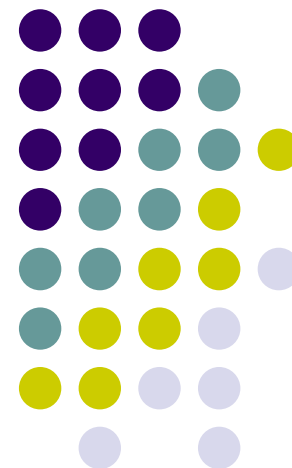


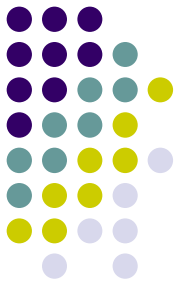
Agricultural cooperatives in transitional countries: recent issues

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Outline



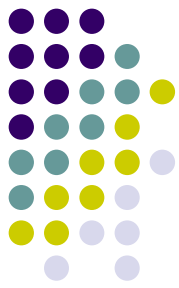
- Agrifood business in transitional countries
- Revisiting cooperative identity
- Prospects for agricultural cooperatives

Agrifood business in transitional countries



- Pervasive vertical coordination
 - From spot market to full integration
 - Marketing / production contracts
- Evidence (Swinnen 2005)
 - Germany & US: 1/3 of ag output produced under contracts at the end of 1990s
 - More pervasive vertical coordination than in Western countries
 - At the end of 1990s, 80% of corporate farms in the Czech Republic, Slovakia, and Hungary, sold crops on contract; 60-85% sold animal products on contract
 - Growing reliance on contracts and vertical ownership of farms in the CIS

Agrifood business in transitional countries



- Rationales for vertical coordination (Swinnen 2005)
 - Overcoming transition-specific disruptions in supply chains
 - Better access to factor and product market for agricultural producers
 - Farm assistance:
 - Input supply, investment, trade credit, bank loan guarantee, advisory support ...
- Generally, no evidence of exploitation of farms

Agrifood business in transitional countries



- Cooperatives and vertical coordination: 3 facts
 1. Vertical coordination and cooperatives have overlapping economic rationales
 2. Cooperatives potentially facilitate vertical coordination
 - Reduction of transaction costs in supply chains / increasing producers' bargaining power ...
 3. Yet, cooperatives are dispensable
- => Key challenge for competitive survival
- Cooperative advantage through cooperative identity
 - Third sector, social economy, nonprofit sector, voluntary sector, civil society sector

Revisiting cooperative identity



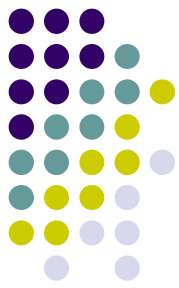
- As third sector organizations (TSOs), cooperatives supplement, and compete with, the market and the state
- Institutional economics: both market and state have limitations in governing agriculture and rural development
 - Rurality-induced low profit prospects for for-profit firms in rural areas; low market power of agricultural producers, opportunism of their contractual partners, lacking knowledge and motivation on the part of public officials
- => As TSOs, cooperatives are uniquely adapted to agricultural and rural governance, given their self-awareness as TSOs

Revisiting cooperative identity



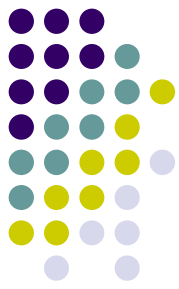
- Implications of third sector identity:
 - Corporate social responsibility (CSR) and corporate citizenship
 - Greater focus on local development, advocacy, and policy
 - Greater focus on mission-drivenness and integration with the rest of the third sector
 - The notion of cooperative commercialization is made largely obsolete by CSR of for-profit corporations
 - Greater experimentation with innovative organizational models
 - Distinct normative framework: maintaining high quality of rural life
 - Hardly compatible with for-profit firms' normative framework of allocative efficiency and profit-making
 - Instead: decent living, economic security, creative self-expression, civic culture

Revisiting cooperative identity



- Overall formula: Market success because of, rather than despite, the third sector identity
 - Contrast with traditional nonprofit organizations (mission-market tension)
 - Example: addressing recent financial crisis
 - Crisis of (financial) markets and profit-making motivation
 - => greater reliance on state and the third sector
 - ICA 2008: cooperative business is not at the mercy of stock markets, controlled by local people for local people
 - Cooperative banks benefited from flight of deposits and bank accounts
 - Need to distinguish short-term and long-term effects of the crisis on agricultural cooperatives
 - Need for innovative solutions

Prospects for agricultural cooperatives



- (Transitional) institutional environment:
 - Increasing societal concerns over agriculture and rural areas
 - „shift from government to governance“; new rural paradigm of OECD; from regulation to collaboration
 - Low social capital and weak civil society
 - Weak membership base and motivation
 - Weak societal engagement of cooperatives
 - Lack of spirit, both cooperative and entrepreneurial

Prospects for agricultural cooperatives



- Strategic issues for agricultural cooperatives:
 - New product quality requirements and food consumption patterns
 - Ethical consumerism
 - Multifunctionality
 - Rural disadvantage
 - Climate change
 - Democratic governance and civic culture

Conclusions



- Cooperative identity is a key to competitive survival
- The third sector dimension of cooperative identity
 - Need for third sector self-awareness of agricultural cooperatives
 - Mission-drivenness, accountability, fundraising, volunteering ...
 - Need for research on third sector identity of agricultural cooperatives
 - Theory, comparison with other TSOs, policy implications