



**Cooperative Business and Innovative Rural Development:  
Synergies between Commercial and Academic Partners  
C-BIRD**

FP7-PEOPLE-2013-IAPP Marie Curie  
Industry-Academia Partnerships and Pathways (IAPP)



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## **Study visits report**

**December, 2015**





## Introduction

**C-BIRD** is about understanding the critical elements of the institutional system, knowledge mechanisms and policy instruments in terms of their specific features, constraints and capabilities to promote and support collective action. The context within which our project operates embeds policy context, country specific environment and recent research findings on the impact of cooperative business and rural development. Therefore the balance between the theoretical research and the field work is to be achieved through systematical interaction with representatives of all actors involved in rural development – single producers, cooperatives, producer organizations (PO), NGO's, business stakeholders, local action groups, local and regional administration, national federation and alliance, business incubators, techno parks, youth organizations, experimental stations.

For the first two years (2014-2015) of the **C-BIRD** the mutual collaboration between academics, business and practitioners, and the public sector has been operationalized through:

- Secondment exchange, collaborative research and training that gave the opportunity to create a two-way exchange knowledge and sufficient interaction between researchers and practitioners;
- The establishment of a viable network thanks to study visits and meetings with various representatives of the rural society in the country partners;
- Publications and events to share C-BIRD progress and receive feedback and external evaluation on research relevance.

The scientific work performed is to propose formative and qualitative insights into the challenges of the rural system and the diversity of roles and functions of the stakeholders involved. This analysis is descriptive; however **C-BIRD** researchers systematically assessed the rural support and policy at national and local level; significance of the different sectors, e.g. agriculture, processing industry and auxiliary services, third sector; as well as the endogenous development mechanisms that strengthen rural relationships and build rural entrepreneurship environment, as effective way to increase incomes and generate growth, improve quality of rural life and community sustainability. For the period 2014-2015 more than **120 documented study visits** have been organized with the abovementioned type of target actors, contributing to rural development. This opportunity basically gave the firsthand experience and established dynamic network connections that adds value to the **C-BIRD** research not only based on the institutional collaboration, but also on the relevance of the project in terms of the most recent social and economic trends.

The present report is part of the results achieved and is to present the main history, principles and development of cooperatives in the countries-partners of the **C-BIRD** project. Moreover the history and theory of, and the problems associated with cooperativism in rural areas will be presented, as well as the role of the policy, the extension service, non-government organizations (NGOs) and other actors involved in rural development will be investigated.





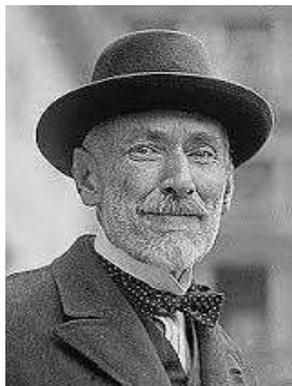
## Country overview

In the “Recommendation on the promotion of cooperatives” the International Labour Organization (ILO) defines cooperatives as “*an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise*”. The NCBA (2005) identifies that cooperatives are formed to provide needed goods and services at affordable prices and acceptable quality<sup>2</sup>. Cooperatives empower people to improve their quality of life and enhance their economic opportunities through self-help. Worldwide have been established many types of cooperatives to strengthen bargaining power, maintain access to competitive markets, capitalize new market opportunities, manage risk through improved incomes and reduced costs, and last but not least promote the main principles for democracy, autonomy and independence and social well-being. The development of more sustainable cooperative practices and enhancing producer livelihoods is to be built upon enabling institutional and legal frameworks and support structures, including long-term contracted arrangements, farmer cooperatives, commodity chains that integrate microcredit, farmer organization, input provision, quality control, storage, bulking, packaging, transport, etc. Enhanced value added activity and off-farm employment generate sustainable rural employment levels. “*Building countervailing negotiating power, such as farmer cooperatives and networks will be important to help resource poor farmers increase their share of value captured.*”<sup>3</sup>

## IRELAND

In Ireland “*credit unions and cooperatives came into being in response to the failure of the market to provide quality goods and services universally*”<sup>4</sup>.

Until 1860s in the rural Ireland there was a small number of cooperative stores, which situation was changed in 1894 with the establishment of the Irish Agricultural Organization Society to mark the beginning of the Irish cooperative movement<sup>5</sup>. The agricultural sector in Ireland has been accorded a special status, both for its own strategic importance and as a key industry for the promotion of economic growth; therefore the Irish Agricultural Organization Society was set up to serve and help cooperative initiatives in agriculture and more particularly the Irish dairy sector.



The Irish Agricultural Organization Society, found by Horace Plunkett (1854-1932), was established to primary advocate benefits of the agricultural cooperatives and to promote the

<sup>1</sup> ILO R193/2002

<sup>2</sup> National Cooperative Business Association (NCBA, 2005), <http://www.ncba.org/>

<sup>3</sup> International Assessment of Agricultural Knowledge, Science and Technology for Development, Synthesis Report - A Synthesis of the Global and Sub-Global IAASTD Reports, 2009, ISBN 978-1-59726-550-8

<sup>4</sup> Inquiry into the Future of Civil Society in the UK and Ireland: The shape of civil society to come, Carnegie UK Trust, 2007, ISBN: 978-9-900259-00-5, p.11

<sup>5</sup> P. Bolger, The Irish Co-operative Movement, its History and Development (Dublin 1977)



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cooperative principle of political neutrality. Looking back at the history, the first cooperative was established in 1859, the first cooperative law was promoted in 1893, when the membership of the population was estimated to 59,5%<sup>6</sup>. The Industrial and Provident Societies Acts (1893) was the principle legislation for cooperatives in Ireland, where in Article 3 it is specified that: *“Every incorporated society now existing which has been registered or certified under any Act relating to industrial and provident societies shall be deemed to be a society registered under this Act, and its rules shall, so far as the same are not contrary to any express provision of this Act, continue in force until altered or rescinded”*<sup>7</sup>.

In 1888 in Horace Plunkett article “Help versus money”, it is suggested *“to the rich to help the poor by doing their trading with them by means of cooperative stores”*, and by doing this to start the movement *“leaving the door wide open for the lower classes to join in”*<sup>8</sup>. Irish cooperative movement was dedicated to establishing cooperative creameries, cooperative societies, which jointly bought agricultural necessities and sold their produce, and credit societies, providing small loans to farmers. By 1903 there were 140 agricultural societies for jointly purchasing agricultural necessities, such as seeds, fertilizers and tools.

The 1894 was the first year when cooperative banking was undertaken to fight chronic rural indebtedness. Credit unions and cooperatives came into being in *“response to failure of the market to provide quality goods and services universally”*. In 1914 there were 350 cooperative societies. By 1930 their number decreased to 52 surviving credit societies.

The structure of the farming industry and the diversity of interest among farmers precluded them from becoming a significant political force until the 1960s<sup>10</sup>. From the mid-1960s, however the National Farmers’ Association founded in 1955, emerged as the major umbrella organization, followed by the Irish Creamery Milk Suppliers Association, founded in 1950, and the Irish Cooperative Organization Society which acts as the coordinating body of the agricultural cooperative movement in Ireland. The abovementioned organizations represent the *“inner circle”* of the agricultural interests, supported by the government and the representing authorities. In Northern Ireland, the Ulster Framers’ Union (UFU) enjoyed close relations with the dominant UUP, to the extent that it was *“fostered as a means of extending the hegemonic party’s control over as much of society and economy as possible”*<sup>11</sup>.

In general, the period between 1940 and the Ireland’s entry in the European Economic Community in the 1<sup>st</sup> of January 1973, was the *“years of consolidation and slow expansion”*<sup>12</sup>. These years were witnessing the introduction of the livestock mart, auction facilities to offer real economic benefits for the farmers.

<sup>6</sup> T. O’Brien, Co-operative Bibliography, with Special Reference to Ireland (Coleraine 1979)

<sup>7</sup> Industrial And Provident Societies Act 1893, available at: <http://www.irishstatutebook.ie/eli/1893/act/39/enacted/en/print>

<sup>8</sup> In 1888 Diary of Sir Horace Curzon Plunkett (1854–1932),

<sup>9</sup> Inquiry into the Future of Civil Society in the UK and Ireland: The shape of civil society to come, Carnegie UK Trust, 2007, ISBN: 978-9-900259-00-5, p.11

<sup>10</sup> Adsheed, M (1996) “Beyond Clientelism: Agricultural Networks in Ireland and the EU” West European Politics 19 (3): 583-608

<sup>11</sup> Alan Greer, Policy Networks and State-Farmer Relations in Northern Ireland, 1921-72, Political Studies, Volume 42, Issue 3, pages 396-412, September 1994

<sup>12</sup> Carla King, Liam Kennedy (1994) Irish co-operatives From creameries at the crossroads to multinationals, 18th-19th Century Social Perspectives, 18th-19th - Century History, 20th Century Social Perspectives, 20th-century / Contemporary History, Features, Issue 4 (Winter 1994), Volume 2





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Established in 1960s as an all-Ireland body, the Irish League of Credit Unions (ILCU) is the leading trade and representative association for credit unions in Ireland, representing the interests of more than 500 of these, of which 104 are in the Northern Ireland and 426 are in the Republic<sup>13</sup>. Credit unions are principally community-based financial cooperatives, established by the communities they serve and operated on a not-for-profit basis. Any profit made is returned to members of the association or used for additional services to members and their communities<sup>14</sup>. In this way credit unions have become a significant source of “social finance”, lending money to people already in debt or in poor financial circumstances to plan their way out of debt.

Agricultural cooperatives catered for some 200000 large and small scale farmer members in rural areas, with some half a million people involved in credit unions<sup>15</sup>. Industrial relocation from rural to urban to rural led to the declining economic viability of many Irish rural communities<sup>16</sup>. The preservation and maintenance of conservative values and attitudes in Ireland can be attributed to the predominance of “rural culture” in Ireland. The outlook of life of the farming community, described by Commins (1986:52) as “rural fundamentalism”, nourished conservative and authoritarian values in Ireland<sup>17</sup>.

The long-standing significance attached to agriculture by the state, together with a relatively high proportion of the state’s labour force employed in agriculture. Ireland competitive advantage was in agriculture, especially pasture over tillage, which was less labour intensive and well supported by Ireland’s climate<sup>18</sup>. In 1922 half of the workforce was involved in agriculture and there was no thought of an industrial policy despite the continuing decline in the agricultural employment.

Agricultural sector expand to a diversified agri-business during the first decade of the EEC entry when 70% of the milk processing was carried out only in four major cooperatives, while the remainder of the 30% was allocated to small cooperatives. By the 1980s the dependence of the cooperatives on the traditional raw material of milk declined. Some of the cooperatives stretched into subsidiary companies based on the legal principles of the private enterprise or joint-stock company.

In 1992 the IAOS annual report declared that there were 34 dairy societies with almost 92000 members, employment of 20000 people and £ 5 billions of turnover. The dairy societies dominated within the cooperative sector.

