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AGRICULTURAL COOPERATIVES – FARMERS’ CHANCE TO GET INTEGRATED IN THE VALUE CHAIN

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Abstract

Through cooperation, agricultural producers have access to markets, information, technology, credits and various training activities. Cooperation also provides them access to the decision-making process, and what is most important, supports them legally in negotiating contracts with suppliers of agricultural inputs and equipment. The present study attempts to make an analysis of this form of association, starting from a foray into the literature on cooperation, going through a review of legislative facilities that appeared after almost 20 years from the Romanian revolution of December 1989 and ending up with a most accurate picture of the existing situation, based on official data. The results of the study show that 1696 agricultural cooperatives were registered in Romania in July 2020, out of which 12% were not operating, being under various liquidation forms. From the cooperatives registered by the end of 2019, only 42.5% submitted a balance sheet, which means that only these cooperatives had an economic activity and less than half of them made profit.

Keywords: agricultural producers, agricultural cooperatives, Romania

JEL Classification: Q10, Q13

INTRODUCTION

Agriculture is the activity in which cooperation, under most different forms, has been most necessary than in any other field of human activity.

Starting from the most primitive forms up to the present moment, cooperation has led to advantages for those that have chosen this form of carrying out their activity. “Cooperation, like any economic system, stemmed from the need to find a solution to an old desideratum of mankind: a better and easier life, with profit” (Bold, I., in Istudor, N., Popescu, G., 2017, p.19).

The main reasons why farmers are attracted by cooperation are: “their low productivity, low investment capacity and poor access to markets” (MARD, 2015) and because “the weak bargaining power and the dependency situations of farmers deepen the existing imbalance in the agri-food chain” (Silvia Zaharco, 2014, p. 56).

The producers, from their own initiative, get associated into this economic organization form called agricultural cooperative. Thus, “the cooperative’s power does not result from the size of its land or members’ landed property, but rather from the intensity of relationships between cooperative and its members”, and the success of cooperative is given by “the unit of interests of cooperative members” (Popescu, G., in Istudor, N., Popescu, G., 2017, p.15).

Consequently, “cooperation may represent a plea for agriculture modernization, by configuring a cooperative architecture, to help increase performance and efficiency of farmers’ activities” (Hera, C., in Istudor, N., Popescu, G., 2017, p. 4), cooperation being considered “a modern organization and agri-food marketing method” (Istudor, N., în Istudor, N., Popescu, G., 2017, p. 11)

In Romania, according to the current legislation, there are three main types of association forms, namely:

- **Agricultural associations with/without legal personality** and other forms of association in agriculture, regulated by Law 36/1991 on agricultural associations and other forms of association in agriculture and Law 176/2019 amending and complementing this law);
- **Agricultural cooperatives**, regulated by the Agricultural Cooperation Law 566/2004, Law 164/2016 amending and complementing the Agricultural Cooperation Law, as well as establishing measures for its application and by Law 265/2020 amending and complementing the Agricultural Cooperation Law);

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- ***Producer groups and organizations***, regulated by Government's Ordinance 37/2005 on the recognition and operation of producer groups and organizations for the marketing of agricultural and forestry products based on Law 338/2005, with the latest update by Government's Ordinance 32/2015.

A brief description of each of them is necessary to highlight the differences between them. The agricultural associations allow the association of agricultural producers under two forms:

- agricultural associations without legal personality – simple association forms, based on associations between two or several natural persons, who, on the basis of an agreement, share their knowledge and labour input to carry out an activity of general interest, with the aim of farming the land, raising animals, supplying, storing, conditioning, processing and selling products, providing services, as well as other activities (Law 36/1991, Art. 2).
- agricultural associations with legal personality – “private entities, with variable capital and a variable and unlimited number of associates, having as object of activity the exploitation of farmland, tools, animals and other inputs brought to association, as well as making investments of agricultural interest” (Law 36/1991, Art.5), which are entered in the Register of Agricultural Associations with Legal Personality. The latest update of Law 36/1991 was in the year 2019, stipulating that “the agricultural association with legal personality can become (commercial a.n.) company” that shall be entered in the Register of Trade and shall be removed from the Register of Agricultural Associations (Law 176/2019, Art.2).

