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Report of the COPAC Open Forum

Successful Cooperative Development Models in East & Central Europe

26-27 October 1999, Berlin (Germany)

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The Committee for the Promotion and Advancement of Cooperatives COPAC is a successful and on-going partnership between representatives of the cooperative movement together with farmers' organizations, and the United Nations and its agencies. Members work together on equal terms to promote and coordinate sustainable cooperative development through policy dialogues, technical cooperation and information, and concrete collaborative activities. Its members include the Food and Agriculture Organization of the United Nations (FAO), International Co-operative Alliance (ICA), International Federation of Agricultural Producers (IFAP), International Labour Office (ILO), United Nations (UN), and World Council of Credit Unions (WOCCU).

Committee for the Promotion and Advancement of Cooperatives COPAC
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Successful Cooperative Development Models in East & Central Europe

COPAC Open Forum

CONTENTS

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A. Introduction

The Open Forum was held on 26 October 1999 at the Berliner Volksbank Centre in Berlin, Germany just prior to meetings organized by ICA Europe. It was followed by a study tour to the Raiffeisenbank Wriezen eG (Wriezen) and a rural supply cooperative in the ex-GDR on 27 October 1999.

The aim of the Open Forum was to share case studies and analyses of the cooperative reform process in East and Central Europe with specific focus on agricultural and financial cooperatives and to identify factors for success and failures - models for future technical assistance to the region.

This report contains a brief summary of the presentations made and discussions held among the participants during the Forum. In the annex of the report, the texts and slides used during the case study presentations are included. A list of participants is also found at the end of the report.

B. Acknowledgements

COPAC would like to acknowledge at the outset the invaluable assistance provided by Ms Gabriella Sozánski, Director of ICA Europe as well as Drs. Paul Armbruster and Christof Plessow of the International Relations Department of the Deutscher Genossenschafts- und Raiffeisenverband e.V. DGRV (Germany) in preparing the meeting and ensuring its success.

COPAC would also like to thank the Berliner Volksbank for making their meeting centre available for the Forum and Dr. Wolf-Jürgen Lengacker of the Raiffeisenbank Wriezen eG with whom participants met during the study tour.

C. Agenda of the Open Forum

26 October 1999

Welcome - Joe Fazzio, COPAC Chairman and Chief, Coop Branch, International Labour Office ILO

Keynote Speech - "ICA Europe: Strategy for Cooperatives in Central & Eastern Europe" Gabriella Sozánski, Director, Regional Office for Europe, International Cooperative Alliance

Case Studies: Financial Cooperatives

Albania: Rural Finance Fund of Albania - François de Cagny, International Relations Department, Crédit Mutuel (France)

Lithuania: The Credit Union Network - Ramunas Stankevicius, Director-General, Association of Lithuanian Kredito Unijos on behalf of Développement international Desjardins

Overview with Special Reference to Romania - Normunds Mizis, Programme Officer for Europe/Asia, World Council of Credit Unions WOCCU

Case Studies: Agricultural Cooperatives

Overview of activities on Rural Institutions - Janos Juhasz, Cooperative and Rural Organization Officer, Rural Institutions & Participation Service, Food and Agricultural Organization of the United Nations FAO

Overview with special reference to Poland, Moldova and Uzbekistan - John Millns, Plunkett Foundation (UK)

Germany (East) - Dr. Volker Petersen, Deputy General Secretary, Deutscher Raiffeisen Verband DRV (Germany)

Ukraine - Thomas Garnett, Vice-President of Cooperative Development, Southern States Cooperative and Board Member, ACDI/VOCA (USA)

Danish Experience in the region - Holger Hasle Nielsen, Federation of Danish Cooperatives.

Closing Session

Summary Conclusions - Albert Vinokourov, Division for Social Policy and Development, Department for Economic and Social Affairs, United Nations UN and COPAC Board Member

Closing Remarks - Joe Fazzio, COPAC Chairman and Chief, Coop Branch, International Labour Office ILO

Cocktail Reception

27 October 1999

Study Tour - Visit to Raiffeisenbank Wriezen eG (Wriezen) and a rural supply cooperative.

D. Summary of the Proceedings

Mr. Joe Fazzio, Chair of COPAC, opened the meeting welcoming participants. He briefly presented what is COPAC, and explained that it provides its members an opportunity to focus not only on development activities but also on the policy framework for cooperative development such as legislative issues.

Given the full agenda for the day, the Chair reminded presenters to limit their interventions to thirty minutes so as to allow some time for questions and discussion. He then invited the keynote speaker, Ms. Gabriella Sozánski, Director, of the ICA Regional Office for Europe to make her intervention.[1]

Before addressing the issue of cooperatives in East and Central Europe, Ms. Sozánski provided an overview of ICA Europe including membership information by sector and highlighted the role of the regional office.

ICA Europe was established in 1994. It accounts for 40% of total membership. It includes 88 member organizations representing 140 million people and employing over 5 million individuals. In terms of sectoral distribution, consumer cooperatives represent 30% of membership, agricultural and financial cooperatives account for 20% each, with workers representing 12%, housing 11% and services 6%. Agricultural cooperatives represent the largest number of societies accounting for 37% followed by housing cooperatives at 26.6%, while in terms of membership consumer and financial cooperatives lead with 44.6% and 32.1% respectively. Focusing on the cooperatives in East and Central Europe, a recently completed statistical survey found that 34% of all agricultural cooperative societies in the European region and 14% of the financial cooperatives were situated in East and Central Europe.

Members of ICA Europe establish the priorities of the regional office. These include supporting cooperatives in East and Central Europe, promoting cooperative identity and image, and providing information and expertise. In order to better serve the needs of members in the sub-region, a needs assessment was undertaken resulting in the identification of five major areas requiring attention: management training, lack capital, government and cooperative policy and legislation, cooperative identity and image, and marketing know-how. However given that cooperatives in the West had existing bilateral contacts and on-going assistance programmes mainly focusing on the transfer of know-how and expertise, ICA Europe was careful not to duplicate efforts, but rather facilitated and coordinated activities aimed at strengthening cooperatives in East and Central Europe. Specific mention was made of the excellent sub-regional cooperation in the Baltic Sea area, the Mediterranean countries, and the Black Sea region. She further noted that the ICA Europe Strategy focused on three areas: promotion, economic collaboration and management training.

Ms. Sozánski provided further information on the strategy. Turning to the issue of legislation, note was made that forming public opinion was an element that could assist in ensuring appropriate legislation - national legislation, cooperative rules - as well as an environment that would encourage the development of cooperatives. She stressed the need to national cooperative movements to lobby governments so that they would be seen as partners for national development. In this regard policy instruments were useful. For example, the United

[1] See Annex 1 for the full text of the presentation.

Nations Secretary-General's report on the Status and Role of Cooperatives in the Light of New Economic and Social Trends and its Guidelines provided an excellent tool to assist cooperatives in their negotiations with government. She commended the Guidelines noting that they were a good set of practical recommendations.

International Day of Cooperatives and the materials prepared for its celebration as well as the European Union's own White Paper on cooperatives could also be used by cooperatives to create support within national Parliaments and administrations. The latter would be particularly important in view of the enlargement of the European Union and the impact of new laws and provisions on cooperatives.

Ms. Sozánski stressed that national legislation is a pre-condition for cooperative development, and as such what is decided today within the European Union will have a significant impact not only for future member states, but also for their cooperatives. Cooperatives must therefore address these issues now. Examples cited included Hungary where the cooperative movement had informed its government of the need to request a derogation for the EU banking regulations in order to allow savings and credit cooperatives to continue to operate. Without such a derogation, the high capital requirements would threaten the operations of savings and credit cooperatives.

Capital was indeed a problem for cooperatives in the region, however, she noted that lack of capital was sometimes over emphasized. Development funds for the region are available from numerous sources, including from the European Unions' programmes, PHARE; TACIS, LIEN[2] ISPA[3], SAPARD[4], TAIX[5] and the Leonardo da Vinci programme. To access these funds, cooperatives needed to propose good projects and as assistance is channelled through governments, have good working relations with their governments.

However, supportive legislation was not a sufficient condition for successful cooperative development. Other factors for success could include: a clear-cut national cooperative strategy, solid cooperative business activities, good management and cooperation between cooperatives. Ms. Sozánski noted that this list was not complete, but she was interested in learning what other factors had led to the success or failure of their initiatives in the region.

She concluded stressing the importance of increasing the visibility of cooperatives in Europe. Lobbying and becoming more involved in legislative reform in addition to marketing the cooperative advantage could contribute to influencing change.