Within the period 1986-1990 seven dairy cooperatives, handling approximately 50% of Ireland’s milk restructured themselves into public limited companies, or were taken over on a bid basis by a public limited company<sup>19</sup>. The reasons for this restructuring, pointed by the Jacobson (1992) reflected:

<sup>13</sup> O’Dwyer, B. (2006), “Theoretical and Practical Contributions of Social Accounting to Corporate Social Responsibility”, In Allouche, J. (Ed.), Corporate Social Responsibility, Volume 1: Concepts, Accountability and Reporting, Palgrave Macmillan, New York

<sup>14</sup> Briscoe R. & Ward M. 2000, The Competitive Advantages of Co-operatives, Centre for Co-operative Studies, O’Rahilly Building, University College Cork, Cork

<sup>15</sup> Briscoe R. et al, (1982) The Co-operative Idea, Centre for Co-operative Studies, University College Cork.

<sup>16</sup> O’Cinneide, S. 1985 Community response to unemployment, Administration, Vol.33, no2

<sup>17</sup> Commins, P. (1986) ‘Rural Irish society’ in, P. Clancy, S. Drudy, K. Lynch and L. O’Dowd (eds) Ireland: a sociological profile, Dublin: IPA, pp.47-69

<sup>18</sup> Sweeney, Paul (1999): The Celtic Tiger: Ireland’s Continuing Economic Miracle, Dublin: Oak Tree Press.

<sup>19</sup> Jacobson, Robert E. (1992), Public Limited Companies and Cooperative Principles in Ireland’s Dairy Sector, Journal of Agricultural Cooperation, Volume 7, 1992





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- The member-patron ownership structure had not been kept current with substantial share of inactive shareholders, presence of non-member patrons and the fact that many of the patrons were not currently active owners.
- Surplus allocation and equity redemption policies – only 7% of the owner equity was allocated, while 93% were simply identified as unallocated shareholder reserves.

	8 traditional dairy cooperatives	7 PLC type organizations
<b>Allocated equity as % of total equity</b>	4,6	10,2
<b>Range in allocated equity as % of total equity</b>	0,8-11,4	1,5-19,50
<b>Shareholder equity as % of total assets</b>	63	47
<b>Range in equity as % of total assets</b>	53-85	21-80

- Cooperative ownership has economic meaning only if cooperative adheres to its responsibility of redeeming equity according to policies that identify ownership with current active patrons.
- Membership reached point where members were unwilling to contribute additional investment to their organizations in various capital drives.

Boyle (2004) investigated the economic efficiency of Irish dairy cooperatives (1961-1987) and concluded that cooperatives were not efficient for two main reasons<sup>20</sup>:

1. Cooperatives suffer from technical inefficiency because of the principle-agent problems and allocation inefficiency due to horizon problems;
2. Cooperative prices of raw milk are inefficient.

More recently, the development of new credit unions in the context of increasing service rationalization in rural areas has focused attention on their capacity to act as important drivers for local and community development initiatives.

Another grass-roots type of organizations are the so called Faith-Based Organizations (FBOs) that have long played a key role in civil society, as both repositories and transmitters of social values, and also organizations that are often embedded in communities that are otherwise hard to reach<sup>21</sup>.

Although often considered together, in recent years the distinction between the community sector on the one hand and the voluntary sector on the other has been made more concrete by changes in the nature of the voluntary action<sup>22</sup>. Where once voluntary sector was primary conceived as charitable work associated with traditional, largely religious and service-providing organizations, the emphasis has now been shifted towards an increasing emphasis on community empowerment and rights<sup>23</sup>. This which has gained broad acceptance in policy circles, is reflected in contemporary notions of the voluntary sector – as being more service oriented, forming part of the

<sup>20</sup> G.E. Boyle, 2004, he economic efficiency of Irish dairy marketing co-operatives, Agribusiness, Volume 20, Issue 2, pages 143-153, Spring 2004

<sup>21</sup> Inquiry into the Future of Civil Society in the UK and Ireland: The shape of civil society to come, Carnegie UK Trust, 2007, ISBN: 978-9-900259-00-5, p.9

<sup>22</sup> Daly, S. (2007) Mapping civil society in the Republic of Ireland, Community Development Journal 43(2), pp. 157-176

<sup>23</sup> Donoghue, F. (1998), Defining the Nonprofit Sector: Ireland, Working Paper of the Johns Hopkins Comparative Nonprofit Sector Project, No. 28, edited by Lester M Salamon and Helmut K Anheier, Baltimore: The Johns Hopkins Institute for Policy Studies





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non-profit sector that is often viewed as part of the “*shadow state*”<sup>24</sup>– and the community sector as being much more clearly focused on local development, empowerment and attempts to foster social inclusion<sup>25</sup>.

Notwithstanding government attempts to recognize this diversity, it has proven problematic and has effectively acted as a considerable constrained on the capacity of the community and voluntary sector as a whole to influence government<sup>26</sup>. This is particularly so in relation to the incorporation of the community and voluntary sectors (since 1996) into national social partnership agreements. Superficially, the community and voluntary pillar comprising representative groups bound together by common interest in social inclusion, appears to be much the same way that the trade union pillar comprises a cluster of representative groups bound together by a common interest in improved pay and conditions<sup>27</sup>.

As Adshead and McInerney (2008) note: “*Compared to other social partners, the comparison of the community and voluntary sector remains expansive, fluid and diverse – a feature that prevents it from coalescing easily with the other social partners, or even within its own ranks. In consequence, the sector as a whole is unable to act strategically. This inability to prioritize action areas means that in practical terms, the sector is failing to realize its collective representative weight*”<sup>28</sup>.

More recently the attention to the relationship between the state and civil society has increased, particularly in terms of recognizing the important role that civil society plays in promoting a variety of state goals, such as local service delivery and community development and the prevention of anti-social behavior and attempts to foster social inclusion. It is in this context that the concept of “social capital” has become increasingly significant and that “civil society” has been recognized as important source of social capital. Social capital “consists of those features of social organization – such as networks of secondary associations, high levels of inter-personal trust and norms of mutual aid and reciprocity – which acts as resources for individuals and facilitate collective action”<sup>29</sup>.

The Ireland Food and Harvest 2020 strategy emphasizes on the role of the primary suppliers, research and science as part of the driving mechanism that also involves extension services and various industrial agents along the value chain.

Nowadays cooperative movement in Ireland is represented by various collaborative activities, identified as “*organizational innovations, entailing the development of new collaborative behaviours and relationships (new institutions)*”. Further, Cork Policy Council draws on the need for a “*new direction in public policy for food and livelihood security under increasingly constrained environment conditions*”<sup>30</sup>.

<sup>24</sup> Donoghue, F., Salamon, L., & Anheier, H., (1999). *Uncovering the Nonprofit Sector in Ireland: Its Economic Value and Significance*, Dublin and Baltimore: John Hopkins University and National College of Ireland.

<sup>25</sup> Lee, A. 2003 *Community development in Ireland*. *Community Development Journal* 38 (1), 48–58.

<sup>26</sup> DSCFA, White Paper 2000, p.63

<sup>27</sup> Adshead, M. (2006) *New modes of governance and the Irish case: finding evidence for explanations of social partnership*. *Economic and Social Review*, 37, 319–342.

<sup>28</sup> Adshead, M. and McInerney, C. (2008) “*Ireland’s National Anti-Poverty Strategy as New Governance*” in Mark Considine and Sylvain Giguere. (eds) *The theory and practice of local governance and economic development*; pp.233–254

<sup>29</sup> Lochner, K., I. Kawachi and B. Kennedy (1999), ‘*Social capital: a guide to its measurement*’, *Health and Place*, 5: 259–270.

<sup>30</sup> Submission under public consultation process on the draft Food Harvest 2020 Environmental Analysis Report, Cork Food Policy Council, available at:  
<http://www.agriculture.gov.ie/media/migration/ruralenvironment/climatechange/submissionsreceived/CorkFoodPolicyCouncilSubmission.pdf>





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	<b>Category of cooperative activity</b>	<b>Expected effect</b>
<b>Co-operation approaches among different actors</b>	Cooperation in primary production	Improved scale, efficiency, productivity and farm-based innovation, long-term cooperation agreement.
	Producer groups	Locally-based, facilitated collective branding, marketing, processing and direct retailing, protection of geographical indication.
	Cooperation for Branding and Certification	Quality control, environmental standards, and brand promotion.
	Multifaceted Cooperation Entities	New subsidiary cooperation ventures, part-financing significant direct implementation costs associated with experimental methods of processing and production.
	Cooperation in Energy Production	Development of pilot or model projects, innovation, offset financial risk.
	Cooperation in Forestry	Production, marketing, sale, quality control.
<b>Clusters and networks</b>	Inter-Branch Organisations (IBOs) and Federated Cooperatives	Vertical cooperation
	Agricultural Discussion Groups	Facilitate learning and action in farm efficiency, productivity, and farm management practices.
<b>Operational groups of the EIP</b>	Farm Clusters	Enhance market access, technical skills, support growth and development of the individual business
	Multi-Actor Cooperation for Technology Design & Adoption	Agricultural productivity and sustainability
	Cooperation for Piloting New Technologies	Design and put in place experimental conditions, promoting activities

The International Assessment of Agricultural Knowledge, Science and Technology for Development states that “the current agricultural knowledge, science and technology model requires revision. Business as usual is no longer an option (IAASTD, 2009). To support these and also stimulate different collaborative forms the Ireland 2020 strategy introduced Article 36 to support new forms of collaborative arrangements between farmers and is to encourage “intergenerational cooperation as a means of introducing new farmers to agriculture and creating greater efficiency and sustainability for farmers.”<sup>31</sup> Together with Article 36, Articles 20, 21 and in part Articles 15, 16 and 62 were introduced to maximize the delivery of measures with locally-targeted actions in rural communities and existing local action groups. The Article 20 “Farm and Business development” is to contribute to continued viability of rural Ireland and in particular extensive farming systems. Article 21 “Services and Village renewal” is to benefit rural communities in Ireland with multiple objectives including update of management plans of Natura 2000, nature reserves and other areas of importance to local heritage and communities.

<sup>31</sup> Priorities for Ireland’s Rural Development Programme 2014-2020, BirdWatch Ireland Submission to the Department of Agriculture, Food and the Marine January 2013, Compiled by: Dr Alex Copland and Anja Murray, BirdWatch Ireland Luigi Boccaccio, BirdLife Europe





Article 36 specifies three broad categories of cooperative activity: cooperation in production (e.g. producer groups; cooperatives in forestry, energy; inter-branch organizations), clusters and networks and operational groups of the European Innovation Partnerships.

