PART ONE

Issues

1. A background to farmer enterpreneurship and agricultural cooperation in Central and Eastern Europe (CEE)

1.1 The restructuring of agriculture

Between 1991 and 2000 dramatic and almost unprecedented restructuring of agriculture took place in all countries across CEE. The initial phase of transition from a centrally planned to a market orientated economy led to a significant decline in gross domestic product (GDP). This decline was later followed by stabilisation and growth. In most countries economic stabilisation occurred at around 70% of pre-reform levels but as low as 40% in the Baltic States. GDP decline was most dramatic in rural areas and the rural sector still continues to lag behind in both recovery and employment generation. It is estimated that the standard of living in the countryside is generally lower than in towns, by an average of 30%.

Almost 30% of people in the new accession countries and 40% in the Balkans live in rural areas, of which about half are economically active in agriculture, although up to 90% of all families living in the countryside are linked to agriculture in some way. Yet between 1990-and 1996 the share of the GDP contributed by agriculture fell by an average of 6% per year, a decline much greater than the rest of the economy. This largely resulted from a drop in demand from domestic markets, a collapse in traditional export markets, declining input use, deteriorating machinery stocks and a lower level of subsidisation.

Nevertheless, progress made on reforms in just over a decade has also been enormous and for 8 countries the reforms were further accelerated by the possibility of EU membership. In all CEE countries, the basic elements of the reform process in agriculture focused on the liberalisation of prices and markets, the privatisation of land, the de-monopolisation and privatisation of food processing, trade in agricultural produce and capital goods, the creation of a functioning rural banking system and the establishment

Examples include **Moldova**, where current levels of GDP are still only half those of 1989 and falling incomes have led to serious poverty in many rural areas. **Albania** also suffered a severe decline in the production of field crops, grain and tobacco, but at the same time, there were significant increases in the production of vegetables, livestock and fodder crops and a diversity of production on increasingly small land plots. The country also experienced a significant change in the trade deficit, with an increasing dependence on food imports. The Albanian Government estimated that more than 20% of the agricultural population produced solely for their own subsistence, a further 65% had small surplus amounts for sale each year and only 15% could be classified as "commercial" farmers. For most rural based citizens the land quota still remains their only revenue source or social security. Many have only limited access to farm machinery and other inputs (seeds, fertilizers, pesticides), added value markets, affordable credit, they most often lack farm management experience. During the 1990s **Bulgaria** also underwent significant economic restructuring and social upheaval with large-scale privatisation and restitution of agricultural and forest lands. This initial phase of transition from a centrally planned to a market orientated economy led to a significant decline in gross domestic product (GDP) that was later followed by stabilisation and growth, but the agricultural sector has experienced uneven development since 1997 marked by both downturns and periods of growth. The agricultural gross value added contribution increased by only 1% between 1998 – 2002. Agricultural subsidies were reduced significantly and initially this led to significant reductions in yield for most crops.

of an institutional structure and system of state administration required by market economies. At the same time international trade and globalisation continued apace. Today producers and rural communities face unprecedented opportunities and risks.The challenge was to make the necessary adjustments to livelihood strategies and management practices based on decentralised decision making. By 2000 most CEE countries had entered a post transition phase that required the consideration of an even wider range of agricultural and rural development issues, including the role of co-operatives and co-operation.

Prior to 1990, private farmers across CEE cultivated only 4% of private farmland, and for most countries, except in Poland, Slovenia and parts of Romania where this type of farm structure was dominant even before the transition period, the main policy aim was to transform large scale collective agriculture into more efficient and privately owned farming units. Countries applied different procedures to achieve this objective, including restitution of state owned land to former owners or their descendents (Lithuania), shares or leasing options (Romania), or compensation and land auctions (Hungary). Generally the main policy was to distribute land as physical plots to individuals as instead of distributing land shares in the form of paper certificates of entitlement.

De-collectivisation was largely seen as the way to reintegrate agriculture into mainstream western market development and as a result the organization of farming changed substantially. However, the privatisation of land and the development of land markets were not always implemented in a well-designed or systematic manner. Redistribution and land titling caused enormous administrative work and governments frequently introduced changes and conflicting amendments to legal provisions regarding land transactions. Possibly this showed a lack of experience of market economics, the uniqueness of the process or even an incapacity of some governments to conceive the implications of their political decisions. But whatever the case, in almost all CEE countries the privatisation of land has largely been completed and agriculture is now firmly dominated by individual ownership of both farm assets and land.

In Albania and Moldova land was almost completely privatized. In Albania more than 460,000 farming families received 612,000 ha of agricultural land for the first time.This is an average of 1.3 hectares per family, ranging from 0.6 hectares in mountainous areas to 1.87 hectares in coastal areas and lowlands. Many land holdings were further divided into as many as 10 parcels (an average of 3.3 parcels per farm), reflecting the large number (average 6) of family members on each farm. Collective farms were entirely disbanded. The Moldovan land privatisation plan was one of the most radical of the former Soviet Union. Some 500,000 former workers on collective or state farms received an average of about 1.6 hectares of land each. By the end of 2000, more than 150 large-scale Kolhoz farms had been dismantled and land titles provided to their new private owners.

Overall individual farming has resulted in lower transaction costs, due to the more effective monitoring of labour, reduced inefficiencies and better control of resources. Family workers tend to be cheaper, more efficient and more flexible. But the transition process in agriculture had been far more complex than originally envisaged and now much of CEE comprises fragmented land plots of less than 5 hectares in size, with many owned by individuals who were involved in production in the past and are now primarily providing food for their own families. Today most farmers and rural communities in CEE face unprecedented opportunities and risks.

In many CEE countries more than half of the land is cultivated on a leasehold basis and the land market is still developing. Transaction costs tend to be relatively small and are still largely affected by an oversupply from the liquidation of state and collective farms. Price differentials between regions are considerable and the highest prices typically reflect non-agricultural considerations, such as proximity to cities or particularly attractive locations. Most importantly the great majority of people seemingly do not want to sell or buy agricultural land. The main reason for selling tends to be old age or a lack of money and, for buying, to give land to dependants or to obtain higher incomes.

Small scale street market in Albania

In some countries the reform process has still not been totally completed and this has led to uncertain property rights. In others the necessary legislation has still not been adopted or enforced and the process is overly dominated by administrative decisions, restrictions and rules rather than market principles and mechanisms. Even so, a solid base for a dynamic land market has now been created and more active selling and leasing markets should eventually lead to an increase in farm size.

Rural transformation across CEE also required a fundamental change to many institutions, including political and organizational frameworks and the informal and formal rules regulating the relations between citizens, organizations and government. Increased social problems and alarming signs of poverty also added new and unexpected dimensions to the transition process, particularly as the rural economy struggled to adjust to new economic realities. There is no denying that very small farms only offer limited incomes to rural residents and although agriculture still remains the single most important source of income in rural areas and an important secondary source for those whose primary activity is non-farm business, part time farming and non-agricultural activities appear to have grown in importance across CEE.

Many rural households throughout CEE are now increasingly dependent on non-farm sources for 30-35% of their income (Davis 2002). Although 60% of rural inhabitants in rural areas are connected to a farm, only 20% count farming as their main occupation (Swinnen et al 2000). However, most enterprises still tend to have close links with the agricultural sector and the share of the population involved in non-farm activities varies widely throughout the region, ranging from around 7% in Poland to 65% in Slovenia. The share of households with supplementary activities is highest in areas with large-scale farms while family labour on small private farms has mostly stayed in agriculture.

The development of the non-agricultural segment of the rural economy may also be important to the recovery of agriculture itself as well as for the productive absorption of rural labour and the avoidance of poverty. In countries most advanced by reform it has been the upswing of the rural

Small scale farming in Albania

economy surrounding agriculture that has made possible a substantial reduction in the numbers of people employed in agriculture and at the same time improved the efficiency and competitiveness of agriculture itself.

Non-farming rural enterprises have given individuals and households more options to improve their livelihood security and living standards. Diverse income portfolios include opportunities in manufacturing and the service sector (trade, tourism, education and various support functions) and pensions as well as remittances from family and friends who live and work outside the area. Access to non-farming incomes is also often of great importance to small private farmers in gaining access to rural finance in CEE. Banks often prefer to lend to producers with diversified incomes as they consider them to be less of a risk. It is estimated that the existence of off-farm sources of income increases the probability of obtaining credit by 2.7 times (Davis and Pearce 2000).

Seemingly non-farm rural enterprise is dependent on household composition, education and skills levels, access to finance, infrastructure and social capital. But such interrelationships are complex and there are also strong correlations between their growth, government policies, income levels and the performance of agriculture itself. One can envisage the essential complementary role that rural development will have in providing alternative employment as inevitable restructuring and rationalisation take place. However, diversification is often easiest for the more progressive, better off farmers than for more marginal ones, reflecting both access to necessary resources as well as the human resources in terms of skills, attitudes and motivation. Younger people also seem to be more likely to engage in riskier and entrepreneurial activities.

A large proportion of the non-farm activities are also livelihood orientated and although they sometimes provide insignificant economic returns they play a key role as diversified income sources within the livelihood strategies of rural households. This role has become increasingly important in the context of a declining rural sector and the inability of the state to provide similar levels of social security support that were provided in the pre-transition period. In countries with scattered rural structures, the demand for additional employment is highest but opportunities are often less numerous and there is a greater level of unawareness of the potential of the role of non-farm rural enterprises in promoting economic development.

The role of rural groups and self-help organizations in the development of non-farm rural enterprises is not clear. A few small co-operative projects are operational (such as in traditional dress making, wool products and other handicrafts) and, although they are small, they have provided useful income to some rural areas. In reality, of these initiatives have made major impacts on regional or national economic development and most are unlikely to do so until a strong base of economically sustainable small and medium sized enterprises is established in rural areas or clear benefits from economic co-operation emerge, particularly for the supply of agricultural inputs or the marketing of outputs.

1.2 The challenge: Acquis Communautaire and the EU Common Agricultural Policy (CAP)

The expansion from 15 to 25 countries added about 100 million new consumers to the EU market and doubled the number of farm employees governed by the CAP, while increasing total gross domestic product (GDP) by less than 5%. The agricultural integration of the new member states into the EU was always expected to be particularly challenging due to drastic differences in agricultural policies, structures, and development. New members not only did not have the same means to support their farmers or insulate their markets, but also farming efficiency and incomes were far lower than those in member states of the former EU-15.