The agricultural cooperative is an organization of agricultural producers that brings benefits to its members, providing them with the organization of production, purchasing, sale and services. Thus, the agricultural cooperative is an autonomous association, with unlimited number of members, which carries out an economic, technical and social activity in the private interest of its members. The agricultural cooperative carries out commercial activities, producing goods and services in agriculture, aiming to: ensure the necessary conditions for obtaining economic benefits by all members of cooperative; meeting the supply needs of cooperative members with necessary agricultural inputs; obtaining agricultural commodities in conformity with market requirements; creating conditions for processing agricultural products; sale of obtained production. The cooperative is owned and run by all its members.

According to the agricultural cooperation law, the agricultural cooperatives are established and function with minimum 5 persons (Art.5, Law 566/2004, modified and completed by Law 21/2019) and are of two types:

- first degree agricultural cooperatives are legal entities consisting, as appropriate, of natural persons, authorized natural persons, individual enterprises and/or family enterprises, defined according to Government Emergency Ordinance (GEO) 44/2008 on the development of economic activities by authorized individuals, individual enterprises and family enterprises, approved with amendments and completions by Law 182/2016;
- second degree agricultural cooperatives are legal entities consisting of juridical and/or natural persons, authorized natural persons, individual enterprises and family enterprises, defined according to GEO 44/2008, approved with amendments and completions by Law 182/2016, as appropriate, for the purpose of horizontal and vertical integration of economic activity carried out by these and authorized in accordance with the law.

The agricultural cooperative is registered at the Trade Register Office (attached to the law court in whose territorial area it has its headquarters) and becomes a legal entity from that date.

The agricultural cooperative can carry out economic activities permitted by the Agricultural Cooperation Law, which are the following:

- agricultural service cooperative, which provide services for agricultural producers in cooperative system;
- purchasing and sales cooperative, which organize both the procurement of materials and technical means necessary for agricultural production and the sale of agricultural products;
- cooperative for processing agricultural products;

- manufacturing and small industry cooperative in agriculture;
- cooperative for the exploitation and management of agricultural, forestry, fisheries land and of livestock herds;
- cooperative for financing, mutual assistance and agricultural insurance.

The producer groups and organizations are agricultural producers' association forms with legal personality. The legislation (Gov. Ordinance 37/2005, Art.1, paragraph 2) provides that the following legal entities can be recognized as producer groups or producer organizations: a) commercial companies (according to Law 31/1990); b) agricultural associations with legal personality and other association forms in agriculture (according to Law 36/1991); c) associations and foundations (according to Gov. Ordinance 26/2000); d) agricultural cooperatives (according to Law 566/2004); d) any other legal association forms (authorized natural person, family association, according to Law 300/2004).

Obtaining recognition or preliminary recognition (transitional period of maximum 5 years for which producer groups in the fruit and vegetable sector obtain this status) as a producer group or organization is regulated by activity sectors, according to the following normative acts:

- for the fruit and vegetable sector, a preliminary recognition as a producer group is first obtained or a recognition as producer organization (according to Order 684/2007);
- for the agricultural, livestock and forestry sector, the recognition as producer group is obtained according to Gov. Ordinance 37/2005, approved by Law 337/2005);
- for pisciculture and aquaculture, the recognition as producer organization can be obtained according to Order 772/2007.

The members of associative forms, regardless of the organization form to which they belong – associations, cooperatives or producer groups get associated on a free and voluntary basis and have democratically established rights.

