

منظمة
الأغذية والزراعة
للأمم المتحدة

联合国
粮食及
农业组织

Food and Agriculture
Organization of the
United Nations



Organisation des
Nations Unies pour
l'alimentation et
l'agriculture

Продовольственная и
сельскохозяйственная
организация
Объединенных Наций

Organización de las
Naciones Unidas para la
Agricultura y la
Alimentación

FAO Regional Office for Europe and Central Asia

Policy Studies on Rural Transition No. 2014-3

Agricultural Cooperatives in Eurasia

Zvi Lerman and David Sedik

March 2014

The Regional Office for Europe and Central Asia of the Food and Agriculture Organization distributes this policy study to disseminate findings of work in progress and to encourage the exchange of ideas within FAO and all others interested in development issues. This paper carries the name of the authors and should be used and cited accordingly. The findings, interpretations and conclusions are the authors' own and should not be attributed to the Food and Agriculture Organization of the UN, its management, or any member countries.

Zvi Lerman is Sir Henry d'Avigdor Goldsmid Professor of Agricultural Economics, the Hebrew University of Jerusalem, Israel.

David Sedik is the Senior Agricultural Policy Officer in the FAO Regional Office for Europe and Central Asia.

Agricultural Cooperatives in Eurasia

Across Eurasia there is an immense divide in the development of agricultural cooperatives between the countries of the European Union and those of the Commonwealth of Independent States and Georgia (CIS-G). This gap can be seen in the differences in the spread of cooperatives within agriculture, in government policy and in the enabling legislative environment. The divide is supported by a basic conceptual and experiential distinction that existed during the socialist period and which continues to exist in modified form between the two parts of Eurasia today.

This paper will analyze the divergence in the development of agricultural cooperatives in Eurasia. It begins with the question of why cooperatives are needed, of what problems they solve. It then describes the divide within Eurasia on agricultural cooperatives, starting with concepts, and illustrating differences in the spread of cooperatives across the region, government policies and enabling legislation. A conclusion summarizes policy recommendations to bring the useful experience of the international cooperative movement to bear on agricultural cooperatives in the countries of the Commonwealth of Independent States and Georgia.

A. Why agricultural cooperatives?

Cooperatives in agriculture are usually created by grassroots farms to overcome market failures, which are manifested in unwillingness of private business entrepreneurs to provide services in areas that they judge unprofitable or, alternatively, in situations where private businesses unfairly exploit farmers through monopolistic practices. Best-practice world experience suggests that service cooperatives provide a very effective way of improving the access of small farmers to market services in both situations (Schrader, 1989). The focus on *service* cooperatives is fundamental; in market economies agricultural cooperatives are invariably of this type with very few exceptions (see **Box 1**).

Small farms commonly use agricultural service cooperatives to overcome difficulties of unequal bargaining power with large-scale input suppliers (for machinery, fertilizer, advisory and credit services), processors and middlemen. These difficulties combine to create what is sometimes referred to as “the curse of smallness”, a trap that prevents smallholders from fully exploiting their inherent productivity advantages due to barriers in access to markets (Abele and Frohberg, 2003). In dealing with a service cooperative, the market effectively deals with a relatively large entity that combines many smallholders into a single negotiating position. Access difficulties imposed by smallness are thus automatically lifted.

In the post-socialist countries of Eurasia agrarian reform produced tens of millions of small family farms in place of tens of thousands of large-scale collectives and production cooperatives. **Table 1** illustrates how small the average farm is in the CIS-G. The situation is no different in Central and Eastern Europe: of the total of nearly 8 million farms in the ten New EU Member States, 4.5 million (58%) are holdings of less than 2 hectares and only 80,000 (just 1%) have 50 hectares and more (Csaki and Jambor 2009). In some countries land reforms produced fragmented land holdings, based on the need for equitable distribution of different land qualities and perennial crops.

Box 1. Agricultural Production and Service Cooperatives

Agricultural cooperatives can be classified into two types. In *production cooperatives* members jointly engage in the production process. In agriculture members jointly cultivate pooled or cooperatively held agricultural resources, such as land or farm machinery. Collective farms in the former Soviet Union and kibbutzim in Israel are examples of agricultural production cooperatives.¹ Production cooperatives sell their output to outsiders; yet their main function is to improve the wellbeing of their members by creating conditions for more efficient farming than what would otherwise be feasible in individual farms.

It is often argued that by allowing members to pool their fragmented smallholdings into large farms production cooperatives exploit economies of scale and achieve higher efficiency. Yet empirical studies in market economies show that economies of scale do not generally exist in primary agriculture and many researchers have in fact shown that agricultural production cooperatives are substantially less efficient than individual and family farms. As a result, production cooperatives in the world are a tiny minority among producers. According to International Cooperative Alliance (ICA) data, production cooperatives account for less than 5% of all cooperatives in the world.

