

## ANALYSIS OF THE MODERN AGRICULTURAL COOPERATIVES ACTIVITY IN ROMANIA

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### ABSTRACT

The paper analyses the activity of agricultural cooperatives in Romania. The purpose of this paper is to provide information about the prospects of the cooperative sector as a means to improve the living conditions of the inhabitants in the rural environment, to ensure the increase in the producers' revenues, to consolidate the economic role of the producers' occupational entities, to improve and develop the activity in the agricultural sector and implicitly in the national economy. The current economic crisis has led to the development of cooperatives in Romania as well. Thus, we may say that at national level, according to the year they were established, there has been an increase in the number of cooperatives beginning with 2009, when 56 were registered. In 2010 the number increased to 81, and in 2011 the number of registered cooperatives decreased, reaching 54. At region level, the North-Western region stood out in 2010 with a number of 48 agricultural cooperatives. The year 2009 was representative for the Western region, with 7 cooperatives and for the North-Western region with 14 cooperatives, and the year 2011 was the most representative for the North-Western region with 16 established cooperatives. From the analysis of the public data and the field investigation, in 2012 there were 511 identified agricultural cooperatives and cooperative companies operating in Romania.

**Key words:** agricultural cooperatives, Romanian agricultural sector, agricultural policies, evolution, agricultural recovery.

### INTRODUCTION

Agriculture is currently incurring well known costs, due to the climate changes which trigger high energy costs. This is why farmers will have to pay more for diesel, electricity, fertilisers, pesticides, etc. The effects of these increases in costs at production levels and market prices are reasons for the formation of farmers' associations in order to increase their agricultural revenues.

The current economic crisis, together with an increase of about 70% in the food demand at global level until the year 2050, require the development of cooperatives, to support the farmers in obtaining higher revenues, taking into account that they earn only some of the price paid by the consumers for the agrifood products. (Pesonen, 2012).

The International Cooperative Alliance (ICA) gives a general definition, which includes in the international structures the

legal diversity of cooperatives, namely: 'The cooperative is an autonomous association of persons reunited voluntarily in order to meet their needs and expectations of economic, social and cultural nature, by means of a jointly owned institution controlled democratically.' Bermuller et al. (2007) considered cooperation as an interaction between individuals which results into net benefits to all individuals involved, and Lemeilleur and Codron (2011) consider it a useful instrument in increasing the access to modern markets and in improving the quality.

Agricultural cooperatives, in the American sector, are unique and separate business units. They are unique because they adopt the cooperative principles and concepts, often different from other types of business entities. An agricultural cooperative company belongs to the persons who use its services, it is controlled by all its members and the revenues are distributed to the

members as per their share of using its services (Williamson, 1998).

Botănoiu (2011) considered agricultural cooperatives as the extension of the activities within agricultural businesses which allows the farmers to jointly procure fertiliser, pesticides, materials and equipment, to warehouse the agricultural produce, as well as to process and sell them.

Lăpuşan (2010) mentioned that the Agricultural Production Cooperatives (the former APC) represented the agricultural cooperation in the communist times, which, according to him, had a positive effect on the economic evolution of agriculture. Before the revolution in 1989, these cooperatives reached their full development potential, but did not have much in common with the western cooperation principles.

The representatives of the Food and Agriculture Organisation of the United Nations (FAO), of the International Fund for Agricultural Development (IFAD) and of the World Food Programme (WFP), on the occasion of launching in New York the International Year of Cooperatives – 2012 emphasised: 'Cooperatives provide a solid, viable enterprise model adapted to the needs of the rural communities in emerging countries'.

Alecu (2011) emphasised the importance of agricultural cooperatives in Dutch agriculture as follows: 'Each Dutch farmer is a member of three-four cooperatives with high specialisation, such as: supplies, credit, processing or production type.

The economic policy of the Dutch government aims at maintaining family farms and at supporting the farmers' cooperative, which are subject to lower taxes'. The same author also noted the progress made by Italian agricultural cooperatives, where agricultural cooperation had a long tradition and is continually improving. In the past 50 years, the number of cooperatives has increased from 2,000 to 20,000.

