
THE EVOLUTION OF AGRICULTURAL COOPERATIVES IN ROMANIA

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Abstract

Agricultural cooperatives could be considered a solution to maintain farmers market. In Romania, the interest for agricultural cooperatives has increased exponentially in the last period, especially due to being offered tax facilities. Romania is in the process of experimenting with the implementation of agricultural cooperatives, as compared to the countries of Western Europe, being necessary to create a solid basis for the further development. Understanding the principles of the cooperative association and their application is an effort that ensures the stability and performance of the cooperative. The first part of the article proposes the presentation of a series of elements that must be considered when establish a cooperative, and continues with an analysis of the legislative changes that have occurred due to the evolution of the number of agricultural cooperatives in Romania. Increasing the importance of structures representing farmers' interests is a priority at national and European level. According to the research, the farmers' association has made some progress in Romania, but measures are still needed at national level for their development.

Keywords: farmer's association; agriculture, cooperative, Romania,

JEL Classification: P13, P17, P11

Introduction

The involvement in collaborative partnerships represents an essential element in ensuring the durability and sustainability of an organization (Fobbe, 2020). The agricultural cooperatives are organizations which have been an important actor within agro-food system. (Altman, 2015). The development of the agricultural cooperatives due to the tendencies manifested on the agro-food market represents a counterbalancing element, ensuring an increased sales power and the reduction of the costs for farmers (Abate, 2018; Istudor et.al, 2019).

The necessity of these forms of association has been understood and promoted in the last years also at the level of the Romanian agriculture. The legislative bases for the establishment of the agricultural cooperatives had been laid in the year 2004, by Law no. 566/2004. They appeared as an answer to the need of small and medium farmers to be present on the market, “the cooperatives taking over elements from commercial companies and non-patrimonial / non-lucrative / nonprofit associations and foundations” (Lăpusan, 2010). Judging after the stages covered by the countries from the Western Europe in the of cooperative’s development process, time is needed so that they would consolidate their position in the Romanian food chain (Dragoi et al, 2018). We consider that for the fulfillment of this desideratum, it is initially necessary to understand two important aspects which we are going to study in this paper. A first aspect is related to the education in cooperatives’ area. The differences between cooperatives and the old communist structures of CAP (Agricultural Production Cooperatives) and IAS (State Agricultural Enterprises) type start to be more and more obvious for farmers, but the knowledge on the notions of functionality of the cooperative as a whole and the understanding of the obligations and benefits of the members must be deepened (Sánchez-Báez et. al, 2018). In the last years, it has been manifesting an increasing openness to association, fact which makes us believe that the necessity and possible contribution of the cooperatives are understood. (Wolz et al., 2019).

We believe the answer to a series of questions must be clear before acceding to the cooperative, such as: “What is an agricultural cooperative? How is it organized? Which are the obligations of its members, or of the cooperative? Who are the other members?” etc. (Food and Agriculture Organization of the United Nations (FAO), 1998)

A second important aspect dealt with in the present article is connected to the evolution of the legislative framework on the agricultural cooperatives and their number.

The last part of the paper is reserved to discussions and conclusions, trying to present a true image of the development of the agricultural cooperatives in Romania.

Materials and methods

The research started from the study of the scientific literature, which mentions criteria necessary for the efficient functioning of agricultural cooperatives. The following databases were used to identify the bibliographic material: Web of Science, Scopus and Google Academic. Starting from the first national regulations regarding cooperatives (Law no. 566/2004), the changes that took place between 2005-2019 were analyzed and were elements identified that contributed to the adaptation of the legislation for a better development of the cooperatives in Romania. The evolution of the number of cooperatives, the government policy and the establishment of national unions and organizations were analyzed. Data from National Institute of Statistics (NIS), National Trade Register Office (NTRO), and Ministry of Agriculture and Rural Development (MARD) were used. The information collected was processed, analyzed and interpreted.

Important aspects in the creation and development of an agricultural cooperative

The cooperative is an enterprise held by many farmers which activate in a production chain. (Feng & Hendrikse, 2012). The farmers delegate a part of the activity of their company to the cooperative. According to Bercu and Sofone (2018), the first stage in the creation of a cooperative is represented by the creation of a homogenous group, whose interests and ambitions are similar.