Service cooperatives, on the other hand, are the largest and most typical category of cooperatives in developed and developing countries: these are cooperatives that provide services to their members-producers, who continue to carry out all production activities independently on their own land. Service cooperatives in many countries account for a large share of transactions, particularly in agriculture. For instance, agricultural marketing, processing, and supply cooperatives are major players in markets for farm products and farm inputs in North America, Western Europe, Japan, and South-East Asia. In the U.S., agricultural cooperatives handle about 30% of farmers' total farm marketing volume and 28% of farmers' total supply purchases. In the European Union, the share of agricultural cooperatives is even larger: in countries such as the Netherlands, Denmark, Ireland, and Sweden 70%-80% of farm products are marketed through cooperatives and cooperatives account for 50%-70% of all farm input purchases. Service cooperatives are usually subdivided into marketing cooperatives, processing cooperatives, input supply cooperatives, and farm machinery cooperatives.²

Table 1. Average size of family farms in some CIS-G countries and Georgia

	Average farm size, hectares	Mean number of parcels (excluding household plot, survey data)
Armenia	1.38	
Georgia	0.96	1.3
Azerbaijan	1.86	1.4
Kyrgyzstan	3.80	1.2
Tajikistan	3-5	1.3
Turkmenistan	4-5	
Ukraine	4.6	1.7
Moldova	---	3

Source: Farm-level surveys 2000-2012.

¹ Although collective farms are an example of a production cooperative, they were never accepted by the ICA as adhering to ICA cooperative principles.

² Credit cooperatives are sometimes considered as a separate category of coops, because of their peculiarities as financial institutions. In this paper the term service cooperative is used to refer primarily to marketing/input supply cooperatives, which are quite typical startup cooperatives.

Thus, agricultural service cooperatives should be an excellent means for farms in the formerly socialist countries of Eastern and Central Europe, as well as the CIS-G, to improve their bargaining power vis-à-vis input providers and processors, thus improving the welfare of the cooperative membership. Though forming and sustaining an agricultural service cooperative is never easy, it is a proven method to improve the sustainability of small farms in agriculture today, just as it has been in Western Europe and North America for many decades.

B. The great divide within Eurasia on agricultural cooperatives

The International Cooperative Alliance (ICA) describes a cooperative 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 modern cooperative was developed in Western Europe, and spread to other industrializing countries in the late nineteenth century. Cooperatives were a self-help means to combat market failures and poverty. As bottom-up, self-help institutions, they adhered to certain principles that have been codified by the ICA (ICA, 2014), namely, voluntary and open membership, democratic member control (one member, one vote), member economic participation, autonomy and independence, education, training and information, cooperation among cooperatives and concern for community. Agricultural cooperatives evolved and continue to evolve out of this liberal, democratic, self-help tradition.

The countries of Eastern Europe and the Russian Empire participated in this liberal self-help tradition in the nineteenth and early twentieth centuries. However, a paradigm shift dates to the 1920s, when Lenin proclaimed his socialist vision of the development of cooperatives: gradual and voluntary movement from lower to higher forms of cooperation, from marketing, service, and credit cooperatives to production cooperatives. This vision, presenting production cooperatives as the highest form of cooperation, was subsequently implemented in Stalin’s collectivization drive (from 1928-1929), which eventually transformed agriculture in all republics of the Soviet Union and much of Eastern Europe to agriculture of collective farms, i.e., production cooperatives.³ Thus, contrary to the situation in developed market economies, tens of thousands of production cooperatives existed in the USSR and continued to exist in the CIS-G in the form of collective farms (kolkhozes) well into the post-1992 transition and many continue to exist as production cooperatives after the reforms that eliminated collective farms.⁴

The socialist legacy of agricultural production cooperatives created a parting of the ways within Eurasia that persists to this day in two forms. First, farmers’ support for the cooperative idea is low in the CIS-G countries based on past experience with the Soviet

³ In *The Immediate Tasks of the Soviet Government* (1918) Lenin advocated for the total cooperation of the people through their involvement, first, in consumers’ and other simple types of cooperatives, and later, in producers’ cooperatives, which entail a higher form of cooperation. In *On cooperation* (1923) Lenin stated that cooperation must be promoted by convincing the peasants of the expediency of merging small farms and the advantages of collective production. He believed that the party and the working class should play a leading role in raising the cultural level and consciousness of the peasants. Lenin called this a “cultural revolution”.

⁴ Just as with collective farms, the degree to which these production cooperatives adhere to ICA cooperative principles is subject to doubt.

cooperative model, and due to the lack of information on and experience with alternatives.⁵ Second, there is a profound conceptual confusion as to the nature of agricultural cooperatives within a market economy. In the CIS-G countries the term “cooperative” is automatically understood to mean “production cooperative”, while in established market economies, where practically no production cooperatives exist, “agricultural cooperatives” are automatically understood as “agricultural service cooperatives”.

The socialist legacy has also created a sizeable disparity in the development of agricultural service cooperatives in the CIS-G compared to countries in particularly Western Europe, but also Eastern Europe. **Table 2** illustrates that the countries of the CIS-G are many decades behind EU countries in the development of service cooperatives. Only one farm in 246 in Ukraine and one in 31 in Hungary are members of a service cooperative, while in the US, France, Netherlands and Spain each farmer is a member of a service cooperative and in Italy every other farmer is a member. There are also far more farms per cooperative in Kazakhstan, Ukraine and Hungary, than in the countries of Western Europe and the US. Whereas there is only one cooperative for every 6,000 farms in Ukraine and Kazakhstan, and for every 10,000 farms in Hungary, in France there exists one service cooperative for every 178 farms. This statistic also indicates that the development of service cooperatives in Eastern Europe and the CIS-G is far behind that in the US and Western Europe.