The main reason for the good operation of the agricultural sector, in countries such Holland, France, Italy, Spain and Germany, is

the healthy operation and development of agricultural cooperatives. Agricultural cooperatives are the only viable alternative to the current state of the Romanian agricultural sector (Bercu, 2012).

## MATERIAL AND METHODS

In performing the market research, we used the 'survey' method, which is a quantitative method of gathering information, using the questionnaire as survey tool. The questionnaire we used in the market research regarding the analysis of the agricultural cooperatives in Romania was composed of 38 questions grouped as follows:

- *general questions regarding the description of the cooperative* (year of establishment, activity sector, number and farm size of its members, the members' education level, the members' average age, number of employees, the cooperative equity, the role and purpose of the cooperative and the benefits to its members);

- *questions about the important data in the Romanian agricultural cooperatives* (average yields per crops, livestock, meat production, milk yield, quantities warehoused, processed and sold via the cooperative, input origin, domestic, community and extra-community marketing, the turnover and percentage of the turnover resulting from non-agricultural revenues);

- *questions about the operation of the cooperative* (services and products provided, practical production guide aimed at quality and performance, trading and marketing strategy, logistics and operation, price policy on the domestic market and costs control and optimisation);

- *questions about the cooperative policy* (factors which contributed to the cooperative's success, issues and constraints; promoting the development of cooperative enterprises, using the democratic control principle; the distribution of dividends; if the president or executive manager should be a member or an outside person; relevant topics in promoting cooperatives; the need for a global effort in promoting cooperatives, how

could cooperative organisations continue to promote cooperatives as an economic development strategy at national and international level; the support provided by state; the relationship between the cooperative and the research and education units in the field; the specific contributions made by cooperatives to the socio-economic development of the country; the members' willingness to pay the membership fee and what amount; respectively other notes and suggestions related to promoting the development of agricultural cooperatives).

The questionnaire was established after an interval of documentation, research and after numerous discussions with the representatives of agricultural cooperatives, with farmers, with representatives of the Ministry of Agriculture and Rural Development (MARD) and with the representatives of agronomy universities in Romania and Belgium.

The questionnaire was elaborated according to the main and specific objectives, the main topics, as well as their number were established, and the time allocated to each of them was forecasted. The data in the questionnaire were processed and recorded using the Microsoft Office Excel software.

The questionnaires used in the market research were distributed to 284 interviewees in the 42 counties in Romania by the department for Agricultural Policies and Strategies within the Ministry of Agriculture and Rural Development to all the county agricultural subsidiaries, together with the list of cooperatives operating in each county and their contact details. The MARD representatives in the territory contacted the agricultural cooperatives managers and gathered the research results. These were used in assessing the actual state of the Romanian agricultural cooperatives at the end of the financial year 2011, in obtaining formal or practical solutions and in formulating recommendations, suggestions

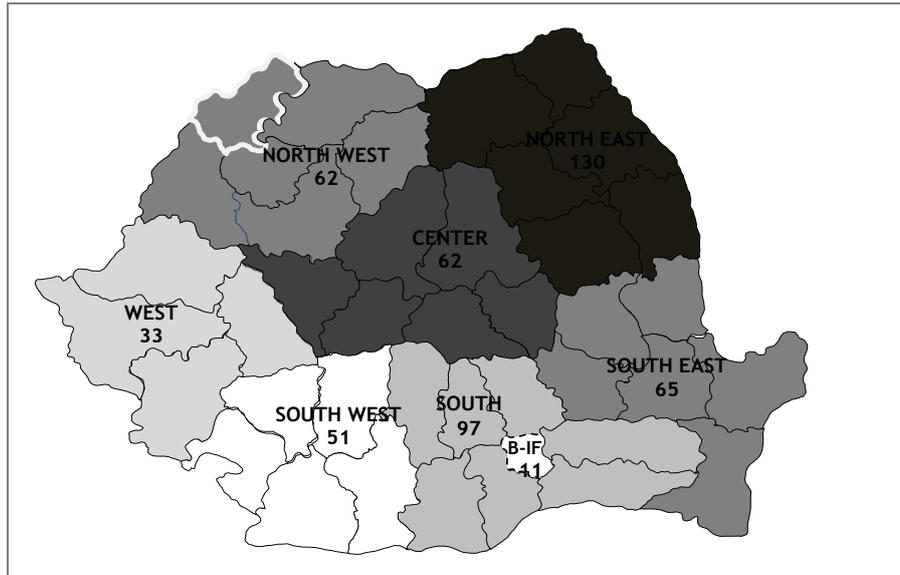
and action paths in order to develop the cooperative system and to organise and streamline Romanian agriculture in all possible manners.