The average per capita GDP of producers in accession countries was barely half of that of the EUs' poorest members (Greece and Portugal). On the whole, agriculture in CEE has a more important influence on the economy and employs a greater proportion of the labour force less efficiently. However, there are very substantial deviations from country to country and large differences in the performance of individual farms. It worth noting that stated differences with the EU are also not always as large as might be expected. In 2005 more than 50% of EU farms were also below 5 ha in size[1]. These too have low labour productivity and incomes and are more often dependent on subsidies.

The EU is the world's largest regional trade bloc. It has a single market with no internal agricultural trade barriers and a CAP. The CAP provides high levels of support to farmers through price supports, import protections, and direct payments, but it is costly to maintain and uses over 50% of the EU's budget. By adopting the CAP, new member countries expected to benefit from unrestricted access to EU markets, generally higher prices, and increased financial support for farmers. However, in the years leading up to enlargement, EU policymakers became increasingly worried about the cost of providing current levels of CAP support to millions of new farmers. This concern also led to the Copenhagen compromise of December 2002, in which the new member governments were forced to accept a 10-year phase-in of direct payments for farmers

Pessimists warned that it could end in political and economic disaster. But although new and old members still face substantial challenges, the emerging trends are very positive. For the 10 new members in economic terms, the gains are clear, accession boosted trade imports and exports. The European Commission's Eurostat agency estimated that average farm incomes in the 10 new member states rose by more than 50% in 2004.

Although in the EU more than 80% of the territory is rural, agriculture contributes less than 2% of the 15 EU countries GDP and employs just over 5% of the workforce. But, in most of **Western Europe**, farming is characterised by a technically skilled and well-educated workforce that draws on internationally competitive agricultural supply companies and serve innovative food industries that are major forces in global food markets. In the EU, expenditure on food accounts for less than one fifth of average household expenditure and such market demands and new technologies have encouraged the growth of farm size and specialisation. Even so, even quite large farms are predominately managed by families rather than corporations and 97% of EU agricultural land is farmed by producers who are also responsible for the day to day management of the holding.

For most other countries in CEE not members of the European Union the *Acquis Communautaire* have now become the basis and direction for agricultural policy. However EU agricultural policy follows a multi-sectoral perspective of which agriculture is only one part and trys to reconcile improving both the competitiveness of European food production while supporting a growing move towards more coherent, integrated and sustainable rural development programmes. It is a complicated task to develop a more sustainable balance between farming and other forms of rural

1 More than 75% in Italy, Greece and Portugal

development, while at the same time reducing the negative environmental impacts of agriculture, conserving natural resources and expanding the role that farmers can play in the preservation of rural landscapes. Over the past decade the European Commission has doubled the funds made available to support this and has particularly targeted poorer countries and regions. Between 1984 and 1994 such structural funds grew from 12 to 26% of the community budget.

CEE accession countries were given a mandate by the EU to establish agricultural and rural development policies and to prepare a suitable institutional infrastructure for their implementation. Governments needed to further develop a coherent set of policies that promoted local private activities, both upstream and downstream of agriculture. This required preparing an adequate macro-environment and institutional support in terms of credit, training, advisory services, information technologies and more simplification of administrative and bureaucratic procedures.

Since 1991 the EU Leader programme has encouraged the adoption of participatory bottom-up approaches to development, in particular to harness innovation, creativity and solidarity in rural communities, create subsidiarity in decision-making, decentralise policy implementation, introduce integrated sustainable rural development programmes and illustrate new directions that rural development can take. This particular programme has promoted exchange of experiences, strategies and know-how and has facilitated cross border co-operation between rural areas. It has also enabled thousands of communities, families and individuals across the EU to engage in self-help projects that enable them to acquire new skills and confidence. Assistance is given to rural groups to implement medium to long-term plans for the development of their areas and to implement action plans with the maximum degree of autonomy. At the same time it has involved relatively modest public expenditure and leveraged at least twice as much private investment.

Since 1994 the EU has been fairly explicit in stating the preconditions for applicants wanting to join the EU. In relation to agriculture these may be broadly outlined as:

- Establishing a coherent structural and rural development policy
- Adopting implementing regulations for enforcing veterinary and phytosanitary requirements, particularly with regard to inspection and control arrangements at EU external borders
- Upgrading and restructuring food processing establishments, testing and diagnostic facilities, improving veterinary and phytosanitary hygiene and promoting animal welfare
- Reinforcing administrative structures to enable the necessary resources for the implementation of the Common Agricultural Policy
- Considering in detail the environmental aspects of agriculture

But across CEE farming suffered from a lack of investment, inputs, access to information and consistent, reliable production. There was (and still is) a need to further develop the rural institutional infrastructure for post harvest technologies and marketing, the financial infrastructure (banking, mortgage and micro credit systems), enterprises for employment diversification and the rural infrastructure (roads, telecommunications etc).

In 1999 the EU introduced four accession countries assistance programmes for agriculture and rural development and including the Special Accession Programme for Agriculture and Rural Development (SAPARD) and Pre-Accession Structural Instrument (ISPA). The SAPARD programme is aimed at assisting accession countries to upgrade agricultural production and markets to EU standards and to provide them with grant aid for the preparation of 7-year agriculture and rural development plans acceptable to the EU and the establishment of a national institution capable of administering, disbursing and controlling funds according to EU standards. Under these support programmes a wide range of measures are eligible to receive assistance including agricultural holdings, marketing and processing of agricultural products, producer groups, non-farm rural enterprises, land development, vocational training, rural infrastructure and agri-environmental measures. The relative focus depends on the strategic priorities defined by the Government. Co-financing rules require 25% of project funds to be provided by the applicant country and the remainder is obtained from the EU up to an agreed budget figure.

In general the definition of rural development in CEE is gradually evolving with that of the EU, forcing governments to think more systematically about rural development policies and greater integration between agriculture, agro-industry, environment and rural development. Although it has increased in recent years, the level of indirect and direct support for agriculture throughout CEE remains below the EU average and key issues are often fundamentally different from those in the west. Though not to the same degree of intensity, there are a number of rural issues that CEECs share in common. In particular:

- Relatively low rural incomes, economic and educational opportunities in rural areas. Unemployment (or underemployment) is high and often of a structural nature. The population structure, in some regions, was worsened during transition, caused largely by an out-migration of young and skilled people
- A rural infrastructure that was historically given a low level of priority and is generally poor, including roads, communications, health and social services
- Very few processing facilities meeting EU regulations. An overcapacity of companies in the agri-food chain as a whole required a consolidation of the sector. Too many fragmented plants were working at sub-optimal capacity and were strongly concentrated into certain regions often using outdated equipment and technology and with low levels of investment
- Inappropriate support in terms of information or mutual organization and insufficient capital investment for start up firms
- Environmental protection standards that were not adequately enforced
- A large percentage of small-scale farms, not really viable as full time units

Economic growth increasingly causes the commercialisation of agricultural production and from a CEE perspective key issues for development tend to focus on:

- Reducing the disparity of living standards between producers and other professional groups, and between rural and urban areas
- Achieving additional incomes for agricultural producers through various forms of non- agricultural activities.
- Agreeing the degree of support to be given to the agricultural sector through budgetary and non-budgetary transfers

Voluntary member-owned, financed and controlled producer groups and farmer cooperatives should have a central role to play in enabling their members and the wider rural community to take an active part in their own development. Yet across CEE few have had any direct or indirect involvement in accession negotiations and most lack information on, or knowledge of, EU assistance programmes and related issues. The following summarises the reasons for this and presents recommendations for their further development

2. Agricultural and rural cooperation

2.1 Subsidiarity and local activism

Throughout CEE, government policies towards producer groups and rural organizations are often inadequate, inconsistent or even absent and during the early years of transition, most governments were generally hostile to most forms of co-operation. This often resulted in low levels of rural community participation in regional and national decision-making.

Successful rural development is nearly always a local phenomenon and ultimately successful development depends upon local initiatives, individual motivations, consensus and voluntary participation. It is now generally accepted that bottom-up approaches help in bringing dynamism to local development by stimulating new thinking, promoting the exchange of ideas and harnessing the available resources and efforts of numbers of people. To move marginalized members of society from oppressive dependency structures, active participation by all potential beneficiaries in the change process is desirable. Throughout CEE there is still a need to further decentralise decision-making, adopt participative development approaches, empower local and regional communities and respect the principles of subsidiarity. This means that responsibility is delegated to the lowest possible level while government focuses on its own unique role rather than getting involved in areas where private markets should operate.

During accession negotiations the Government of Portugal maintained a transparent relationship with producers and rural organizations throughout the process. Pre-accession funds provided a real instrument for mobilising and preparing producers, their co-operatives and associations for integration. However amongst the 8 CEE accession countries none of them prepared, nor had accepted, a clear and coherent proposal for supporting existing cooperatives. However, they did adopt EU proposals for developing new producer organisations based on specifically defined trade and membership criteria.

The challenge is to make the necessary adjustments to livelihood strategies and management practices that are based on decentralised decision-making. Essentially the development of producer groups and other rural organisations needs to be led by producers and rural communities and not artificially stimulated by advisers and policy makers or used to justify project activity or penetration.

Sometimes it is just simply too convenient to promote rural co-operation as a way of solving a wide range of rural development issues. Rather than being the panacea for solving all rural development problems, most commercially successful producer groups seem to be formed, from the outset, with very simple, clear, predictable and measurable business and market objectives. Groups that have relatively homogeneous memberships and have developed trusting, ongoing and long-term relationships with buyers or suppliers are generally better able to get involved in technology than more political counterparts.

Producer groups and other rural organizations can also be effective channels for bringing concerns to the government, for stimulating rural development or for providing social services. For most producers and rural entrepreneurs, joining a group is a simple commercial choice. It has to be an effective mechanism for developing their own farm business by reducing their own costs, increasing their total income by enabling access to profitable markets or for minimising risk.

Yet throughout CEE there already exists immense confusion over the interpretation of the word, and concepts, of producer groups, organizations, co-operatives, collectives and associations. Commercial farms have distinct structures and forms and should not be confused with Ministry intervention, state marketing boards, investor-led businesses, trade or political representational bodies, though in CEE they often are. Increased independence and private land ownership after more than 50 years of forced cooperation has had a strong psychological impact on the farming population. Most farmers are sceptical of cooperatives and attitude studies across the region in the mid 1990s showed that almost 60% of farmers saw voluntary cooperation as an unnecessary variant of former socialist structures. Only 15% considered them as possible economic solutions (but with the additional note they felt it was still too early to consider developing them) and more than 90% agreed that they knew very little, if anything, about how they should be managed.