## SPAIN

The first references to cooperatives in Spain dates back to the 1850s – “The Proletariat of Valencia” (1856) or “The Producers’ Association Bunol” (1857). Bakunin supported the establishment of cooperatives by workers:

*“Let us organize and enlarge our Association but at the same time let us not forget to strengthen it in order that our solidarity, which is in our whole power, may become more real from day to day... Let us rally our forces in common enterprises in order to render existence somewhat more tolerable and less difficult, and let us form everywhere, and as far as it is possible, consumers’ and producers’ cooperatives and mutual credit societies, which though unable to free us in any adequate and serious manner, under present conditions, are important inasmuch as they train the workers in the practice of managing the economy and prepare the precious germs for the organization of the future”.*<sup>32</sup>

In the April 1872 congress of the Spanish section of the IWMA (International Workingmen’s Association), a resolution was adopted outlining the statutes for a “consumer cooperative federation to contribute to the emancipation of the workers, relieving them from the exploitation exercised over them by the avarice of the middle class in the commerce of basic needs, with falsification, excessive prices and fraud in weights and measures.”<sup>33</sup>

This enthusiastic support for cooperatives cooled when Palmiro Marba, writing at about the beginning of the First World War, damning consumers’ cooperatives with faint praise, cited with comment that “consumers’ cooperation has produced modest results, and has facilitated a useful means of bringing together publicity a considerable number of workers”, but he totally condemned producers’ cooperatives by saying that they produce bourgeois rather than pesetas.<sup>34</sup>

The cooperative appears for the first time in the legal texts in the “Law for creation of joint-stock and credit companies” (Ley de Libertad de creacion de sociedades por acciones y de credito). The law stipulates that cooperatives adhere to publicity requirements similar to those for a corporation. Once the authorities approved a cooperative statute, they would be advertised in the Madrid Gazette. Garrido (1879) reported that 600 cooperatives were founded between 1868 and 1874<sup>35</sup>. The first official figures on cooperatives appear in the statistics of associations preserved in the Historical Archive in Madrid. From this Summary of the companies of every kind

<sup>32</sup> Mikhail Bakunin (1869) L’Égalité, August 28, 1869

<sup>33</sup> 1872 Congress of the International Workingmen’s Association

<sup>34</sup> Robert J. Alexander (2007) The Anarchists in the Spanish Civil War, Janus Publishing Company, ISBN 978-1-85756-400-6

<sup>35</sup> Garrido, Fernando (1879) La cooperación: Estudio teórico y práctico sobre las sociedades cooperativas de consumo y producción en Inglaterra y otros países, y especialmente en Cataluña. Barcelona: Imprenta de Oliveros



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existing in Spain on 1<sup>st</sup> January, 1887” the regions with the highest number of cooperatives are – Madrid (9), Valencia (7), Murcia (7), Oviedo (5) and Catalonia (4).

In 1895 the economist J. Diaz de Rabago, compiled the first systematic cooperative statistics by asking all provincial governments for copies of their enterprise registers. He concluded that in that year, Spain had 138 cooperatives distributed across consumption (87), production (39) and credit (12)<sup>36</sup>.

Gonzales Echegaray - Minister of Public Works, published the principles for a new commercial code on September 20, 1869, where was stressed the necessity of radical reforms required on two issues: “*associations and bankruptcy, both of which at this time are incomplete.*” Associations, particularly cooperatives, received special focus during these early stages, defined by two characteristics: mutual insurance and the sharing of dividends as a compensation for labor. Gonzales Echegaray argued that cooperatives did not fall under the commercial code since neither their objectives nor their compensation of labor was economic in nature. Mutual insurance societies were excluded from the code for the same reason.

In the final draft of the new Commercial Code, the number of business forms was expanded beyond the original three included in 1829. The new Code did not explicitly include cooperatives. But article 142 allowed firms to adopt any form necessary to achieve their ends, so long as their agreements did not contradict other law. In addition to this new list of enterprise forms, which did not include cooperatives, a special clause kept the code open to the possibility of other entities:

*“Art. 142. Depending on the nature of their operations, companies can be: credit institutions; banks of issue and credit; mortgage companies; mining companies; agricultural banks; railroad and public works concessions; public warehouses; and of other kinds, as long as their agreements are lawful and their purposes commerce or trade.”*

The Commercial Code only covered those cooperatives that were engaged in acts of commerce:

*“Art. 143. Mutual companies providing insurance against fire, disability, old age, or any such combination, as well as producer credit and consumer cooperatives, will only be considered as having mercantile characteristics and thus covered under the provisions of this Code, if they engage in acts of commerce unrelated to mutual insurance or those converting to fixed premiums.”*

Between 1881 and 1887, the ideological movement known as Neo-gremialismo began to rise. This movement sought to restore old craft-union structures in order to bring workers and employers back together under one association, by adapting these institutions to a modern liberal context. A bill on these “new” organizations was presented before Congress in 1882—“Bill Setting the Terms for the Formation of Unions (May 28, 1882).” One of its clauses states that other associations, such as cooperatives, could be legally created within a union. This development suggests that cooperatives had lost their alleged revolutionary character, and instead were now an instrument for society’s most conservative elements.

<sup>36</sup> In Timothy W. Guinnane, Susana Martínez-Rodríguez, (2010) Did the Cooperative Start Life as a Joint-Stock Company? Business Law and Cooperatives in Spain, 1869-1931, Economics Department Working Paper No. 81, Economic Growth Center Discussion Paper No. 987





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The law clearly established the cooperative as a form of sociedad civil (a “civil enterprise” or professional partnership), regardless of whether its purpose was “production, credit, or consumption,” (art. 1) as well as outlining the legal requirements for its incorporation. This required a statement of the cooperative’s “name, purpose of association, its address, form of administration or governance, of the resources with which expenses shall be met, and the destination of funds and social assets shall it be dissolved.” Once incorporated, cooperatives were required to keep account books and a registry of members, “in which under the responsibility of those charged with administrating affairs, all credits and debits of the association shall be recorded, and the origin and assignment of all funds explicitly stated. An annual balance sheet shall be submitted to the provincial registry.” (art. 10)

Credit and other forms of assistance were available to small farmers only in those parts of the country with strong Catholic agrarian Syndicates. Catholic organization of peasantry began in 1902 with the creation of the first Cajas Rurales. Catholic rural associations, as well as other rural organizations, received a boost through the passage of the 1906 Ley de Sindicatos Agrícolas (Law of Agricultural Syndicates), which applied to all “Associations, Societies, Communities and Agricultural Chambers”. Organizations that qualified themselves as Sindicatos received economic benefits – such as access to research and tax reductions for agricultural machinery – and this mean that smaller rural associations benefited from what amounted to state sponsorship. By the end of 1906, over four hundred Catholic-Agrarian syndicates existed throughout Spain, though historians have credited this tendency to small farmers’ desires to acquire tools, machinery, and fertilizers at a discount rather than an overwhelming devolution to the Catholic Church. Ten years later the Primate of Spain created a national organization – the Secretariado Nacional Catolico-Agrario, intended to “defend farmers from capitalism and ruin ... to sustain and multiply the class of small rural landowners.”<sup>37</sup> This was to be achieved through the creation of rural syndicates which brought together all these engaged in agriculture. The syndicates would provide a number of important services for the small farmer: the purchase of tools, fertilizers, the sale of product at decent prices, loans for tenants, and the possibility of becoming landowner.

The agricultural syndicates all over Spain operated on the premise of interclass cooperation and at the prevention of social revolution. Circulo Frutero was locally established and comprised of middle-class businessmen and property owners, who worked to expand Valencian agriculture as an industry.

The Circulo Frutero (Fruit circle), formed in June of 1901 was comprised entirely of bourgeois industry interests and ostensibly open to comerciantes as well as orange growers. Within a year, the Circulo has expanded and moved into a new building “a representation of our great wealth”. The Circulo focused entirely on the business aspect of agriculture and worked to set prices for fruits and vegetables in the region and evades strike activity.

By 1920 the Confederacion Nacional Catolica Agraria (CNCA), which succeeded the Secretariado in 1917, claimed to have 600000 members in its 5000 syndicates. The

<sup>37</sup> In Adrian Shubert, A Social History of Modern Spain, Routledge, 1992





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CNCA was particularly concerned to increase the number of small holders. According to the Secretary General “*giving the landless access to a small property, with the hope of being able to increase it by their labour, their economy and submissiveness, reduces vice, increases virtue and closes the door to revolutionary ideas*”<sup>38</sup>. In 1920 Syndicates purchased 10300 ha which were distributed among 3136 people. They also leased 29 large farms, totaling 16069 ha, collectively to 6932 tenants and claimed to have made loans which allowed more than 50000 others to purchase land.

In 1932, Jose Maria Gil Robles claimed that between 1917 and 1931 the CNCA had acquired and distributed 29859 ha among 9849 smallholders.

Though these rural societies primarily represented rural oligarchic interests, these men were not interested in depriving small holders of their property. In order to foment the success of the small – to medium farmers, middle-class associations lobbied for the reform of the Spain’s credit structures and credit remain a central issue for much of the period before the end of the World War I. Observers noted that most of the rural population throughout Spain lived in poor conditions and the extension of credit, as well as the promulgation of saving banks (Cajas de Ahorros) and rural loan associations (positos), centerpieces of bourgeois reformist ideologies, would allow the small farmer and tenant farmer to improve their productive capabilities and thereby contribute to the culture of agrarian expansion.

Over the course of the early 20<sup>th</sup> century, several attempts were made to pass new credit laws, but most were failures. On both a regional and national level, however, these measures proved ineffective in solving even the most basic problems of the small farmers. For banks or organizations to extend credit they generally required collateral and many small landowners could not afford even to include their property in local property registers. A number of rural credit associations, run by usereros, charged exorbitant interest rates and resorting to their services generally meant financial ruin for most small farmers and rural workers.

Los Mercados frequently published articles encouraging its readership to join associations and this way a theme at frequent congresses and meetings held around the region, and throughout the Spain<sup>39</sup>. Many observers viewed cooperativism as a mean to recreate Spanish agriculture and must be seen in the larger context of a movement towards Spanish regeneration as a result of the Disaster in 1898 and loss of Spain’s remaining overseas colonies. Despite this trend, Spanish membership in associations was low in relation to other European nations and research has shown that the cooperative movement did not have the same impact in Spain as it did in the other parts of Europe, at least as far as the small farmers were concerned.

Cooperatives and rural banks in other European countries allowed for small farmers to have better “bargaining positions”, and had generally been more successful, though it must be noted that Spain’s land distribution “problem” was certainly affected. By the middle 1908, the Federacion Agraria de Levante published a sample charter for citrus cooperatives in Los Mercados, where it was stated that the only goal of cooperative was the “harvest, production and sale in common of the orange that our associates

<sup>38</sup> In Adrian Shubert, A Social History of Modern Spain, Routledge, 1992

<sup>39</sup> The Orange Proletariat: Social Relations in the Pais Valenciano, 1860--1939





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harvest”, but it also had a “social and civil” function, in that it had the power “to acquire and possess property of all types”, and engage in legal actions.