## RESULTS AND DISCUSSIONS

Using this market research we aimed at obtaining a status quo of the Romanian agricultural cooperatives activity, which would allow us to assess the actual state and find solutions to improve the current state. The results at the level of economic development regions were centralised and presented succinctly. After the analysis of the public data and the field investigations, we identified 511 agricultural cooperatives and cooperative companies operating in Romania (Figure 1). Out of the 511, we had feedback from 284 cooperatives, approximately 56% of the total number, which were opened to the assessment based on the questions in the questionnaire, in order to support the development of Romanian cooperatives.

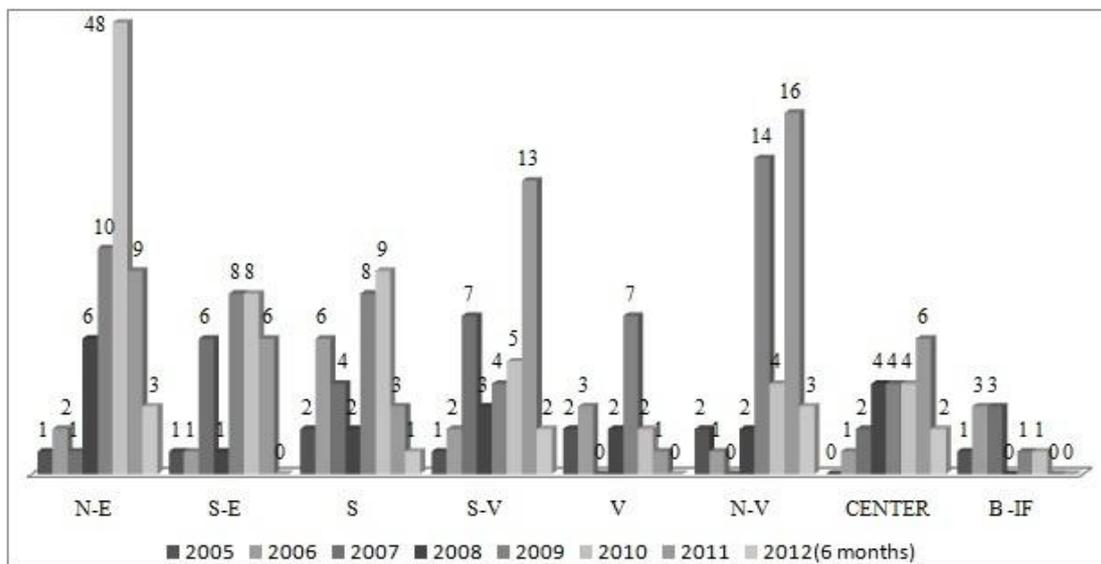
In the market research we analysed the intervals that were favourable to establishing agricultural cooperatives in each development region at national level. Analysing and adding the number of cooperatives at national level, according to the year in which they were established, we noticed an increase beginning with 2009, when 56 agricultural cooperatives were registered.

In 2010, there was an increase in registered cooperatives which reached the number of 81, and in 2011 the number of registered cooperatives was of 54 agricultural cooperatives. In the North-Western region, the year 2010 was the most favourable, 48 cooperatives being registered (Figure 2.) The year 2009 was the most fruitful interval for the Western region, with 7 cooperatives, and for the North-Western region with 14 cooperatives, and 2011 was the most representative for the North-Western region with 16 established cooperatives.



Source: Data processed from NTRO (National Trade Registry Office), July 2012 and updated according to the situation in the field.

Figure 1. Number of agricultural cooperatives in Romania according to regions



Source: Questionnaire processing by Bercu Florentin, July 2012.