Throughout CEE producer groups, citizens' associations and informal networks still need to receive more attention. Effort will be needed to strengthen commercial group development, to develop rural self-help schemes and to ensure a better participation of farmer representative organizations at national and EU levels. Rural communities need to be encouraged to develop and exploit indigenous and unique resources in a sustainable way and to ensure that effective use is made of the existing financial assistance and services of relevant state agencies. This requires the meaningful involvement of a range of representatives covering the main sectors of economic and social activity in rural areas. Stimulating voluntary efforts by local people to promote economic and social development in their own areas requires close contact between development associations, business people, state agencies, local authorities and politicians. Across most of CEE this has required developing new institutions able to represent rural society and help deal with conflicts, promote consensus and foster interrelationships between sectors and groups.

Adopting such an approach in CEE has required a shift from a model of direct service provision, through such mechanisms as chambers of commerce and state-run business centres, to more innovative models of service provision in partnership with trading companies, NGOs, civil and entrepreneur associations. The challenge has been to link and further strengthen institutions that innovate and invest in agricultural knowledge-based technologies, support diverse livelihoods as well as improve rural business management and market oriented agriculture.

2.2 From production cooperatives to producer cooperation

Before transition, cooperatives played an important role in the political system of a centrally planned economy. Communist style co-operatives were largely instruments in the hands of the government and ruling party and rural co-operatives were often treated more as instruments of social policy than as autonomous self help organizations geared towards the achievement of farmer identified goals. In reality they fulfilled a number of functions, including transforming privately owned means of production into a special form of collective property.

Co-operatives enjoyed a convenient monopoly status for supplying raw materials to producers and for selling their products in markets protected by the government. They implemented centrally made plans and, where necessary, adjusted them to local conditions. They educated members in the communist way of life, offered vocational training and fulfilled social functions by providing services to members, their families and other persons living in the area they covered.

Apricot grower group promoting local production

Healthy co-operative business development and direct political interference seldom go together and after 1991 most countries took radical measures to extricate the State from the co-operative movement. Today throughout CEE the public administration is largely prevented from interfering in the internal affairs of a co-operative. But efforts to restructure and "de-politicize" cooperative unions, federations and apex organizations proved to be difficult as many had been tied to each other for decades. Some countries entirely dissolved all "politicized" unions and federations of co-operatives and started again. Others developed "planned transition" alternatives.

Most CEE Governments favoured the transformation of collectives into companies and co-operatives. In most countries laws were introduced that enabled co-operative assets to be divided amongst existing members as well as former members and their successors. This permitted members to leave their cooperative and allowed them to withdraw assets equivalent to their respective share and so begin independent farming. The management of production cooperatives became increasingly difficult. A number soon became bankrupt and were liquidated. Assets were allocated amongst members or sold to develop new and independent farming units or corporate farms. Those that did remain were often subject to serious restrictions, such as heavy taxes, bureaucratic management and administrative procedures and a shortage of leaders with experience of managing an autonomous, market-oriented co-operative. They were commonly burdened with excessive labour, inherited debt and historical social security obligations. Their unpopularity and low profitability are further reasons why most continued to struggle.

In **Moldova** the remnants of production co-operation continues to decline and, although most former state-managed post harvest and processing co-operatives now largely operate independently, they are often burdened with excessive debt, inappropriate management and management systems, reduced membership numbers as well as increasing national and international competition. Commercial and social objectives and obligations are often confused. Conflicts of interest also arise between their diverse owners that neither enables them to raise sufficient capital nor provide clearly measurable benefits to farmer members.

Although production cooperatives still exist throughout Central and Eastern Europe and they still cultivate a significant proportion of total land area, their numbers decreased by more than 70% between 1993 and 2004. They manage partly owned and partly rented land from individual landowners of between 500- 6000 ha. Land is leased from their own members as well as from other local landowners or town residents. Payment is often made in kind and transformed into cash after the sale of products. The rent quota paid ranges from between 25-30% of the gross profit and is normally distributed after all obligations including rent have been paid (Florian et al 1999). Most are located in the same regions as under the socialist period. Although no conclusive evidence exists that family farms are more efficient than collectives, cooperatives and corporate farms are clearly not outperforming newly created individual farms [2].

The overall level of profitability of production co-operatives is generally low and their restructuring is still ongoing. Despite relatively high investments, assets are often insecure, there is a lack of capital for investment and agricultural implements and many larger farming members have left their group. Many producers in CEE still remain suspicious of pooling their assets in local and often unaccountable co-operatives, particularly after their experience with communist collectives. In order for most to develop, or even survive, they will need to achieve additional results in terms of quantity and quality compared to individual farming practice. This will require improving the transparency of the system, recognising personal and group interests, developing

[2] Hungary and the Czech Republic statistics clearly reflect a higher efficiency in the individual farming units. In Hungary the estimated technical efficiency of private corporate farms was 16% less than individual plots and cooperatives were 32% less. In the Czech Republic the technical efficiency of the combined cooperative and corporate farming sector was 9% less than for private plots (Csaki et al 1999) .

business activities according to market opportunities and effectively connecting large-scale extensive and small-scale local production.

The privatisation of the co-operative processing sector in CEE has largely been completed. Dairy co-operatives have survived the best and they still process and market the major share of farmer production[3], but in other similar enterprises investments for modernisation are often missing and many work at less than 30% of capacity. Sometimes both workers and producers have been allocated share capital in facilities that are often run down and require considerable investment and new management approaches focused on serving emerging markets and meeting EU standards. At the same time, throughout CEE there are a number of small, fully private, modern and competitive enterprises have been established, particularly in countries where liberalisation has proceeded the fastest. Therefore, perhaps unsurprisingly, newly formed processing co-operatives are almost totally absent in CEE. National and international competition, combined with high entry costs and capital needs are also likely to be huge obstacles for the further development of these groups in the short term.

Yet even large CEE producers are still individually too small to make significant impacts on major national and global markets. In the "western" members of the European Union, producer co-operatives have gained recognition as an important economic and social force. More than 50% of inputs supplied to farmers and production marketed from farms is sold through organizations that farmers jointly own (COPA/COGECA 2000). Most of these co-operatives started from modest beginnings and over more than 50 years many have developed into large-scale, professionally managed businesses, in full competition with other commercial firms and producer groups[4]. The special nature of agricultural co-operatives is even recognized within the Treaty of Rome[5].

Farm incomes may be increased by increasing productivity, reducing production costs or through better management. In the long term it is achieved by adjusting activities according to the needs of new technologies and new market opportunities. In response, most Western groups have been formed where there is clear business opportunity and measurable benefits to members and are dependent on their use of group services or facilities rather than on investment. They are private enterprises, voluntarily established, owned and controlled by their individual producer members and managed for their benefit. In most cases these benefits are measured by the increased financial rewards obtained, either from a reduction in costs from larger purchases, the more efficient use of resources or the increased prices from being able to access higher value markets. According to their business objectives, commercial producer groups can be broadly grouped into three types:

- *Input supply groups.* These are established to reduce overall costs either through sharing resources, such as machinery, or jointly purchasing inputs. They may be highly diversified in terms of crops and commodities
- *Service groups.* These are mainly established to enable producers to better access, finance, risk insurance, technical, advisory or representational support
- *Marketing groups.* These are mainly established to improve the prices received by members either through improving the consistency and quality of a product or by providing a continuity of supply to buyers. They also help in establishing better methods for growing, grading, storing and delivering produce, in developing new product lines and in promotion. Marketing groups often specialise in a single commodity and opt for value-added products and target expanding markets

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3 Especially in Estonia, Poland and Slovenia.

4 During the past 40 years, the number of primary cooperatives has been drastically reduced by mergers, although the number of members has increased. The economic efficiency and competitiveness of cooperative enterprises have thus been greatly enhanced. Meanwhile the distance between individual members and their cooperatives has often grown.

5 The founding treaty of the European Community (now the European Union).

Informal co-operation is widespread across the Balkans and the World Bank agricultural report noted in 2003 "In contrast to the decline of old-style cooperatives, hundreds of embryonic farmer organizations and cooperatives have been established in recent years. The farmers, or their elected representatives, in these new-style cooperatives are clearly in charge and cooperative management and employees work according to the agenda set by farmer members. These initiatives usually start with rudimentary group activities such us the joint purchase of inputs or a joint preparation of produce for market. Younger, better educated, and more commercially oriented farmers typically join these new groups. Many such groups have potential to develop into agricultural business organizations like cooperatives or limited liability companies".

In CEE governments, advisers and farmers are increasingly aware of the issues involved in linking producers to markets and to suppliers and more often they are promoting the concept of producer groups (not being termed as co-operatives) as a universal answer to difficult problems. However the differences between, a producer group that is built on a single product line and with homogenous membership, and a multipurpose co-operative involved in a number of sectors and with a variety of diverse owners is still not totally appreciated.

Even so across CEE many new and commercially effective producer groups based on bottom-up initiatives of farmers are forming, growing in numbers and trading, particularly in the dairy, horticulture, fruit, grain and livestock sectors. Their growth largely reflects inefficiencies in supply chain organization, particularly for perishable products. Usually these groups are engaged in very basic activities for supplies of inputs or marketing and most have very little contact with traditional co-operatives. They differ significantly from 'transformed' old co-operatives with regard to their internal membership arrangements and business strategies.

However, only a small proportion of these groups are operating with any real commercial affect and they are generally small in terms of the total amount of produce for sale or inputs purchased. They probably account for less than 2% of all produce marketed from the region. Much larger levels are really required to improve the prices obtained or reduce costs significantly. However, although they are often still small and weak at least they seem to have a proper basis for future development.

Recent FAO studies from **Albania** show that farmer interest in alternative forms of cooperation has grown in recent years. More than 80% of farmers surveyed would join a farmer group if it could be proved it would reduce the overall costs of inputs, 50% if it would increase the prices they receive for their production and almost 30% would share productive assets, such as machinery or storage facilities or jointly produce, but only if a common management formula could be found. Psychological opposition is slowly being pushed aside by economic reality. However more than 50% still say that they would only cooperate with other family members.