⁵ Academic researchers have investigated the issue of distrust in cooperation in post-socialist economies more formally. Gijssels and Bussels (2012) investigated two potential reasons for the lack of cooperation in the ex-socialist countries of Europe, finding high correlations between indicators of “social capital” and member intensity of agricultural cooperatives (percentage of farmers of a country that are cooperative members), but no discernible correlations between indicators of “general deep-rooted cultural values” and member intensity. “Social capital” is defined as “the trinity of ‘networks, norms of reciprocity and trust’” (Gijssels and Bussels, 2012). Indicators of “general deep-rooted cultural values” were based on research by Hofstede, Hofstede and Minkov (2010). Lissowska (2013) came to similar conclusions in her analysis of social attitudes towards cooperation in European countries (based on the European Social Survey), where she found that the preference for cooperation in transition countries (Central and Eastern Europe, Russia and Ukraine) is close to that of the other (Western) European countries. However, transition countries differ in that people have less faith in the cooperative model based on their past experience with the socialist version of cooperation, which usurped and distorted the liberal democratic model of cooperation that pervaded Europe (including Russia and Ukraine) before socialism.

Table 2. The Development of Agricultural Service Cooperatives in Selected Countries

Country	Year	Number of agricultural service cooperatives	Number of cooperative members	Number of farms	Ratio: Farms per member	Ratio: Farms per cooperative
Ukraine	2010	801	21,521	5,300,000	246	6,617
Kazakhstan	2010	300	N.A.	1,850,000*	N.A.	6,167
US	2010	2,310	2,200,000	2,200,000	1	952
France	2010	2,900	500,000	516,100	1	178
Hungary	2007	58	20,177	626,300	31	10,798
Italy	2008	5,800	900,000	1,679,400	2	290
Netherlands	2010	60	100,000+	70,000	1	1,167
Spain	2010	3,989	1,160,300	967,290	1	242

Sources: US: USDA, 2012, USDA-NAS, 2013; Ukraine: Korinets, 2013: 36, 38, State Statistics Service of Ukraine, 2011: 10, State Statistics Service of Ukraine, 2012: 51; France: Eurostat, 2013, Filippi, 2012: 14; Hungary: Szabo, 2012: 23; Italy: Bono, 2012: 19; Kazakhstan: number of service cooperatives from Conception (2012), number of farms see next note. Netherlands: Bijman, van der Sangen, Poppe and Doorneweert (2012): 16; Spain: Giagnocavo and Vargas-Vasserot (2012) and Eurostat (2013).

*The sum of peasant farms (170,000) plus an estimate of the number of household plots (1,680,000, assuming that each rural household has a household plot). Data for peasant farms from Statistical Agency of Kazakhstan (2012); data for rural households from Statistical Agency of Kazakhstan (2012), v. 1: 4. Similar numbers emerge from the 2006-2007 Agricultural Census (Statistical Agency of Kazakhstan (2007-08)).

C. Policy and Legislative Support for Cooperatives

Policies and legislation comprise the enabling environment for the development of cooperatives. The purpose of this section is to point to the key areas where the tools of public policy can assist in the development of agricultural service cooperatives, and then illustrate the differences in approach between CIS-G policies and international best practice.

We should preface our remarks with the following general observations. First, it is not fruitful to directly compare all policies for agricultural cooperatives in the EU countries with those in the CIS-G countries. Cooperative law and policies have considerably evolved in the EU countries over their more than 100-year history, as a result of changes that have gone on in the cooperative movement. Today, there are many cooperatively owned and operated companies that are equally as large and complex as multinational public corporations. As the size and complexity of companies change, so do laws governing them. It is counterproductive to transplant regulations from EU member states with a more developed cooperative sector with a legal body that serves this sector to countries where the cooperative movement is in its infancy and in which the main subject

is startup cooperatives (van der Sangen, 2012). Second, it is difficult to point to types of policies that support or inhibit cooperative development based on a pan-country comparison of present policies and indicators or cooperative market presence primarily because the “success indicator” of cooperatives (market share) depends not only on current policies but on past policies and development as well. In a cross-country comparison Brusselaers, Doorneweert and Poppe (2012) found no correlation between current market share of agricultural cooperatives and policies.

Agricultural Service Cooperatives in CIS-G Countries

It is therefore preferable to look to the reality of cooperatives in the CIS-G countries and take only what is relevant from international, cooperative best-practice enabling policies and legislation. A picture of the development of the cooperative movement in countries of the CIS-G can be found in Lerman (2013, 2014), Millns (2013), Korinets (2013), Sedik and Lerman (2014), Tomich (2013), FAO (2014) and Akimbekova (2010). The following picture emerges from these studies:

The socialist legacy of agricultural production cooperatives has caused low farmers’ support for the cooperative idea. There is also a profound conceptual confusion as to the nature of agricultural cooperatives within a market economy. The term cooperative is automatically understood to mean “production cooperative” both by farmers and by politicians. Politicians, while expressing support for the cooperative idea, often promote cooperation as a means to consolidate land holdings of smallholders into larger production cooperatives. This, of course, increases the unattractiveness of the cooperative idea to farmers.