Figure 2. Agricultural cooperatives centralised according to development regions and year of establishment

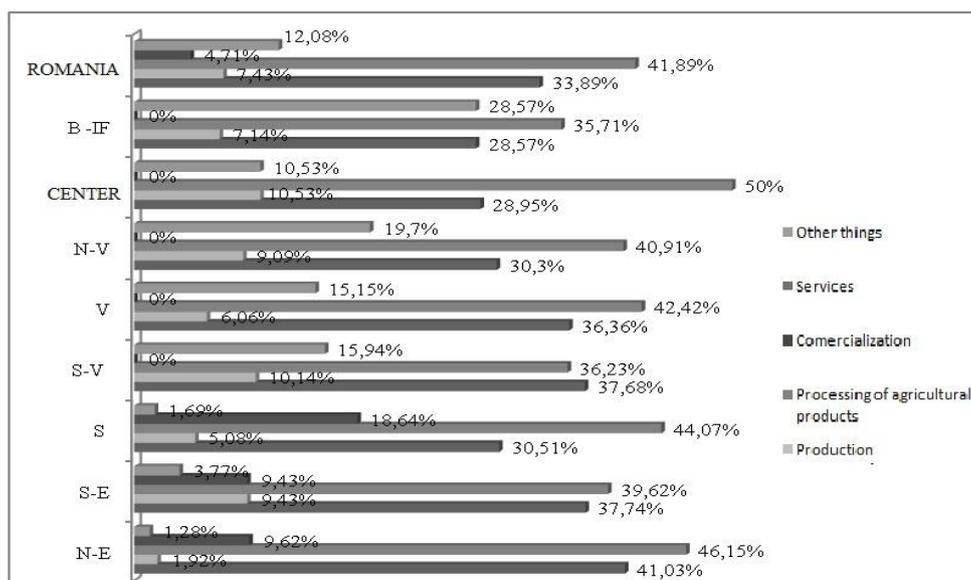
Comparing the results obtained at regional and national level, we noticed that the main activity sectors in which agricultural cooperatives were registered in Romania were those of production (33.89%) and marketing (41.89%), while the minority sectors are those of processing (7.41%) and services (4.71%) (Figure 3).

By adding the number of members in the 8 development regions, we reached a total of 23,412 cooperative members at national level,

meaning a national average of 85 members (Figure 4.)

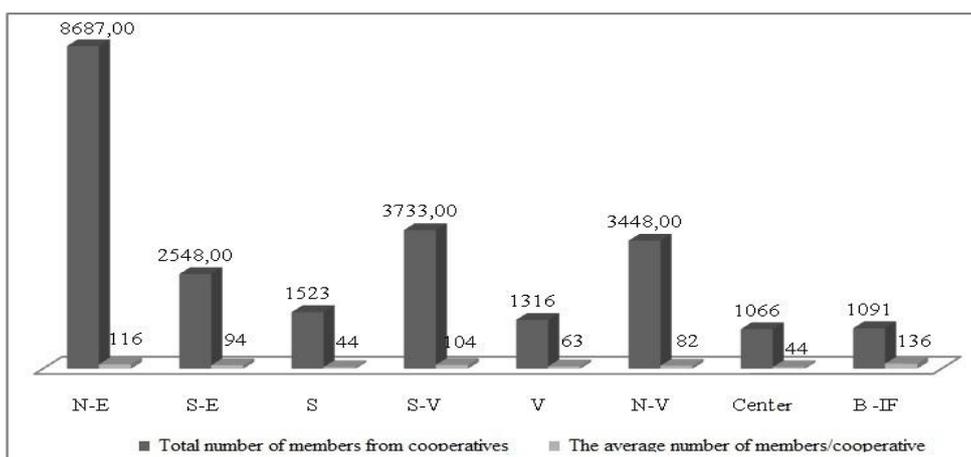
After processing the data from the questions to the agricultural cooperatives managers regarding the classification of the members according to the business size, with an emphasis on the average area being administered, we notice that 49.9% are small farmers, 36.93% are medium-sized farmers and 13.1% are large farmers (Figure 5).