Another interpretation identifies cooperative movement as a way whereby rural capitalists centralize the countryside and by the mechanisms of the vertical integration control both production and distribution. These certainly minimized competition among farmers, and also left aside many small and medium farmers, who at the event of crisis remain uncovered.

New interest in cooperatives in the 20<sup>th</sup> century led to more systematic data collection. There are two especially useful tabulations, one for 1915 and another for 1931. The statistics for 1915 were developed by the Third Section of the Institute of Social reforms and are contained in the “Preview of the census of associations” undertaken by the Institute for Social Reform (1915)<sup>40</sup>. Most cooperatives are in Spain’s Eastern regions, and consumer cooperatives dominate. Catalonia comes first with 304 cooperatives, of which majority are consumer cooperatives.

The cooperative taxonomy given in the 1931 Law contains 25 categories, plus two catch-all groups for those “mixed and undetermined” cooperatives and those not classified. In that year there were 592 cooperatives, of which 42% are consumer cooperatives. Agricultural cooperatives had grown to nearly one-fifth of all institutions, and the growing demand for decent housing is reflected in the 17% of cooperatives that were for housing. The remaining 25 categories accounted for only 22% of the total.

In 1942, after the civil war, the Franco dictatorship established a new legal regime for cooperatives. The statistical information on cooperatives available to us for 1931 and before is enough to suggest an important historical puzzle: long before the historical literature thinks Spain had cooperative law, it had cooperatives.

Spanish agricultural cooperatives were to respond to the new economic environment by developing institutional and financial innovations and adopting new strategies in most business areas, particularly in human resources and government. Cooperatives have to adopt their management model to the changing needs of today’s environment if they were to remain competitive.

Agricultural adoption to such challenges will likely to include a re-allocation of land use, food production changes, re-engineering of agricultural infrastructure<sup>41</sup>, such as irrigation and crop type adjustments (Lobell et al., 2008).

Hernandez et al. (2008) defines cooperative governance as “... *how to manage, direct and guide the cooperatives in achieving their goals*”<sup>42</sup>.

While the first Spanish cooperative, an association of stock-breeders, was established in 1838, it was worker productive and consumer rather than agricultural cooperatives that were to be the principle early cooperative structures in Spain. All these types emerged from groups with strong socialist orientation. The first cooperative legislation dates from 1885 when a special section of the Commercial Code was enacted to deal with the emerging cooperatives. Regional cooperative structures, an important feature

<sup>40</sup> “Preview of the census of associations”, Institute for Social Reform (1915)

<sup>41</sup> Lobell DB, Burke MB et al (2008) Prioritizing climate change adaptation needs for food security in 2030. *Science* 319(5863):607–610

<sup>42</sup> Hernández, M.J.; Ruíz, C. and García, E., 2008, “La cultura como mecanismo de gobierno y control en las organizaciones cooperativas”. *REVESCO*, 95, pp. 94-111.





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of Spanish cooperation to this day, emerged first in Catalonia in 1898 and were soon found in diverse sectors – agriculture, consumer, credit, housing and industrial production. The first national congress of cooperatives took place in 1913 and reflected the growing national character of the movement. However, in its deliberations the congress brought to public light political differences that reflected the different sectoral and regional structures. A national crop federation was formed in 1928 and presented Spanish cooperatives in the ICA until the time of the Spanish Revolution.

After Franco's victory, the national federation was replaced in 1942 by a new governmental structure. The new government also declared illegal the existing sectoral and regional cooperative federation structures, then representing about 2200 cooperative societies. While politically constrained (many cooperative leaders left the country), cooperatives continued to grow and so as the diversity under the Franco regime. An ILO report (1972) noted the existence of 14984 societies in 1971 with a membership in excess of 2,6 million (approximately 8,5% of the population). With the end of Franco in 1975 the dictatorship collapsed and with it, eventually, the imposed cooperative structures.

Regional multisectoral federations have again emerged as important elements in the cooperative movement. These have been accompanied by new or revived national sectoral federations, representing cooperatives in the following sectors: agriculture, consumer, credit, fisheries, food retailing, housing and worker productive. More recently, the Spanish confederation of Cooperatives was formed as the national apex cooperative organization. A European Community publication in 1986 reported 25868 cooperatives with 3864182 members or 10% of the population.

A 1998 statistical summary of the ICA member countries notes that in 1996 there were 23481 cooperatives in Spain with a membership of 4336502 in the following sectors:

Sector	Number of societies	Membership
<b>Agriculture</b>	4350	950000
<b>Banking</b>	96	905473
<b>Consumer</b>	381	806387
<b>Fisheries</b>	178	12443
<b>Health</b>	3	186942
<b>Housing</b>	3378	1255961
<b>Independent retailers</b>	2677	Na
<b>Insurance</b>	1	Na
<b>Transport</b>	396	4710
<b>Worker productive</b>	13001	163952
<b>Others</b>	1597	47960

Source: ICA statistical summary, 1998

Cooperative membership at that time was 11,1% of the national population.

Spanish worker-owned have also suffered from their small size. They learned a long time ago that in order to prosper they needed to join forces with each other in the form of associations, confederations, and other types of networks<sup>43</sup>. The Mondragon

<sup>43</sup> CEPES (2003) Anuario de la economia social 2002, Madrid: CEPES





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experience could be interpreted as proof that cooperatives can succeed internationally only if they grow big enough. Certainly, MCC's size and diversification has enabled it to benefit from developing and sharing human, financial, marketing, and technological resources at the group level. It is important to note, however, that the eighty odd cooperatives that are part of the MCC are owned separately by their respective worker-owners. Each of the cooperatives remains relatively small in size, makes many decisions autonomously and has direct representatives in MCC's decision-making bodies. Thus, Spanish cooperatives demonstrate that network of relatively small economic units can become internationally competitive<sup>44</sup>.

Spanish Cooperative Law (BOE, 1999), points out in Article 1.1. that: "A cooperative is a firm constituted by people that freely associate and voluntary retire, in order to undertake managerial activities". Following this, it is deduced that both its capital and the number of members (principals) may vary over the life of the organization. Salazar and Calve (2010) consider cooperative as a hybrid form of government transactions, since cooperatives have both market-associated and company-associated characteristics.

Cooperatives face two problems – on the one hand, in most cooperatives the administration is delegated to managers or professional agents. On the other hand, the multiplicity of objectives that members may have means the objectives of the organization are not well defined, and managers' discretion increased, making it more probable that they adopt decisions that benefit themselves to the detriment of members. Rodriguez and Mozas (2003) and Mozas (2004) state that the various laws pertaining to cooperatives in Spain allow them not only having dualistic structure, but also a monist structure, characterized that last one by a lack of professional managers<sup>45,46</sup>.

Society and economy suffer rapid and extensive changes associated with globalization, technological progress, the volatility and high demands of consumer demands, market deregulation, the trends towards concentration business, etc. (Martinez, 1990, Menguzzato and Lejarriaga, 1993, Sanchis, 1995, Arcas and Ruiz, 1997, Hernandez and Manuera, 1997, Julia, 1999, Planells and Mir, 2000). "The agrarian cooperative is characterized as the main social and economic boost for rural areas and into jobs, fixing the population on its territory, it increases business, creates wealth, improves social welfare of citizens and contributes to the conservation landscapes and natural resources."<sup>47</sup>

The alignment of interests is to reconcile the objectives of all stakeholders of the enterprise so that can meet the expectations of all of them at the desired levels and no conflict occurs.

<sup>44</sup> Perrow, Charles. 1992. Small Firm Networks. Networks and Organizations. Ed. Nitin Nohria and Robert G. Eccles. Boston, MA: HBS Press. Pp. 445-470.

<sup>45</sup> Rodriguez, J. and Mozas, A. (2003): "La formación de los recursos humanos de las cooperativas agrarias y la nueva economía: un estudio empírico", Boletín económico de ICE, Información Comercial Española, Vol. 2776, pp. 9-19.

<sup>46</sup> Mozas, A. (2004). La violación del modelo de gestión democrático en las cooperativas oleícolas. Ciriec- España, 48, 167-191.

<sup>47</sup> Anuario de la Economic Social 2007-2008 de la Confederación de Empresarial Espanola de la Economia Social





## ITALY

The Italian cooperative movement was never organized as a neutral, apolitical, non-religious movement as Zamangni (2006) points, further she continues that *“The deep-rooted propensity towards cooperation that has characterized substantial sections of the Italian population has led not only to a plurality of ideal inspirations of the movement, but also to the formation of separated umbrella organizations.”*<sup>48</sup> The early cooperatives emerged during the second half of the 19<sup>th</sup> century were spin-offs of Friendly Societies. These cooperatives were mainly of a liberal character and were strongly influenced by the ideas of Giuseppe Mazzini, one of the Italian intellectuals who fought for the Risorgimento.



Giuseppe Mazzini (1805-1872) in his time was ranked among the leading European intellectual figures, competing for public attention with names like Mikhail Bakunin, Karl Marx, John Stuart Mill. According to his friend Alexander Herzen, the Russian political activist and writer, Mazzini was the “shining star” of the democratic revolution of 1848. Mazzini put forward principled arguments in support of various progress causes, from universal suffrage and social justice to women’s enfranchisement. He argued for reshaping of the European political order on the basis of two seminal principles: democracy and national self-determination. Mazzini believed that radical political change first requires cultural and ideological transformations on which to take roof. Democracies would become each other’s natural allies; they would cooperate for their mutual benefit and if needed, jointly defend their freedom and independence against the remaining, hostile despotic regimes. Over time democracies would also set up various international agreements and formal associations among themselves, so that their cooperation would come to rest on solid institutional foundations<sup>49</sup>.

Cooperatives of consumers and producers have a long history in Italy. Cooperatives emerged in Piedmont-Sardinia under the Constitution of 1848. Under its provisions, workers were free to organize mutual aid societies, labor unions, and cooperatives. The first cooperatives in the retail trades, provided merchandise at cut prices. Next were producer cooperatives among glassmakers, tailors, stonemasons and carpenters. They produced at competitive prices and provided employment, social services and pensions. Government authorities kept a close watch on worker cooperatives, suspecting them of subversion, but allowed them to function as long as they did not engage in political activities. Cooperatives spread to the other regions after the unification of Italy. A notable development of the post-unification period was the movement to form popular saving banks and rural credit unions in the regions of Venetia, where liberal and Catholic organizers competed for the allegiance of workers and peasants. Socialists also came forward to promote cooperatives among landless day workers and sharecroppers of the Po Valley and Romagna areas.