Many of these groups are not registered and informal co-operation is common throughout the region. Informal groups do not provide long-term stability or confidence amongst members, customers, suppliers or financial institutions. Few serious buyers or suppliers are willing (or able) to enter into proper commercial negotiations or contracts with such groups. Only formal registration enables producers to further promote their own economic interests and to establish the framework of effective co-operation for the procurement of inputs as well as for the marketing of products. However the acceptance by farmers of legally registered cooperative arrangements will depend on the degree of their understanding of the role and potential of farmer cooperation.

Initially a major obstacle to the establishment of new producer groups was the simple fact that there were insufficient private farmers and individual entrepreneurs to constitute a membership after decades of collectivization. Nowadays by operating successfully, producer groups should be able to increase farm revenues and accelerate the development of farms of all sizes. Their further growth and development will depend on the extent to which new groups are seen by other producers to provide real financial benefits to their members.

With domestic and export market opportunities in abundance and a primarily private farming sector, the foundation for market focused producer group development in CEE has been established. The success rate of these groups will be determined by their capacity to arrange for major investments, a continuous flow of raw materials and to build effective long-term relationships with buyers and suppliers. If producers are to capitalise on the positive aspects of change they must be dynamic, creative, flexible, somewhat optimistic and develop structures, norms and procedures over time and in response to changes in the environment

3. Major areas of technical assistance needs

FAO has identified primary issues that are constraining group development in CEE as being:

- Inadequate group management, leadership and education
- A general unwillingness by farmers to collaborate and unclear benefits derived from cooperation
- Insufficient start-up capital
- A lack of innovation, value added activity and entrepreneurial spirit
- Generally small farm sizes and sometimes unclear land ownership
- Unclear cooperative legislation and inappropriate taxation policies
- Ineffective marketing and market access

Some of these issues are discussed in more detail below and from a technical assistance perspective.

3.1 Group management and leadership

Although there are other adverse factors hindering group development in CEE, the most significant problem preventing them from responding successfully to new and deregulated markets is often a failure to develop a professional group based on entrepreneurship and good management. These factors are often prerequisites of success because an enterprise integrates into its environment through innovation as well as by creating opportunities and taking calculated risks. Producer groups and rural organizations need to be managed professionally and like all other enterprises they require clear objectives, proper finance, planning, market conditions, economic and environmental analyses, good third party relationships as well as well-trained, motivated and visionary management.

Over the past decade management and supervisory board members in many existing CEE groups have either remained unchanged or still influence decision-making. The presence of such old style, authoritative and job dependent cooperative managers rarely facilitates solutions and their professional skills are largely inadequate after decades of working towards the implementation of state plans. The incentive problems of former collective and state farms were obvious to even the most conservative policy makers, Centralised structures can implicitly undermine the skills and creativity of leaders and group members.

There is a need for competent and convincing management of both enterprise and member related

Bulgaria has a programme under SAPARD aimed at encouraging the development of producers co-operatives and associations. Inspite of this, by the end of 2005 only two had been approved and both covering tobacco production. Few applications have been received and those that are have were largely descriptive rather than analytical and with weak strategy components and unclear priorities for development. Even so, the process has forced farmers to rethink their strategies and priorities, including the role of co-operatives and co-operation. Many farmers have made considerable progress but most still lack the management skills and experience needed to operate efficiently and profitably. Eighty-four percent of farm managers have no agriculture education, but only practical experience. Ten percent have graduated specialised secondary education and only 6% higher agriculture education.

aspects of a group so that groups can show they are financially independent, accountable and have broad based support. Without a strong elected leadership and a core base of like-minded producer members working to ensure its success, groups are likely to fail. Members need to be committed to using the facilities and services of their group and control needs to be in their hands of those that are most committed. This may be expressed by the amount of product supplied to a group of a defined quality, the amount of product purchased through the group or the total use of services. Investments in a group, the benefits received and voting rights need to be related to these commitments otherwise an irrelevant and inefficient group system is likely to develop.

Groups need to constantly readjust and adapt their structures, management and operations in line with competitive challenges and develop long-term objectives in response to changing circumstances. Group leaders need to identify and assess problems and opportunities and see whether they can be solved within their existing resources. They need to take positive measures to solve problems, exploit opportunities and develop initiatives. It is a challenging and demanding task to conceive, design, build and nurture this type of producer group. The responsibility for examining potential opportunities, preparing a business proposition, devising methods of operation, raising finance and ensuring legal obligations will often rest with a small group of visionary, motivated and committed members.

Group members can expect to receive regular and timely information on market requirements as well as on prices, charges and payments. Meetings need to be conducted professionally, decisions recorded and a monthly report prepared on progress and finance. Establishing a group also requires proper administrative and financial reporting procedures and proper business plans to be prepared, monitored, updated and amended as required. Work tasks will need to be divided and delegated and this takes time and organization.

Many groups are faced with a lack of management skills, particularly during their early years of development. This is a period when they are rarely able to cover the costs of a professional manager and farmer directors may be expected to work largely on a voluntary basis. Consequently many active and innovative producers feel they have insufficient time, incentive or motivation to devote to the development of group activity. Too often considerable effort is spent on discussing the details of legal structure, member organization and financial contributions to register a group that subsequently can only stagnate and does not prove viable.

It is common for membership of new groups in CEE to be comprised almost entirely of family members, relations or persons who know each other well. It is also not uncommon for ownership and control to be invested in both producers and non-producers, including representatives from commercial suppliers, advisory agencies, employees, pensioners, government and financial institutions. Under a limited liability structure this is possible, but such heterogeneous interests introduce conflicts of interest and unclear commercial objectives particularly between the expected financial returns on the invested capital of non-farmers and the benefits expected by those committing produce or buying inputs. These conflicts of interest lead to lack of commitment by producers to their group and inefficient operations. Non-farming members or management frequently dominate decision-making and since 1991 membership size in newly independent co-operatives has declined sharply across CEE and many

Group management and leadership

Possible areas of intervention for technical assistance:

- Improving management training for agricultural and rural community leaders
- Promoting good leadership and management practices
- Readjusting and adapting management structures in line with competitive business practice
- Exchanging ideas and experiences between groups, regions and countries
- Developing innovative schemes and incentives for attracting and retaining good managers and rural leaders
- Developing rural consultancy and training services based on commercial business management
- Promoting exchanges of experience between young producers, rural leaders and entrepreneurs

viable producers have left. If these issues are not properly addressed and more appropriate internal structures designed the performance of these groups will continue to suffer. There is a need to single out only one category of membership.

Business strategy is an important factor in determining whether such conflicts of interest occur. If activities are complex and differentiated across different markets they become far removed from the farmers realm of experience and this leads to a loss of control. Capital needs are higher and to retain commitment properly organised incentive structures become important. This requires a closer consideration of individualised rather than collectivised member relationships, differentiated rather than uniform pricing, individualised capital rather than collectivised reserves and closer consideration of member voting procedures so that are in proportion to their transactions through the group. Moving away from collectivised organizational forms will also help to restore trust and ensures that member contribution and gains are more in balance.

3.2 Agricultural inputs and markets

During the 1990s all CEE countries removed the monopolistic positions of former state-controlled suppliers of farm inputs and the agencies responsible for domestic and export marketing. Domestic and international competition was encouraged and many agricultural subsidies withdrawn. Privatisation created farmer dependency on a competitive private sector. Their co-operatives became a part of the sector.

Yet for many CEE producers a common concern remained access to affordable credits, chemicals, seeds, fertilisers, machinery and other inputs[6]. This was particularly the case in regions where local monopolies were created for supplies of inputs and largely resulting from ineffective privatisation of non-land assets (machinery, buildings) of former state and co-operative farms.

Small scale market in Albania

Some of these problems can be partly resolved by better co-operation and many CEE producers began their new group activities as input supply organizations. These groups are relatively easy to establish and cheap to administer. As the relative price of inputs increased compared to outputs the benefits of reduced prices for bulk purchases became clearly measurable and many village level input supply groups were formed with the encouragement of input suppliers offering incentives, such as discounts on larger purchases or interest free and extended seasonal credit.

Machinery groups also developed but often out of necessity rather than intent and despite the expense almost all CEE farmers still prefer to buy, lease or contract individually. Small private family farmers frequently cultivate land with obsolete second hand machinery needing excessive or frequent repairs, obtained from former state co-operatives or at

[6] Although there are huge differences between one country and another. For example there are areas where hardly any fertilisers are used at all, while there is an excess of fertilisers in others.

auctions. Throughout CEE there is a need for investment and modernisation of machinery and clearly the costs would be more affordable if it was shared.

However, in CEE access to labour, land, machinery and other inputs seems to be considerably less of a problem than access to markets. Yet across CEE it is common for producers to consider joint marketing some time after they have developed confidence in trading together and initially often through an input supply group. However marketing groups are far more difficult to establish and maintain primarily because they aim to obtain better prices and deal with buyers rather than sellers. This requires much higher levels of persuasive negotiation techniques.

While it is relatively tempting to think that rural areas are almost self-sufficient, this is far from the case. Indead, they are highly dependent upon trade because they produce a relatively small proportion of the goods and services that they consume and they are highly dependent upon stable trade flows. Effective functioning markets provide signals that encourage investment and specialisation in areas of comparative advantage. They also help in promoting the development of the private farm and non-farm sectors and encourage efficient and realistic allocation of financial resources.

Marketing constraints include low profitability caused by low producer prices, problems selling products, payment delays and an absence of institutions linking the upstream and downstream sectors. Even in years with good climatic conditions many producers cannot be entirely certain that they will manage to sell their produce or receive timely payment. Yet during the 1990s the numbers of buyers across CEE more than tripled, exports recovered and foreign direct investments (FDI) surged[7]. Those producing a surplus for sale began working within a more complex, increasingly competitive and changing environment in which opportunities clearly exist for the innovative to exploit.

CEE prices and systems of regulations became more open to world market influences and the obligations accompanying WTO and EU membership had a growing effect. Although sales within the region continued to be of great importance, for most countries there was a considerable change in the composition of agricultural trading partners and the EU became the dominant trading partner. Initially, it was a more important source of imports than an export destination. EU consumers focused on the quality and variety of fresh and processed food and could afford to be concerned with wider sustainability issues and the environmental effects of food production systems. Also national buyers are also increasingly demanding better quality fresh and processed products, delivered to defined specifications and supported by regular and reliable deliveries.