Mr. Fazzio thanked Ms. Sozánski for laying out the framework for the Forum discussion and noted the importance of legislation and its implication for development in the region. He then asked Mr. François de Cagny of Crédit Mutuel (France) to present the first case study of successful experience of cooperative development – the Rural Finance Fund of Albania.[6]

Mr. de Cagny noted that he would present an on-going project which was showing great promise for success. The project focused on human resource development (HRD) for the development cooperative savings and loan associations in rural Albania. However before presenting the actual history and present implementation of the project, he wished to briefly

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[2] LIEN - Link Inter European NGOs
[3] ISPA - Instrument for Structural Policies for Accession
[4] SAPARD - Special Accession Programme for Agriculture and Rural Development
[5] TAIX - Technical Assistance Information Exchange Office
[6] See Annex 2 for an outline of the presentation as well as the graphs presented during the Forum.

provide some information on Crédit Mutuel. Crédit Mutuel is the second largest bank in France. It specializes in banking and insurance with a three-tiered structure. With 3,500 outlets, 150 local cooperative banks and 18 regional level banks, which are represented at the national level by the Confédération Nationale du Crédit Mutuel, the Crédit Mutuel group has 8.6 million client members and 26,300 employees. Mr. de Cagny presented financial information on the group before and after its recent acquisition of a commercial bank, the Crédit Industriel (CIC)[7]. Finally, he noted that Crédit Mutuel had been involved in cooperative development since 1958 with experience in West Africa (Côte d'Ivoire, Senegal, Central African Republic) and East and Central Europe (Poland and Hungary).

Turning to the Albanian project, Mr. de Cagny noted that the project focused on the poorest areas of Albania, specifically the regions of Puke, Kukes, Diber, the regions around Tirana and the areas in the southern part of Albania. The project, Rural Finance Fund RFF, began in September 1992 as a World Bank microcredit project. Crédit Mutuel was invited by the World Bank to introduce the Crédit Mutuel model (a bottom up approach with a focus on local management of activities and the creation of networks for savings and credit activities) as the credit component of the larger project which also included infrastructure development. The aim of the RFF was to assist the poorest areas of Albania by increasing employment, assisting in private sector development and providing decentralized credit at the village level.

Mr. de Cagny underlined that the lack of appropriate legislation and administrative provisions were a major difficulty for the implementation of the project. It is for this reason that one of the first activities undertaken in 1994 was providing assistance in the drafting of law on cooperatives which was adopted in 1998.

In the first phase of the project, 1992-1994, the project was implemented in a selected number of villages. Village credit committees were formed to review loan requests. The committees were made up of three people elected by the village plus a World Bank consultant. Once the committees had been formed, Crédit Mutuel was invited to assist in establishing village savings and credit associations and eventually assist in the creation of a national union. Crédit Mutuel was providing assistance in human resource development.

Mr. de Cagny underlined the fact that despite the Kosovo conflict and the unstable political environment within the country, progress had been made. The objective of creating a finance fund, establishing village committees and forming these into associations was being achieved. By July 1999, a village based saving and credit association had been established in Tirana. It was expected that a union of these associations would be created in the following 12 months.

The factors that contributed to the success of the project to date included: local culture, the identification of leaders within the country (the General Manager of the RFF since 1992 was a woman who was well respected and was able to gain support for the activities from the community), the fact that the project was built from bottom up and the implementation of a network approach. Also contributing to the success of the project was appropriate time-scale. Each element of assistance was in line with local capacity in terms of technical training and technology. Finally, Mr. de Cagny noted that the regular evaluation of the project allowed adjustments to be made that enabled progress.

The Chair thanked Mr. Cagny for his presentation and invited questions from participants. Participants requested further information on the initial elaboration of the project as well as

[7] See Annex 2

the actual functioning of the fund - source of initial capital for the RFF, target and beneficiaries, criteria for loans, loan size, interest rate and repayment rate.

Mr de Cagny explained that the project was elaborated by the World Bank with the agreement of the Government of Albania through a consultant who had been involved in credit projects in Africa. Crédit Mutuel and a Swiss consultant had also been involved in the elaboration of the project. However, real support for the project has come from the present General Manager of the RFF.

He further noted that the beneficiaries of the project are farmers - 100% of small farmers in mountainous village regions and about 68-70% of the farmers around Tirana. Approximately 2,500 people had already benefited from the project. Initial capital for the RFF was made available from a variety of organizations including the World Bank, Crédit Mutuel, and a series of foundations in Switzerland, Germany and Italy. Farmers were able to make loan applications to their village committees, which in turn had the loan issued from the savings and credit association. Each savings and credit association serviced 10-11 village committees. Although land is privatized in the mountainous regions (other land is still government- owned), land can not be used as collateral due to its low economic value. Instead loans are granted on the basis of solidarity and social pressure. Average loan size is of USD 500 (all loans are granted in US dollars), with a the maximum size of loans set at USD 2,000 for successive loans. Interest rates have varied over time. In the beginning of the project, the interest rate was 10%; after 1997 the interest rate was at 21% reflecting the problems encountered with financial pyramids; today it stands at 12%. The repayment rate is 95-98% this despite the fact that farmers must walk to the villages to make their payments which generally takes 1.5 hours.

Mr. Ramunas Stankevicius, Manager, Association Lietuvos Kredito Unijos (Association of Lithuanian Credit Unions) and project manager in Lithuania for Développement international Desjardins presented the experience of DID in its project supporting the Association of Lithuanian Credit Unions. [8]

He provided some background on credit union development in Lithuania noting that Lithuania had a long history of credit unions. Its first credit union was established in 1871. By 1939, more than 310 credit unions (CUs) existed, serving 119,000 individuals (1 out of every 25 people were members of a CU), holding 37% of the deposit market and 37.5% of the loan market. In 1940 CU assets were nationalized and CUs ceased to exist. However, given the long experience with CUs, illegal mutuals or ‘caisses’ operated from 1950 to 1991. Based on the idea of Cooperation, these mutuals provided credit facilities. A few years after independence, Lithuania experienced a serious financial crisis (1994-1996) brought on to a large extent by the use of financial pyramids. Over 20 banks and 100 pseudo financial institutions went bankrupt while existing financial institutions provided loans at an interest rates of 120-160%.

In 1994, amid this crisis, DID began its activities in Lithuania, i.e. in an unfavourable environment for financial institution development. The aim of DID assistance was to create a unified and modern credit union network.

The project has been considered successful. It was not large, but was technically strong. Some of the achievements of the project include: drafting and having adopted credit union

[8] See Annex 3 for the slides used during the presentation.

legislation (1995), putting in place unified computer accounting tools, elaborating a training strategy, putting in place a unified marketing strategy, and enabling autonomous supervision. Today 22 credit unions operate through their associations.

Mr. Stankevicius highlighted some of the main factors for the success of the project, noting that :

- The market situation was favourable to credit union development. People were not able to access loans at affordable prices.
- The strategy of first drafting and putting in place legislation on credit unions provided the framework for success.

The first new credit union was established in the autumn of 1995, a few months after the adoption of the credit union law by the Parliament (February 1995). By mid 1999, over 30 credit unions were in operation. The law stipulates that a credit union must have at least 50 members (natural persons) with share capital worth USD 75. This amount is excessively high given that the average monthly salary in Lithuania is USD 275. (By comparison share capital in Canada is CDN 5.00.) This makes further development of CU difficult. Deposits can be accepted from individuals, other CUs, charities, public and religious organizations and the government, however, the CU can only lend to members of the CU, associations, and not to government. Loans are limited to ten times the value of the share or 10% of the savings held in the CU. The common bond can include profession, geographic area (village) or enterprise.

Mr. Stankevicius briefly presented the structure of the Association, noting that the Central Bank of Lithuania is currently the supervisory institution. He also noted that the state deposit insurance fund was not yet available to CUs, but that legislation had been drafted and was in the process of review. The outcome was still unsure.

In presenting statistical information on CUs[9], he noted that CUs were found in all parts of the country. The growth in the number of CUs had been slow due to the high cost of share capital and it was hoped that the CU law would be revised to allow the price of share capital to be fixed at USD 25 instead of USD 75. Membership in CUs had also grown steadily with the majority of members being farmers. The Association presently employed six persons, with the salary of only one person covered by profit.

The main activity of the Association was to promote credit union development by setting a common policy, participating in legislative drafting and reform, providing representation and building awareness. It also provided training in the use of the 'Microbanker' accounting system, CU supervision and technical assistance, assistance for liquidity problems and managed a small credit line of USD 150,000 for small business development.

Mr. Stankevicius noted that overall the project had been successful. He highlighted some of the strengths of the network and factors contributing to success. These included the development of good relations with government, standardization, and the introduction and use of modern technology. However, the economic situation, continued imperfection of the CU law, and the low level of activity of the elected officers due to their voluntary status were cited as areas which impeded greater progress.

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[9] See Annex 3 for tables.

Future priorities for the project included member education, training of elected officers of existing CUs, CU legislation revision including revision of the state deposit insurance law, the creation of a central credit union, strengthening marketing strategies and seeking collaboration with other European cooperative movements.

Mr. Stankevicius concluded by stressing that the lessons learned from the activities in Lithuania demonstrated the importance of favourable market conditions to CU development as well as an appropriate legislative framework. In the case of the project in Lithuania, the key to success was the fact that state authorities were positive to dialogue, enabling legislation to be enacted prior to the actual development of CUs. Keeping share capital low and establishing state deposit insurance would increase the chance of success. Finally, Mr. Stankevicius noted that success would also depend on involving young people and women in CU development and management. In the region, new ways of thinking and tackling problems would be essential for success, especially in the former Soviet countries.

The Chair thanked Mr. Stankevicius for his presentation and invited questions from participants. Participants requested further information on the initial elaboration of the project and the operation of the CU network.

