day with various members (eg. over a coffee).

*Source: Field interview with PJ, MK and EB, Manager of Erzeni*

#### **Box 1** The parties: Doni Fruits and Myzeqeja Farm Cooperative

### **THE JUSTIFICATION AND SET-UP OF COOPERATION**

Erzeni has had written contracts with Myzeqeja Farm which include prices, payment terms and standards that the raw milk should have. The compliance with standards is the greatest challenge for the buyer to monitor and enforce. Low milk safety standards, expressed in various forms such as high microbe content and antibiotic presence, remain a great challenge.

Erzeni has invested in improving its laboratory capacities at the factories and milk collection centers and human capacities through employment of veterinarians to advise farmers. Nevertheless, awareness and enforcement always remain a challenge for Erzeni and other major dairy processors. Being supplied by a cooperative enables higher milk safety standards as well as higher volumes and lower transaction costs.

#### **Food safety as a motive for cooperation between parties**

Achieving high milk safety standards is a major motive in the cooperation between Erzeni *milk processor and dairy cooperative Myzeqeja Farm*. Erzeni has supported the cooperative to establish a new modern milk collection center. The company also provides training and advice through its own veterinary service. The newly established collection center is equipped with basic laboratory equipment to assess milk standards and with cooling tanks to maintain milk quality until it is collected by Erzeni.

Erzeni aims to improve safety standards, considering the low milk safety standard concerns. To tackle these gaps, the company is engaged in farmer education and awareness activities, including training.

*“It is easier to train farmers who are part of a group. Members who are part of the group are less likely to make deliberate mistakes because of the peer pressure. The impact of discussion and opinion (reputation) is greater in groups than individually”,* stated EB. *“For example, I say to a farmer during a group meeting: how come that farmer XX (sitting in the same group) is doing well, and you do not?”* stated EB. *“Peer pressure is effective. During communism, opinion or peer pressure was very strong”.*

*“Erzeni assists other collection points which are private enterprises, but prioritizes us, the cooperative”,* stated PJ, Myzeqeja Farm Executive Director. *“The manager of the cooperative does better work to convince and educate farmers, when compared to private milk collectors”* stated PJ.

EB highlighted that cooperation among farmers is the best way to make progress including milk safety standards, considering the small farm size, therefore the company has been very supportive to the supplying cooperative.

The cooperative has been very strict with its members regarding the standards of the delivered milk. Whenever problems arise, they meet to discuss and identify the source of the problem and raise awareness of the members. In the case of cheating or abusing milk quality (eg. diluting), the farmer may lose membership and business relations with the cooperative.

According to PJ, “It has also happened that some people bring low quality milk. We have advised them and, in extreme cases we have expelled them from the cooperative”.

Indeed, recently, one farmer that was caught cheating was expelled from the cooperative, according to the interviews with cooperative members.

### OTHER MOTIVES FOR COOPERATION BETWEEN PARTIES

Buying milk from the cooperatives not only ensures higher safety standards but also larger volumes and lower transaction costs for milk collection. Consolidation of milk collection is critical considering that most Albanian dairy farms are small, up to 3 cows (Skreli and Imami, 2019b). “The cooperatives ensures both volume and standards, therefore Erzeni is happy with the cooperative.” stated PJ.

### COOPERATION SUSTAINABILITY

The interaction has been beneficial for both parties in cooperation. According to the interviewees, the number of cows has been increasing within the cooperative. In contrast, outside the cooperative group the number is falling drastically, as many farmers are quitting dairy cattle because of low profitability and difficult working conditions. Interviewed members attribute this difference mainly to the advantages that the cooperative provides to its members in terms of better milk prices and secure/regular payment. On the other hand, the interaction has been beneficial for

the buyer through improved milk safety standards and decreased transaction costs.

### CASE 2 – COOPERATION BETWEEN DONI FRUITS AND INFORMAL GROUP OF FARMERS

The Case Study 2 is represented following the same structure as Case Study 1, namely the parties in cooperation agreement, the need for and cooperation set up, food safety as a motive for cooperation between parties, motives other than food safety and cooperation sustainability.

#### THE PARTIES IN COOPERATION AGREEMENT

This case study analyzes the relations between one of the major exporter of the horticulture products, Doni Fruits, and one supplying farmer group located in Divjaka. Following an overview for both Doni Fruits and the farmer group is provided ([Box 2](#)).

