

THE CONCEPT OF RURAL COOPERATION DEVELOPMENT FOR THE PERIOD TILL 2020

R.Yanbykh

The All-Russian Congress of rural cooperatives that took place on March 21, 2013 has brought to light the key problems faced by small business in agriculture – the limited access to input and credit markets and the lack of a consistent approach to the development of agricultural cooperation. Suggestions put forward by the Congress' delegates serve as a basis for the departmental target program being worked out by the RF Ministry of Agriculture.

On March 21, 2013 an event of national importance – the All-Russian Congress of rural cooperatives – passed actually unnoticed. The Congress had been prepared for nearly a year and was expected to be attended by the top public officials. Specially for this event a new Concept of rural cooperation development for the period till 2020 (hereinafter the Concept) had been elaborated by joint efforts of inspection unions of agricultural cooperatives, all regional departments of agriculture, the Central union of consumer societies (Centrosoyuz), wide cooperative community. However, it didn't attract nor could have attracted the expected attention. Why so?

To begin with, the modern Russian legislation fails to recognize the cooperative type of ownership¹. Due to that most citizens of Russia treat cooperation as one of the types of private ownership and do not comprehend its essence. Negative attitude towards cooperation is prompted by the dubious fame of first cooperatives established at the start of restructuring after the adoption of Law on cooperation of 1988. Meantime, cooperative sector plays quite an important role in the economy of developed countries especially in Scandinavia where agricultural cooperatives of different types affiliate 80% of farmers. Russia also has long-standing cooperative traditions – by 1917 there were about 50 thousand cooperatives with 14 million members.

One of the basic reasons of underdevelopment of the modern system of agricultural cooperation is almost an absolute miscomprehension of its prospects by state authorities. In the Concept prepared for the Congress the main goal of rural cooperation development is defined as “determining of the guidelines for organization and development of cooperative establishments in rural areas ensuring higher efficiency of agro-industrial production, better remuneration of farm labour and sustainable development of rural areas”. The smooth definition does not contain anything cooperation-specific – it can be applied to any measure of agricultural policies.

Some confusion is due to the fact that the Concept integrates in one system two different types of cooperation – consumer societies united in Centrosoyuz and agricultural cooperatives (*Fig. 1*).

The modern system of agricultural cooperation regulated by Law “On agricultural cooperation” No.193-FZ of December 8, 1995 incorporates:

1. All types of agricultural cooperatives of the first and following levels (production and consumer);
2. Specialized associations (unions) of agricultural cooperatives;
3. Inspection unions of agricultural cooperatives that all agricultural cooperatives and specialized associations should be members of;
4. Self-regulated organizations of inspection unions of agricultural cooperatives.

Production cooperatives (former kolkhozes) have only one thing in common with consumer cooperatives (a classical type of cooperation) – the word “agricultural” in their names. These are the rudiments of planned economy resembling other organizational and legal forms of economic entities (joint stock companies, partnerships, etc.). There are few cooperative features left – in most cases they are single-handedly managed by a director without personal participation of members,

¹ The cooperative type of ownership existed even in the Soviet times albeit in a distorted form. All rural residents remember local divisions of district consumer cooperation – the so called “sel'po” – the members of which they were. Collective farms (“kolkhozes”) were also considered to be cooperative establishments with share membership, general meetings, “one member – one vote” principle of voting, charter and other cooperative attributes.