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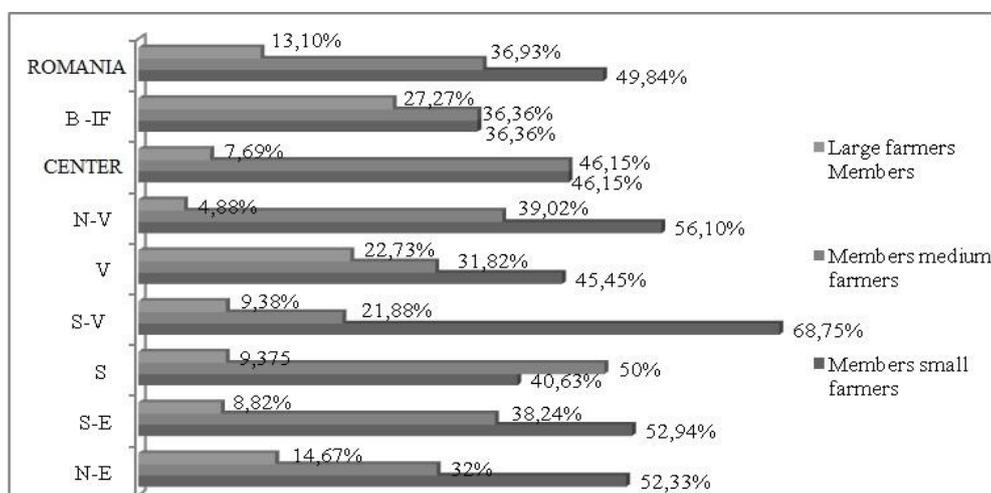
Source: Questionnaire processing by Bercu Florentin, July 2012

Figure 3. Agricultural cooperatives activity sectors



Source: Questionnaire processing by Bercu Florentin, July 2012.

Figure 4. Total number and average number of members in agricultural cooperatives at regional level

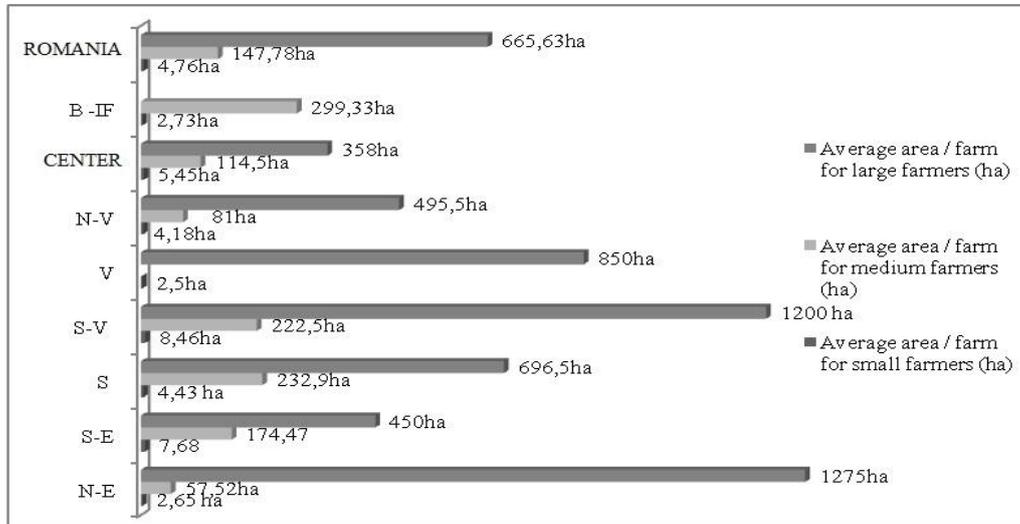


Source: Questionnaire processing by Bercu Florentin, July 2012.

Figure 5. Percentage of members according to their business average size

The average farm size of the cooperative members at national level was of 4.76 ha for small farmers, 147.78 ha for medium-sized

farmers and 665.63 ha for large farmers (Figure 6).



Source: Questionnaire processing by Bercu Florentin, July 2012.