<sup>48</sup> Vera Zamagni (2006) Italy’s cooperatives from marginality to success, IEHA 2006 XIV International Economic History Congress, Helsinki, Finland, 21 to 25 August 2006, SESSION 72 - Cooperative Enterprises and Cooperative Networks: Successes and Failures

<sup>49</sup> Giuseppe Mazzini’s International Political thought



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Various legislative acts passed in the 1880s recognized mutual aid societies and cooperatives as juridical entities that could enter into contracts and assume collective responsibilities. The 1877-1884 Atti dell'Inchiesta Jacinin (Proceedings of the Jacini Investigation) were already highlighting historical forms of common landownership and land management. Ghino Valenti showed his report for Le Marche region that the very character of these mountainous areas, along with its pastoral and forest economy, required property structures compatible with rotating land use. It was not a matter of denying ownership rights as formulated in Roman traditions but of allowing multiple ownership and adapting ownership rights to the exigencies of production and redistribution. Collective property, far from hindering progress, served to promote cooperative forms of land management. "The principle on which collective property is founded is not antagonistic to the principle underlying cooperation for the simple reason that collective property is nothing but a special aspect of communal and agrarian cooperation, which live on today. Collective property is a true form of cooperative association; indeed, it is the perfect cooperative association"<sup>50</sup>.

Cooperative League of Italy established in 1886, had a membership of about 4000 societies to which 1000000 individuals belonged. Besides consumers' societies, this organization included about an equal number of artisan co-partnership and agricultural producers' societies. Consumers' societies led in the number of members, agricultural societies in the volume of trade, and artisan unions in the number of societies. The artisan producers' groups specialized in such construction as that of roads, buildings, canals and railroads. The Italian Co-operative Federation, with about 3000 distributive societies, was the Catholic, or "white" cooperative movement.

A second group of cooperatives materialized with the advent of the Italian socialism toward the end of the 19<sup>th</sup> century, while a third group emerged from the Catholic social commitment, as promoted by Pope Leo XIII in his encyclical on the conditions of the working classes, *Rerum Novarum*, published in 1891.<sup>51</sup>

The multiplicity of ideals and proposals the movement has been able to offer is at the basis of the second characteristic of the Italian cooperative movement, namely its wide diffusion across Italy.

In 1893 the National League of Cooperatives was set up, representing 117 out of an estimated 2500 cooperatives active in the country. By the end of the World War I the League represented 23121 cooperatives. The National Confederation of Cooperatives founded in 1919 set out to organize catholic cooperatives throughout the country. The cooperative movement as a whole grew enormously in the years 1919-1922.

Cooperation is stronger in certain areas than in others – at the top are two regions: Trentino, the home of Catholic (white) cooperatives, and Emilia-Romagna, the headquarters of socialist/ communist (red) and liberal (green) cooperatives. (2<sup>nd</sup> online) By the eve of the World War II, it was estimated that about a tenth of the Italian territory was owned collectively. In the Alpine region 1364 out of 2607 municipalities owned communal land, which included 804000 ha of forests and

<sup>50</sup> Ghino Valentis, "Cooperazione e proprietà collettive", *Nuova Antologia de Scienze Lettere ed Arti* 118 (16 July 1891:322)

<sup>51</sup> [http://w2.vatican.va/content/leo-xiii/en/encyclicals/documents/hf\\_l-xiii\\_enc\\_15051891\\_rerum-novarum.html](http://w2.vatican.va/content/leo-xiii/en/encyclicals/documents/hf_l-xiii_enc_15051891_rerum-novarum.html)





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pastures, 5700 ha of farmland. In Southern Italy 728 out of 1591 municipalities owned communal land, which included 272000 ha of forests and pastures, 11800 of farmland.

Many of the Italian co-operatives were “liquidated” by the fascist forces. Fascism unified the movement in 1926, but it was a temporary achievement, after the World War 2 the plural nature of the cooperative movement reappears.

Its strong political influence aroused fears that the movement could become the cutting edge of economic and political revolution. The growth of the cooperative movement was checked by fascism, which directed its attacks against both socialists and Catholic cooperatives. But once established, the fascist regime chose to control and regulate rather than eliminate cooperatives. In 1926 the Fascist National Agency for Cooperation took over 7131 cooperatives, which grew to 14576 in 1942.

Cooperatives emerged from the devastation of the World War II with enough political clout to win a secure place in the post war economy. The three way organizational split among cooperatives associated with left-wing parties (PCI and RSI), Catholic cooperatives associated with the DC, and cooperatives associated with the PRI and PSDI later diminished their influence. Nevertheless, cooperatives have flourished economically, adopting modern methods of management and representing well to changing market demands.

In 1945, after World War II, a Directorate-General for Co-operation was established with the Ministry of labour. In 1962 the Associazione delle Cooperative Italiana comprised consumer, agricultural production, housing, fishery and other cooperatives as follows:

Type	Number	Membership (1000)	Turnover (mln lire)
<b>Consumer</b>	3358	1374	123
<b>Agricultural</b>	1872	315	62
<b>Production</b>	1251	83	80
<b>Housing</b>	600	87	5
<b>Fisheries</b>	87	15	-
<b>Mutual aid</b>	588	228	2
<b>Mixed</b>	102	19	4
<b>Total</b>	7858	2121	276

In 1866, Luigi Luzzati, later Minister of Finance, introduced in Milan the first people’s bank – a cooperative credit association of the Schulze-Delitzsch type. A National Association of Italian People’s Banks appears in 1874. After the Raiffeisen type of association developed, the credit movement continued in these two main channels<sup>52</sup>.

The growth of cooperative banking is striking. From 64 in 1871 the number of Banche Popolari has increased to 832 in 1906; the two pioneer banks of Milan and Bologna, founded in 1866, have increased their turnover, the former from four and half millions sterling in 1870, the latter from 437452 lire to 7624187 lire. The savings entrusted to the 750 banks which made returns to the Cremona Congress in 1907, amounted to 28 and three quarter million sterling. The amount of deposit in credit, ordinary, and Post

<sup>52</sup> Florence Evelyn Parker, Helen I. Cowan (1944) Cooperative associations in Europe and their possibilities for post-war reconstruction, Bureau of Labour Statistics





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Office Saving Banks has increased from 2604600 lire in 1876 to 152724000 in 1906. During the period 1881-1905, 16604584 lire have been given or bequeathed to charitable associations, which in 1900 possessed property worth 88198228 lire. Excluding credit associations, the number of legally constituted cooperative societies has increased from 1203 in 1897 to 4042 in 1906, among which the 50 agricultural cooperatives have increased to 622, and the builders and decorators cooperatives from 349 to 818. A remarkable development took place at Reggio-Emilia under the auspices of the socialists, who by means of the Labour Bureau (Camera de Lavoro), have federated no less than 425 workmen's societies, of which 175 are cooperatives, 38 provident societies and 212 trade unions.

By 1911 there were 1872 credit cooperatives in Italy – 1117 in the North (where the people's banks predominated), 218 in central Italy, 164 in the South, and 30 in Sicily, and 60 in Sardinia. National Institute for Cooperative Credit began operations in 1914. After 1920, when post-war reconstruction greatly enlarged the undertakings of the workers' cooperatives, the Institute opened two new independent sections, one dealing with the land and the agricultural cooperatives, and the other with the building cooperatives.

Two different forms of workers' productive cooperatives were developed:

- The workers' productive association in which the group of workers owned and managed a plant such as a printing or small-scale engineering establishment;
- The labor cooperative or labor-contracting cooperative (cooperative dei braccianti).

By 1910 the workers' cooperatives consisted of 774 associations of which the main groups were those of builders, bricklayers, artisans, and long-shoremen, with a total membership of 10000. Regional federations were recognized by the national law in 1911.

By 1914 the Ministry of Public Works was giving 15 percent of its contracts to labor cooperatives. In Ravenna and Ferrara 85 and 90 percent respectively of all public works were constructed by cooperatives.

Agricultural labor cooperatives operated independently or accepted contracts. In the North under the Fascist, cooperatives in Lombardia, Emilia and Tuscany usually held and worked land collectively. In the South, the cooperatives held the land but the members worked it individually. In Sicily, for example, 77 cooperatives divided 41573 acres among 19200 members. In 1932, Italian farm cooperatives held about 85800 acres on lease and owned more than 16000 acres. Deflation of agricultural prices harmed this type of cooperative and in 1935 collective leaseholders were reported to be on the decline.

The importance in Italy of the cooperative movement was recognized by the 1948 Constitution, which contains an article (45) devoted to cooperation, upon which there was a wide-ranging agreement on the part of the political forces. The changes began with the legal decision 396 of 24 March-7 April, 1988 that addresses the workability of the Crispi Act of 1890. Section 1 acknowledged the role of government control and recognized the public status of institutions providing social, educational, health and other related services as the so called Istituzioni di Pubblica di Assistenza e Beneficenza, "IPAB". The Court decision found that these provisions were in





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contradiction with the provisions of the Italian Constitution (1948) and more precisely with section 38, which provides for the freedom of private assistance. In this light, the provisions of the Act of 1890 were considered as not in line with the characteristics of the third sector as well as with the capacities of private enterprises to deal with important social issues. As a result, Section 1 was declared unconstitutional<sup>53</sup>.

Article 41 of the Constitution of the Italian Republic states that: *“Private economic enterprise is free. It may not be carried out against the common good or in such a manner that could damage safety, liberty or human dignity. The law shall provide the appropriate programmes and controls so that public and private-sector economic activity may be orientated and co-ordinated for social purposes.”*<sup>54</sup>

Furthermore Article 45 recognizes the social function of co-operatives.

Under the new law (July 7<sup>th</sup>, 1907), which facilitates the concurrence of cooperative societies in contracts for State Railway construction, 39 of the Reggio-Emilian cooperatives have combined and contracted to construct and work the Reggio-Ciano line of about 20 miles. The cooperative movement in Italy was one of the most varied in type, with specialized associations confirming their operations to a limited field.

Type of association	1910		Number of associations				
	Associations	Membership	1914	1917	1922	1927	1934
All types	5064	795206	7429	8764	8000	8391	11771
Of which:							
Consumer cooperatives	1764	223192	2255	2499	3600	3334	3860
Workers productive association	31	2871	831	1000	2700	1283	1817
Labor	1017	94738	1758	2257	-	-	399
Agricultural	926	161115	1242	1386	700	314	3598
Housing	379	-	677	709	-	499	1239

The success of cooperativism in Italy is due partly to the support that Italian legislation has granted to the capitalization of cooperatives and partly to the ability to build networks (groups and consortia) and bring about mergers, with substantial help came from the umbrella organizations.

Cooperative movement has diversified beyond the traditional food processing, consumer, building, and credit sectors into manufacturing (e.g. cleaning, maintenance, company cafeterias, and surveillance) and social services or social cooperatives (education, health, welfare, and work integration of the disadvantaged).<sup>55</sup>

While the Italian economy grew at staggering rates from 1950s, cooperation did not make such progress for the next two decades. The movement lacked the necessary human and financial capital to expand and, as in other European cases, the

<sup>53</sup> Santuari, A. (2001) The Italian Legal System Relating to Not-for-profit Organizations: A Historical and Evolutionary Overview; The International Journal Of Not-for-profit Law, Vol.3, Issue 3

<sup>54</sup> Constitution of the Italian Republic, Parliamentary Information, Archives and Publications Office of the Senate Service for Official Reports and Communication

<sup>55</sup> Patrizia Battilani, Harm G. Schröter (2012) The Cooperative Business Movement, 1950 to the Present, Cambridge University Press, ISBN 978-1-107-02898-2





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organizations were hard pressed to revive their political nature and think more about the market and less about the social mission. From 1970s, however Italian cooperatives were able to expand their social base, to build some large business that stand out in the Italian economy, to build new networks, and to expand their interest in new product sectors. Italian cooperation was able to emphasize the entrepreneurial nature, freeing itself from the trade unions and the parties with which it had been closely tied.