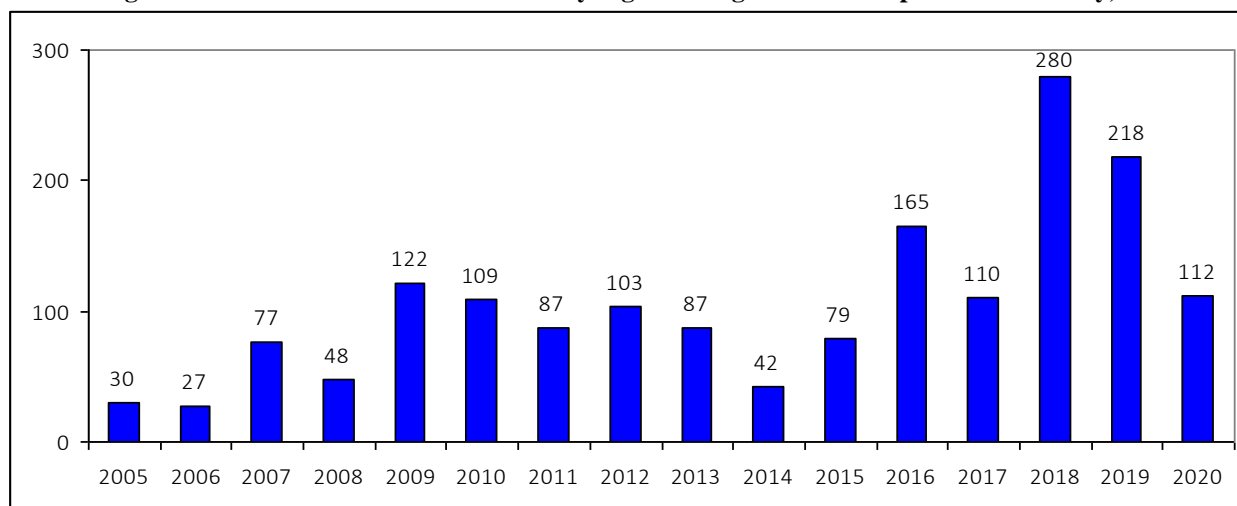
MATERIAL AND METHOD

The present study is an analysis of the evolution and structure of agricultural cooperatives in Romania, from the appearance of legislative measures until July 2020, on the basis of data provided by MARD – National Register of Agricultural Cooperatives created on the basis of data and information supplied by the National Trade Register Office.

RESULTS AND DISCUSSIONS

Since 2005, after the appearance of the legislative measures that allowed the establishment and operation of agricultural cooperatives until July 2020, a number of 1696 agricultural cooperatives were established in Romania. From one year to another, the number of established cooperatives differed, the highest number of newly established agricultural cooperatives (280) being registered in 2018, as a result of the implementation of NRDP 2014-2020, which provided support to the establishment of agricultural cooperatives through several axes.

Figure 1. Evolution of the number of newly registered agricultural cooperatives annually, in Romania