Mr. Stankevicius briefly outlined the origins of the project noting that the project request was submitted by the Open Society of Lithuania. It had the support of the Parliament, Central Bank and Finance Ministry. Funding for the project was provided by the Canadian International Development Agency CIDA and the Soros Foundation. It was implemented by DID and would be completed by October 2000. Actual project support consisted in providing specialists on information systems, software development ('Microbanker' had been substantially modified) and the provision of technical assistance.

DID was implementing similar projects in Russia, the Czech Republic, and Hungary (with funding from the Canadian Cooperative Association - CCA). These projects were not as technically successful as the Lithuanian project due in part to legislative issues.

Turning to the actual operations of the CU, Mr. Stankevicius explained that the minimum capital was set by law at USD 4,000, however the CU network had begun with over USD 15,000. The interest rate on loans of 15% was the market rate, this despite the fact that inflation was 2%. CUs provided more interest on deposits than its competitors. He explained that members of the CU had decided not to pay out any dividends, but rather to put them into reserves which are not taxable. This represented over USD 30,000.

The Chair thanked Mr. Stankevicius for his replies and participants for their thought provoking questions. He invited Mr. Normunds Mizis, World Council of Credit Unions to take the floor. He noted that WOCCU was a member of COPAC. The chief executive officer of WOCCU, Mr. Christopher Baker was a member of the COPAC Board, but that due to his heavy travel schedule he was unable to participate in the Forum.

Mr. Mizis briefly introduced WOCCU's activities in the region[10]. WOCCU had been present in the region since 1992 and was implementing projects in a number of countries. Projects in Latvia, Poland and Ukraine had already been completed, while those in Lithuania and Macedonia were ongoing. A new project in Bulgaria was also recently initiated. He explained

[10] See Annex 4 for full text of presentation.

that WOCCU was involved in credit union development in the region to enable people to have access to adequate financial services.

WOCCU's approach to CU development aimed at addressing some of the difficulties in the region namely, high interest rates on deposits, fraud in financial institutions, banking crises, lack of people's participation, and inappropriate or conflicting legislation. Only in countries where CU development was legally possible were actions undertaken. Project activities included the development of a savings and credit system, the transfer of skills and technology and policy and legislative reform. He noted for example that reform in Ukraine, Latvia, and Lithuania would be required for the further development of CUs.

Mr. Mizis presented the WOCCU methodology for building model CUs which was founded on the ideology that if a CU is to fulfil its social role, it must be a financial institution which provides not only loans but also encourages savings and is run using modern business concepts. It must be a legally recognized financial institution and rely on member savings deposits. It must also provide credit services based on the five ‘C’s - character, capacity to repay, capital, condition, and collateral, and must be able to effectively promote or market itself as a safe and sound financial institution.

The status of the CU development in the countries other than Romania and Poland which were the focus of the presentation, was also very briefly noted.. Latvia counted with nine registered CUs with assets of USD 1.5 million. Although legislation was in place, it was not specific to CUs. In Lithuania, the WOCCU project was scheduled to close in February-March 2000. WOCCU had assisted in the development of 11 CUs with assets of USD 1 million. The project in Ukraine had been finalized on 30 September 1999. No law was enacted, although a Presidential Decree enables CUs to operate. The national association was lobbying Parliament for a CU law. The movement was comprised of 83 CUs with USD 2.5 million in assets. Finally WOCCU was working in Macedonia with mutual savings houses. The project was expected to continue for another two years.

Turning to the activities in Romania, Mr. Mizis introduced the situation in the country. He noted that CUs had a past history of over 100 years. In 1991 5,034 CUs with 4 million members were in existence. These relied on member shares to provide loans at low interest rates. Savings were low due to the fact that they were not protected. By 1997 inflation had reached 151% dropping to 42% in 1998. Interest on member shares varied from 5-10% with loans issued at 10-15%. This mismatch resulted in a dramatic drop in membership of 50% as well as a 62% decrease in savings.

The focus of the WOCCU project was therefore focused on introducing appropriately priced savings and credit products that reflected market conditions. He said the progress had been slow and difficult. In 1997 only 10% of the CUs operating had introduced new services, however the users of these new services had increased dramatically from just over 40,000 to 69,000 by the end of June 1999. It was expected that increase of member usage would reach 110-130% for 1999. However, membership had decreased by 5% despite the fact that savings had increased by 9%.

A new phase of the project in Romania was initiated in September 1999 for a four-year period thanks to funding from the United States Agency for International Development USAID. The focus of this phase is on CU development at the primary level, providing assistance to the apex body, developing regulations and standards. It was hoped that at the end of the project the Romanian CU association would be certified and in this way attest to is compliance to International CU Standards.

Mr. Mizis noted that of the countries where CUs already existed, Poland had been the most successful example of building a new and rapidly growing CU system. At Polish request, a technical assistance programme had been implemented by WOCCU with funding from the USAID. The project was designed to set up a National Association of Savings and Credit union NACSU, assist in drafting appropriate legislation and then assist development at the primary level.

By the end of 1998, 220 CU had been registered. Their membership exceeded 270,000 with USD 139 million in deposits and USD 113 million in outstanding loans. The average loan size was USD 437. CUs are not community based - the common bond is profession.

The project has been considered very successful. For every USD 1 or the USD 3.9 million in funding for the project, over USD 40 in assets had been generated. In addition, the NACSU has become a financially sustainable second-tier financial institution providing sophisticated services (short-medium term loans, ATM, electronic payment systems, life insurance products, etc.) with better interest rates (higher rates on deposits and lower rates on credit) than those offered by commercial banks. The association also created a Central Finance Facility, a Stabilization Fund and an insurance company. In addition, all member credit unions are computerized.

He noted that WOCCU attributed its success to a series of factors including: macroeconomic reform, history of CU existence (CU existed before World War II), solidarity and support, favourable CU legislation from the beginning, and that CUs were linked to the workplace and thus allowed for payroll deductions, etc.

The Chair thanked Mr. Mizis and noted that COPAC had been following the developments in Poland through regular reports provided by Chris Baker. He was pleased to hear of the continued success of the project.

Further information was requested on the level of collaboration between WOCCU and DID as both had CU development activities in the region. Specific questions related to WOCCU's experience in Poland with regard to membership and the ability to compete in the financial market were also put forward as well as a more general question on the applicability of the CU Principles in the region.

Ms. Mizis noted that WOCCU and DID collaborated in the area of promoting financial discipline in the region. With regard to Ukraine, plans were being made to ensure integration of all the credit unions. With regard to Poland, he clarified that Polish law does not allow community based credit unions, they are all organized in the place of employment - one of the reasons for their success. Credit was provided mainly for consumer loans. In contrast, in Latvia, 90% of the loans relate related to agriculture and agri-business. Half of the CUs there are rural community based. However, these CUs were seeing much slower growth. He also noted that NASCU in Poland was the fourth largest financial network in the country. It was considered as being progressive thus investors would see a difference between the CU and a commercial bank. Finally, Mr. Mizis underlined that WOCCU was not very flexible in the application of credit union principles. Conflicts with national legislation did not tend to be very large, and these were able to be resolved by reforming or adjusting legislation.

A specific final question was also asked regarding WOCCU's activities in Russia. It was reported that although no CU legislation presently existed, a draft was being discussed in Parliament. Mr. Mizis noted that WOCCU was aware of the difficult situation in Russia and would be happy to cooperate with Centrosoyuz in trying to address the impediments to CU development.

The Chair noted with regret the fact that Dr. Paul Armbruster, Director, International Relations Department, DGRV (Germany) was unable to participate at the Forum due to illness. He therefore asked Mr. Janos Juhasz, Cooperative and Rural Organization Officer, Rural Institutions & Participation Service of the Food and Agricultural Organization of the United Nations FAO to open the second part of the Forum which focused on agricultural cooperative development in the region.

Mr. Juhasz noted at the outset that FAO's recent experience in the region was based on a project dealing with rural institutions and not specifically cooperatives. The project "Institutional Patterns of Rural Development in the Countries of Central and Eastern Europe", focuses on the institutional aspects of rural/agricultural development, including issues related to land tenure, farm management types, (private, cooperative, corporate, etc.) and non-agricultural rural institutions/organizations. The long-term objective of the project is to develop post-transitional institutional models of rural development in the region. Mr. Juhasz noted that there was a strong link between FAO's work and the more specific experience in agricultural cooperative development in the region.

The project was being implemented in two phases: the recently completed first phase was an assessment of situation in the region, the conclusions of which were reported.

With regard to land tenure, four case studies had been undertaken for Hungary, Poland, Lithuania and Romania. In all, land had been privatized, but each country had opted for a different method of privatization and reform. In Hungary for example, 2,600 large farmers cultivate 52% of the land. The remaining 48% is owned by 1.8 households. 83% of these private farms have an average holding of less than one hectare (ha). In Poland, the structural transformation process created large-scale farms, although peasant farms still cultivate 82% of the arable land. In Lithuania, 80% of state and collective farms were privatized by 1993 resulting in the creation of 196,000 family farms by 1997. Interestingly, despite the fact that 4,300 large agricultural companies were created in the course of privatization, the number continues to decrease. In 1998 less than half were still operating. This decrease may be in part attributed to a 1997 law, which encouraged members of agricultural companies to establish family farms. In Romania, the Land Law of 1991 established two types of land ownership - private, totalling 12.3 million hectares (family farms with an average holding of 2.3 ha, family associations with 132 ha, legal associations with 435 ha), and state-owned with a total of 2.4 million hectares. Subsistence farming is practiced by 72% of the private farmers.