Cooperatives enterprises and their significance towards different aspect of community life have been expressively recognized in the Italian Civil Code<sup>56</sup>. In Article 2515 (The Italian Civil Code, p.117) it is accurately specified that: “The word ‘cooperative’ cannot be used by societies which do not have mutual purposes”. Incorporated along their mutual purposes members are able to choose between unlimited and limited liability of their organizations.

Characteristics	Cooperative enterprise
<b>Notion</b>	Enterprises with strictly mutual purposes
<b>Liability</b>	Established either with unlimited or limited liability.
<b>Capital</b>	In cases of limited liability the capital is divided into shares. Changes in the number of members do not lead to pre-establishment of capital amount.
<b>Organs and management</b>	Meetings of members, Directors and auditors
<b>Membership</b>	Open membership effected by an admission resolution of the directors
<b>Right to vote</b>	Each member is entitled with one vote <sup>57</sup>
<b>Distribution of profit</b>	The rules by which profits are allocated, the maximum allocable percentage of profits, and the destination of surplus profits is defined in enterprises’ articles.
<b>Reserves</b>	At least one fifth of the annual profit is set aside for the legal reserve fund.

In cases of unlimited liability, in Article 2513 the law envisages that: “(...) *the members are secondarily liable without limit and in solido (1292 ff.) as secondary obligators*”. The participation in a limited liability cooperative society is committed only to the members’ assets, and the organization itself is “(...) *limited with its assets for its obligation*”. In general the membership in cooperative enterprises is open and the admission of new members is bounded with payment of quota or share, as well as a sum defined by the directors. The law stipulates that in the meeting of members, as one of the society organs, each member has one vote regardless to his quota or the number of his shares. In special cases conferring more than one vote is related to the precondition of participation of legal persons. They could be conferred by more than one, but not exceeding five votes. Profit distribution is regulated by Article 2536: “At least one-fifth of the annual net profits shall be set aside for the legal reserve fund, regardless of the amount of such fund. The portion of the profits which is not set aside for the legal reserve fund or for reserve funds provided for in the articles of association and which is not distributed to the members shall be used for mutual purposes”. The

<sup>56</sup> Beltramo, M., G.E. Longo, J.H. Merryman (2001) The Italian Civil Code, Book Five (Articles 2060 – 2642), Oceana Publications, INC. Dobbs Ferry, N.Y.

<sup>57</sup> According to Article 2532, Civil Code: “However, in cooperative societies in which legal person participate, the articles of association can confer on such legal persons more than one vote, but no more than five, in proportion to the amount of the quota or shares or to the number of their members”.





following offers more systematical representation of the main characteristics of cooperative enterprise in Italy.

## BULGARIA



Cooperative movement in Bulgaria has an old and rich tradition. The first cooperatives appeared at the end of the 19th century. Beginning was initiated in 1890 in the village of Mirkovo where was established the first credit cooperative - Mirkovo lending, savings and agricultural cooperative Oralo.

Bulgaria in the period before World War II can be shortly portrayed as a "small country of small peasants". The agricultural development in Bulgaria until the 1950s characterizes the period of small land ownership and a low level of farm technology. Economic crisis in the 1930s has revealed the need for a change in the production process. Bulgarian agriculture has remained underdeveloped until World War II. This backwardness, caused by low productivity, rural overpopulation, peasants' indebtedness, etc., was also connected with the high parceling out of land property. This high level of apportionment in agriculture is shown by the data on land ownership in 1934 and 1946.

Land ownership	1934 (in percent)	1946(in percent)
0,1 – 1 ha	3,0	14,0
1 – 4 ha	29,4	41,7
4 – 10 ha	47,9	36,6
10 – 20 ha	16,6	6,8
> 20 ha	3,1	0,9
Total	100,0	100,0

The "philosophy" of the socialist policy in the second half of the 1940s in Bulgaria was to abolish the existing social inequalities and especially private property as the main resource reproducing these inequalities. The mechanism to realize this objective in agriculture was collectivization. The main socialist concept for development of agriculture was therefore the pooling of land and its collective cultivation. The idea was that agriculture has to develop on a modern basis and that workforce has to be released for the expanding industrial sector.

The model has not been established immediately after the war. Liquidation of land ownership was not an easy task. The socialist reformers had to consider that 80 percent of the population were earning their incomes from farming, about 75 percent of the citizens were living in the villages and the land for cultivation was distributed in 12 million plots within the ownership of 1.1 million households, only 0.9 percent of them owning more than twenty hectares and 200 possessing more than fifty hectares.

The pooling of land and its collective cultivation were realized in two stages. First, an agrarian reform was carried out in 1946 with the objective to expropriate the land of families possessing more than 20 ha (in the region of Dobrudzha more than 30 hectares) and giving it to landless people and to very small owners. As a result of this



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reform 300,000 hectares of land were dispossessed from 3,600 families. Out of this land, 130,000 hectares were distributed among 135,000 families and the rest was given to either collectives or state agricultural service enterprises.

The second stage was very difficult - it concerned both ownership structures and relations in the process of farming. It required a significant change of the system of production and in the way of thinking. This stage was realized step by step, decreasing individual activities and undertakings in favor of collective ones. The greater portion of the prewar (World War II) agrarian cooperatives survived the socialist "revolution" and was transformed step by step into collectives.

The organization and the functioning of these associations were institutionalized in a decree adopted by the Bulgarian Agrarian Coop Union in 1945. The decree was based on three main assumptions:

- private ownership of land by the members of the cooperative;
- receipt of rent for the property included in the cooperative (up to 40 percent from the profit of the same);
- the possibility for each member to have a farm for personal cultivation (from 0.3 up to 0.5 hectares of land) and a definite number of animals.

Within the second period of the socialist collectives, three main stages can be distinguished. The first starts after 1944 and ends at the beginning of the 1950s. It is characterized by the establishment of the so called Labor Collective Agricultural Farms. During this period about 98 percent of the land was concentrated in the collectives. At the end of this stage payment of land rents in the collectives was discontinued. In 1945 the cooperative law was passed regulating the organization and development of the labour producers' cooperatives. Over 3000 labour producers' cooperatives were set up with an average size of 1000 ha.

Establishment of cooperatives had social and economic objectives: socially it revealed the possibility for survival of small peasants and economically it involved the necessity to improve marketing, credit policy, technology, storage possibilities, etc. Some people joined the cooperatives with enthusiasm and without being pushed. Others were forced economically to become members of the cooperatives through not being allowed to take credits for their agricultural activity. The private owners of more than five hectares were obliged to pay very high taxes. In some cases, all the production of the private producers was taken away in form of a tax to force the owners to join the collectives. People who received land after the reform in 1946 were also forced to become members of the collectives.

From the moment of their establishment until 1960 in every village a cooperative was formed. In 1960 several villages united to constitute a larger cooperative. For comparison, in 1957 the cooperatives in the country were 3,302, while in 1960 their number had decreased to 932. On the average, each collective was responsible for the cultivation of one thousand up to four thousand hectares. Land consolidation was at that time considered as necessary to allow the use of advanced technology towards high economic efficiency.

The fulfillment of a highly mechanized production with few employees introduced a new agrarian order in Bulgaria. The second stage characterized by of the so-called





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Agrarian Industrial Complexes (AIC), was defined by the State-party in every detail of organization, production and marketing. The use of new technologies in agriculture was the main reason for this favorable development. The process started in the early 1970s, a period of important social and economic changes. First, almost all labor functions in the collectives were mechanized. This encouraged two processes:

- the improvement of the education of the labor force in the collectives, and
- the release of unnecessary workers.

After 1970, when there were formed 171 agro-industrial complexes, the members became wage labourers and the interest of the producers in production performance decreased progressively. The property of each AIC turned to be de facto State owned. This stage reflects the transition of the agricultural units from collectives of virtual landowners into state organizations where the land became nobody's property. As a consequence, many members of the collectives moved to the cities or retired and the remaining people became agricultural workers.

The weak sides of the AIC were the organization of work and the labor motivation. The production became cheap because a small number of machines were used and their capacities were in full exploited. At the same time the labor cost was very cheap. In spite of that, the successful units were not stimulated to produce more, as their surplus income was given to weak farms and factories within or outside the AIC.

The socialist agrarian policy connected with the AIC underestimated the people's material interests. The production was extensive and the irrationality in the use of labor force led to human capital decay. The lack of economic independence of workers did not motivate them to think and to produce in terms of economic efficiency. This situation encouraged social apathy and alienation.

This was an unsuccessful reform aiming at pooling of land, concentration of resources and centralization of decision-making processes. Consequently, a deep crisis in agriculture followed in the second half of the 1980s. There were basically two types of farming structures during the period, which were at opposite ends of the spectrum. First, the tiny private farming taking place on household plots had a substantial impact on production and food security. Second, the large state controlled cooperatives, regrouping several territories belonging to a settlement (TBS). In 1989, on the eve of the reform, private plots (all of which were less than one hectare per family) represented 635.000 ha, i.e. approximately 10% of a total of 6.159.000 ha of agricultural land.

The third stage - in 1988 the AIC split and the previous collectives were reestablished. This process of decentralization was suddenly interrupted in 1989 with the collapse of communism in Central and Eastern Europe.

During transition period the main approach acquired by most of the governments in the Eastern European countries concludes to using resources of the nationalized economy and defining its structural parameters in the context of geo- strategically and internal political environmental factors. The general overview at that early period signifies that Bulgaria has encountered serious problems stemming from the underdeveloped or even missing market infrastructure, institutional framework and economic stability. One of the main obstacles for restructuring and modernization of





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agricultural sector was the ownership structure and the slow process of institutionalization of property rights. As a result of conducted reform the number of private agricultural owners has reached almost 4 million with possession of more than 20 million parcels. This ownership structure condemned agricultural sector to inefficient utilization of inputs, limited attempts for modernization and technological innovation. Last but not least the detachment of the land owners to manage and cultivate their land also reveals as suspensory factor. The situation was even more complicated by disorders in land reform, absence of experience and resources to perform agricultural activity and to some extent often quoted historical alienation from agricultural production and utilization of land resource.

Transformation from centrally-planned to market-oriented economy was conducted in the absence of properly developed market infrastructure and limited knowledge about sequel market relations. Decentralization conceded more decision-making power to local authorities, which came into a position of insufficient capacity and professionalism to deal with their duties and responsibilities. Besides this, reforms were performed under the assumption that market would adjust fast and efficiently relying on its own integration resources and potential. Liberalization process at the beginning of reforms misjudged reality and the consequence was the absence of stable legal basis to back up the emerging relations in commodity, capital and labour markets.