There are very few working agricultural service cooperatives throughout the CIS-G. Statistics on cooperatives are often difficult to interpret because of the large number of “sleeping cooperatives” and the conceptual confusion between service and production cooperatives (see **Box 2**). The popularity of “sleeping cooperatives” is a direct result of poor policies whereby governments have occasionally advanced subsidies, machinery leases or credits at preferential rates to agricultural cooperatives (Korinets, 2013).

Practically all CIS-G countries have cooperative-specific laws in their statutes (Lerman, 2014). The prominent role of production cooperatives in CIS-G countries (as successors of Soviet-era collective farms) is reflected in the prevailing service/production dichotomy, which is often “canonized” in separate laws for the two types of cooperatives. Six of the twelve CIS-G countries have separate laws for production and service cooperatives on their statutes. This is not the recommended practice in market-oriented economies.

Box 2. Agricultural cooperatives in Kyrgyzstan

Statistics on cooperatives in Kyrgyzstan are available from two sources: a special unit dealing with cooperative development in the Ministry of Agriculture and the National Statistics Committee (NSC). The Ministry reports the number of *registered* cooperatives, which showed impressive growth over time, rising from about 300 in 2004 to 1,300 in 2009 (Figure 1).⁶ NSC based its reporting on the number of *active* (operating) cooperatives. The gap between the two sources is dramatic (Figure 1). In 2011, the Ministry reported more than 1,400 registered cooperatives, while according to NSC there were just 400 active cooperatives in the country (National Statistics Committee of Kyrgyzstan, 2012). It thus became apparent that more than 70% of registered cooperatives in Kyrgyzstan were inactive and existed only on paper, presumably with the intent of taking advantage of future credit or taxation benefits that might materialize through government policies. Such entities are known as “sleeping cooperatives”. The dominant majority of registered cooperatives in Ministry of Agriculture statistics are production cooperatives, not service cooperatives. In 2009, 88% of the registered cooperatives were classified as production cooperatives and only 12% were service and processing cooperatives.

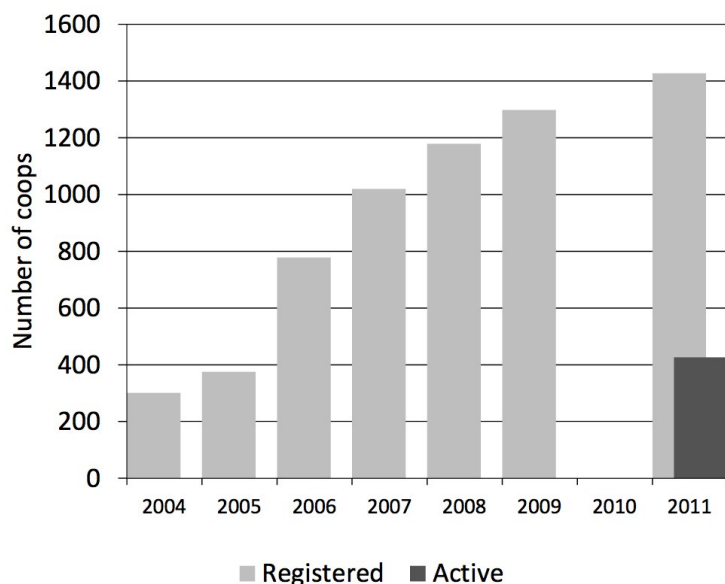


Figure 1. Development of agricultural cooperatives in Kyrgyzstan 2004-2011.

Key: Grey bars: registered cooperatives from Ministry of Agriculture; black bar: active cooperatives from National Statistics Committee of Kyrgyzstan.

FAO initiated a survey of cooperatives in 2012. The sample frame for the survey consisted of the 400 active cooperatives in the NSC database. The original objective was to survey a sample of 100 cooperatives from the NSC list, collecting information mainly on service cooperatives, with control information on some production cooperatives. This objective could not be achieved, however, because virtually no pure service cooperatives were found in the NSC database. Among 400 active cooperatives in the NSC list, only 17 were identified as mixed service/production cooperatives and 3 as trade/service cooperatives.

Source: Adapted from Lerman, 2013.

⁶ These numbers do not include credit unions, created mainly by the Raiffeisen Foundation in Kyrgyzstan (some 300 in 2009).

The ILO guidelines for cooperative legislation recommend “one law for all types of cooperatives, possibly with specific parts/chapters for specific types of cooperatives” (Henry, 2012: 59), and CIS-G countries indeed seem to be moving in this direction in their recent legislative attempts (Kyrgyzstan, Tajikistan, Azerbaijan, and perhaps most notably Ukraine). According to the ILO guidelines, the one-law approach, among other benefits, diminishes bureaucracy and prevents fragmentation of the cooperative system that inevitably weakens its self-monitoring and lobbying power (Lerman, 2014).