They must be willing to invest in order to increase the results on long term. But the problem of the time horizon approached by Van Dijk et. al. (2019) appears here, according to which the expectations from the cooperative can be different. Van Dijk explains that although the general concern is for future development, the order of the steps for their performance depends in general from the financial and conceptual problems of each and every member.

Accordingly, within the cooperative, the importance of the report between the individual interest and the collective interest must be less than one unit. According to Istudor and Popescu (2017), the accession to a cooperative group must be grounded on a series of well defined criteria, among which the profile of the company, the dimension of the activity and the attitude of the company have an enormous importance. The attitude is explained as a combination of elements such as: “entrepreneurial spirit, aspiration to innovation, generosity and tolerance”.

Starting from the general interests within an organization, Dunn (1988) identifies basic principles which take place in an agricultural cooperative:

- “The User-Owner Principle” describes the interdependency between holding and financing a cooperative and its usage. “The one who holds it and invests is the one who uses it”.
- “The User-Control Principle” is represented by the connection between exercising control and the usage of the cooperative. “The one who controls it is the one who uses it”.
- “The User-Benefits Principle” defines the main purpose of a cooperative, respectively the generation of benefits for its members and their distribution to them, based on the transactions performed through the cooperative.

By using Dunn’s principles, we presented in a comparative manner the differences and similarities between an agricultural cooperative and a commercial enterprise. On the basis of the establishment of a cooperative, as well as within a commercial company, a well defined vision is required, the difference being in the organizational purpose, property, control and distribution of the excess, as it is represented in Figure no. 1.

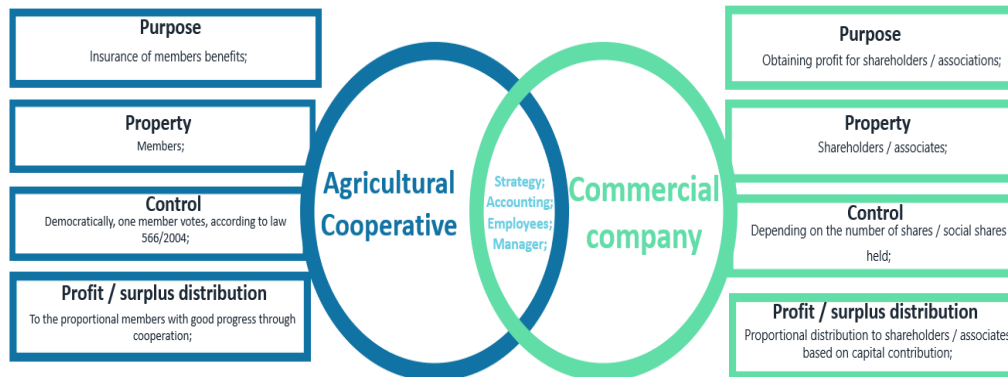


Fig. no. 1 Differences and similarities between the agricultural cooperatives and commercial companies

Source: Adapted by the author according to Chloupková, 2002

The differentiation between own business and the cooperative is necessary. The purpose of the company is to obtain profit, while the purpose of the cooperative is to obtain profit in order to ensure the best services to its members, either by selling the products at the best prices or by purchasing inputs at the best prices.

Within an agricultural cooperative, the Government is represented by the General Meeting of Shareholders and the Board of Directors, and the control institutions are represented by permanent and substitute censors.

According to the Law no. 566/2004, the members have the obligation to use at least 50% of the production through the cooperative. At the same time, they must be involved in the cooperative’s activity and support it both financially and from information point of view, according to the provisions assumed by the Articles of Association. The member capacity in two cooperatives operating in the same sector of activity is not allowed. The accession to an

agricultural cooperative implies the observance of all the provisions of Law no. 566/2004, of the Articles of Association, as well as of the decisions of the General Meeting of Shareholders. The cooperative has the obligation to identify and implement a market strategy that will bring to its members certain and reasonable incomes. At the same time, there must be good coordination of all the administration, procurement, planning and sales activities.

The rules at the cooperative level are formulated and applied in a unitary manner to all members.

The activity of the cooperative must comply with the provisions of Law no. 566/2004, out of which we mention: out of the production capitalized by a cooperative, at least 70% must be from members; the transactions must be recorded; a member cannot hold more than 20% shares etc.