Turning to land markets, Mr. Juhasz reported that the development of land markets was also very different in each of the countries surveyed. However, the result of privatization was the creation or, in the case of Poland, the reinforcement of land markets. Land in Hungary was offered at low prices, which resulted in today's well-developed lease market. 52% of the land is cultivated on a lease basis. In Lithuania the land market is in an early stage of development. The land market in Lithuania is in its initial stages with average holdings sold on the market being small (an average of 2.6 ha). This is in part due to the legal restrictions on land acquisition by large agricultural enterprises. The land lease market however is well-developed covering 43 % of all agricultural land. Poland's land market is the result of an oversupply of land resulting from the liquidation of state farms. As a result, administrative rules control the market rather than market mechanisms. However, an effective land market has recently begun to gain importance. The Romanian land market began legal operation only in 1998. Land sale purchases are small, averaging 1.3 ha. Prices continue to be relatively low due to the low price for agricultural products and the lack of capital and credit for buying land.

Mr. Juhasz noted that East and Central Europe like Western Europe was experiencing a trend of "de-agrarianization" with a diversification of the activities of rural populations away from agricultural production. This was particularly noticeable in Poland, but was also the case in other countries surveyed. In Lithuania although 90% of the rural population is involved in agriculture, a large part is also involved in other income-generating activities including trade and public catering (49% of non-farm enterprises), rural crafts, slaughtering, meat processing and timber processing. These activities are carried out by small enterprises, which lack the appropriate organizational skills, averaging five employees. They sell directly to consumers or to retail trade channels and public markets to avoid any middlemen.

With regard to the service industry, these are generally underdeveloped with service providers often absent in rural areas. Mr. Juhasz noted however, that public institutions were now recognizing this lacuna. For example, the Hungarian Ministry of Agriculture provides a number of extension services as well as promoting marketing and purchasing cooperatives. A consulting (extension) network set up in 1994, provides farmers with information and basic services. "Village agronomists" (agricultural experts) servicing up to 8 settlements are financed by State to provide basic services to farmers at no charge. At present, the network is composed of 650 individual village agronomists. Other services are provided on a fee basis by a private consulting network - experts which are listed in a directory of consultants. A portion of the fee is reimbursed by the state. The service is available for registered private and corporate agricultural enterprises including small-scale agricultural producers as of 1995. In addition, the state subsidizes educational institutions, and the development of village tourism. In Romania, economic, social and institutional crisis resulted from the transition to a market economy. The government promoted a large number of rural institutions including NGOs and farmers' associations which are precursors of the modern cooperatives.

Mr. Juhasz concluded with a number of general observations based on the study. He noted that few of the national authors of the case studies specifically addressed the issue of cooperatives. There are a number of possible explanations including the fact that there are not many new cooperatives although there are many new organizations that have a cooperative nature, and that existing cooperatives may have been transformed into new legal entities thus indicating that there is still work to be done on issues of land tenure and land markets. This also indicates that new opportunities exist for cooperatives in the area of service provision, extension, non-agricultural services to fill the gap of services previously provided by government (health care, child and elderly care, social cooperatives, etc). He noted that cooperatives have a crucial role to play in input supply for primary production, including capital, and in promoting value-added production through processing and marketing additional revenue which is then channelled back to the farmers themselves. He concluded saying that the only way to fully achieve this objective was through the establishment of farmer-owned cooperative enterprises that would be able to offer a tangible “trade-off” to the farmers for their contribution as cooperative members.

Questions were raised on the how land was privatized in a number of countries. Some countries privatization had been rapidly completed as in the case of Lithuania, while in many other countries only 15% of the land had been privatized. Mr. Juhasz noted that in both Lithuania and Hungary a compensation system was used. In Lithuania, Mr. Stankevicius added that much of the land was restituted to its owners or compensation was given within a period of five years.

Participants also raised the issue of cooperative image. The FAO project noted the creation of many cooperative-type organizations, but no cooperatives per se. Participants agreed that the negative connotation of the term cooperative remains a problem for cooperative development in the region. Mr. Juhasz noted that although FAO had only a small cooperative development role, it was involved in providing assistance to governments for the shaping of policy. FAO therefore had the opportunity to explain to governments what constituted a genuine cooperative. This, together with programmes and projects to strengthen the capacities of cooperatives so that they could become strong, autonomous business enterprises would over the long terms change perceptions. However, it would be a question of time. He ended underling the importance of dialogue between cooperatives and government.

The Chair took the opportunity to introduce the various initiatives taken by COPAC and its members to improve the understanding of cooperatives by government policy makers. He noted that each of the members of COPAC were active in promoting the cooperative image and each had been involved in providing policy advice as to the appropriate policies for the promotion of cooperatives. He added that Albert Vinokourov of the United Nations Secretariat would provide a brief report at the end of the Forum on progress made in the Guidelines for Cooperative Development drafted by COPAC, which were being discussed at the United Nations General Assembly.

He invited Mr. John Millns of the Plunkett Foundation to present the experience of Plunkett in Poland, Moldova and Uzbekistan. Mr. Millns briefly introduced the Plunkett Foundation noting that it had over 10 years of experience working in East and Central Europe. He noted that the focus of Plunkett in the region was on promoting voluntary owned and controlled producer groups - or farm marketing groups - which are formed to provide maximum benefits to producer members and can work and compete effectively within a market economy. He added that although many of the groups were cooperatives, the terminology “cooperative” was not well understood and ‘cooperative’, ‘collective’, ‘group’, all seemed to be used to interchangeably.

Mr. Millns noted that average gross domestic produce or GDP of transitional economies had almost halved with the rural sector suffering the most. Key indicators suggested that successful market orientated reforms not only required commitment of government and of the population but, also needed specific market and economic conditions including macro-economic stabilization, price and market liberalization, all enforceable by the rule of law.

He noted that progress in Poland has been the most impressive due largely to the growing investments and clear economic decisions taken in the early part of the 1990s. A sense of purpose, discipline and direction was further instilled into political and commercial life through the signing of a pre-accession treaty with the European Union in 1997 and the implementation of a rural development policy.

Polish agriculture accounts for 5% of GDP, but 27% of the livelihoods of the population. He noted that farmers in Poland have a history of competition as they had not benefited from large subsidies. Over 100 new producer groups have been registered taking advantage of the enormous possibilities for the development of domestic and export markets. Although only

10% of these are actually involved in trade, there is potential for expansion. Areas that will require attention for this to happen include overcoming the confusion about ownership and investment as well as membership agreements to commit produce to agreed prices.

Turning to Moldova, a former 'garden' of the Soviet Union, Mr. Millns explained that the future was not clear as effective farmer groups were weakly rooted. Economically, Moldova was one of the poorest countries of the region with average wages down by 33% since 1989 to USD 35 per month. It was also experiencing a 20% unemployment rate, 27% inflation rate and a very large external debt problem. Agriculture made up 40% of its GDP. Moldova had the best soil of the region with the highest productivity, although it was still less than half of that in Western Europe. Despite a radical land privatization programme (over 400 different laws were introduced but with problematic implementation), only 15% of the land has been privatized. In addition, there has been a negative impact to agricultural productivity with a decline in the use of agricultural inputs, poor animal feed, no new purchases of agricultural machinery (6,000 new tractors purchased in 1985 vs. 0 in 1995) and a radical decline in exports (from 80% of agricultural production to 0% today). Finally he noted that the farmers associations that once existed had been producer groups which shared machinery. At the time of privatization, assets were distributed. Since then, no cooperatives were coming up from the bottom. He concluded noting that farm privatization urgently needed to be supported by institutional reform to encourage investment and allow farmers better access to markets, input supplies, finance and technical assistance.

In presenting the situation in Uzbekistan, Mr. Millns noted that it had seen more conservative reform. Ninety-eight percent of agriculture remained collectivized. There are experiments with private farmers – 50,000 individual farmers exist. These are supported by a semi independent Private Farmers' Association (148 associations exist regrouping an average of 8 people) and informal family based groups are common. He further noted that the government continued to control the key markets – cotton and grain. He concluded that the future of the country would depend on the extent to which the government enables further liberalization.[11]

The Chairman thanked Mr. Millns, and noted the very difficult situation in the countries presented. He invited comments and questions from participants.

A number of questions were raised regarding why there was so much difference in the progress made between countries. Note was made that history and the extent of reform had to be taken into consideration when looking at the different levels of progress. Economic framework and experience or knowledge on private farming were essential. Further questions were raised regarding the rationale behind working in countries were a market economy was not yet established and where establishing farmer groups would therefore be very difficult. Education was a key element for preparing farmers in the post privatization phase. The concept of producer marketing groups needed to be well understood. It was noted that producer groups could be forerunners of cooperatives, however it was also argued that supply groups must work and be understood prior to setting up producer marketing groups.