Tax policies in CIS-G countries are often profoundly unfriendly to service cooperatives, often entailing double taxation for farmers who may venture to join them. This is not because of any built-in bias against cooperatives: it is simply because tax laws generally treat cooperatives as any other legal person (corporation), without due regard to cooperatives’ specific features. Cooperative law may outline conceptual principles and suggest taxation guidelines, but ultimately any tax ruling is based on the Tax Code. Thus, the 2005 Law of Cooperatives in Kyrgyzstan⁷ contains a blanket statement deferring all tax-related decisions for cooperatives to the Tax Code (Article 32). Taxation of cooperatives involves two distinct issues: (a) value added tax (VAT) and (b) tax on profits at the level of the cooperative. In both instances, the Western approach to cooperative taxation is guided by the view that cooperatives act on behalf of their members as their agents. Because of the close involvement of the members in the decision-making processes in the cooperative and because of the special nature of the transaction between the members and their cooperative, cooperatives can be seen as the executing agents of the members. This view suggests that transactions between cooperatives and their members should be exempt from both VAT and profit tax. The burden of taxation should shift from the cooperative (“the agent”) to the members as the principal (Lerman, 2014; Sedik and Lerman, 2014).

Not all legislation in the CIS-G countries adheres to these principles. Even Ukraine, which has generally good legislation on agricultural service cooperatives, has not completely adapted its tax system to provide a good tax environment for private plot holders who wish to form a service cooperative (Sedik and Lerman, 2014).

The ILO guidelines for cooperative legislation state that, “the establishment of a speedy and impartial registration procedure is a first step by the state towards facilitating the development of a genuine cooperative system” (Henry, 2012: 69). Cooperatives are legal bodies and as such require registration, either as part of general registration of legal bodies according to Civil Code or as a special registration procedure specified in the country’s law of cooperatives.

The registration requirements in CIS-G legislation are usually formulated in a muted general language. The mild tone adopted in various CIS-G laws is consistent with the ILO recommendations on registration of cooperatives (Henry, 2012):

...a cooperative must be registered once the conditions laid down in the law are fulfilled...If prior approval is necessary, the discretionary power of the approving authority must be strictly and effectively limited by law.

⁷ Law of the Republic of Kyrgyzstan on Cooperatives No. 70 (11 June 2004) as amended by Law No. 37 (25 February 2005), <http://www.cac-civillaw.org/gesetz/kirgisistan/GenossenschaftsG.KIR.ru.rtf>.

In no case must the registration procedure hinder people from forming entities in the way that suits them best. Registration . . . [should] be concluded within a short time period; a refusal to register must be justified in writing; in the case of refusal, the founders may appeal before a court, which should give a decision within a brief time period. The fees for the registration and publication must in no case be prohibitive (pp. 68-70).

A different approach is found in the new Law of Agricultural Cooperatives (2013) in Georgia. Uniquely among the CIS countries, Georgia establishes a special state agency, the Agency for the Development of Agricultural Cooperatives within the system of the Ministry of Agriculture. The main purpose of this agency is to develop viable cooperation in agriculture in Georgia. In pursuit of this overall goal, the agency is charged with the following competencies (article 8):

- Administration of government support measures, and provision of a strategy for the development of cooperatives in Georgia.
- Provision of training, advice and information to cooperatives on issues of importance to them.
- Monitoring and evaluation of cooperatives in Georgia.
- Organization of conferences, consultations and seminars on cooperative issues, and cooperation with the International Cooperative Alliance.
- Granting and termination of the status of an agricultural cooperative.

Agricultural cooperatives in Georgia first register in the registry of entrepreneurs and non-profit (non-commercial) legal entities. In order to be granted the additional status of “agricultural cooperative” cooperatives must register with the agency (art. 7.2). The cooperative is then evaluated according to criteria specified by law, and must provide periodic information to the agency for monitoring purposes. In return, the cooperative is eligible for government support measures. According to the Law on Agricultural Cooperatives (art. 15.2), the rules for granting and termination of the status of an agricultural cooperative were to be specified within 2 months after the Law came into force in July 2013. However, to date (March 2014) no regulation on this crucial issue has been made public.

The two-step registration process without clear criteria for the granting and termination of the status of an agricultural cooperative would appear to be inconsistent with the strong recommendations for simplicity and transparency voiced by the ILO (see above). In the absence of clear regulations on the rules for granting and termination of the status of agricultural cooperative, it is not possible to clearly understand the mandate of the Agency for the Development of Agricultural Cooperatives in Georgia. However, sources within Georgia state that the two registrations are of a totally different nature. Registration as a legal entity is the normal record-keeping listing required in Georgia as well as in other countries for legal bodies, including for all cooperatives. Registration with the agency is an optional step to be undertaken if the cooperative would like to participate in government support programs. The authority to grant and terminate the status of “agricultural cooperative” in Georgia represents an effort at quality control, in order to weed out “false cooperatives” which abuse the cooperative name in order to

qualify for state aid.⁸ This is an important function, as the “sleeping cooperative” phenomenon is fairly widespread in the region.