In general, those who do not understand the particularities of the cooperative and participate in the association can destabilize the collective activity (FAO, 1996) In supporting this statement, the following arguments can be specified:

- They can be conflict, faction generating factors;
- They will not fulfill their obligations in due time; for example, the lack of payment of the debts for the purchased products brings on the start of a lawsuit, but up to the recovery of the money, pressure will be put on the other members; such a lawsuit can last for several years.
- They are not involved in the activity of the cooperative;
- They can lead up to the bankruptcy of the cooperative. Such an experience will make the other members more reserved in the association process.

Considering these aspects, the monitoring and selection process of the members' activity must be continuous. For a strong cooperative, informed, innovative and active members are required in supporting the development initiatives of the cooperative.

The evolution of the agricultural cooperatives

The agricultural cooperatives in Romania have known a continuous development process starting with 2005 and up to present, detaching themselves from the hesitations of the farmers in what concerns the association from the first 15 – 20 years after the communist period (Micu et. al, 2015).

For the adaptation of the local requirements of the agricultural cooperatives, a series of measures have been initiated for improving the framework law of the agricultural cooperatives which were presented within the appendix.

Among the most important measures, we mention the application of tax facilities for cooperatives, measure which appeared in the original variant of the law, but the members of the agricultural cooperatives have been actually benefiting from it starting with the year 2019. Another measure with a strong impact on the development of the cooperative activity is represented by the establishment of a lower limit regarding the production of the members sold through the cooperative. It is a necessary condition to ensure the minimum rollover for a cooperative to develop, to capitalize and to have the ability to make joint investments for the integration of the members' production and the fair distribution of the profit on the food chain. Like any other entity, the agricultural cooperatives need financing to develop. This has been speculated also in the legislative framework to avoid the full distribution of profits. In the cooperatives in Romania where it is applied, it has been proven that they are credible, powerful, that they have been performing an efficient and sustainable activity for several years for its members and are recognized as successful examples in Romania (Boboc et. al, 2017). The involvement of national organizations in improving the law of agricultural cooperatives was defining. These constituted the link between farmers and State's bodies. At the same

time, there is an increase of the initiatives of consultation, education at national level in order to understand the mechanism of association as a whole. (Stanciu et. al, 2019)

The cooperatives are not for all farmers, only those who are aware and involved will win.

A series of measures have also been implemented that have increased the transparency of the cooperative's activity and the active involvement of its members.

These measures were influenced by the increase of the number of cooperatives but also by the strengthening of the voice of the cooperative members within the governmental institutions through the national organizations (Florea et. al, 2019).

In order to capitalize the farmers and increase their competitiveness through cooperatives, it is required that the cooperative must be strong, consolidated and to have investments to increase the added value of the members' primary production. This can only happen if it has many and serious-minded members, who carry out economic activity through the cooperative. According to the data processed by NTRO, the turnover at the end of 2018 for the agricultural cooperatives in Romania was about 270 million Euros, occurring the doubling of this amount as compared to 2015.

In January-February 2020, 26 agricultural cooperatives were registered at NTRO according to Figure no. 2.



Fig. no. 2 The registration of agricultural cooperatives in the period 2004-04.202

Source: NTRO

The establishment of the National Register of Agricultural Cooperatives from Romania has represented a good method for MARD to acknowledge the evolution of the cooperatives in Romania, how they operate and when they perform the public policies for cooperatives, to be able to take into consideration also the official updated data, existing at NTRO.

Conclusions

Adapting the associative forms to the specifics of the Romanian agriculture is a lasting process. The members of the agricultural cooperatives that have managed to maintain the union through active involvement and compliance with the cooperative principles also have benefits.

It is not so important the increase in the number of registered agricultural cooperatives, as it is more important the number of the functional ones. By functional cooperatives, we mean those cooperatives through which the rollover is carried out and which positively influence the activity of its members. Only these can contribute to ensuring the food chain which it is militated for.

It is important to establish strong cooperatives in Romania that will withstand, develop over time. It is necessary to avoid that the agricultural cooperatives are similar to any intermediary LLC. They receive facilities to serve members fairly and not just to make a profit.