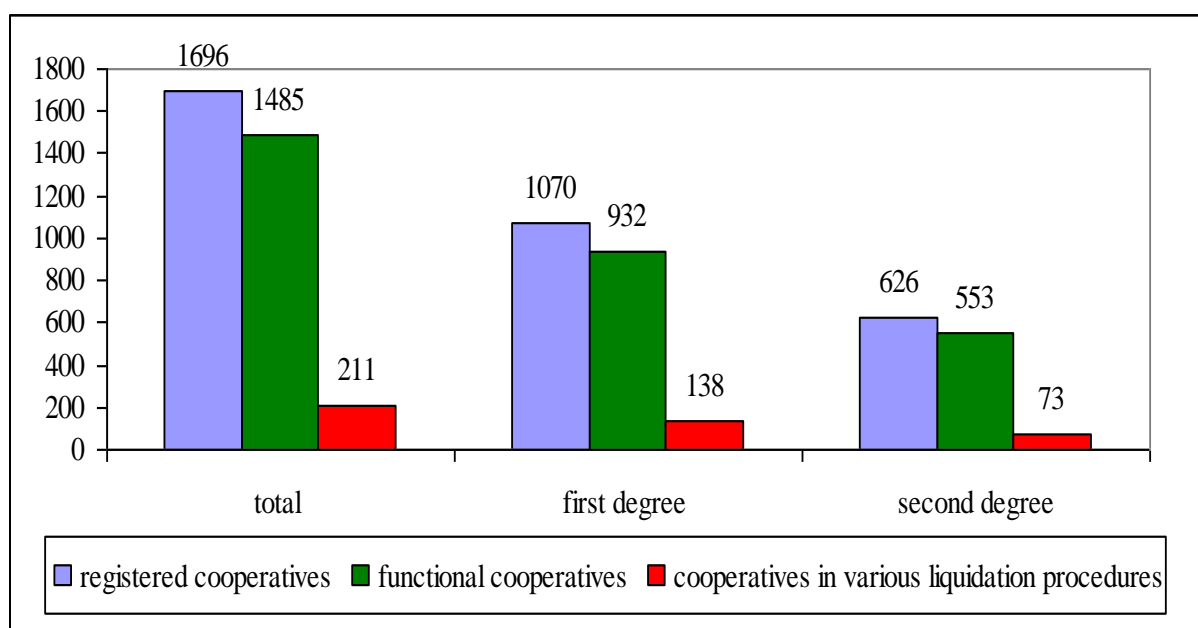


Source: MARD, (2020), National Register of Agricultural Cooperatives in Romania

In the year 2020, 1696 agricultural cooperatives were registered, out of which 1070 were first degree cooperatives and 626 were second degree cooperatives that is mixed cooperatives (that also have juridical persons in their componency). Yet part of these cooperatives were in various dissolution, liquidation, insolvency or deregistration procedures. Thus, in the year 2020, a number of 1485 agricultural cooperatives were functional, of which 932 first degree agricultural cooperatives and 553 second degree agricultural cooperatives.