While most buyers prefer to source produce locally, few restrict themselves to purchasing produce from their immediate area or even from their own country. Most are not adverse to the development of producer groups and in reality treat them just the same as any other supplier. Most buyers are focused on trying to simplify management organizations that will create a value chain that integrates farms, food processing plants and distribution networks.

Buyers consistently try to source new products and locate new suppliers but only producers of consistent quality, visually attractive, competitive products are likely to benefit in the long term. Producers need to be active in working with buyers to develop integrated[8] and traceable systems of supply that enable continuity through production and marketing and in order to diversify sales options away from a sole reliance on traditional or regional buyers and exploit innovative sales opportunities, such as commodity exchange or internet trading.

Individual producers, of whatever size, are unlikely to be able to supply world, or even domestic markets that require a large quantity or consistent supply of product. To obtain higher incomes

[7] Three quarters of all foreign direct in investments have come from European countries.
[8] Such as the development of an integrated cool chain system for the distribution of eggs, fruits or vegetables.

CEE producers have to identify and serve those buyers prepared to pay higher prices for agreed standards of produce quality, quantity and delivery reliability. They need to both upgrade farming and also turn the regions abundant produce into something more valuable. Commercial producers marketing organizations need to focus on added value activities, both for post harvest activities (drying, storing, grading, packing cleaning etc.) and for trade and also identify those buyers that are prepared to delegate responsibility for collecting, transporting, packing, grading and cleaning produce.

Contracting with upstream processors can also have a positive and significant effect on technical efficiency. Many will give advice on feeding or growing programmes and measurement techniques. Prompt payments help to relieve cash flow constraints. Secure buyer contracts reduce uncertainty, facilitate entrepreneurship and improve access to credit. Solutions for these problems can be sought in the emergence of innovative buyer farmer linkages that help to facilitate the adoption of technology and access input supplies and markets. Such innovations have already been quite successful in the most advanced transitional economies and farmer groups potentially have an important role to play.

In **Western Europe**, by placing an element of local identity at the core of territorial strategy, it has been possible for unused, neglected and even forgotten resources to regain their value and to give rise to unique products resulting from unusual combinations of different elements and sectors. Formerly anonymous areas have sometimes formed a strong and often unique identity, such as the Antico Frigano area in Emilia Romagna (Italy), the Pays Cathare area in Languedoc-Roussillon (France), the Terras do Cante area in Alentejo (Portugal) or the RaJupuSu region (Finland). In other cases, the launch of an image or slogan associated with one of the areas has made it possible to bring scattered products together and to create new product ranges, such as; the Village du Pain (Village of bread) chosen as a theme by the inhabitants of Bovenistier (Belgium) to revive their social and cultural life.

However, many CEE producers still mistrust buyers and few groups have been able to develop confident, long term or secure relationships. It is common for an individual farmer or entrepreneur to identify a buyer opportunity and organise the production of other farmers in the region or purchase production directly from the field. Marketing agency agreements need to be better formulated and by specifying the production parameters and consequences for both sides in case of default it should be possible for longer-term contracts and extended credit to be negotiated, thereby reducing the range of price differences throughout the year.

Producers often have difficulties in accessing markets simply because they lack information on where, or to whom, they should market their produce. Exchange of information between producers can assist in stimulating change and innovation. Market information improves the negotiating position of producers and allows them to decide whether to sell products or not. Producers also use annual price series data to make decisions about what and when to plant. Such information encourages crop diversification and off-season production.

But although CEE producers regularly discuss market opportunities between each other, they often lack regular, impartial and well-informed sources of information on prices, buyers, supplies and contracts for particular crops or are able to make gross margin comparisons. Few producers in CEE would know the main EU directives for the production and marketing of agriculture and food products.

Several “independent” market information systems have been unable to continue a comprehensive service once donor funds have dried up and although most CEE countries have developed market information systems [9], primarily operating within the Ministry of Agriculture, most have not been particularly successful in meeting farmer needs and have tended to focus on economic rather than

[9] Often with support from the European Union, the World Bank or a bilateral donor

Markets and marketing

Possible areas of intervention for technical assistance:

- Creating an increased awareness amongst producers of the importance of marketing and joint access to markets
- Identifying buyers that are able to pay higher prices
- Promoting buyer/producer clubs, trade chambers, networks and other links
- Assisting in developing systems of supply that integrate producers, processing plants and food distributors
- Formulating marketing agency agreements
- Developing producer marketing groups, particularly focused on post harvest and other added value activity
- Targeting specific markets and niches and developing unique sales propositions
- Improving sources of information on prices, buyers, suppliers and contracts
- Exchanging information between producers and groups throughout the region
- Developing and disseminating information about buyers and networking these sources of information with farmers
- Improving the information available on new technologies, markets and products
- Developing innovative trading options
- Creating or strengthening agencies involved in the promotion of agricultural or food products

market data collection. Information is frequently inadequate or presented in a form that is not easily accessible or understood by farmers

3.3 Quality assurance, specifications and membership agreements

Globalisation of agri-trade has increased the need for standardisation for many products. Standardisation enables a product to be described and gives an indication of its market value without requiring physical presentation. This necessitates buyers requesting minimum facilities, production areas, quantities and specifications as a requirement of purchase. The result is a particular demand (and often shortages) of good quality produce of defined specifications and approved varieties. EU phytosanitary standards and compliance are also becoming more important for both buyers and producers who wish to ensure their own acceptance as a EU licensed supplier and protect their legal rights. It is becoming increasingly difficult to sell products at the Council of Mutual Economic Assistance (CMEA) level standards.

Very few buyers are able to cope with a wide range of product specifications. Yet many producer groups aim to sell a wide range of members produce, as well as to supply other services, such as machinery, chemicals or credit. These groups have considerable difficulty in ensuring a consistent quality of marketed produce or a clear brand image. In Western Europe producers have normally formed new groups that are specialised in particular commodities that are targeted at specific markets. Producer members are then contracted[10] to supply 100% of a particular crop to the group according to a defined specification. In CEE assurance of quality produce and supplies would significantly strengthen the negotiating position of producers but few will commit 100% of their production to a group or sign membership agreements.

These agreements are important because they specify which types, qualities and quantities of produce will be marketed or bought through the group and which will not. They ensure that members are committed to using their group facilities or services for a minimum period, provide a continuity of supply to customers and ensure the protection of members in their relationship with the group and between each other. It is the responsibility of the producer members to ensure that membership agreements are enforced. Failure by a member to sign this renewable agreement normally excludes them from membership of the group and enables committed members to retain control. Enforced agreements provide much greater confidence between members in the group and also in negotiations with third parties.

It is difficult to convince buyers to sign contractual agreements with a producer group when the group members do not sign enforceable agreements between themselves. A lack of clear product commitment to a defined standard also creates a potential risk of competition between the group

[10] Normally by signing a membership agreement each year to commit their produce.

and its members. To ensure supply many groups in CEE now tend to allow a high percentage of non-member trade. This undermines both the negotiating position of the group and the value of membership.

In CEE, lower grade production remains the largest percentage of produce traded through groups and buyer negotiations are often limited to commodity spot prices rather than added value supplies based around long term contractual agreements. Clearly defined operational procedures for quality control and agreed product specifications and standards are rare and products are often difficult to trace to individual producers. Further consideration needs to be given to using independent advisers and laboratories for product testing and the development of quality programmes, particularly in relation to EU standards and programmes such as HACCP.[11]

Systems need to be developed that will allow member payments to be based on clearly defined qualitative and quantitive differences, rather than on average prices. New progressive pricing mechanisms might also be considered that offer a base price, plus a premium price for agreed quality standards, rather than on average prices. This enables quality improvements to be made. A focus on continuous quality improvements and the development of operational and quality control procedures, crop specifications and standards should allow a group to develop a regional and brand identity underwritten by audited standards and inspections of production, distribution and marketing processes and member farms and either tested by the group or by using independent facilities.

This also requires varieties to be further standardised. Some groups are already beginning to specialise by limiting the numbers of crop or livestock varieties with which they trade and to differentiate themselves from their competitors. Successful groups will need to further focus on added value activity, target specific market niches and develop unique selling points and production based around local or regional varieties and brands.

Quality assurance and membership agreements

Possible areas of intervention for technical assistance:

- Supporting continuous quality improvements and agreed quality, quantity and delivery standards
- Better definition of product specifications and production parameters and implementation of effective control procedures
- Developing and enforcing membership agreements between producers and their groups
- Fully committing production to a group of defined standards and specifications
- Developing systems of member payments based on quality and quantity differences rather than on average prices
- Standardizing varieties sold through groups
- Developing brands based around varieties or regions and underwriting them with audited standards, farm inspections and quality assurance schemes
- Making more use of independent laboratories and advisory services for product testing.

3.4 Group finance and investment

Although there are considerable regional differences, it is perhaps not surprising that, as a rule, low-density rural areas, especially poorer ones, are inherently unattractive places to make investments. Even so a commercial farm requires a higher capitalisation strategy than a subsistence enterprise and needs to be relatively sophisticated and well funded to become involved in agricultural technology development and transfer. Across CEE the off-farm costs of post harvest facilities, marketing and promotional activities are increasingly likely to become important factors in determining whether or not producers maintain viable production businesses. This will mean that producers will increasingly be faced with additional costs over and above those of basic production.

[11] Hazard Analysis Critical Control Points.

An important measure of the competitiveness of holdings will be shown by the degree of investment into the modernisation of buildings and equipment and the extent of diversification into added value activities. Added value post harvest activity[12] will enable producers to have a closer involvement in marketing activities, but raising such finance will be difficult for most individual producers to realise.

Although it has improved considerably in recent years, the financing of agricultural and rural enterprises is still a concern in many transition economies. Capital for productive assets requires time to accumulate. Land prices are generally low and as such agricultural mortgage banks still do not work well. Long-term credit is often lacking and public and semi public loan guarantees have become popular. New financial institutions are often managerially weak financially vulnerable and they provide less support to enterprise development in rural compared to urban areas.