#### THE JUSTIFICATION AND SET-UP OF COOPERATION

Considering the small farm size in Albania, the most feasible way to achieve large volumes and standards required by export markets, is through cooperation. Doni Fruits has made efforts to cluster farmers in groups specializing in specific products. For each group, Doni Fruits appoints a coordinator who is in charge of the logistics, organizational aspects and storehouse. The leader is usually the biggest farmer who represents the farmer group. GlobalGAP group certification has been another major driver of group formation by Doni Fruits.

### DONI FRUITS

Doni Fruits was founded in 1958 in Kosovo where it initially started as a small family business with the primary purpose of collecting, cultivating and exporting fruits and vegetables. With valuable experience gained over the years in export, wholesale and retail trade, Doni Fruits has established a strong presence in Albania, Kosovo and Northern Macedonia.

Doni Fruits is one of the leading exporters of horticulture products in Albania. It is supplied by about 1500 farmers, most of whom are grouped into clusters or groups according to the main activity (products) that they produce.

Doni Fruits deals with all types of fruits and vegetables that are exported from Albania, but greenhouse vegetables are the main exports. It exports products to different markets in the region and the EU.

### DIVJAKA FARMER GROUP

Farmer group in Divjaka consists of 4 farmers – the group supplies Doni Fruits with watermelon and field vegetable mainly for the export market. The group is informal (different from the Myzeqeja Farm, is not registered as a cooperative or in any other formal way). The leader of the group, FI is a well-educated young man (early 30ies). He is a returned migrant (he had migrated to Greece).

Doni Fruits brought these farmers together into a group to implement jointly GlobalGAP certification. The farmers knew each other before joining the group but first and foremost had trust in the buyer (Doni Fruits). Although the initial objective and activity for which Doni Fruits brought them together was the GlobalGAP certification process, during this collaboration, the trust kept growing within the group and cooperation extended beyond certification.

Source: Interview with AR (former Executive Director, and currently Chief of Certification Department of Doni Fruits) and FI (leader of the farmer group).

### Food safety as a motive for interaction between buyer and the group of farmers

Through GlobalGAP certification, Albanian fruits and vegetables producers and exporters have demonstrated they can meet safety standards requirements of some EU markets (especially leading supermarket chains) and in securing contracts with EU buyers, they have achieved better market access and prices for farmers.

Ensuring high food safety standards is a top priority for Doni Fruits, according to AR. Doni Fruits is aiming to increase its presence in higher end markets, especially northern EU markets which offer more attractive prices but also have very demanding food safety standards. Considering also the food safety situation in Albania (described in the Introduction), internationally recognized certification that ensures the buyer of the food safety (and other relevant) standards, such as GlobalGAP, are essential to target the demanding EU market. Therefore, Doni Fruits has been engaged in recent years in the process of GlobalGAP certification.

Recently, the company has cooperated with 58 farmers who were certified for the first time under GlobalGAP group certification, with the support of RisiAlbania. RisiAlbania is a project funded by SDC and implemented by Helvetas Swiss Intercooperation and Partners Albania, which focuses on social inclusion and sustainability – agriculture sector is considered as a priority sector for its supporting activity. Sativa is the internationally accredited certification body based in Portugal which certified Doni Fruits and the associated group of farmers.<sup>4</sup> Albanian exporters were not informed about GlobalGAP group certification option, which is far cheaper when compared to certification of individual farmers, and mechanisms for implementing it. RisiAlbania, through hiring specialized experts and service providers, provided training and information and covered the initial certification cost, according to GO, RisiAlbania.

GlobalGAP group certification requires the establishment of a Quality Management System (QMS) and team coordinated by the buyer, in this case Doni Fruits. From one side they train, advise and support the farmers in the implementation of the standards and from another side they organise inspections and audits for each of the farms in order to assure that they are respecting the requirements, according to GO, RisiAlbania.

*“We chose the best farmers who were willing to cooperate and who demonstrated to be the best in relation with us (Doni Fruits) from our experience in the last 6 years”,* said PR. *“In the case of the Divjaka farmer group there is stronger cooperation among farmers because they have a good leader (FI, who was interviewed separately – see below) there is a potential to enlarge that group and strengthen cooperation”,* stated PR.