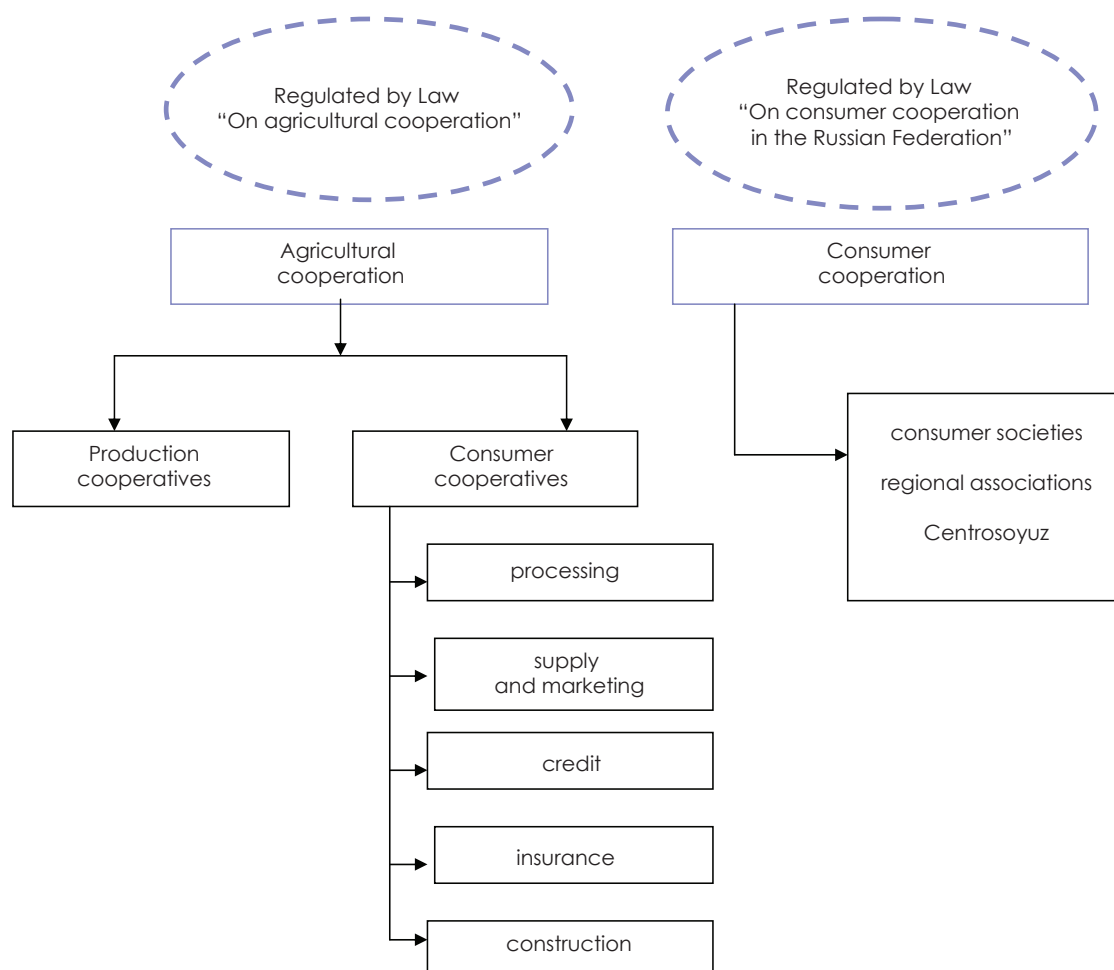


Fig. 1. The System of Rural Cooperation in Russia (according to the Concept)

shares are established conditionally, etc. As of January 1, 2013 12,190 production cooperatives were registered in Russia.

The Civil Code of the Russian Federation does not make a clear distinction between production cooperatives and commercial organizations and treats cooperatives as commercial entities along with business companies and partnerships. In the opinion of leading cooperative law experts “the Civil Code of the Russian Federation not only limits the choice of agricultural cooperation form to these two types of cooperatives (production and consumer) but also ascribes to production and consumer cooperatives the types of activities and principles of operation that are irrelevant to them and contravene the world practice”¹.

The production form of cooperation cannot be regulated by the same set of rules as that applicable to consumer (service) cooperatives that appeared in the mid-90s after a long break. A.Chayanov called service cooperatives “an outstretch of peasant farm”². Farmers all over the world cooperated just because it enabled them to attain the operation scale comparable to that of capitalist-type farms and to be of at least some interest to wholesalers and large trade networks. Agricultural consumer cooperatives include credit and non-credit cooperatives: supply and marketing, processing, construction, purchase and other service cooperatives. As of January 1, 2013 7,349 agricultural consumer cooperatives were registered in Russia, of them 1,875 credit cooperatives.

Consumer cooperation of the RF Centrosoyuz system regulated by Law “On consumer cooperation (consumer societies, their associations) in the Russian Federation” No.3095-1 FZ of June 19, 1992 operates primarily in rural areas and has the following structure: consumer societies, regional

1 Professor G.E.Bystrov, fragment from report at the Congress.

2 A.V.Chayanov. *Osnovnye idei i formy organizatsii krest'yanskoy kooperatsii*. [Basic ideas and forms of organization of peasant cooperation]. Moscow, Nauka [Science], 1991.

associations and the Central union of consumer societies of the Russian Federation (Centrosoyuz). The system also incorporates organizations the founders of which are consumer societies, regional associations and the Centrosoyuz of the Russian Federation.

Over 3 thousand offices of local consumer cooperation provide services in 89 thousand rural settlements including 54 thousand settlements with less than 100 residents. In 2012 the total income of institutions affiliated in the system of Centrosoyuz amounted to Rb 246bn¹. In remote districts consumer societies continue to play a very important role but one should understand that they are specific trade organizations operating in rural areas and *inter alia* performing social functions of providing residents of remote villages with essential commodities² rather than cooperatives. Owing to this fact beginning from 2008 consumer cooperation institutions are eligible for the budget compensation of interest rate on credits and loans taken for the purchase and procurement of farm products, berries, mushrooms, medicinal herbs, etc. from rural population and other agricultural producers.