Problems in accessing credit and finance constrain productivity and although countries such as Hungary and Poland are comparatively well advanced, for most transition economies the problem of ensuring long-term inward investments into rural areas[13] has still not been entirely solved. Banks and other external investors are generally reluctant to provide funding where little security is available or to new producer groups with little track record and experience.[14] In an attempt to solve these problems, the World Bank and other donors have gradually shifted their lines of credit away from banks and more towards the creation of interim but sustainable non-bank intermediaries such as finance companies, savings and credit associations and other NGOs.[15]

Even so, a large percentage of the capital needed to fund rural enterprises will still need to come from within the rural community. Producer groups and rural organizations could play an important role in facilitating this, but in the past most have relied on their privileged access to markets and to external sources of funds and state guarantees to finance their operations. In the long term only economically viable groups can guarantee adequate support to their members and producers and rural communities in CEE will need to learn not only how to manage and control their groups effectively, but also how to finance them.

A close positive relationship exists between the degree of financial and product commitment by members to their organization and the level and quality of member participation in decision-making and improved business performance. Well-managed and economically viable groups that provide valued member services, usually have little problem in mobilising investment funds. Yet across CEE, a major problem is a lack of confidence amongst producers and group members that any investments into their group will benefit them. There is a need to focus on the principle of user benefits that show that capital contributions clearly outweigh the costs. This will require changes in corporate governance, including considerations regarding transparency, accountability, customer orientation, automation of information systems, competitive recruitment and business training of management and members.

When considering how to fund their activities groups will also need to comply with the particular requirements of their legal status. Normally members contribute finance through an initial capital contribution (joining fees, shares or other capital contributions), loans, maintaining an account balance, savings deposits, or retained surplus earnings (reserves). Initial funding has to be sufficient to cover the costs of establishing the group and to finance capital expenditure. Subsequent running costs (staff wages, telephones, electricity, consumables etc.) normally form the basis of member charges.[16] Charges have to be set realistically to ensure all costs are covered

Charges can be set out annually in advance and allocated to individual members against the sales value of a product, (or as a cost per tonne or other unit of measurement) sold on their behalf and

[12] Such as, cereal storage and drying facilities, processing, sorting, storage or chilling of fruits and vegetables, livestock or milk collection and transport.
[13] Nowadays in the region credit interest subsidies are the only facility generally institutionalised and at state budget expense
[14] Particularly where there are no binding agreements on members to supply production to the group and there are no forward contracts with buyers.
[15] Depending on the regulatory framework in each country.
[16] Plus a contingency factor and provision for potential bad debts

through the group. In some cases the group may never actually buy the product from the member or the supplier. Produce is sold, or inputs purchased, on behalf of producer members and the full sales price is returned to, or paid by, members, less the agreed charges for the services provided. Charges can be based on sales projections but they do have to be set at a realistic level in order to cover all costs. Charges can always be adjusted at the end of the financial year to reflect the actual costs of providing the service and refunds can be made. It is far better to be able to return extra cash to members at the end of the year rather than to request higher payments.

This approach provides full transparency of all transactions through the group because members are informed about how much has been deducted from their payments to finance activities and investments. The group is obliged to maintain records of the cumulative capital contributions of each member and to provide them with some sort of share certificate acknowledging this contribution.

The most pressing constraints on farm, and non-farm, business activities in rural areas are liquidity and access to short and medium term capital. In market economies, this is usually provided through forward contracts or informal lending but in CEE delayed payments are generally more widespread and working capital has to be more often secured through bank overdrafts. Solutions for these problems need to be sought in the emergence of institutional innovations, such as contracting between suppliers and processors, that help to facilitate the adoption of technology and access to credits and leasing, not only of land but also equipment and machinery. These institutional innovations have already been quite successful in the most advanced CEE countries and groups have an important role to play.

Although different types of groups will require different types of finance, producers in CEE will also become increasingly aware of the need to provide funds for long-term capital investments, particularly for added value activities. To finance new capital investments (transport, equipment, buildings etc.) a popular method for raising the necessary capital is through the deferment of year-end bonus payments to members or through retaining a percentage of the sales value of a commodity delivered by the member. These methods are both useful mechanisms for ensuring that members receive charges and benefits in accordance with their use of their group and its facilities. Most producers are comfortable with the transparency and simplicity of the approach, although both have the affect of raising overall charges to members.

Group finance and investment

Possible areas of intervention for technical assistance:

- Promoting the creation of sustainable non bank intermediaries, finance companies, savings and credit associations
- Assisting in creating revolving funds
- Mobilizing own capital contributions from producers and rural communities based on group principles of user benefits, defined levy charges and financial transparency
- Strengthening commercial group activity
- Promoting institutional and financial innovations between producers and suppliers
- Introducing special credit or grant schemes that are based on own capital contributions and signed membership agreements to trade defined produce
- Considering preferential credits for specific post harvest group investments and in accordance with EU agreements
- Considering special finance possibilities for subsidising accounting services, legal costs or the costs of employing a manager in newly established groups
- Identifying under-utilised buildings or meeting rooms and making them available to producer or rural community groups at little or no cost
- Providing training and advisory support in planning and finance

Groups can also raise capital, either through, the collection of additional share or loan capital from their members, or by obtaining a bank loan to finance it. Loans are normally paid back later by members through increasing in their charges.
In CEE however most producers tend to make small capital injections to their group at intermittent intervals, rather than to commit any significant loan. Few reserve or trust funds have been established and this may reflect the lack of liquidity of many producer members as well as their level of confidence in groups.

Joint farmers purchase and management of a wool press

It is normally faster and easier for most groups to obtain a bank loan rather than to collect money in small amounts from members. Secure bank funding at the outset speeds up project implementation and once an investment is completed members have the opportunity to see the concrete outcome of an investment before paying for it. External financing also offers a new means of outside control over the group and puts pressure on management towards improved capital investments and effective management.

However it is largely counterproductive for financial investors to take a shareholding in a group because financial surpluses from activities should be returned to members in proportion with trade through the group. The capital commitment in this case is the amount of product delivered of a defined standard, or the amount of inputs purchased through the group, rather than the financial shareholding. Control and benefits normally need to reflect this and are fundamental to the activities of groups of this kind. Capital investments in a producer group by any individual member should allow the member access the services of the group but should not signify a degree of control or provide an opportunity to benefit from capital growth, dividends or indeed interest[17].

Increasingly in CEE groups it will become important to ensure that membership agreements, as well as byelaws, clearly outline that any investments into the group, or benefits received through the group, will be related to the use of group by individual producers. Internal rules need to ensure that shares and loans always remain at their initial value[18], surpluses are allocated to members in accordance with the charges paid by each individual member during the year[19] and any payments made, or surpluses retained by the group into a reserve[20] are allocated in accordance with charges paid or the usage of services/facilities[21]. These provisions will ensure that members who are committed to using the products and services of the group benefit from them.

3.5 Group legislation, taxation and subsidies

In market-oriented democracies, co-operative and group legislation is a part of the wider legal framework that covers a range of privately owned Organizations. Most are able to develop their activities in a largely autonomous manner and without over detailed legal directives on how they are managed. At present there is no European co-operative statute[22] and legislation exists in different forms in different countries. Spain and Germany have a general co-operative law that regulates all types of co-operatives. Other countries have specific co-operative chapters as part of the civil, commercial (Belgium), or rural code (France). Britain has made a special provision under company law while Denmark has not passed any special legislation at all on co-operatives. At the other extreme, Italy and Spain include specific provisions on cooperatives in the national constitution. Several countries (such as Belgium and France) have established a national council on co-operation (or similar Organization) as an advisory agency to the Government.

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[17] In fact it may be preferable that no (or minimal) interest payments are made on any form of members investment, since any such costs would only have to be borne by members in members charges. Since both investment and charges relate to usage, members would effectively be paying increased members charges in order to pay themselves interest.

[18] Or in the event of liquidation less than par if there are insufficient funds to enable such a distribution to be made.

[19] Where the Organization has acted as an agent (i.e. sold produce on behalf of members but not taken ownership), then repayments of all or part of the surplus can be made before any requirement to allocate funds to specific reserves.

[20] Excluding reserves required under statute and under national legislation.

[21] Provision should be made for reserves to be repaid to members on cessation of membership or group liquidation and will be subject to adjustment for balance sheet valuations.

[22] Although a statute for a European co-operation is due to be submitted in the near future for adoption by the Council of Ministers.

In recent years the main changes to co-operative legislation in Western Europe have originated from a desire to grant co-operatives sufficient flexibility to adapt to increasingly competitive business environments but without abandoning co-operative principles and democratic control. On the whole contemporary co-operative legislation in Western Europe has got closer to general company law. Most co-operative new laws and amendments adopted during the 1990s have enabled new forms of capital mobilization (e.g. France 1992 and Germany 1994) that allow co-operatives to raise equity on the capital markets but determine voting right ceilings to prevent non-member investors from gaining managerial control. Several new laws also allowed co-operatives to convert into other forms of company (e.g. Sweden 1987 and Germany 1994).

Elaborating similar legal, administrative and institutional frameworks for co-operatives in former centrally planned economies has proved to be even more of a challenge. While virtually all new co-operative laws adopted during the last decade have restricted the hitherto all-embracing role of Government in co-operative affairs to purely statutory functions (such as registration, dissolution and liquidation), many have been formulated under great time pressure and are still not always fully adapted to local conditions.

In most CEE countries producer groups can register as associations, co-operatives or companies with limited liability. Co-operative legislation can be found in different forms. A general co-operative law (such as in Hungary) regulating all types of co-operatives is the most common form, but some countries, (such as Romania), have separate laws for special types of co-operatives or have developed specific chapters of the civil and commercial codes (Czech Republic).

Even so, producers in CEE often do not know the best form of registration for their group. In most countries limited liability structures are normally the most commercially effective. Important issues, such as product commitment to a group are often not adequately addressed. Many groups are therefore registered under less commercially appropriate association or co-operative laws simply because they allow tax exceptions or less rigorous accounting and administrative procedures to be adopted.

Further legislative energy needs to be devoted to developing co-operative and company legislation that allows for a diversity of organizational structures. The status of individuals (or farms) within a group and the form of trade agreements between them[23] will need to be considered and recognition given to produce commitment as the main form of capital contribution and control. Greater participation of farmers and rural communities during policy and law making may be helpful and the use of consultation campaigns, local and national workshops and the establishment of law reform and consultative committees need to be considered. A participatory approach may be time consuming but it ensures a wider acceptance of new national policies and legislation.