*“Doni has proven to be reliable with payment terms and prices but also requires quality. Doni requires specific chemical treatment protocols and is demanding for that”,* stated FI, the leader of the group. They started cooperation in 2018 in the context of beginning the implementation of GlobalGAP certification which was achieved in 2019.

### Other motives for cooperation between the parties

There are several other benefits for both parties engaged in cooperation agreement:

- i) Doni Fruits may have control on the technology process by providing the right seeds and some inputs to ensure the right quality and technical assistance to farmers through its employed agronomist who is specialized in plant protection *“Through the group it is easier to control and guide the farmers for the production technology processes”,* stated AR.
- ii) Farmers benefits from guaranteed market *“through participating in these groups, the farmers can sell the product because they are contracted by Doni Fruits. Furthermore, we can provide them the seed varieties needed by the export market, which benefits the farmer”,* stated AR.
- iii) Specialization is beneficial for the buyer. *“Through specialization, we make sure that we can obtain the product in volumes in one location”.*

### COOPERATION SUSTAINABILITY

The interaction between the buyer and group of farmers is showing sustainability. Doni Fruits and other exporters that implemented GlobalGAP group certification manage to export to northern EU markets, while traditionally the main export target has been the Balkan region, and to suppliers of supermarket chains, achieving contracts with higher prices. Given that the buyer has managed to sell in high value markets it can afford to pay farmers higher prices. Certified farmers have benefited 10–15% higher prices on average, according to GO, from Risi Albania, and in the case of Doni Fruits supplying farmers, certified farmers had obtained at least 5 ALL<sup>5</sup>/kg higher prices compared to non-certified farmers, according to AR. Furthermore, entering business relations with suppliers of supermarket chains lower market risks, such as price fluctuations which are common in the regional fresh fruits and vegetable (spot) wholesale markets.

Doni Fruits has continued to establish new farmer groups and supporting them for GlobalGAP certification, without further donor support. Doni Fruits has initiated or supported the establishment of other informal groups. In order to scale up its effort, the company is also considering to support the establishment of formally registered

cooperatives. Recently, Doni Fruits has supported a group of relatively large farmers to register the cooperative, which is named “Eagle Farm”. It has seven members and 25 Ha and is undergoing the process of GlobalGAP group certification for two products.

Following the good example of Doni Fruits and other exporters that had implemented group certification, more exporters are introducing it too.

Although the purpose of cooperation was initially focused on group certification, cooperation among farmers extended also to joint inputs purchase, enabling lower purchase prices and better access to advisory services. *“The input supplier brings its agronomist to check and advise us, which was not the case when we were acting as individual farmers. ...As a group we can impose ourselves on the input supplier”*, stated FI. Furthermore, some mechanical services are provided from FI members within the group. *“Members of the group provide these services with priority and at lower prices to fellow farmers within the group”*, stated FI. Greater cooperation among group members is expected to further benefit them.

## 5. DISCUSSION

The conceptual reflections and the case study evidence presented in the paper lend credence to the view that the future development of agricultural cooperatives in Albania is shaped by two opposing forces. On the one hand, the growing food safety requirements dictate the need for a more effective coordination within the agrifood chains and thus stimulate the development of cooperatives. On the other hand, there is the well-known fact that the institutional context of South-Eastern Europe is often not favorable for the development of cooperatives because of the lack of social capital and the still present memory of forced cooperation in the socialist past (cf. Bijman et al., 2012). In the reported case studies of two successful agricultural cooperatives in Albania, the former force seems to be gaining momentum. Moreover, while it is true that social capital is a generally scarce resource, it appears to be built by agricultural cooperatives themselves if the market pressures induce their members to mutually coordinate their activities.