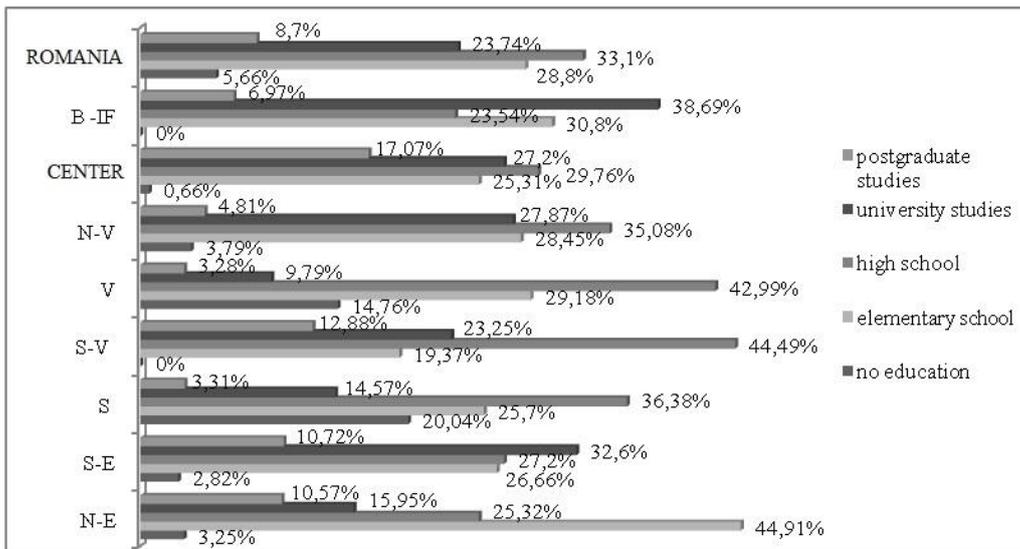
Figure 6. Classification of members according to their average farm size

Analysing the education level of the farmers registered in agricultural cooperatives, we noticed different characteristics according to regions.

In the North-Eastern region, the majority ratio was that of members with primary education (44.91%), while in the South, South-Western, North-Western and Centre regions the top position is filled by those who finished high

school, with ratios varying from 29.76% to 44.49%, and in the South-Eastern and Bucharest Ilfov regions the members with higher education account for 32.6%, and 38.69% respectively.

At national level, 5.66% of the members have no education at all, 28.8% have completed primary education, 33.1% have high school education, 23.74% higher education and 8.7% with post-graduate studies (Figure 7).



Source: Questionnaire processing by Bercu Florentin, July 2012.

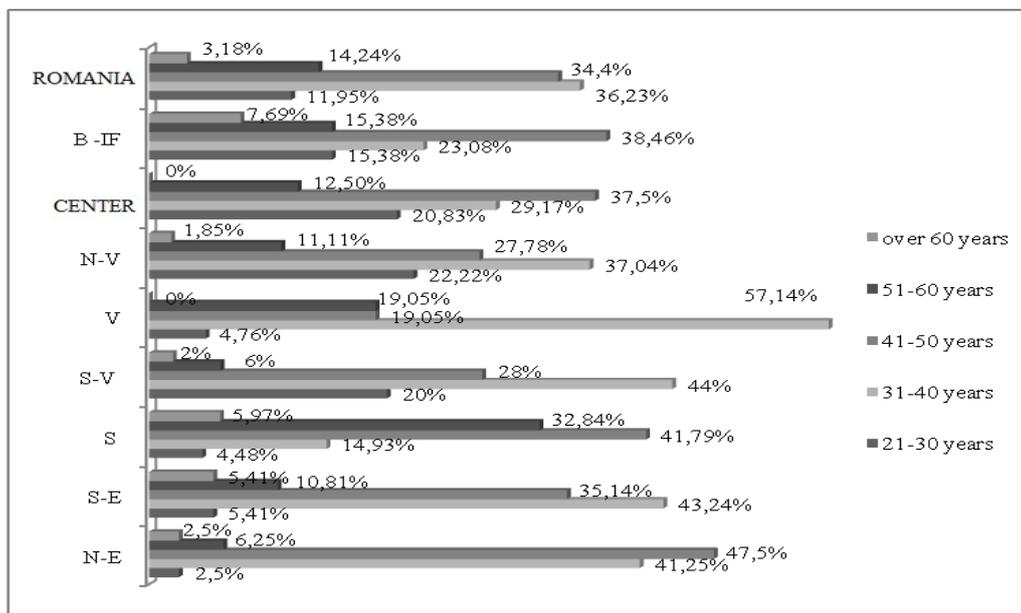
Figure 7. Education level of the members of agricultural cooperatives

Another positive element recorded in agricultural cooperatives in Romania is the trend for agricultural producers to be

younger, as we are all aware of the high proportion of farmers aged 50 and over. The majority age group in the South-Eastern,

South-Western, Western and North-Western regions ranges between 31-40, and in the North-Eastern, Southern, Centre and Bucharest-Ilfov it ranges between 41-50. Those aged from 21 to 30 have higher

percentages in the South-Western, North-Western and Centre regions. At national level 36.23% of the members are aged 31-40, 34.4% fall into the age group 41-50, and 11.95% are aged 21-30 (Figure 8).