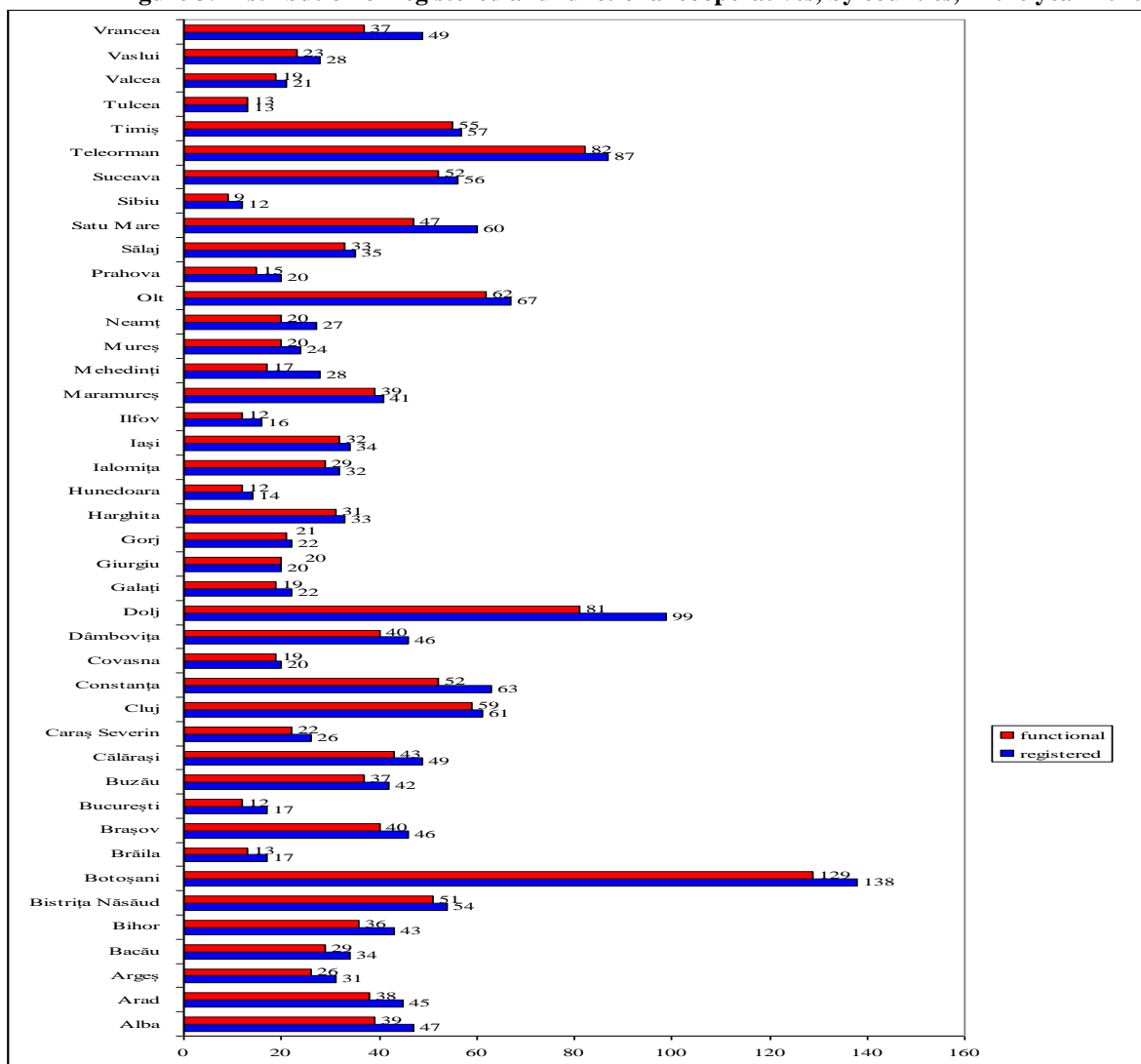
Figure 2. Situation of agricultural cooperatives in September 2020

- number -



Source: authors' calculations based on MARD data, 2020

Figure 3. Distribution of registered and functional cooperatives, by counties, in the year 2020



Source: authors' calculations based on MARD data, 2020

In the top of the counties with the most agricultural cooperatives, both registered and functional, Botoșani county ranks first, followed by Dolj and Teleorman. Sibiu county lies at the opposite pole, with the lowest number of registered agricultural cooperatives (12) and the lowest number of functional agricultural cooperatives (9). It should be noted that at the level of each county in Romania, there is a smaller or larger number of functional agricultural cooperatives, which means that farmers choose this form of association for carrying out their activity, becoming more interested in working together and benefit together from the results of their work.

At the end of the year 2019, out of the total number of registered cooperatives, namely 1584, only 673 submitted their balance sheets. Which means that only 42.5% of the total number of registered cooperatives had economic activity, the cumulated turnover being 1.6 billion RON. It is worth noting that out these cooperatives, 354 had zero profit and only the remaining 319 ended the year with net profit. More than half of the cooperatives that submitted balance sheet had zero profit (52.6%) and less than half had net profit (47.4%). Taking into consideration the total number of cooperatives registered at the end of the year 2019, it can be said that less than 20% of these had profit, and hence only these are eligible for bank loans.

Of the total number of cooperatives that submitted balance sheet in the year 2019, only for 391 of these there are available data on their turnover. Thus:

- 59 cooperatives had zero turnover, which means that they did not gain incomes from commercial operations;

- 188 had up to 500,000 RON turnover;
- 33 had 500,000 – 1,000,000 RON turnover;
- 73 had 1,000,000 – 10,000,000 RON turnover;
- 36 had 10,000,000 – 100,000,000 RON turnover;
- 2 cooperatives had a turnover of over 100,000,000 RON (Integrated Agricultural Cooperative *Țara Mea*, with the headquarters in Vaslui, with 147,645,790 RON turnover, having as main activity the wholesale of fruit and vegetables and Aaylex Agro Agricultural Cooperative with the headquarters in Buzău, which had the highest turnover of all, i.e. 166,234,958 RON, with poultry raising as main activity; both are second degree cooperatives).