Nevertheless the government policy and action were expected to bring about immediate changes and visible results in the process of economic and social integration. This course of action was rather controversial as the process of transition itself is liberalization of economy, civil and cultural initiatives. Except for the liberalization of economy, the society by this time reveals as quite insecure and cautious towards the notability of its role in the reform process. In particular one of the main pre-conditions for effective process of social integration is corresponding transformation of the government system itself. Therefore it could be assumed that the top-down approach provides sufficient stability through structuring institutions and regulatory mechanisms. Some scholars of transition period state that effective overcoming of government centralization could be achieved only by fully involvement and regulation of the government itself. This change depends on the government will to decentralize its power over local authorities, to create rules that would have practical implementation and to exert control and provide correctives for the achieved results. Therefore government stability is the key for sustainable development and its three fundamental aspects – social, economic and environmental simply because it establishes the basic criteria to be followed.

Cooperatives in Bulgaria highlight pro-social motives and emphasize social outcomes operating as a business model towards sustainability. Considering cooperative principles and identity, which integrate and balance economic and social requirements for social responsibility and civic awareness, cooperatives in Bulgaria reasonably also fall into the category that is subject of social economy. And this as a process and respectfully as result took a long time to be operationalized. In the recent years government policy and action were expected to bring about immediate changes and visible results in the process of economic and social integration. Nevertheless in view of the most recent turbulent situation the government stability is the key for





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sustainable development and its three fundamental aspects – social, economical and environmental are simply missing as a the basic criteria to be followed along with the key priorities, such as: efficient management and sustainable development, secured work places, business ethics and cooperative social responsibility, social integrity and active mechanisms for inclusion of all social groups.

In Bulgaria are registered and function close to 2000 cooperatives with 0,5 million members and 50000 employees. In these organizations are working almost 50 percent of the people with disabilities in Bulgaria. Cooperatives, regional cooperative unions and cooperative companies are organized in four national cooperative unions:

Cooperative Union	Number of cooperatives	Cooperative members	Employees
Central Cooperative Union	808	155000	10300
National union of agricultural cooperatives	903	240000	16000
National union of worker cooperatives	251	20000	15000
National union of cooperatives for people with disabilities	124		5000

In the time of crisis, cooperatives tend to be more resilient than the conventional enterprises, even “innovative” as qualified by the EC Employment. While the creation of enterprises (micro-enterprises included) has dropped by 11,6% in 2011, cooperatives display healthy, almost defiant state, with regard to the deterioration in the economic context observed since autumn 2008. According to the CECOP, cooperative resilience rests on the following *key elements*:

- Participation of the members in the management of the cooperatives;
- Reserve funds;
- Close connection with regional and territorial characteristics and specific needs;
- Community involvement;
- Capacity to organize and follow-up business transfers to employees.

Thanks to the pro-active policy and participation of these national cooperative unions in the economic and social life in Bulgaria, the negative impact of the crisis has slightly spared their employees and members. The registered unemployment rate in cooperatives is 3,5 percent annually, while the country’s average rate is 4,5 percent. Additionally should be mentioned that the number of employed people with disabilities has remained relatively stable – 2000 people. Bulgarian member NUWPC commissioned a research from the University of National and World Economy to develop a pilot project for the development of a retail network for the cooperative system. The investigation, which started at the end of 2010, showed the need to develop the retail network in order to facilitate the sale of cooperative products. Following this project, the Professional Education Centre of NUWPC has launched a specific training programme in May 2012 addressed to sales managers of all cooperatives belonging to the Union system.

In Bulgaria, while statistics indicate for job loses and instability, most of the cooperatives show stable employment rate and viability. Increase has been reported in sartorial sector (11%), in non-food industry (53%). Investment activity also registers increase of 31% for 2012. It’s been acknowledged that the cooperative model is a very





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successful method for achieving financial inclusion and for responsible microfinance. The founders of the Central cooperative bank were Central Cooperative Union, the regional cooperative unions and more than 1100 cooperative organizations. In the beginning its mission was to contribute to the development of the cooperative system in Bulgaria. Passing through different development periods, the Bank established itself as a universal commercial bank nowadays. In terms of total assets Central Cooperative Bank is on the 10<sup>th</sup> place in the classification of BNB for 2011.

Most recently, specialized cooperatives are active partners in the projects of the Agency of people with disabilities, estimated with an average value of 1027125 euros. Even more – cooperative business model reveals with highly potential, as statistics for 2011 show that COOP retail chain possess 4,03% market share. What is important in these numbers is the number of villages with population below 500 people that are serviced by COOP retail chain – 1733.

Being part of the dynamic environment means also complying with government policy and regulations, consumers' demand, and environmental requirements. Cooperative adaptation towards environmental constraints, provided through: internal structural differentiation; strategic contracts and long-term arrangements for gaining market access; competitive possession of key production resources; and social oriented and environmental responsible policy, considerably changes the general perspective of cooperatives as organizations with limited strategies and capacity for their fulfilment. The specific cooperative features that have contributed to cooperative stability also have positive impact over their environment:

Level of impact	Specific effects
Micro level	<ul style="list-style-type: none"> <li>• Mobilization of members' participation;</li> <li>• Involvement of wider stakeholders and community.</li> </ul>
Meso level	<ul style="list-style-type: none"> <li>• Business support entities for training, consulting and financing owned by the national cooperative unions/alliances;</li> <li>• Consortia organizations.</li> </ul>
Macro level	<ul style="list-style-type: none"> <li>• Indivisible reserve funds are compulsory;</li> <li>• Establishing non-banking financial instruments.</li> </ul>

One of the strongest and most influential cooperative organizations in Bulgaria is the Central Cooperative Union (CCU). The Union represents 34 cooperative unions, which bring together 854 cooperatives with 162 000 members; and near 12 000 employees. The registered annual net income increase is 20 per cent. Trade is the fastest growing business activity within the CCU and secures more than 60 per cent of the revenue of the cooperative system. For 2008 the Central Cooperative Union owns 170 warehouses, 3500 shops and its own retail chain, which aims to provide high quality, convenience and lower prices. For 2009 the COOP Retail chain includes 500 stores, spreads on 30000 m<sup>2</sup> trade areas and supplies 86 commodities under the brand of COOP. In the last few years the Central Cooperative Union has developed its trade concept and policy; more specifically prices, marketing, logistics and promotions. For 2011 "COOP" retail chain includes 706 renovated stores; registering for the previous year a turnover close to 180 million euros. "COOP" has national commercial contracts with 160 suppliers, while the number of the type of products sold on the market is 120.





## SERBIA

The Western Balkan countries, and more particularly Serbia, are still in the process of many structural and legislative reforms while preparing for EU accession. The transition reforms in the first decade of the twenty-first century in Serbia can be divided into two phases – the privatization and restructuring process; and the establishment of a stable economic environment. The first phase began with market liberalization, the consolidation and privatization of the banking sector, and significant legislative adjustments. The second phase of reforms laid emphasis on the stable investing environment, tax reform and conditions for public-private partnerships, reducing the gray economy, and other activities strengthening the credibility of the state.

The main constraints that hamper the sustainability of rural areas and the stable growth of rural development include a lack of resources (financial, social, informational), a lack of sufficient political will to see and admit real problems, a lack of leverage, and a lack of institutional and administrative capacity. These missing components contribute to the negative indicators and the future trends in the development of rural communities, found similarly both in Bulgaria and Serbia:

- weak connection between key elements of the institutional system and weak internal controllability over critical processes as they are being re-configured;
- broad definition and measures to contribute to a new 'state of stability' for the system and, according to this, new potential to use; and
- the need for a new configuration of key variables and processes?

Agriculture in both countries is a central part of these processes, and in this respect the common challenges faced are:

- the privatization of agricultural estates, old cooperatives and manufacturing capacities;
- building agricultural credit markets based on private banks;
- the privatization of farmland;
- building commodity markets;
- developing services based on private initiatives;
- developing market entrepreneurship and the related mind-set;
- building support institutions following the EU model, such as institutions for accreditation, payment, registration and labeling.

The cooperative concept in Serbia dates back to the 1850s, and similar to other countries' profiles, the oldest form of cooperatives was the savings and loan cooperative. The first such was founded in Bački Petrovac, Serbia, in 1846. Cooperatives were closely connected to agriculture and aimed to solve the problem of lack of capital by building up savings and granting credit, as well as procuring inputs. This was a time when cooperatives were very widespread. In 1913 there were 782 cooperatives in Serbia, and by 1939 this number had reached 3647, of which 1819 were purchasing and selling cooperatives; 1077 were credit cooperatives and 751 were specialized cooperatives. The main alliance of agricultural cooperatives in Serbia was founded in 1895, and it represented one of the 11 national cooperative federations that formed the International Co-operative Alliance that same year in London.





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During socialism, cooperatives were numerous and had considerable assets, but were not fully managed by their members. Cooperative societies went through four stages in developing farmers' associations. The first period, which was the period of collectivization, started immediately after World War II. In 1947, in the Law on Agricultural Cooperatives, these organizational structures were defined as two types of farmer associations: general and farm cooperatives. Farm cooperatives were formed by merging private property, similar to Soviet kolkhozes, while the general cooperatives were designed to perform the role of assembly, rural development and introducing socialism into the country.

The second period of the Serbian cooperative development begins with the adoption of the law on cooperatives in 1957, when the emphasis was put on general agricultural cooperatives; aside from procuring inputs, purchasing the products needed for processing, providing services to farmers, and the other services related to improving agriculture, they also played a significant role in rural development because these were places for assembly and developing social and cultural life, which helped to improve the quality of life in the country. The biggest drawback of this type of cooperative was that a certain number of cooperatives owned land and cattle, and they dealt with production as well, and not only providing services to cooperative members. These cooperatives were for the most part managed by the cooperative members themselves.

In 1965, it was made possible for farmers to make direct agreements with processors and retailers, which denoted the beginning of the third period in the development of cooperative societies. As a consequence of this decision, many cooperatives were shut down, especially the small ones. A considerable portion of the cooperatives' assets were nationalized by being merged into government-owned corporations, while the assets and the operation of cooperative alliances were merged with the Chamber of Commerce. This made the alliances lose their status as legal entities. The cooperative alliances (regional, republic and federal) did not represent the members of cooperatives, but rather the employees in the cooperatives, because they were also members of the assembly, and these by and large were the employees most interested in its functioning.

At that time, there were no associations of farmers established to represent and fight for a better position for farmers, at either the national, regional or local levels. Nevertheless, there were sectoral associations which were influential to greater or lesser degrees. These were essentially beekeeping organizations, organized from the local to the central level, but there were other associations as well, such as producers of seeds, meat, milk, industrial crops, etc. However, these associations were organizations established by the government rather than real representative associations of farmers and producers. Their work was done within the existing institutions, which was thus largely controlled by politics.