At the same time, it is necessary to establish some obligations that would ensure the smooth functioning of the cooperative and reinforce the certainty that it can help the members and

comply with the objectives they undertake together. To be successful, a cooperative must be disciplined and have clear rules for both employees and members. Only in this way it will build a serious, powerful image and brand.

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Appendix

An	2006	2007	2011	2012	2013	2016	2019
Additions / Amendments of the Law no. 566/2004							
Law 566/2004	Law 134/2006 Law 343/2006*	Law 32/2007	Law 274/2011	Law 187/2012	Law 95/2013	Law 164/2016	Law 21/2019
Art. 1-3 – Defining the cooperatives	-	Completion of the definition;	Completion of the definition;	-	-	Completion of the definition;	Completion of the definition;
Art.4-7 – Types of cooperative, minimum number of members and domains of activity;	Redefinition of cooperatives of type 2;	-	-	-	Completion with cooperative of type 1 and 2;	Completion with cooperatives of type 1 and 2; The possibility to develop many activities provided by the law within the same cooperative; the introduction of technical-economical unit notion;	Defining the cooperatives of order 1, 2 and 3;
Art. 8-9 – Scope and principles of the cooperative;	-	Addition of the principle of equal opportunities between members;	-	-	-	-	Explaining the cooperative principles;
Art.9 – Types of members;	-	-	-	Persons who committed offences cannot be founding members or part of the management bodies;	Redefinition of the list of persons who can be members;	Introduction of the notion of associate cooperater member;	Clarifications on the associate cooperater member;
Art. 10-14 – Establishment: Articles of Incorporation, list of members and Articles of Association;	-	Addition of elements of Articles of Incorporation	-	-	Addition of information to the members' list	Clarification of establishing documents. Right of usage of members' assets based on agreement and according to the Articles of Association	Additions on trading a minimum of 50% from production; reintegration of the percentage of 30% for trading the production of non-members;
Art. 15 – Share capital;	-	Evaluation of the assets' contribution in kind;	-	-	-	Special register; Clarifications on the changes to the share capital;	Detailing the minimum capital for each type of cooperative;

An	2006	2007	2011	2012	2013	2016	2019
	Additions / Amendments of the Law no. 566/2004						
Law 566/2004	Law 134/2006 Law 343/2006*	Law 32/2007	Law 274/2011	Law 187/2012	Law 95/2013	Law 164/2016	Law 21/2019
		assignment and donation of shares;				Establishment of the reserve fund;	
Art. 16-21 – Rights and obligations of the members; Relation between cooperative and member;	-	The value of economic activities developed based on the cooperative relations is awarded to the cooperater member; Exclusion of a cooperater member is proposed to the Board of Directors and is approved by the General Meeting.	-	-	-	Trading through the cooperative of minimum 50% from the production of each member;	Additions and clarifications to the rights and obligations of the members;
Art. 22-37 – Management and control bodies;	-	-	General Meeting =all members; in the Articles of Association, there are mentioned the principles for the operation of the General Meeting and the right to vote, with law observance;	-	-	-	The structure and obligations of the Board of Directors; the Employment of an Executive Director; the Conflict of interests within the management bodies; the responsibilities of the president of the cooperative;
Art. 38-43 – The registers of the agricultural cooperative, the financial statements, profit distribution;	-	The cooperative's profit distribution according to the decision of the General Meeting;	-	-	-	-	The compulsoriness of presenting the financial statement with 15 days before approval; the priority distribution of profit for development, financing activities of the cooperative; the establishment of the National Registry of Agricultural Cooperatives;
Art.44-47 – Cooperative's fixed assets;	-	-	-	-	-	Provisions on the administration of the members' assets;	-
Art. 48-57 – Merger, division, dissolution, liquidation;	-	-	-	-	-	-	-
Art. 58-69 – Branch Unions and their functionality;	-	-	-	-	-	-	Clarifications on the association of the Branch Unions;
Art. 70-75 - Central Union of Agricultural Cooperatives;	-	-	Modification of the definition;	-	-	-	Abrogated;
Art. 76 – Support of the State for cooperatives;	*It is eliminated the exemption on tax on profit in the first 5 years	-	-	-	-	Introduction of new facilities and exemptions for cooperatives;	Clarifications on tax facilities; access to financing programs;