Most cooperatives that submitted balance sheets in the year 2019 had as main activity the growing of cereals, leguminous crops and oil seeds, followed by those engaged in mixed farming activities (crops + livestock). In both cases half of the cooperatives had zero profit, and the other half had profit. These were followed by the agricultural cooperatives having as main activities the wholesale of fruit and vegetables and wholesale of cereals, seeds, fodders and unmanufactured tobacco.

Table 1. Distribution of cooperatives that submitted balance sheet in the year 2019, according to NACE code^{*)}

NACE code	Number	out of which:	
		Zero profit	Net profit
Growing of cereals, leguminous crops and oil seeds	104	52	52
Mixed farming (crops + livestock)	72	36	36
Wholesale of fruit and vegetables	66	38	28
Wholesale of grain, unmanufactured tobacco, seeds and animal feeds	59	26	33
Agents involved in the sale of agricultural raw materials, live animals, textile raw materials and semi-finished goods	37	23	14
Raising of dairy cattle	32	16	16
Raising of sheep and goats	30	12	18
Raising of other animals	28	22	6
Growing of vegetables and melons, roots and tubers	25	18	7
Wholesale of dairy products, eggs and edible oils and fats	23	7	16
Support activities for crop production	21	12	9
Support activities for animal production	20	11	9
Raising of swine/pigs	18	13	5
Meat processing and preserving	13	8	5
Raising of other animals	12	8	4
Growing of bush trees, strawberries, nuts and other fruit trees	11	5	6
Processing and preserving of fruit and vegetables	9	6	3
Manufacture of fresh dairy products and cheese	8	2	6
Raising of poultry	8	3	5
Wholesale of live animals	8	4	4
Warehousing and storage	7	5	2
Growing of pome fruits and stone fruits	6	3	3
Wholesale of meat and meat products	6	5	1
Non-specialized wholesale of food, beverages and tobacco	5	3	2
Retail sale in non-specialized stores with food, beverages and tobacco	5	5	0
Total ^{**)}	633	343	290

^{*)} a cooperative has a primary NACE code and a number of other secondary NACE codes, that can reach dozens;

^{**)} of the 673 cooperatives that submitted balance sheets, only 633 are included in the table, the remaining 40 consisting of one or two cooperatives with the same NACE code.

Source: authors' calculations based on MARD data, 2020

Out of total cooperatives that submitted balance sheets in the year 2019, only 231 had employees, 1270 in total. Csomortáni Szövetkezet Agricultural Cooperative, with the headquarters in Harghita county, first degree cooperative established in the year 2019, with meat production and preservation as main activity, had the most numerous employees (282), followed by Agroprod Crasna Agricultural Cooperative, based in Satu Mare county, second degree cooperative established in the year 2009, with the main activity poultry meat processing and preservation, with 197 employees.

CONCLUSIONS

The association of agricultural producers in agricultural cooperatives opens up new opportunities for economic development by attracting local, zonal or regional benefits and using collective power to increase the prosperity of members, their families and communities to which they belong.

The number of agricultural cooperatives in Romania increased from year to year, and the main determinants that make farmers get organized into agricultural cooperatives are the following: easier access to European funding, better negotiation of prices of agricultural raw products, a more stable market and higher selling prices for their production. Even though the number of agricultural cooperatives has increased significantly in the latest years, the financial data reveal their low performance.

It is very important that the next programming period and future policies shall focus more on strengthening the association environment for agricultural producers to be mostly interested in joining various cooperation forms.

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