Clearly company and co-operative legislation across CEE will further evolve and reflect changes in social, political and economic conditions, but probably of even greater importance will be the need for producers and rural communities to become more convinced that new co-operative forms really are emerging. Throughout the region group development seemingly cannot be divorced from wider economic, historical, political and social considerations and an underlying feeling still exists that group registration of any kind will lead to problems of taxation or difficulties in management and administration.

The result is that many group activities are often informal (hidden or illegal). Producers and rural entrepreneurs often prefer to maintain loose agreements between themselves and not to officially register their group or set up a bank account. Yet without these sources of income a large

[23] In particular to further encourage legally enforceable membership agreements that are signed by all individual members for a defined period and setting out the obligations and commitment of both the group to the members and members to the group.

National policies and legislation

Possible areas of intervention for technical assistance:

- Promoting a socio-economic context that values entrepreneurship
- Developing clear, consistent and coherent policies for the development of producer groups and rural organizations based on Western models
- Developing a flexibility and diversity of organizational forms that allows groups to adapt to competitive business environments
- Stimulating producer and rural community lobby groups
- Establishing mechanisms that further enable the direct participation of producers and rural communities in policy making and negotiations
- Raising awareness of the importance of producer groups and organizations in rural and agricultural development
- Encouraging membership agreements that are signed annually and which are additional to the by-laws of a group
- Clarifying the status of individuals, farms and non farmers within and outside a group and the agreements between them
- Recognising the different role of product commitment within a producer group when compared to other business forms
- Allowing mutuality as a tax exemption and considering the status of retained reserves
- Strengthening legal, advisory and training services provided to groups
- Reducing unnecessary legislation and administration
- Completing the harmonization of legislation and institutions in line with those of other EU countries

proportion of rural society would be in severe difficulty. Governments need to further promote a socio-cultural context that values entrepreneurship and to assist groups and enterprises to join the formal sector. In CEE an even more positive and open attitude towards the informal enterprise sector has to replace the more prevalent tendency to over-regulate and control. Challenges to rural groups and entrepreneurs are often unnecessarily thwarted by legislation and regulations that simply increase cost.

Co-operatives and similar business structures should operate and compete on equal terms with other forms of business enterprise and not require specific privileges. Probably the only exemption to this principle is taxation on financial surpluses. Because they derive their surplus primarily from trading with their own members they should not need to maximize their "profit" in the same way as other forms of business enterprise. Equally it is not entirely justifiable to tax a surplus that is already taxed at individual member level. In Western Europe this principle of 'mutuality' is well recognized and taxation is only payable on profits arising from transactions with non-members. Percentage ceilings are normally established on the amount of non-member trade allowable and above which no tax exemption is granted.

In CEE taxation on group activity varies enormously and in some cases to an extreme that individual producers are exempt from tax in certain areas but registered producer group activity is not. This effectively restrains innovative and added value post-harvest group activities. Tax rebates based on patronage have to be further considered and based around the operations of a group with its members. If innovative and added value group activity and capital formation is also to be stimulated it will also be important to allow groups to set up tax exempted reserves from their internally generated surpluses. This would enable funds to be set aside to meet future investments needs.

The provision of grant aid is often seen as a way of stimulating the development of new, or of strengthening existing groups. Some CEE countries maintain their own aid programmes (such as Hungary) and provide some funds towards the establishment and working capital costs of producer groups and yet in the EU there are few subsidies or grant aided programmes specifically supporting the development of producer groups[24]. Generally they are able to access regional aid in the same way as other businesses and community groups. However, in CEE the strength of the producer owned sector is relatively weak and group development is two or more decades behind the EU. Indeed, measures within SAPARD have been used to stimulate new producer group development.

[24] With the exception of regulation (EC) 951/97. This permits further support to producer group investments for the improvement of the processing and marketing of agricultural products.

Subsidies need to be considered selectively and groups should not simply be viewed as channels for providing concessional financial assistance to rural areas, but as facilitators to enabling farmers organizations and rural communities to play more active roles. It is important that help is given to those who are prepared to help themselves and grant aid should not be perceived as a major source of capital. In the long term it is better for groups to follow best custom and practice that ensure member benefits rather than short-term arrangements established solely to comply with grant aid requirements. It is far better if members own contributions amount to a significant part of total capital requirements.

Even so, capital and research investment grant support, targeted and preferential credits for the development of joint facilities or more innovative schemes (such as partly covering the costs of employing a professional manager, legal adviser or financial accountant), particularly during the early years of group development, can help to stimulate group developmen. However, this will only work if the groups themselves are properly structured and managed.

4. Supporting the development of producer groups and farmer cooperatives

4.1 Institutional strengthening of extension, education and infrastructure

The adoption of new and more liberal cooperative laws over the past decade has been accompanied by a sharp decline in the number of government officials responsible for co-operatives. But it is still important to ensure that national policy messages on producer group development are consistent and clear and disseminated through a professional and well-trained extension network that uses simple and straightforward guides and avoids ponderous legal terms and philosophical arguments.

Reforms of government structures at national, regional and local levels have often lagged behind the revised legislation. Although structures are, at least in mandate and shape, the same as democratic and market-oriented economies, the gap in their development and experience is considerable. Substantial reforms have been needed in practically all institutional areas required for market-oriented agriculture, including consultancy, training, research, NGO and group development, social service and infrastructure provision. In particular this has been the case in regions where former co-operative farms have been dismantled and there is a shortage of private or public sector service providers.

Many old representative federations and organizations still survive and operate, although they have been reformed under new conditions to a greater or lesser extent. At the same time a number of new organizations have emerged, but they are often isolated, relatively weak at advocacy, have poor access to networks or lack understanding of the public policy process. There is a need for such associations to provide quantifiable membership benefits, such as the provision of services for maintaining and regularly disseminating basic reference material on major buyers of agricultural produce and statistical data of market trends rather than solely offering political representation. COPA and COGECA[25], with financial support from the EU Phare programme, have undertaken a comprehensive study with an aim of identifying national representative organizations of farmers, agricultural cooperatives and young farmers across CEE. This work has helped to initiate contacts and exchange views in support of agricultural organizations preparing for EU accession.

In most CEE countries new agricultural extension services have been established and they range from fully publicly funded to partially and fully privatised services. As demand grows, recurrent expenses are a problem. Producers and the wider rural community are rarely consulted during

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[25] The European associations for national producer co-operative organizations and their farmer members.

Learning to sort and grade wool

the design, management or evaluation of research, training, information or advisory services. Also, since NGOs, associations and civil society organizations are also at a developmental or transitional stage, most governments remain reluctant to deal with them.

Throughout CEE rapid transformation has required the acquisition of many new technical skills and the adoption of different approaches to management but many producers and managers have struggled to adapt. There are huge differences in efficiency between farms and the organizations supporting them. Yet, successful producers and entrepreneurs are able to utilise effective external advisory services, integrate with buyers or suppliers to solve marketing or supply problems and if necessary, organise groups. In most cases they go through a continuous learning process that follows their experience of managing a business. Over time they become better informed about their true knowledge and abilities. Supportive advisory, training, research and information services need to reflect this.

In recent years CEE governments have either reduced support for long-term agricultural research or, more dynamic commercial research companies have taken-over the provision of such support. These companies often develop international linkages. Producer groups should be well placed to play an active role in exposing their members to new technologies and disseminating experience from trials and research. There should be opportunities for producers to be more actively involved in important research programmes, in particular those aimed at improving the overall quality of products. Closer links need to be also developed between groups and research institutions and universities.

Local government can also help in facilitating meetings by providing meeting rooms at little or no cost or even by providing post harvest facilities[26] for group trade activities. Government also has a particular influence on rural development through the types of infrastructure that are made available. A minimum level of efficiently functioning infrastructure is necessary to enable farm and non-farm activities to develop and thrive. Improved access to rural areas opens up potential

[26] Such as former state owned, creameries, grain or vegetable storage facilities.

new markets, improves the viability of rural service activities and introduces higher levels of competition. The provision of public services and infrastructure to rural areas is also the key to attracting and promoting SME development.

In the past development policies across CEE were primarily focused on urban industrial centres and poor infrastructure is now commonly raised as a constraint to the development of rural areas. In the EU few rural based enterprises would expect to operate without access to modern telecommunications and Internet use is now seen as a necessary feature of modern life and commerce. Yet, in some regions of CEE, not only telecommunication systems but also roads, and even basic services such as water supply and sewage systems are not well developed. In some regions only 1/3rd of rural settlements have household and production wastewater collection systems and in some villages wastewater is not treated at all.

Former collective farms provided frameworks not only for agricultural production but they also contributed resources to rural social services. A lack of adequate social safety nets and education opportunities are clearly areas in which increased investment and further attention are still needed in CEE. It is tempting to believe that new or reformed self help groups and co-operatives can help to develop these areas. However, most existing or new groups are either financially unable or commercially reluctant to get involved in areas for which the state is still expected to take the leading role. Few private/public partnerships exist and the role of community groups and rural enterprise in social development and welfare programmes is still not adequately addressed either within national and regional rural development policies or within the local communities themselves.

The availability of a set of basic social welfare programmes is a vital building block in the rural development process. Rural areas also tend to be less well protected by the social safety net and less subject to employment protection than their urban counterparts. Rural labour markets tend to be thin and with a small number of employers often in remote areas. Potential supply is often in excess of demand and many rural workers are involved in low wage and not easily tradableskills areas.

Educational and training institutions at all levels (primary, secondary, tertiary and adult) have a responsibility to ensure that rural people have the capacities and skills necessary to contribute to, and be rewarded for, the development of their own community. Insufficient education or skills not only constrain enterprise management improvements and adjustments to a market economy, but also the emergence of new rural businesses and the opportunity for unemployed workers and underemployed labour on farms to take up alternative jobs. Management improvements will have a major impact on the average productivity levels of the agricultural sector and hence profitability and income. Investments in improving education will also encourage young and skilled people to stay in rural areas.

Young producers and rural entrepreneurs need to be especially targeted for regional and local training programmes and consideration needs to be given to introducing cooperative management topics into the higher education curriculum and agricultural colleges. Key national and regional training centres and consultants also need to be identified and encouraged to become more involved in the development of materials and in the training of trainers and extension advisers.

4.2 Areas, approaches and methodologies for advisory services

The challenge for CEE advisers is to help in developing competitive agricultural and rural based business enterprises and to provide support services that are arranged to fit the complexities of new realities.