The Chair thanked participants for their comments on Mr. Millns' presentation and invited Dr. Volker Petersen, Deputy General Secretary of the Deutscher Raiffeisen Verband DRV to address the experience of reform in East German agricultural cooperatives.

[11] See Annex 6 for full report.

Dr. Petersen noted that the DGRV, the apex organization of German Raiffeisen movement had the main responsibility for the transformation process. In 1990 it held a consultation meeting to identify the steps to be taken. He noted that the reform process in East Germany was unique and very different from other planned economies. The process was undertaken in a controlled fashion given the clear strategy (economic and monetary union) coupled with economic strength and clear legal framework of West Germany to bring this about. Transformation began with the implementation of the Agricultural Adaption Act of 1990-91 by which collective farms were transformed into other enterprises (private farms, commercial enterprises and cooperatives) and the privatization of land began. By 1996-1997 the process was completed.

Dr. Petersen provided an overview of the evolution of Raiffeisen cooperatives before and after the transformation process, noting that overall, there had been a large decline in the number of cooperatives in the East. He noted the different structures of the cooperatives in the East and West at the beginning of transformation (East German government controlled, West Germany farmer-owned and controlled) and the challenges of privatization. He reported that the development of new supply and marketing cooperatives were the result of the transformation of collective farms, however that these structures needed to change to respond to the new market conditions. He noted that the process of transformation had benefited from close cooperation between cooperatives in the East and West. Finally, Dr. Petersen showed a series of slides that provided data on the present situation of German agricultural cooperatives.[12] He concluded noting that the lessons learned in the German experience indicated that there are a number of preconditions for successful transformation processes. These include a clear-cut national cooperative strategy, supportive legislation and a clear legislative framework, solid cooperative business activities and collaboration between cooperatives.

The Chair thanked Dr. Petersen for his presentation and the statistical information provided. He asked participants if they wished to ask questions or make any comments.

A number of participants raised the question of why the number of cooperatives had decreased after privatization. Dr. Petersen explained that cooperatives had optimized their agricultural capacities. This required mergers to achieve economy of scale to be efficient. It is for this reason that the actual number of cooperatives was in decline. Also raised was the issue of the diversity of types of cooperatives. Given that East German cooperatives tended to focus on primary production, and that there had been collaboration of the cooperative movements of East and West, had East German farmers joined West German cooperatives rather than establish new supply and marketing enterprises? Dr. Petersen noted that in the case of the dairy sector there was new membership from the East as it is a sector where large and family farmers were able to collaborate.

The Chair thanked Dr. Petersen and presented Mr. Tom Garnett, Vice-President of Cooperative Development of Southern States Cooperative and Board Member of ACDI/VOCA.

Mr. Garnett introduced himself briefly noting that the last 7 years of his more than 30-year career had been focused on international development. He was presently working as project manager of a project in the Ukraine with a budget of USD 720,000 for the period from June

[12] See Annex 7 for statistical information.

1997 to May 2002. This was one of the projects being implemented by ACDI/VOCA in the region. ACDI/VOCA was also working on cooperative development projects in Hungary, Georgia, Russia and the West Bank.

Mr. Garnett briefly reported the present situation of Ukrainian agricultural development. Production had fallen as had investment in agricultural machinery and use of agricultural inputs due to lack of access to credit and excessively high prices. Progress in privatization had been limited due to problems with land market regulations on sales. Only 2% of the arable land is farmed by 36,000 private farmers. On the positive side, a legislative framework allowing the formation of farmer-owned and controlled cooperatives was in place.

He explained that the project aim was to identify organized private farmer cooperatives and/or groups of private farmers who were interested in forming a cooperative and work with them to establish an operational input supply business to provide quality products and services to their members and become profitable. This was a first step, after which other initiatives would need to be taken to enable economies of scale. After identifying a serious, enthusiastic and competent group of farmers, Western Cooperative was established. Mr. Garnett provided details of the type of assistance provided, management training, advice on membership development, pricing policies, etc. It addition, the project provided mixed feed and seeds and donated a small feed mill to the cooperative to build capital. Progress to date has been good with additional training activities scheduled in early 2000 with farmer-to-farmer visits both in the US and Ukraine.

Mr. Garnett noted that a number of factors have been essential to enabling effective project implementation and progress. These include support from within the country and movement - in this case from the President of the Ukraine Union of Cooperatives -, volunteers who have been able to provide expert advice on animal health, nutrition and management and feed mill operations and support from local ACDI/VOCA offices.

He concluded noting some of the challenges encountered in project implementation: farmers do not trust government; there is void of leadership at the farm level (and a need to build accountability); bartering is used to avoid any formal record keeping; farmers have Soviet training and therefore tend to look for outside assistance; communication systems are unreliable; no formal credit systems exist at a time when international aid is more difficult to access. Despite this, he felt that the determination of Western Cooperative had shown sparks of hope for progress.

The Chair concurred with the observation that there was donor fatigue and that international aid had been reduced by approximately 35%. He invited questions and comments on Mr. Garnett's presentation.

A specific question was raised regarding the existing and potential collaboration between farmers' cooperatives and credit unions. Information was also requested regarding the marketing arrangements in Ukraine. Mr. Garnett noted that the project was in the early stages of assisting in the creation of a credit union for which grant money was received for seed capital. The CU had 50 members with share capital of USD 5,000. He noted that it was thanks to the Forum that he had learned that other organizations were working in Ukraine and very much welcomed collaboration with existing initiatives. With regard to marketing, Mr. Garnett informed that farmers had a machinery pool but were not involved in marketing. The government of Ukraine still retained important marketing and processing functions.

Finally a question was raised regarding the factor for the success of Western Cooperative. Mr. Garnett noted that the lesson learned in development assistance in Ukraine was that despite the more than USD 2 billion in development aid, assistance at the lowest level seemed to provide the most promising results. He also noted that education had a role and shared the experience he had seen of a farmers' group that refused credit as they knew they would never be able to repay the loan.

The Chair thanked Mr. Garnett for sharing his experience from the Ukraine. He announced that Mr. Holger Hasle Nielsen of the Federation of Danish Agricultural Cooperatives wished to very briefly provide some information on their activities in the region.

Mr. Nielsen first wished to comment on Mr. Garnett's remark regarding the importance of farmer-to-farmer contacts. He noted that the experience in Denmark was that farmers trusted their farmer colleagues. The secret to the success of Danish farmers' cooperatives could be attributed to the fact that farmers relied on themselves and their common interest. Training and education were important, however, it could be best provided by other farmer colleagues. He noted that the experience of Danish cooperatives had shown that sustainable projects were the result of long-term thinking - five years seemed to be the average for building the credibility of the project and its results. He added that as many speakers noted, good leadership is essential for the success of any initiative as people must be motivated from the bottom up. Building on local culture is essential. Finally he reiterated the usefulness of building networks.

Mr. Nieslen provided information on the activities of the Federation in support of agricultural cooperatives in the East and Central European region.. He noted that the Federation had been active since 1989. They based their assistance on a basic philosophy - farmers believe what they see - thus study visits, family stays and personal contacts were particularly useful ways of providing information and training. The Federation was also careful not to pass judgement on what was needed, but rather simply provide information on the Danish agricultural cooperative experience. It is for this reason that the booklet on the cooperative way of doing business had been produced. It has been distributed widely in the region. He concluded saying that the booklet had been published in ten Eastern European languages and was available free of charge to all organizations interested.

The Chair thanked Mr. Nielsen for the useful information. He then called on Mr. Albert Vinokourov, COPAC Board Member representing the United Nations Secretariat – UN - to provide information on the Guidelines for Cooperative Development which were presently being considered by the United Nations General Assembly in New York. He added that the Guidelines initiative was an attempt to provide an instrument for all governments for consideration on their policies concerning cooperatives.

Mr. Vinokourov briefly introduced himself noting that the focal point with the United Nations Secretariat was the Division for Social Policy and Development within the Department for Economic and Social Affairs. He reported on the Guidelines initiative noting that it emanated from a recommendation adopted by the UN General Assembly in 1996 whereby the Secretary-General (SG) was mandated to ascertain in collaboration with COPAC whether UN Guidelines aimed at creating a supportive environment for the development of cooperatives were desirable and feasible and to include his findings in the 1998 UN SG report on cooperatives. He noted that COPAC had gone through a long process of consultation to elaborate these Guidelines which were now included as an annex to the UN SG Report on Cooperatives. He noted that the report and its annex were discussed in the Third Committee of the General Assembly. No resolution had as yet been adopted and it was too early to know what the final outcome of the discussions would be. However, he noted that during the discussions it became clear that some governments were not interested or not supportive of cooperatives. These governments were trying to find technical obstacles to delay the adoption of the Guidelines. He noted that if a resolution were not adopted this year, discussion of the Guidelines would be put off until 2001.