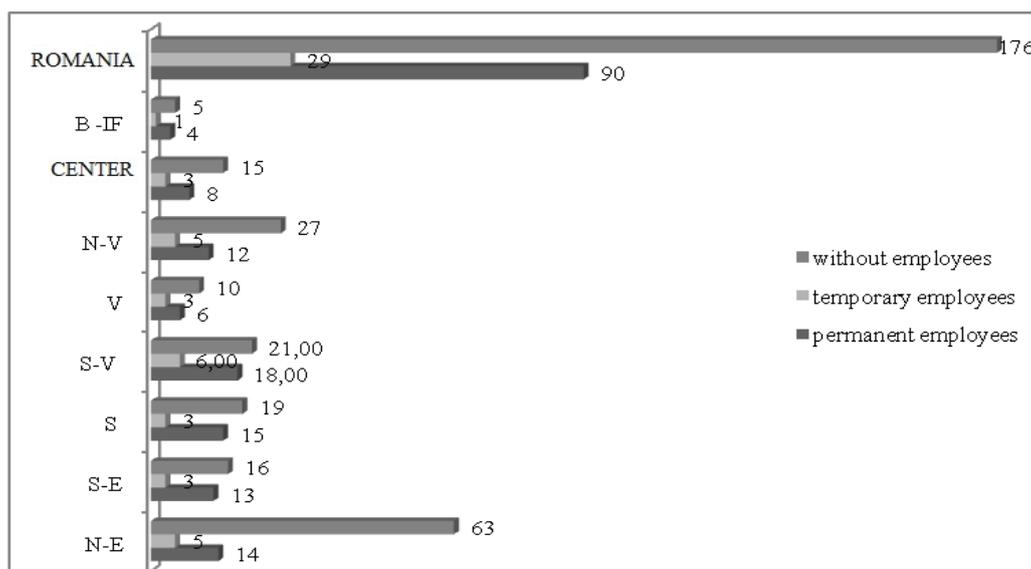


Source: Questionnaire processing by Bercu Florentin, July 2012.

Figure 8. Average age grouping of the cooperative members

Analysing the agricultural cooperatives employees, we noticed that 176 had no employees, while 90 had permanent

employees, while 29 had temporary employees (Figure 9).



Source: Questionnaire processing by Bercu Florentin, July 2012.

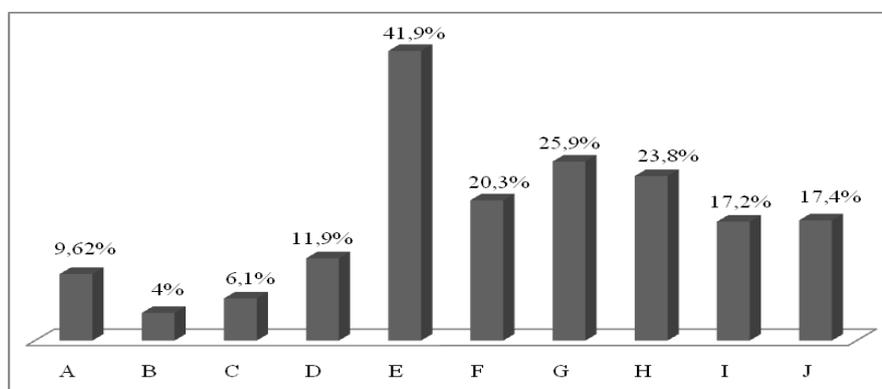
Figure 9. Number of employees in agricultural cooperatives