News reports in the Georgian press indicate that the government expects the new cooperative law “to stimulate the enlargement of farms”.⁹ Georgia’s new law of agricultural cooperatives does not speak explicitly of agglomeration of holdings in production cooperatives or transfer of individually owned land to cooperatives. The views in the media are apparently fostered by the definition of agricultural cooperative in article 6 of the new law, where areas of cooperative activity are listed as “production, processing, packaging, labeling, storage, transportation and marketing of agricultural products”. Lack of clear differentiation between the activities of production and service cooperatives is probably responsible for the traditional identification of any cooperative with “production cooperative.”

Conclusions

Because of the legacy of the past, CIS-G countries require specialized legislation (on cooperatives, as well as mention in the civil and tax codes) in order to provide an enabling environment to allow agricultural cooperatives to operate properly. Ukraine is a good model: it has benefitted from at least three advisory projects from donors in order to improve its cooperative legislation in the past two years, and it now has perhaps the best legislation on agricultural service cooperatives in the CIS-G. For the revision of legislation, it may be helpful to set up fora where government, donors and service cooperative leaders can exchange views on enabling legislation with the aim of supporting the development of service cooperatives.

Good legislation is important, but it is not sufficient. Politicians in the region also need to do their part. Production cooperatives should not be advanced as a policy tool to solve land fragmentation. Production cooperatives are known to be inefficient, in the post-socialist context they are vestiges of the past, and their political and financial support is indefensible 22 years after the dissolution of the Soviet economic system. On the other hand, agricultural service cooperatives have the potential to solve real problems of small and medium size farms that produce the majority of agricultural output in every CIS-G country.

The rural population also requires capacity building. Farmers need to be informed on the cooperative idea and its benefits. In Ukraine this issue was mentioned as perhaps the most important issue by the participants of the All Ukraine Public Meeting “Ukraine on the Eve of the International Year of Cooperatives” (15 December 2011) attended by service cooperative leaders, regional cooperative activists, as well as researchers, government employees and project personnel connected with development of cooperatives (Korinets, 2013:17). Cooperative Development Centers in the United States are an example of the type of government-private sector collaboration that can accomplish this task. Cooperative Development Centers are non-profit state-level organizations funded by cooperatives themselves and co-funded by the US Department of Agriculture. Their function is to explain the cooperative idea and the specific benefits for those interested, to train in cooperative management skills, and support the public with

⁸ Information provided by the FAO Representation office in Tbilisi, Georgia (March 2014).

⁹ *Business Gruzija*, 9 August 2013, <http://bizzone.info/agriculture/2013/1376075873.php>.

the business, legal and tax information needed for cooperative startups and management. They also offer individual technical assistance by qualified experts, the costs of which may be covered by the US Department of Agriculture grants for the development of cooperatives.

While the type of public-private partnership represented by the US Cooperative Development Centers is an excellent example of an institution to support the development of cooperatives, there is no substitute for a grass-roots cooperative movement driven by enthusiasm for the cooperative model. It is the movement in countries around the world that was responsible for building agricultural service cooperatives far before they became a part of state policy. The cooperative movement in all CIS-G countries is at an early stage, perhaps understandable for countries that only twenty years ago knew only the Soviet model of cooperation.

Agricultural service cooperatives also require capacity building and investment support as part of a targeted policy to improve the sustainability of small family farming. Unfortunately, governments in the region do not yet have the capacity to do this. At this time only donors in association with governments and cooperatives in the region can accomplish this with any degree of expertise. But the typical donor project of 2 years is not sufficient to develop a farm service cooperative to self-sufficiency. The best example of donor support in the region is Danone-Ukraine's support of milk cooperatives through Dobrobut gromad (Heifer International) in Ukraine where Danone has supported cooperatives for an average of 5 years (Danone-Ukraine, 2014). The Danone-Dobrobut gromad-milk cooperatives cooperation is not, however, a typical donor intervention. If the raw product offered by supported cooperatives meets Danone's quality standards¹⁰ the company enters into a long-term contract with the suppliers to secure its raw material base. Thus, this is a two-way beneficial arrangement, not standard dependence on donor generosity. Other private dairy firms interested in creating a high-quality raw material base may wish to consider such an approach.

¹⁰ If a supported cooperative does not meet Danone's standards investment support is eventually dropped.