Turning to the proceeding of the Forum, Mr. Vinokourov thanked both the speakers and participants for their active participation. On a personal note, he found the presentations useful and interesting. He noted that all the presentations touched upon some of the problems of assisting in the development of genuine cooperatives. They also provided insights on a number of factors that were needed for progress. These can be summarized into three basic areas: the need for proper legislation, the need for a functioning market economy and the requirements of funding. However, the most important factor is none of the three. The most important is the capacity to create a "civil society". In countries and regions where there is no history of civil society, it will be difficult for genuine cooperatives to emerge. He reminded participants that as early as 1936 during Stalin’s regime, a democratic constitution was adopted in which the rights of the people were clearly recognized. However, as we saw, the fact that texts exist is not sufficient to ensure compliance. Why have some ex-republics been more successful in reform than others? One could argue that natural resources are the key; others might cite education. However, we know that educational levels do not reflect the progress made. Under closer examination, we would find that countries that have been able to create a civil society have found success. Changing structures is perhaps the easiest step. Changing mind-sets and people's way of thinking may take decades. He warned however, that in many countries, one may need to consider local culture which existed prior to communist culture. Progress may require changing mind-sets that have been in societies for over 100 years.

The Chair thanked Mr. Vinokourov and reminded participants that it was not the aim of the Forum to establish one model for successful cooperative development, but rather to allow for exchange and discussion of a series of important factors to be kept in mind when working in the region. One of the major aims of the Forum was to enable participants to network among one another, to enable better communication among organizations active in the region and to identify areas for collaboration for a better impact.

Before closing, he added information on the ILO CoopReform programme which contributes to successful cooperative development both in East and Central Europe and other regions of the world. He also briefly highlighted some of the points made during the Forum regarding the reform process including social reform and associations, legal reform to enable the existence of a political framework that favours the development of civil society, the need for attention at the grassroots in terms of membership education, awareness and working in solidarity, and human resource development for building local capacity. Finally he said that the issue of self-reliance was key, but within a framework of creating multiple partnerships both at the national and international levels. Although some frustration had been noted, there had also been a series of successes presented during the Forum fromr which each could take away lessons.

The Chair concluded the meeting, thanking the Coordinator and the hosts of the meeting, DGRV, for their work in making the meeting a success.

E. Annexes

Annex 1: ICA Europe Strategy for Cooperatives in Central and Eastern Europe

Gabriella Sozánski, Director, ICA Regional Office for Europe (ICA Europe)

Good morning Ladies and Gentlemen,

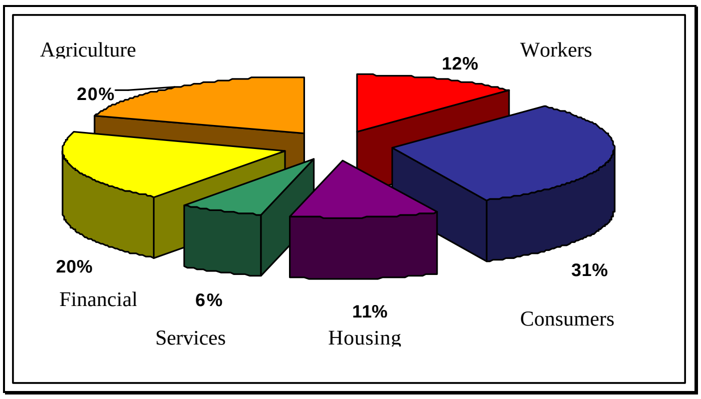
I am very honoured to be the keynote speaker at this International Forum and I am particularly pleased that COPAC has chosen as the main theme of this meeting the presentation of successful models and examples of good co-operation between East and West European cooperatives.

I am pleased because this topic is completely in line with one of the major priorities for ICA Europe and that is support for the cooperatives of CEE.

You are all aware that COPAC is an international co-ordinating body, which in itself is a successful model for cooperation because it brings together international organizations irrespective of the fact whether they are non-governmental organizations or UN agencies. The common bond is that they are all concerned with cooperative development. In our era of increased globalisation and competition co-operation among cooperatives as well as strategic alliances gain more and more significance.

Let me first give you a brief overview of ICA Europe and the importance of the agricultural and financial sectors and then highlight some of the major developments at the global European level as well as their impact on cooperatives.

ICA Europe represents 88 organizations from 34 countries with a membership of 140 million individuals. ICA has members in 19 CEECs. The share of European member organizations is close to 40 percent within the worldwide movement.



The percentage of the various sectors in terms of member organizations is well indicated on the following chart. Both, agricultural and financial organizations represent 20% each among European members, while the consumer sector is the largest one with 31% of all European organizations.

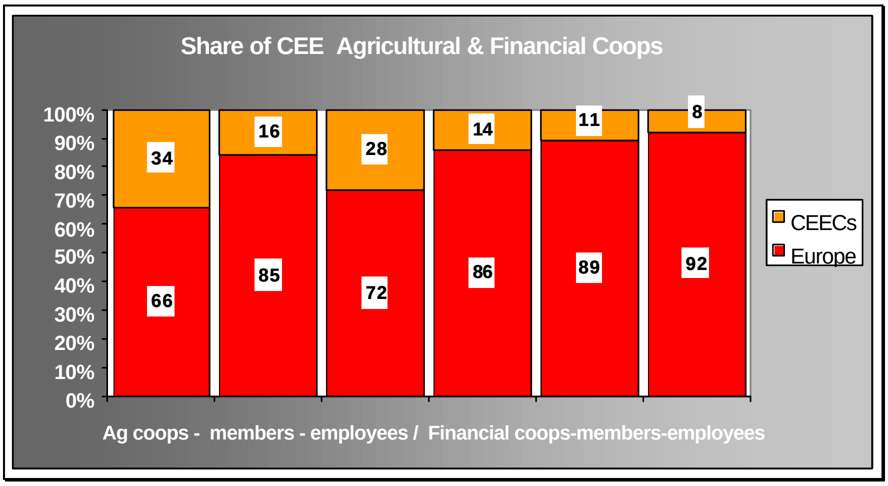
Taking a closer look at the share of sectors in Europe, we see that agricultural cooperative societies constitute 37%, while the individual membership involved in the financial sector, including cooperative banking and credit unions make up 32%.

Out of the 5 million employees of the European cooperative movement, 60% work in the service sector and 20% in agriculture.

In the European Region which was established officially in 1994, the priority activities focus on the

- Support for the cooperatives of Central and Eastern Europe
- Promotion of cooperative identity, interests and image
- being a centre of cooperative data and information as well as
- a cooperative resource centre and expertise

We have undertaken recently an extensive statistical survey that shows some interesting figures comparing the share of East and West European agricultural and financial cooperatives.



East and Central European agriculture is much better represented in ICA than the financial sector. Another conclusion is that the percentage of East European agricultural cooperatives is more significant in terms of number of societies (close to 50%) than in terms of individual membership (18%). While the number of employees in East European agricultural cooperatives reaches almost 40%, in the financial cooperatives it does not even attain 9%.

As I mentioned before, one of the priorities of ICA Europe is support to cooperatives in CEE. In order to be able to render appropriate assistance, we have undertaken a needs assessment which concluded that the major needs are:

- Management Training
- Lack of Capital
- Government Cooperative Policy and Legislation
- Cooperative Identity and Image
- Marketing Know-How

We are aware that a great number of cooperative organizations in West European countries have established bilateral contacts and provide assistance to their East European partner organizations in various forms, mainly through the transfer of know-how and expertise. There are also good examples of sub-regional co-operation, such as in the Baltic Sea area, the

Mediterranean countries, the Black Sea region and in Central and Eastern Europe involving the Czech Republic, Hungary, Poland and Slovakia.

In order not to overlap with these efforts, it became necessary for ICA Europe to define its role in development, which is to promote, to facilitate and co-ordinate activities aimed at the strengthening of cooperatives in Central and Eastern Europe.

The ICA Europe Development Strategy has set as priority areas for development the following three points:

1. PROMOTION
   cooperative identity and image
   government policy and legislation
2. ECONOMIC COLLABORATION
   capital mobilization and market knowledge
3. MANAGEMENT AND TRAINING

All this I said because I would like to expand on some of them.

Firstly, allow me to address the question of legislation. In order to be able to improve cooperative identity and image, in addition to forming public opinion, appropriate legislation has to be in place. We are all aware that laws, and not only cooperative laws, do not provide the most suitable and encouraging framework for cooperative development and this situation will not change unless the national cooperative movements are recognized as partners in negotiations with governments and they form a strong lobby in Parliament in support of their position.

The report of the UN Secretary General on the Status and role of cooperatives in the light of new economic and social trends, which is on the agenda of the UN General Assembly at its current session, provides an excellent helping tool for cooperative organizations in their negotiations with governments. The annex of the document, called guidelines, was elaborated by COPAC and contains a set of practical recommendations.

This year the ICA message on the occasion of the International Cooperative Day calls the attention of cooperative organizations to this report.

In addition to that, the ICA President addressed a letter last month to all governments requesting them to support the report and the guidelines at the UN General Assembly.

A similar document is being drafted by the European Commission, namely the White Paper on cooperatives, with the aim of creating a supportive environment for the development of cooperatives. Once adopted, it would be of similar value at European level as the UN report is at worldwide level. However, the process of adoption had been postponed due to the internal structural reforms of the new Commission.

As we approach the new millennium, the European Union (EU) is preparing for the biggest expansion in its history. The enlargement of the Union goes parallel to the reform of the Commission and at present the situation is far from being simple and clear.