The demand for proper project feasibility studies, planning, marketing and development of added value activity is still not totally addressed and advice on group development is often inconsistent, contradictory or confused. Much advice has focused simply on registering a group and preparing a statute. Advisers can play a more proactive role by facilitating and not dictating planning meetings for group directors and encouraging cross fertilisation of ideas between groups. Advisers may also help producers and groups to reflect on long standing problems and consider their strengths, weaknesses, opportunities, threats, short and long term objectives, activities, membership agreements and operational procedures. Specially trained organisers living in project areas might also encourage producers and rural communities to further develop group decision-making and self-reliance skills.

The training and consulting services market has developed rapidly. Courses are offered by private and state companies and in recent years CEE farmers have shown a greater motivation towards acquiring more qualifications and skills. However, there is still potential for better planning of production, marketing and financial analyses. Training, advisory and information support services remain primarily focused on the technological and production aspects of agriculture and many CEE advisers have narrow specialist fields in technical areas which makes it difficult for them to advise in a more comprehensive manner and on broader topics. Less attention is given to the wider aspects of human resource or management development and there is a particular need to improve business training emphasising the commercial aspects of producer group development. In CEE increasing commercialisation and integrated linkages are inhibited not only by insufficient support institutions and information, but also by inappropriate management capacity and knowledge. Entrepreneurial ability and management skills often seem to play a bigger role than capital constraints in farm and non-farm commercialisation.

Basic and advanced vocational training needs to be available to producers who wish to improve their expertise in business management, technology or new production processes. Those who intend to leave farming need training in new vocational skills. By ensuring that people have the appropriate skills they have a better chance to lead a productive life. There is a particular need to improve training and educational programmes that cover communication skills, motivation, creativity and specific technical areas that include, marketing, team building, meetings, negotiation techniques, presentation skills, financial planning and administration, producer group registration, legislation and taxation, membership agreements, buyer contracts, quality assurance, sampling and testing methods and procedures, construction and management of post harvest facilities (particularly technologies for storage) handling, drying, cleaning, grading and packing of product, EU standards and directives, credit applications and the SAPARD programme.

In **Bulgaria**, there is no shortage of training and advisory support on agricultural cooperation. The National Centre for Agrarian Sciences (NCAS), the National Selection and Reproduction Office and the Ministry of Agriculture and Forestry (MAF) as well as agriculturally orientated technical and vocational schools and colleges, universities all offer courses on agribusiness and cooperation. A National Agricultural and Advisory Service (NAAS) has also operated in Bulgaria since 1995 and provides free information, advice, consultancy and training to farmers through 28 regional offices. NAAS state the development of agricultural cooperation as a major priority within its primary objective of helping to establish competitive and effective agriculture and to introduce good agricultural practices.

A recent study completed by UNDP and the NAAS on farmer interest for training indicated that 20% of respondents were interested in training on producer groups and associations, behind improved crop and livestock production (66%), market and business information (60%), farm business planning and investment (35%), environmental management (32%), financial management (31%), human resources management (27%), marketing (27%) and ICT (25%) but above food hygiene (18%) and health and safety (18%).

So in summary…….. how can effective farmer cooperation be stimulated in a way that will provide real and measurable benefits to farmer members and rural communities?

Ultimately, successful cooperation will depend upon local initiatives, individual motivations, consensus and voluntary participation. Bottom-up approaches are shown to bring dynamism to local development by stimulating new thinking, promoting the exchange of ideas and securing the available resources and people. To move marginalized members of society from oppressive dependency structures, active participation by all potential beneficiaries in the change process is desirable.

Most commercially successful producer groups seem to have been formed on the basis of very simple, clear, predictable, measurable business and market objectives. They develop reliable open links with suppliers and buyers and constantly adapt their structures, management and operations in relation to competitive challenges. They develop long-term objectives in response to changing circumstances. There is a need for competent and convincing management of both enterprise and member related aspects of a group. This is for them to show they are financially independent, accountable and have broad based support. Managing a group also requires transparency and appropriate administrative and financial reporting procedures to be employed. Proper business plans to be prepared, monitored, updated and amended as required.

Without a strong elected leadership and a core base of like-minded producer members working to ensure its success, groups are likely to fail. Members need to be committed to using the facilities and services of their group.Control needs to be in the hands of those that are most committed. This may be expressed either by the amount of product supplied to a group of a defined quality or the amount of product purchased or service use.

It is a challenging and demanding task to conceive, design, build and nurture this type of operation. It takes time, patience and a vision normally expressed, at least initially, only by a small number of optimistic and motivated farmers able to drive an idea forward and communicate effectively with farmers, suppliers and buyers.

So how can Government and other support organisations further facilitate the process?

Many farmers will respond to this question by saying that the Government and other support organizations can facilitate the process through the provision of subsidies and (cheap) credit, reducing bureaucracy, protecting domestic market interests and reducing taxation. (But they also need time to mobilise their resources and in order to respond to the pressures of competitive markets). Some activities may be best developed simply by co-ordinating and linking up people i.e. farmers with other farmers as well as with buyers, suppliers, research institutions, advisers and Government. Most groups are also faced with a lack of management skills, particularly during their early years of development. Some may not know the best form of registration or how to maintain proper records. Others have difficulties in accessing markets simply because they lack information on where, or to whom, they should market their produce.

Few have adequate access to assistance that enables them to carry out a situation analysis on their own terms, trace their own path or generate innovations without being over burdened with inappropriate models or dogma. There is a need to further promote participatory approaches, methods of extension and train trainers in methodologies aimed at stimulating further teamwork amongst farmers and rural communities. Rarely are farmers consulted during the design, management or evaluation of research, training, information, advisory service or donor programmes. As a result key issues may be missed or training inappropriately designed. Proper participatory surveys prior to project implementation, allow straightforward advice to be provided and technical and managerial guides to be designed around farmer questions and concerns which avoid ponderous legal terms and academic or philosophical arguments.

Advisers can also play a proactive role by facilitating but not dictating planning meetings for group directors and encouraging cross fertilisation of ideas between groups. They may help groups to reflect on long standing problems and to consider their strengths, weaknesses, opportunities, threats, short and long term objectives, activities, membership agreements and operational procedures. Specially trained organisers living in project areas might also encourage producers and rural communities to further develop group decision-making and self-reliance skills.

Short, regular, practical and participative training workshops, demonstrations, shows and exhibitions are preferred and include technical topics of specific farmer interest, such as the availability of new animal and plant breeds, production and post harvest technologies as well as management and marketing issues. Buyers, suppliers, local media and technology companies can be encouraged to contribute, provide advice and exchange ideas. Methods of operation and management of groups are often very different and specific case studies and exchanges of knowledge and experiences between leaders from different regions and countries are useful. Training also needs to be supported by technical handbooks and brochures on these topics and on producer organizations generally. Greater use could also be made of multi-media technologies in order to disseminate information and training materials and local media and technology companies should be encouraged to lend their support.

More specific assistance is required on certain types of group and how they work, such as machinery rings, marketing or input supply groups. Methods of operation and management for different products and groups are often very different and specific case studies and exchanges of knowledge and experiences between leaders from different regions and countries would be very useful. Developing such networks would considerably help the dissemination of practical examples of grassroots activities.

Better buyer and supplier links can also be encouraged if regular meetings are organised to discuss topics such as the availability of new animal and plant breeds, production and post harvest technologies. The establishment of buyer/producer clubs or trade chambers would help in strengthening relations between producers and buyers. Not only these clubs provide market and research information but they also help in organising meetings and seminars, in providing macro-scale policy advice and in arbitrating in the case of conflict. Possibilities would also exist for later linking these groups to Internet based trading systems[27]

Advisers will be most effective when working with producers who have already clearly identified a market or business opportunity and are prepared to commit product and time to make it work. Support is best provided to leading farmers or small visionary working groups that are capable of driving ideas forward and are able to communicate effectively with producers, buyers and suppliers. Usually the first steps to forming a producer group are local meetings and informal discussions between key producers. After these initial meetings a more structured and informed approach needs to be taken and a programme of action prepared. A small working group is normally sufficient for evaluating various options and preparing a business proposition for examination by other producers.

It is useful for advisers to occasionally attend director meetings as a non-voting observer and to record minutes and the decisions taken. Specific advice is also often required when introducing administrative systems that monitor and control the sales of produce pooled between members. Direct support can also be provided by advisers in providing trade and institutional contacts, encouraging or facilitating the creation of trade agencies and/or buyer and producer forums and in providing information on sources of equipment and new technologies.

If well targeted and carefully determined, grants can help to further stimulate group development. However, they need to be considered selectively and primary help needs to be given to those who are prepared to help themselves including member own financial contributions and support to clear well thought through plans and operational programmes. Groups not be simply viewed by producers, advisers, donors or policy makers as a way of supporting inefficient and non-viable farms or other rural businesses.

[27] Such as for cereals pricing.

However, supporting and developing producer groups and other rural organizations throughout Central and Eastern Europe should not been seen as a miracle cure for all the problems that beset rural areas. It is important that groups are not simply viewed by producers, advisers, donors or policy makers as a way of supporting inefficient and non-viable farms or other rural businesses. Producers should not have to rely on governments to stimulate their growth, but in CEE they do need time to mobilize their resources, build their strength and managerial capacities and learn to cope with the pressures of competitive markets. Governments, donors and advisers can only help to facilitate this process through well-targeted and participative, advisory, training and information support.

Inappropriate external intervention will discourage the growth of groups. Over-allocation of external experts, specialist missions, volunteers and administrators tend to inhibit the reflection process by crowding-in external models and innovations. In some cases the producer operates from a position of junior partner and the agenda remains firmly with the researcher, extensionist or donor. If a producer group is to be assisted, the aim must be to facilitate reflection by the group itself.

The process of development begins when producers themselves begin to assess the importance of a problem and whether it can be solved. There is a need to further promote participatory approaches and methods of extension and train trainers and extension advisers in participative methodologies aimed at stimulating further teamwork amongst farmers and rural communities.

The real impact of any support will ultimately depend on the willingness and commitment of farmers and rural communities to develop and continually improve their own jointly organised activities. In particular they need to simplify their own rules and procedures, introduce payments based on commitment and quality improvements, discourage trade with non-members, enforce standard for production and marketing, provide full financial and management transparency, de-politicise activities whilst enabling a dialogue with government representatives.