In the survey, we noticed that 35.38% of the analysed agricultural cooperatives had permanent employees, 11.2% had temporary

employees, and 53.42% had no employees. Analysing the most serious issues and constraints in the activity of agricultural

cooperatives in Romania, we noticed that: 9.62% considered they were due to the limited number of members (A); 4% to the limited patronage or field of action (B); 6.1% believed they were caused by the poor organisation structure and management (C); 11.9% considered that most serious was the lack of entrepreneur and managerial skills (D); 41.9% lack of funding (E); 20.3% problems related to technology (F); 25.9% problems caused by markets (G); 23.8% by lack of information (H); 17.2% problems caused by unfavourable external factors and market environment (I); and 17.4% mentioned other issues and constraints such as: exaggerated bureaucracy; most members want to join in order to gain points for EAFRD projects and are hardly convinced that a cooperation between members may bring them many benefits; the lack of local and national representation; unsuitable legislation; excessive imports and the black market; old mentalities (fear of association); the issue of the market agent; poor legislation in the agricultural domain; lack of funds; insufficient media coverage and information; high market taxes; the members'

reluctance to the term 'COOPERATIVE'; the very difficult implementation of projects with NRPD funding, due to the use of verification and payment procedures that are not correlated with the contracts signed by beneficiaries, or by the applicant's guide, payment instructions, etc. Such procedures had not existed when the projects were accessed or when the contracts were signed, but appeared afterwards, as contradicting and not correlated with the accessing procedures, turned the facilities available to the farmers into starting points for numerous trials in various courts of justice, being assimilated by the farmers with slow-ticking time bombs, which, instead of helping and contributing to the development of the rural space, rather cause confusion and lead to blockages. Other problems were mentioned (J), such as litigations with leased pastures; government - obstacles; the fact that according to the law of cooperatives, these are exempt from agricultural taxes for the first 5 years, but this does not apply; tax fraud; very high VAT; lack of commitment from the Ministry of Agriculture (Figure 10).



Source: Questionnaire processing by Bercu Florentin, July 2012.

Figure 10. Issues and constraints for agricultural cooperatives in Romania

In this survey, we emphasised the need for a global effort to promote cooperatives and to raise the public awareness as to the role played by cooperatives in socio-economic development.

## CONCLUSIONS

The economic crisis which our country has been confronting with for the last couple of years has caused a great impact on the

increase in the number of cooperatives, so that, in 2012, in Romania there were 511 active cooperatives and cooperative entities with an agricultural profile.

This increase has derived from the multiple needs of the farmers, needs which were able to be met by means of the advantages obtained by joining these types of cooperatives. Thus, the costs ensued from the fertilizers, pesticides, materials and facilities as well as from the depositing and

transforming of agricultural products have diminished considerably.

Following the completion of the market research, by analyzing the survey applied to the 284 respondents, an evaluation of the actual state of cooperatives in our country could be accomplished, in order to find viable options for the improvement of agriculture.

The tendency for farmers to grow younger is worth noticing, considering that the high number of farmers exceeding the age of 50 is well known. By analysing the most serious problems and constraints which the agricultural cooperatives are confronting with in Romania, the following results were obtained: 9.62% of the cooperatives consider that these are due to the small number of members; 4% of the cooperatives are of the opinion that they are caused by limited patronage or scope of action; 6.1% have mentioned the organization structure and poor management; 11.9% of the cooperatives that answered the survey believe that the problems are caused by the lack of managerial and entrepreneurial skills; 41.9% feel that they stem from the lack of financing; 20.3% of the cooperatives have mentioned the quality of existing technology; 25.9% say they are caused by the way markets function; 23.8% lay the blame on the lack of information as well as on the dysfunctional exchange of information; 17.2% think the problems are brought about by unfavourable external conditions and the market environment and, lastly, 17.4% have indicated other issues. Although still in a timid way, the agricultural cooperatives in Romania encourage, by means of diversification and integration, both on a horizontal and on a vertical level, the association of farmers, who can thus benefit from the possibility of acquiring input at lower prices (up to -35%), an also the implementation of efficient technologies. Moreover, these forms of association contribute to the organization of production, to the increase of production, both from a quantitative and from a qualitative point of view, to the concentration of the supply of

agricultural products and of the commodity market, resulting in the increase of the producers' economic efficiency.

### *Acknowledgement*

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