Two weeks ago, the progress report on the situation of candidate countries was submitted to the European Parliament. It consists of a summary evaluation of the progress made by the countries, called composite paper and detailed national reports on each of the 13 countries concerned, i.e. ten Central and Eastern European countries and Cyprus, Malta and Turkey. According to this report the two most prepared countries are Hungary and Poland, followed by Estonia and Slovakia.

I would like to mention two other documents. One is the White Paper on the candidate countries adopted in May 1995 and the Statutes for a European Cooperative Society which is still pending because it is linked to the European Company Statutes and there is no unanimous agreement among the EU member states concerning workers' participation. A significant advantage of the European Statutes would be facilitating cross-border co-operation between cooperative societies.[13]

Why did I expand so long on government policy and legislation? Firstly, because appropriate national legislation is a pre-condition of cooperative development and secondly, because whatever decisions are taken and regulations adopted now, at the level of the 15 member states of the European Union, they will have a significant impact on the future member states from CEE, including their cooperatives. And if cooperative organizations are not presently involved in the government negotiations, the future development of cooperatives might be threatened. Let me illustrate to you one example. The Hungarian government has not asked for derogation from the EU banking regulations, in connection with the conditions of the foundation of savings co-ops or credit unions. Since the capital required is much higher in the EU than in Hungary, changes in this area could put savings coops in a difficult position. The cooperative movement has protested.

At the beginning of my presentation I pointed out that one of the difficulties of CEECs is the lack of capital. Nobody can dispute this fact. However, I feel that money is sometimes over-emphasized. There are cases where pooling one's own resources, not only financial but human resources as well, could help a lot.

It is, however, very encouraging to know, that we are not short of funding sources in Europe. The EU has not only set priorities but also coupled it with increased financial assistance. They are available both for the candidate countries and the New Independent States.

To start with I mention PHARE, the world's largest grant assistance effort for CEE. PHARE is the financial instrument of the European Union's pre-accession strategy but has programmes also for Albania and Bosnia and Herzegovina.

TACIS is a similar programme for the former Soviet Union countries and Mongolia. From 2000 it will focus on dialogue-driven programming and increased promotion of investment, among others.

The LIEN (Link Inter European NGOs) programme encourages the development of exchanges and co-operation between NGOs from the TACIS countries and NGOs based in the member states of the EU.

For agricultural development, two special pre-accession assistance programmes will be provided through ISPA (Instrument for Structural Policies for pre-accession) and SAPARD, the special assistance programme for agriculture and rural development. The latter aims to help candidate countries deal with the problems of the structural adjustment in their

[13] Documents are available from the ICA Europe Secretariat. White Paper on Candidate Countries: http://europa.int under official documents.

agricultural sectors and rural areas, as well as in the implementation of the 'acquis comunautaire' concerning the CAP (Common Agricultural Policy) and related legislation. SAPARD would come into effect on 1 January 2000.

In 1995, the Technical Assistance Information Exchange Office, known as TAIEX, was set up in Brussels to help guide candidate countries through the maze of EU law in preparation for membership.

The Leonardo da Vinci Programme which is now open to many CEECs as well, supports pilot projects in the area of education, training and youth.

In order to access funds from this programme, the co-op organizations have to propose good projects and – as assistance is channelled through governments- they have to establish good working relations with government offices and improve their lobbying activities.

I highlighted the importance of legislation also because it is one of the pre-conditions for successful collaboration and at this Forum, we are going to listen to successful models, which are the products of collaboration.

Here you can see five fundamental elements which have to exist if we want to arrive at a successful collaboration.

Preconditions for Successful Collaboration

- Clear-cut national co-op strategy
- Supportive legislation
- Solid co-op business activities
- Good management
- Co-operation between cooperatives

The list is not complete and might not apply in all cases but it would be interesting to hear from the speakers what they think has led them to establishing successful models and if they failed in some cases, what was the reason for that. A lot can be learned from a thorough analysis of the cases.

In conclusion I would like to stress the importance of a more visible presence of cooperatives in Europe. To achieve this, requires joint efforts. National cooperative organizations have to strengthen their lobbying activities and get more involved in changing legislation and marketing the cooperative advantage. ICA Europe has to do the same at European level, in collaboration with partner organizations.

Currently, Europe is a pot of boiling water. If we want to influence the taste of the soup being cooked, we have to be close to the pot. Cooperatives have so much to offer for shaping a better Europe. This boiling situation is a unique opportunity. Let's take advantage of it together.

Crédit Mutuel Annex 2: Albania - Rural Finance Fund of Albania

François de Cagny, International Relations Department, Crédit Mutuel (France)

Outline of Presentation:

(1) Crédit Mutuel CM : General information and statistics
(2) Rural Finance Fund of Albania RFF : History and basic information
(3) Implementation of the RFF 1992-1999
  (i) Phase One (1992-1994)
  (ii) Phase Two (1994-May 1999)
(4) Conclusion : Key Factors for Success

1) Crédit Mutuel (CM)

Crédit Mutuel is a powerful decentralized group which is number five of the banking groups in France. It is the second largest cooperative bank in France and the first French "bancassureur". It is a three-tier organization which is based on the principle of subsidiarity.

Local Level:	3500 outlets, 1850 with local cooperative bank status "Caisse locale de...."
	Local banks collect members' savings, grant loans to members and make profit to achieve sustainability and increase its development.
Regional level:	18 regional groups "Fédération régionale du Crédit Mutuel", "Caisse fédérale du Crédit Mutuel"
	Regional banks coordinate the affiliated local banks, audit the affiliated banks on behalf of the Confederation, annually certify the local bank's income statement as well as that of the regional group, and are responsible for the cash management of local and regional banks.
National level:	Confédération nationale du Crédit Mutuel CNCM
	The role of the CNCM is to represent the CM group at the national and international level, to audit the regional groups on behalf of the "Banque de France: Commision Bancaire", and ensure cohesion and coordination of the CM group.

Crédit Mutuel and CIC
Fact Sheet as of 31 December 1998

	Crédit Mutuel	Crédit Mutuel + CIC	Crédit Mutuel + CIC Ranking in France
Clients	8.6 million	11.3 million	3rd
Outlets / Branches	3500	4900	2nd
Employees	26300	47500	5th
Savings	93.63 M Euros	174.18 M Euros	3rd
Deposits	62.13 M Euros	101.52 M Euros	5th
Credits	52.64 M Euros	94.15 M Euros	5th
Total balance Sheet	129.32 M Euros	242. 12 M Euros	4th
Shareholders' Equity	8.08 M Euros	8.1 M Euros	4th
Bancassurance Net Output	3.55 M Euros	6.34 M Euros	5th
Operating Results	1.21 M Euros	1.93 M Euros	4th
Net Income	0.51 M Euros	0.53 M Euros	4th
Operating Ratio	65.8 %	69.5 %	4th
Solvency Ration	11.5 %	11.5 %	4th
Tier one Ratio	8.9 %	8.9 %	3rd
Profitability	8.1 %	7.7 %	6th
Bancassurance Turnover			
Life Insurance	2.59 M Euros	3.87 M Euros	4th
Non-life Insurance	0.78 M Euros	0.78 M Euros	1st
Monétique			
Cards Issued	3.7 Million	4.9 Million	2nd
ATM	2990	4030	3rd

2) Rural Finance Fund RRF

The RRF developed out of a World Bank microcredit project. It was created in September 1992 under the Albania Development Fund Authority. Crédit Mutuel was invited by the World Bank to assist in the rural credit component portion of the project. The main objectives of the cooperation between the Rural Finance Fund and Crédit Mutuel are the transfer of know-how, knowledge and competence.

The **objective** of the project is:

i) To assist the poorest areas of the country to develop through employment creation and strengthening of existing economic activities.
ii) To assist with private sector development
iii) To establish a decentralized financial system at village level.

Area of Operation of the RFF

The main credit **beneficiaries** of the project are the inhabitants of the villages who do not have access to formal credit.

Loans are granted to every village inhabitant based on the following criteria:

i) Good reputation
ii) Prospects of generating income
iii) Material and technical possibilities for the implementation of the activity,

The rural credit programme consisted in establishing a civil society structure in the village (a Village association) based on Albanian tradition; support and training in micro-credit and small business management; small loan disbursements in villages which would create gainful activities.

Indicators of Actual Rural Credit Activity

Year	End '94	End '95	End '96	End '97	End '98	July '99
Districts	7	9	11	11	11	10
Communes	17	33	47	52	55	57
Villages	59	100	170	192	221	231
Clients	2,662	4.749	8.097	1,1202	13,623	14,764
No. of Loans	2,751	5.143	8.996	1,3092	16,557	18,040
No. of Active Clients	2,408	4.171	6.859	8634	9255	8739
Total disbursed loans LEK		194,504,500	371,730,191	581,138,297	854,665,166	1,029,399,618
Total repayment LEK		55,629,108	128,499,238	268,077,686	437,803,510	561,272,020
Loan average in USD		408.71	421.95	400.33	429.75	456.39
Staff			26	27	31	35

Indicators of Actual Rural Credit Activity (continued)

Year	Disbursements	Repayment
1995	99,809,086	3,7653,965
1996	177,225,691	72,870,130
1997	209, 408, 106	139,578,448
1998	273,526,869	169,725,824
31 July 1999	140,086,555	102,694,863

3) Implementation of the RFF 1992-1999

i) Phase One: September 1992 - May 1999

The first part of Phase One of the programme focused on identifying the objectives of the project, principles for implementation, reviewed statutes and internal rules and determined what services were needed and for who.