At some point one studied the possibility of uniting two branches of rural cooperation into a single one via reregistering consumer societies into agricultural consumer cooperatives; however, the process has not gone beyond draft projects. First, Centrosoyuz – a rich organization with its own traditions – is not ready to divide all its assets between new shareholders. It's not clear who will be these shareholders: agricultural cooperatives? their regional/local associations? farmers? households? Are they ready to manage an established trade and purchase organization? Besides, Centrosoyuz is sustainably developing without uniting with the system of agricultural cooperation.

So, neither the Concept nor the effective cooperative legislation contains a consistent and comprehensive concept of developing cooperation as the third sector of the economy on the basis of common development criteria and common understanding of cooperation principles and values. They fail to facilitate the uniting of cooperation movement thus contravening the fundamental principle of cooperation – the principle of collaboration between cooperatives. As a result cooperative institutions are poorly linked in their practical work.

The most serious challenges faced by cooperation are non-regulated membership issues, the lack of clearly defined rules of credit cooperatives' operation due to an actual absence of the supervising body³, poor physical basis, issues of building multi-level cooperative system, collaboration between inter-regional cooperatives of the second and the third levels, development of apex system of agricultural credit cooperation, the lack of system of compulsory provisioning and insurance of deposits, etc.

An attempt to master the current situation was made when preparing the draft State program for agricultural development and regulation of agricultural, input and food markets for 2013–2020. Its initial version envisaged 3 measures:

Granting of subsidies to agricultural credit cooperatives for the replenishment of funds of mutual financial assistance;

Provision of grants for the strengthening of physical and financial basis of processing and supply and marketing cooperatives;

Compensation of expenditures on paying membership fees to consumer cooperatives – members of inspection unions.

Besides, it was suggested to include agricultural credit cooperatives in the list of entities eligible for subsidies on reimbursing of interest rate on credits and loans. However, at the final stage of discussion these proposals were rejected.

During the implementation of priority national project “Development of agro-industrial complex” (2006–2007) the share funds of credit cooperatives were replenished at the expense of an authorized government body – Rossel'khozbank being their associate member. Overall Rb 740m were invested in share funds of 79 cooperatives⁴. Although not faultless, this approach played a positive role for the system's capitalization. However, at present the policies have changed due to the commercialization of the bank and the funds are being withdrawn from cooperatives. Mean-

1 The concept of rural cooperation development till 2020.

2 The activity is frequently financed from regional budgets.

3 Formally this is the RF Ministry of Agriculture.

4 Data of the National reports on agricultural development in 2008-2012.

time, the state contribution to forming an indivisible share to be transferred to other cooperatives of the system in case of liquidation is not a bad idea that has proved its efficiency, in particular in the process of creating the US Farm Credit System.

At present a departmental target program for the development of agricultural cooperation is being worked out by the RF Ministry of Agriculture that to a greater or lesser extent incorporates the above mentioned measures. Besides, the possibility of supporting regional guarantee funds for farm cooperatives is being studied as well as that of creating a security reserve for insuring individual private and household farms – members of agricultural consumer credit cooperatives.

On their part, cooperatives of the Centrosoyuz system ask to support them by compensating consumer cooperatives' expenditures on providing trade services to population in hard-to-reach and sparsely populated areas.

We find that the providing of support to agricultural cooperatives is more rational than the issuing of grants to beginner farmers and family dairy farms¹ since the number of beneficiaries under the cooperative program will be much greater. For reference: in 2012 federal budget allocations to the support of beginner farms amounted to Rb 2bn, those for the development of family livestock farms – to Rb 1.5bn. Peasant (individual private) farms including individual entrepreneurs could also get a partial compensation of their expenditures on registering ownership titles to land plots out of lands of agricultural destination used by them. This type of state support constituted just “a drop in the ocean” – Rb 44.4m².

The provision of budget support to cooperatives rather than farmers is also preferable because in case of its proper definition the non-bound, non-price support is considered to belong to the WTO green box that does not distort the market and fosters development of market infrastructure.

In conclusion we would like to cite a participant of the first All-Russian Congress of rural cooperatives held in 1908 V.A.Pereleshin who wrote that “all the difficulties [in the process of discussion] come down to either the issues of cooperative legislation or the issues of cooperative administration or the issues of raising funds for cooperative business, i.e. to the establishment of cooperative bank”³.

It's amazing that the issues are still pending 100 years afterwards. Modern farm cooperatives continue to need state support in the organizational, financial and legislative spheres. Unless they get it we'll regrettably have to say farewell to the dream of “cooperative Russia”. ●

1 The effective form of support to small-scale farming envisaged in the State program.

2 Data of the RF Ministry of Agriculture.

3 Cited from: N.K. Figurovskaya. *Pervyy vserossiyskiy kooperativnyy s'ezd (k stoletiyu otkrytiya)*. [The first All-Russian cooperative congress (to the 100-year anniversary of opening)]. 2008. <http://selcoop.ru/cooperation/domestic/istoriya-105-let-nazad-sostoyalsya-pervyy-vserossi/>