REFERENCES

- Abele, S. and Frohberg, K., eds. 2003. *Subsistence Agriculture in Central and Eastern Europe: How to Break the Vicious Circle*, Studies on the Agricultural and Food Sector in Central and Eastern Europe, Vol. 22, IAMO, Halle.
- Akimbekova, G. U. 2010. "Agricultural Cooperation in Kazakhstan: problems and possible solutions," *Ekonomika APK (Kiev)*, No. 9: 161-166.
- Bijman, J., G. van der Sangen, K.J. Poppe and B. Doorneweert (2012). "Support for Farmers' Cooperatives; Country Report The Netherlands". Wageningen: Wageningen UR.
- Bono, P. (2012). "Support for Farmers' Cooperatives; Country Report Italy". Wageningen: Wageningen UR.
- Brusselsaers, J., Doorneweert, B. and K. Poppe. 2012. "Support for Farmers' Cooperatives: EU synthesis and comparative analysis report: policy measures". Wageningen: Wageningen UR.
- Cobia, D., ed. 1989. *Cooperatives in Agriculture* (Englewood Cliffs, NJ: Prentice Hall).
- Conception. 2012. *Conception of the Development of Agricultural Cooperation in Kazakhstan*, Kazakh Research Institute of Agricultural Economics and AO "Kazagroinnovatsiya" (Almaty, 2012).
- Csaki, C. and Jambor, A. 2009. "The Diversity of Effects of EU Membership on Agriculture in New Member States," *FAO Regional Office for Europe and Central Asia Policy Studies on Rural Transition*, No. 2008-1 (Budapest) (http://www.fao.org/fileadmin/user_upload/Europe/documents/Publications/Policy_Studies/EUeffects_en.pdf).
- Danone-Ukraine. 2014. "Cooperatives and Family Farms" (<http://danone.ua/en/social-responsibility/id/kooperativi-ta-simejni-fermi-004/>).
- Eurostat. 2013. "Agricultural holdings, 2000-2010," (http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Agricultural_holdings,_2000-2010.png&filetimestamp=20121105110459).
- Filippi, M. 2012. "Support for Farmers' Cooperatives; Country Report France". Wageningen: Wageningen UR.
- Food and Agriculture Organization of the UN (FAO). 2012. *Report of the Twenty-eighth FAO Regional Conference for Europe*, 19 and 20 April 2012 (<http://www.fao.org/docrep/meeting/025/md942e.pdf>).
- Food and Agriculture Organization of the UN (FAO). 2014. *International Roundtable on Cooperation, Report* (in Russian) (http://www.fao.org/fileadmin/user_upload/Europe/documents/docs/ASI/roundtable/Report_ru.pdf).

- FAO Regional Office for Europe and Central Asia (FAO-REU). 2014. *Regional Initiative for Europe and Central Asia* (<http://www.fao.org/europe/agrarian-structures-initiative/en/>).
- Giagnocavo, C., Vargas-Vasserot, C. 2012. “Support for Farmers’ Cooperatives; Country Report Spain”. Wageningen: Wageningen UR.
- Gijselinckx, C., Bussels, M. 2012. “Support for Farmers’ Cooperatives; EU synthesis and comparative analysis report; Social and Historical Aspects”. Wageningen: Wageningen UR.
- Henrÿ, Hagen. 2012. *Guidelines for Cooperative Legislation*, 3rd ed. revised (Geneva: International Labor Office).
- Hofstede, G., Hofstede, G.J. and Minkov, M. (2010). *Cultures and Organizations: Software of the Mind*, third edition (New York: McGraw-Hill).
- Hoyt, A. 1989. “Cooperatives in other Countries,” in Cobia, D. (1989), pp. 81-97.
- International Cooperative Alliance (ICA). 2014. “Co-operative identity, values & principles,” International Cooperative Alliance [<http://ica.coop/en/what-co-op/co-operative-identity-values-principles>].
- Korinets, R. 2013. “Sel’skokhoziastvennyy obsluzhivaiushchie kooperativy v Ukraine” [Agricultural Service Cooperatives in Ukraine], *FAO Regional Office for Europe and Central Asia Policy Studies on Rural Transition No. 2013-6*, (<http://www.fao.org/docrep/018/ar593r/ar593r.pdf>).
- Lerman, Z. 2013. “Cooperative Development in Central Asia,” *FAO Regional Office for Europe and Central Asia Policy Studies on Rural Transition*, no. 2013-14, (<http://www.fao.org/docrep/018/ar425e/ar425e.pdf>).
- Lerman, Z. and Sedik, D. 2014. “Overview of Legislation Related to Agricultural Cooperatives in the CIS Countries and Georgia,” *FAO Regional Office for Europe and Central Asia Policy Studies on Rural Transition*, no. 2014-1 (http://www.fao.org/fileadmin/user_upload/Europe/documents/Publications/Policy_Studies/CoopsCISandGeorgia1_en.pdf).
- Lissowska, M. 2013. “The Deficit of Cooperative Attitudes and Trust in Post-Transition Economies,” *EAEPE Papers in Evolutionary Political Economy*, no. 10 (2013).
- Millns, J. 2013. “Agriculture and Rural Cooperation Examples from Armenia, Georgia and Moldova,” *FAO Regional Office for Europe and Central Asia Policy Studies on Rural Transition*, No. 2013-2 (<http://www.fao.org/docrep/018/ar424e/ar424e.pdf>).
- National Statistics Committee of the Kyrgyz Republic. 2012. *Kyrgyzstan in Figures: Statistical Yearbook* (in Russian) (Bishkek).
- Sedik, D. and Lerman, Z. 2014. “Agricultural Cooperative Development in Kazakhstan and Ukraine,” *Center for Agricultural Economic Research Discussion Paper 6-13*, The Hebrew University of Jerusalem, Rehovot, Israel.