In Serbia, a 'rural area' is defined as an area whose main physical and geographical characteristic is the primary use of the land for agriculture and forestry. According to this definition, about 70% of Serbia can be subsumed under the definition of rural areas. Nearly 43% of the total population lives in these areas. According to the definition of the Organization for Economic Cooperation and Development (OECD) (population density below 150 inhabitants per km<sup>2</sup>), rural areas cover 85% of the total





territory of Serbia, and more than half of the population (55%) of Serbia inhabits them. Rural areas possess major natural resources with rich ecosystems and biodiversity, significant human resources, economic activity and cultural heritage.

According to Bogdanov (2008), rural Serbia can be divided into three different regions: the flatland region, the highland region, and the region of the large economic centers and the surrounding areas. The flatland region covers the north of Serbia and includes the entire province of Vojvodina and the northwest of central Serbia (Macva). It is very homogenous when it comes to natural resources, geography and geology, but with regard to economic structure and development, the western part of the region (Backa, Srem and Macva) is more developed than the eastern part (the Banat). This difference has increased since the early 1990s. Private entrepreneurship has a long tradition in this region, in particular the south-western part. Accessibility to financial markets, information and counseling services are better provided than in the other regions. This makes the flatland region the most developed regarding rural services and economic structure<sup>58</sup>.

37% of the rural population in Serbia lives in the flatland region. The total rural population in Serbia has declined between 1991 and 2001. In contrast, the number of inhabitants has remained the same in the flatland region, partly due to the immigration of refugees in the northern and south-western parts of the region. The causes for immigration are, among others, the good infrastructure and the fact that the two largest cities, Novi Sad and Belgrade, are located close to the flatland region. This attracts younger labor from other regions. On the contrary, the regions of Macva and Banat in the flatland region are demographically empty (Bogdanov, 2008).

The flatland region has experienced an extreme polarization with regard to the sizes of the estates during the last two decades. This is because of the privatization of large estates (which represent approximately 20% of the total number of estates in this region), and the change in the age and socio-economic structure of the members of the homesteads. The high number of small farms is to be explained by the fact that they only have a residential function, although they are statistically defined as homesteads. This is because of the relatively good infrastructure and social services that enables people to do so. This has been confirmed by data that the shares of non-agricultural homesteads are high and rising. The numbers of mixed homesteads are noticeably lower than in other regions, which is certainly a consequence of the polarization of the homesteads in line with the source of income. 15% of the rural settlements in the region are covered by gas pipelines. The region has the highest number of settlements with satisfactory access to drinking water (especially in the Banat). The region suffers from environmental problems such as the absence of landfills and unregulated disposal of waste, unregulated use of the groundwater and poor protection against floods (Bogdanov, 2008).

70% of Serbia's total land area is arable land, and the primary production of agricultural products together with the processing of them accounts for 25% of GDP, which makes agriculture the largest sector in the economy. Primary agricultural

<sup>58</sup> Bogdanov, N. (2008). "Small Rural Households in Serbia and Rural Non-Farm Economy." 2-nd ed. Belgrade. DAES-Serbian Association of Agricultural Economist, ISBN 978-86-86087-11-9. Retrieved in 2009-04-02



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products represent 16-17% of total exports<sup>59</sup>. The most important crops are wheat, barley, maize, sugar beets, sunflowers, soybeans, tobacco, potatoes, grapes, berries, apples and plums. Most of the sheep and cattle production takes place in the hilly southern parts of Serbia.

Since the second half of 2008, the Republic of Serbia has had to deal with the negative effects of the global crisis on domestic economic and financial flows. The effects of the crisis were first manifested in slowing and then declining economic activity, whether as a result of decline in demand in domestic and international markets, or as the reduced inflow of foreign capital. In 2013, there was a positive movement in the overall macroeconomic environment, primarily in the field of GDP growth, reducing unemployment and the budget deficit, stopping the growth of inflation and stabilizing the domestic currency.

According to the Census of Agriculture in 2012, 631,522 farms are listed in the Republic of Serbia, which use 3,437 million hectares of agricultural land. The average size of land used per farm is 5.4 ha. Among the listed farms, 99.6% are the holdings of individuals, and they use 82% of the land. The average size of family farms is 4.5 ha, although this significantly varies by region: from 2.1 ha in the Jablanica area, to over 10.0 ha in the Srednjobanatska area. The remaining 0.4% of the agricultural holdings are held by legal entities, which use 16% of land and have an average size of 210 ha per farm.

The situation in the cooperative sector in Serbia could be described as very unfavorable. Many fields of agriculture which were previously dominated by cooperatives, and thus secured a fair income from primary production, have now collapsed.

The official data is variable: according to the SORS, there are nearly 820 registered companies and cooperatives. According to the Serbian Business Registers, there were over 1600 active agricultural cooperatives in early 2011. Many of these cooperatives are marginal, being organized as cooperatives but in reality counting no more than a few members. The oldest agricultural cooperatives are also the largest. These cooperatives were established to support rural communities, to reduce poverty and underdevelopment in remote areas.

Cooperatives established after 2000 are often associated with foreign donor projects, so they are mostly small and lacking sufficient capital. It is estimated that agricultural cooperatives in Serbia work together with about 115,000 sub-contractors, while the number of cooperative members and employees is less than 30,000.

The Cooperative Union in Serbia (CUS) is a voluntary association of cooperatives, operating as an independent non-profit organization. It provides legal assistance, market analysis, and mediates competitive relationships (agricultural record-breakers). The Union has 14 regional units. According to the law on cooperatives prepared in 2000, cooperatives are identified as "legal entities that stand for a special form of organization of cooperative members who, by carrying out business activities on cooperative principles, realize their economic, social and cultural interests, and control

<sup>59</sup> IFOAM, 2009 "Organic Agriculture in Serbia" [online] Retrieved in 2009-03-20, from: [http://www.ifoam.org/growing\\_organic/2\\_policy/case\\_studies/serbia\\_cases\\_studies.php](http://www.ifoam.org/growing_organic/2_policy/case_studies/serbia_cases_studies.php)





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cooperatives in a democratic manner”. A number of associations at the national, regional and local levels are involved in agricultural and rural development. Networking between producer organizations with different profiles of activity has started, but a central institution at the national level does not yet exist. Many such organizations keep a low profile, and are only occasionally present in public decision-making process.

The survey published by the Serbian Ministry of Agriculture in 2010, and which is based on responses from 24 percent of 1751 registered cooperatives in Serbia in 2009, indicated that 41 percent of cooperatives were founded between 2001 and 2010, and that the majority of them (45 percent) had between 11 and 35 members, and 29 percent of cooperatives had only the minimum, statute-appropriated number of members, namely ten. On average, one agricultural cooperative has four to five times more contract farmers than cooperative members. In the employee structure within a cooperative, cooperative members account for 56 percent. Up to 88 percent of the managers administering the cooperative are also cooperative members. In the ownership structure of the surveyed cooperatives, most widespread is cooperative property (58 percent), while 32 percent of cooperatives do not own any property, and 10 percent still hold state-owned property.

Serbian agriculture is dominated by small and semi-subsistence farms, with little productivity going onto the market. Cvejic et al. (2010) estimate that about 60% of households do not have any surplus, or sell only occasionally. These farms generate low yields and lack specialization<sup>60</sup>. Roughly 10% (in Central Serbia) to 25% of land owned belongs to agricultural cooperatives; the rest is owned or rented by family farmers.

There are no clear statistics on how many farmers in the Western Balkans have signed applications for associations, either at the constituent assembly of a cooperative or at associations. However, it is realistic to suggest that the majority of farmers have not signed such applications. Nevertheless, the majority of associations exist only for several meetings, and the majority of cooperatives do not even file an annual financial statement in the first year after completing the donor program. This kind of approach undoubtedly creates many disappointments, which apart from all the other reasons, means that the cooperatives cannot grow. In Serbia, the numbers are of little significance:

- The GVA of the agricultural cooperatives amounts to only 1.5 percent of the GVA from agriculture, the greatest part of which is made in primary agriculture, namely 81.5 percent (3.467 million dinars).
- Agricultural cooperatives make up the majority (1425 or 67.1 percent) of all cooperatives (2124) registered in Serbia in 2012.
- Agricultural cooperatives do not predominate in terms of the number of members. There are 31,113 members or agricultural cooperatives, which is only 39.7 percent of the total of 78,355 cooperative members in all cooperatives.
- The structure of agricultural cooperatives is increasingly dominated by micro-cooperatives that have up to nine employees (with a total of 1265 members or 88.8

<sup>60</sup> Cvejić, S., Babović M., Petrović, M., Bogdanov, N., Vuković, O. (2010) Socijalna isključenost u ruralnim oblastima Srbije, UNDP, Beograd pp.1-120



percent of the total). Small cooperatives with 10 to 49 employees have 134 members (9.4 percent of the total), and medium-sized cooperatives with 50 to 249 employees have 26 members (1.8 percent of the total). Large cooperatives with 250 and more members do not exist.

- Agricultural cooperatives also have the most workers (6744) and participation by employees (79.1 percent) in the total number of employees in all sectors of cooperative societies (8524 workers), which means that agricultural cooperatives (excluding cooperatives with no employees) employ an average of 4.7 workers.

## Conclusion

There is no universal rule applicable to establishing an explicit cooperative policy and successful approach towards stimulating the organizational level in certain economic sectors. This is mainly due to the fact that regions and especially rural areas are dynamic systems with different levels of development and socio-economic characteristics. Certain developmental patterns and priorities are identified in the regional development in the old EU members, while member states from the Eastern parts are still partially restricted by their economic situation and political instability. This puts forth the concept of integration maturity, which refers to the preparedness of each country and its capability to fully exploit the benefits and the advantages of the integration form (Palánkai, 2003), and is still applicable in terms of the economic convergence level of the post-communist Balkan countries in comparison to the EU-15<sup>61</sup>.

The interest in creating a baseline for sustainability in the field of cooperative development countries is particularly incurred by particular problems which manifest themselves to similar degrees and provide a generic pattern across the system, such as:

- insufficient infrastructure and access to basic services;
- depopulation and land abandonment;
- weakened institutional support;
- high levels of unemployment.

A closer look at the facts behind the abovementioned problems reveals that some of the negative outcomes are internally generated, while others are due to external stimuli. Weak national support is impacted both by the various reforms that have been initiated with limited or questionable effects, and by the failure of institutions to make the case for regional development and rurality to the policy-makers. The level of inequality differs widely, and the income gaps have changed to varying degrees. Additionally voices are raised not only towards the inequality of the outcome, but also about the inequality of opportunity. It is worth emphasizing the extent to which debates about regional development are often preoccupied with the operationalization of public policy, and neglect to consider local necessities and specific problems, market trends, and business and corporate strategies.

<sup>61</sup> Palánkai T. (2003) Economics of European Integration Akadémiai Kiadó