The reported experience of the agricultural cooperatives in Albania stands in stark contrast to the historical beginnings of the modern agricultural cooperatives in the Western world. Following Sykuta and Cook's (2001) useful distinction between the countervailing power and coordination role of cooperatives, the evolution of the Western agricultural cooperatives started with the former role. A traditional rationale of many of these cooperatives has been overcoming the monopolistic and monopsonistic power of

agribusiness agents by developing the countervailing power which these agents tried to oppose. Importantly, the ability of cooperatives to develop countervailing power has been seen to be limited by the availability of social capital among cooperative members (Valentinov, 2004). In this traditional view, social capital presents a crucial sustainability condition of cooperatives, but not their outcome. The emerging pattern in Albania is that the key driving force of cooperative development is the need for coordination rather than for countervailing power. Impelled by the coordination imperative, agribusiness agents not only do not oppose agricultural cooperatives, but even support them, despite the fact that the same cooperatives may develop some countervailing power. Moreover, to these cooperatives, social capital presents not only a sustainability prerequisite, but also an outcome, in such a way that cooperatives come to be equipped with a variety of self-reinforcing mechanisms. These mechanisms are not at all characteristic in the Western cooperatives, in which the dual nature (Draheim, 1955) and the high social capital-dependence (Valentinov, 2004) of cooperatives tend to stand in the way of their coordination role, and engender various managerial dilemmas pointed out by Bijman et al. (2011).

## 6. CONCLUSIONS

In the case studies that have been analysed in this paper one of the priorities of the value chain leaders (buyers) has been to improve safety and quality standards. To encourage adoption of good agriculture practices, price incentives as well as market certainty via contract farming are crucial (Laosutsan et al., 2019), however, not always sufficient. In this paper we argue that in the context of a transition or developing economy, characterized by smallholders and gaps in the areas of food safety, cooperatives can play a crucial role to improve food safety standards. Thus, not only agricultural cooperatives enhance members' efficiency by easing access to productive inputs, advice (Abate et al., 2014), and innovation (Tortia et al., 2020), but also may be the best, or only feasible platforms to implement certain standards for smallholders. Therefore, the buyer can effectively cooperate with cooperatives to achieve or improve food safety standards.

Based on the presented case studies, it is possible to distinguish between three scenarios of the evolution of the Albanian agricultural cooperatives. First, there is the possibility of the mere continuation of the status quo which is the direct interaction between the cooperatives and the downstream agents of the agrifood value chain. Second, cooperatives may be completely integrated in this chain under the auspices of the downstream agents. This

is possible if farmers are primarily interested in obtaining access to export markets. The case of the GlobalGAP certification bears testimony to the difficulties farmers experience in seeking to obtain this access on their own. Under this scenario, the coordination aspect of cooperatives takes precedence over the aspects of countervailing power and democratic governance. In the third scenario, farmers may dramatically expand the cooperative activities with a view to establishing their own supply chain. This is more likely if the farmers are primarily interested in accessing the domestic market. Contrary to the previous scenario, the coordination aspect of cooperatives is subordinated to the aspects of countervailing power and democracy.

Government and donor policies may affect the scenarios and prospects of agriculture cooperatives in the future. While some donor projects have failed in their attempts to support the establishment of cooperatives in Albania, the farmer groups that were the focus of this paper, owe their success, at least in part also to the support provided by the donor projects. Donor and governmental support and (fiscal) incentives may further contribute to the growth of the cooperatives.

Regardless of which of these scenarios will materialize, it is clear that the development of agricultural cooperatives in Albania not only responds to the widely perceived need for the deeper vertical coordination of transitional value chains (cf. Swinnen and Maertens, 2007), but also holds the potential to make these chains more inclusive and democratic, contrary to the current trend of the increasingly exclusionary nature of agrifood value chains in the developing world (cf. German et al., 2020). Moreover, evidence on global value chains shows that a “more intense buyer involvement with local suppliers... is generally associated with higher supplier productivity” (Pietrobelli and Saliola, 2008, p. 947). This evidence gives reason to hope that a closer involvement of cooperatives in the governance of transitional agrifood value chains may make these chains not only more democratic and inclusive but also more efficient.

## NOTES

- 1 GLOBAL G.A.P. (Good Agricultural Practices) is a trademark and a set of standards for good agricultural practices. GLOBAL G.A.P (often mentioned as GlobalGAP) certification is required by many EU-based supermarket chains.
- 2 Youth secretar (sekretar Rinie, in Albanian) – Part of the communist system structures.
- 3 In Albanian “brigadier” and “perjegjes sektori”.
- 4 <https://www.risialbania.al/group-globalg-a-p-certification-for-lushnja-farmers-ensures-export-opportunities/?lang=en>.
- 5 ALL, Albanian Lek is the Albanian currency. Approximately 1 USD = 100 ALL.

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## COMPETING INTERESTS

The authors have no competing interests to declare.

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