- State Statistics Service of Ukraine. 2012. *Agriculture of Ukraine, 2011: Statistical Yearbook* (Kiev).
- State Statistics Service of Ukraine. 2011. *Main Agricultural Characteristics of Rural Households in Rural Areas* (Kiev).
- Statistical Agency of Kazakhstan. 2007-08. *Results of the First National Agricultural Census, 2006-2007*, vols. 1-9 (Astana) [www.stat.gov.kz].
- Statistical Agency of Kazakhstan. 2011. *2009 Population Census of Kazakhstan: Households* (Astana) [www.stat.gov.kz].
- Statistical Agency of Kazakhstan. 2012. *Agriculture in Kazakhstan 2007-2011, Statistical yearbook*, (Astana) [www.stat.gov.kz].
- Schrader, L. 1989. “Economic Justification” in D. Cobia, ed., *Cooperatives in Agriculture* (Englewood Cliffs, NJ: Prentice Hall), pp. 121-136.
- Szabó, G. G. 2012. “Support for Farmers’ Cooperatives; Country Report Hungary”. Wageningen: Wageningen UR.
- Tomich, I. F. 2013. “Initsiativa ‘Rodnoe selo’—posledniaia nadezhda selian”, *Gazeta.ua*, 22.03.2013 [<http://gazeta.ua/ru/articles/488810>] .
- U.S. Department of Agriculture (USDA). 2012. *Cooperative Statistics, 2011* (Sarah Ali, Jacqueline E. Penn and E. Eldon Eversull) Service Report 72, October 2012.
- U.S. Department of Agriculture, National Agricultural Statistics Service (USDA-NAS). 2013. *Farms, Land in Farms, and Livestock Operations 2012 Summary*, February 2013.
- Van der Sangen, G. 2012. Support for Farmers Cooperatives: EU synthesis and Comparative Analysis Report—Legal Aspects. Wageningen, UR.

FAO Regional Office for Europe and Central Asia
Policy Studies on Rural Transition

2014-3	<i>Agricultural cooperatives in Eurasia</i> Zvi Lerman and David Sedik
2014-2	<i>Cooperatives in the CIS and Georgia: Overview of legislation</i> Zvi Lerman and David Sedik
2014-1	<i>Agri-food systems for better nutrition in Europe and Central Asia</i> Mario Mazzocchi, Sara Capacci, Bhavani Shankar and Bruce Traill
2013-7	<i>The triple burden of malnutrition in Europe and Central Asia: a multivariate analysis</i> Sara Capacci, Mario Mazzocchi, Bhavani Shankar and Bruce Traill
2013-6	<i>Сельськогосподарська обслуговуюча кооперація в Україні</i> Роман Коринец
2013-5	<i>Agricultural cooperatives in Israel</i> Gadi Rosenthal and Hadas Eiges
2013-4	<i>Cooperative development in Central Asia</i> Zvi Lerman
2013-3	<i>An overview of cooperatives in Turkey</i> Nedret Durutan Okan, Cüneyt Okan
2013-2	<i>Agriculture and Rural Cooperation, Examples from Armenia, Georgia and Moldova</i> John Millns
2013-1	<i>Association of farmers in the Western Balkan countries</i> Goran Zivkov
2012-6	<i>Экономика экспорта зерновых в Казахстане: Перспективы и анализ экспорта пшеницы</i> Ошакбаев, Рахим
2012-5	<i>Экономика экспорта пшеницы в Украине</i> Ирина Кобута, Александр Сикачина и Виталий Жигаadlo
2012-4	<i>Wheat Export Economy in Ukraine</i> Iryna Kobuta, Oleksandr Sikachyna, Vitaly Zhygadlo
2012-3	<i>Issues Affecting the Future of Agriculture and Food Security for Europe and Central Asia</i> William H. Meyers; Jadwiga R. Ziolkowska; Monika Tothova and Kateryna Goychuk
2012-2	<i>Агрохолдинги России и их роль в производстве зерна</i> Узун В.Я. , д.э.н., проф., Шагайда Н.И., д.э.н., Сарайкин В.А.
2012-1	<i>Europe and Central Asian Agriculture Towards 2030 and 2050</i> Jelle Bruinsma
2011-1	<i>Потенциал роста доходов сельского населения Туркменистана на основе альтернативных сельскохозяйственных культур</i> Иван Станчин, Цви Лерман и Дэвид Седик
2010-1	<i>The Feed-Livestock Nexus in Tajikistan: Livestock Development Policy in Transition (revised version).</i> David Sedik
2009-5	<i>Sources of Agricultural Productivity Growth in Central Asia: The Case of Tajikistan and Uzbekistan</i>

	<i>Zvi Lerman and David Sedik</i>
2009-4	<i>The Diversity of Effects of EU Membership on Agriculture in New Member States Csaba Csaki and Attila Jambor</i>
2009-3	<i>Agricultural Recovery and Individual Land Tenure: Lessons from Central Asia. Zvi Lerman and David Sedik</i>
2009-2	<i>The Feed-Livestock Nexus in Tajikistan: Livestock Development Policy in Transition. David Sedik</i>
2009-1	<i>Agrarian Reform in Kyrgyzstan: Achievements and the Unfinished Agenda. Zvi Lerman and David Sedik</i>
2008-1	<i>The Economic Effects of Land Reform in Tajikistan. Zvi Lerman and David Sedik</i>



Regional Office for Europe and Central Asia
Food and Agriculture Organization of the United Nations
34 Benczur utca
1068 Budapest, Hungary

Telephone: +36 1 461 2000

Fax: +36 1 351 7029

<http://www.fao.org/world/Regional/REU>