From 1994 to May 1999, the project began practical implementation, established principles for development and focused on human resource development and training.

During Phase One a number of difficulties were encountered including:

- Uncertainty of the political environment
- Lack of legal framework and rules
- Local culture and practice
- Individual tradition
- Lack of reliable telephone
- Lack of information systems
- Difficulty in travelling between Tirana and the majority of districts and villages involved in the project (security, long travel time, etc)

ii) Phase Two: June 1999 - 2004

Given the positive results and the increased demand for financial services in rural areas, the World Bank in agreement with the Albanian Government approved a new project - the Rural Finance Fund or RFF. Its objectives are to:

- establish savings and credit associations
- increase the number and geographic spread of associations
- provide training for all partners

It also will help establish a two-tier organization - village based savings and credit associations with a second tier union of these associations.

RFF is led by a Board chaired by the Vice-Minister of Finance of Albania.

The savings and credit association system is expected to become progressively sustainable, covering its operational costs.

Successive steps to the implementation of the project will be to create a rural finance fund to turn the present village committee or board into ASF or create new ones in other areas. Also planned is assistance to create a national union of savings and credit associations in two years,

The programme has identified the first villages where savings and credit association could be created.

4) Conclusion - Key Factors for Success

In the first phase (1992-mid 1993), the key factors identified for the success of the project were as follow:

- The project was in line with local culture
- Successful identification of leaders
- Building the project from bottom to top
- Implementation of the project on a network approach

In the second phase the key factors for success were:

- Time schedule respecting the existing capacities (human resources and tools) and the local economic environment
- Training the participants of the project on technique and technology i.e. banking activities in savings and credit cooperatives (human resources are at the core of success)
- Implementation of standardized technology adapted to the local technical environment.

In general, the following factors must be considered for success:

- Determine the objectives or goals that take into consideration the local economic environment
- Audit project progress at regular intervals
- Ensure that a local manager retain responsibility of the project
- Ensure that consultants bear in mind that their only objective is to transfer their know-how to local staff.

Annex 3: The Credit Union Network in Lithuania

R. Stankevicius, Manager, Association Lietuvos Kredito Unijos (Association of Lithuanian Credit Unions)

Outline of Presentation

(1) Current Environment in Lithuania for Credit Union (CU) Development
(2) DID Assistance to Develop CU Network
(3) Current Network Performance
(4) Association Services to Credit Unions
(5) Current Strengths and Weaknesses of the Network
(6) Priorities for Future Activities

1) Current Environment in Lithuania for Credit Union (CU) Development

CU Movement in Lithuania Is Not Young:

- First CU in Lithuania - 1871;
- In 1939 310 CUs in Operation;
- Total membership 119,000 People ;
- In 1939 CUs held 37% deposits and 37.5% loans markets
- Following the Soviet occupation of Lithuania in 1940, all CU assets were nationalized, no CUs were in operation;
- 1950 - 1991 illegal mutual banks in State enterprises were popular.

Banking Crisis

- 1990 Lithuania regained its independence
- 1994 - 1996 banking crisis (more than 20 banks and more than 100 pseudo financial institutions went bankrupt)
- in 1994 Développement International Desjardins (DID) started activities in Lithuania.

2) DID Assistance to Develop CU Network

DID Strategy was very clear

- Start a unified Credit Union network,
- Introduce modern management tools

DID Achievements in Lithuania

- Lithuanian Credit Union Law
- Unified computerized accounting system and tools
- Training strategy
- Unified marketing strategy
- Internal CU supervision;
- Unified CU management tools
- 22 operating CU with their association.

Main factors which led the support by DID to Credit Unions in Lithuania Successful

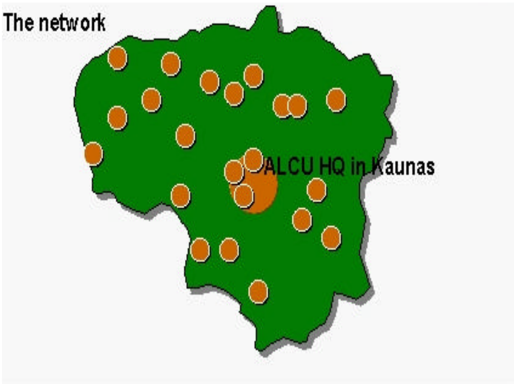
- market situation
- good strategy
  - first CU law, then CUs;
  - no money was distributed to CUs;
  - striving for support from state authorities
- qualified CU project management by DID

Lithuania: Economic Data

- *Inflation - 2.4%*
- *Unemployment - 8.1%*
- *USD = 4 Litas*
- *Average salary / month: 275 USD*
- *Minimum salary / month: 110 USD*

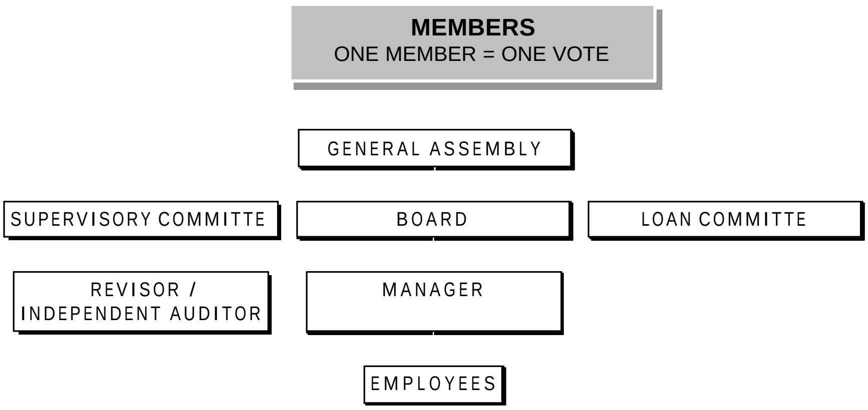
Lithuanian Kredito Unijos Law:

- February 1995: Law on Credit Unions was passed by the Lithuanian Parliament
- Autumn 1995: First CU was founded
- August 1999: 30 CUs are in operation.
- Minimum number of members to start CU is set at 50
- Minimum share per member is set at USD 75
- Only natural persons can be CU members
- CU can accept deposits from :
  - Members
  - Other CUs, CU association
  - Public and religious organizations
  - Charities and development funds
  - Government bodies
- CUs can lend to:
  - Members
  - Other CUs
  - CU associations
- Maximum loan can not exceed 10 times the value of shares and 10% of savings in CU
- Common bond can be based on profession; work in the same enterprise; living in the same village; belonging to the same organization
- Central Bank of Lithuania is the CU supervising institution
- Liquidity ratio >30%, capital adequacy ratio >13%
- Profit tax is 9% of net income
- Deposits in credit unions are not insured by state deposit insurance fund.



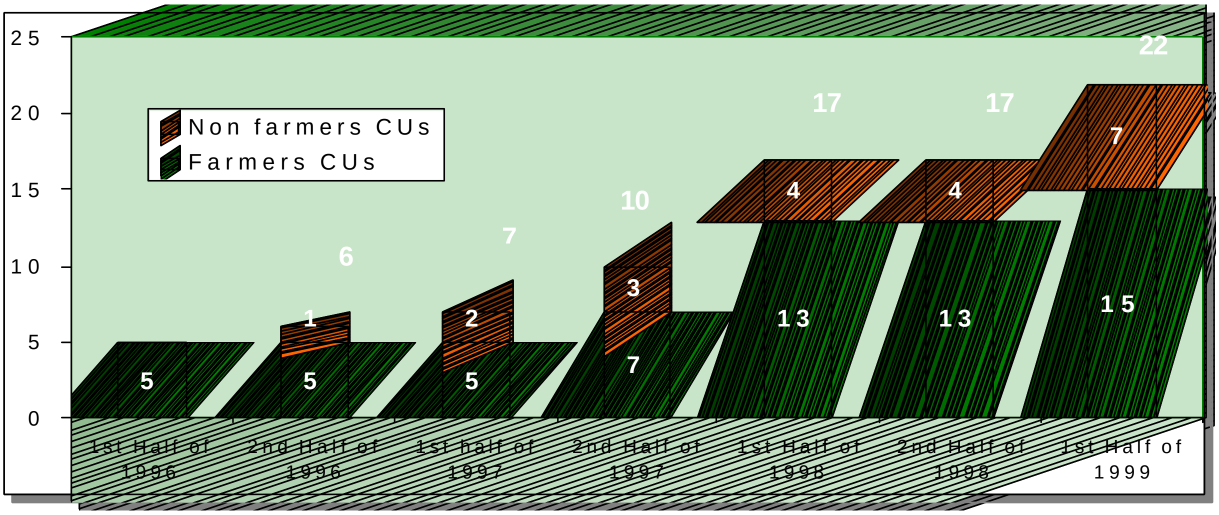
Association of Lithuanian Credit Unions

Structure: Association of Lithuanian Credit Unions

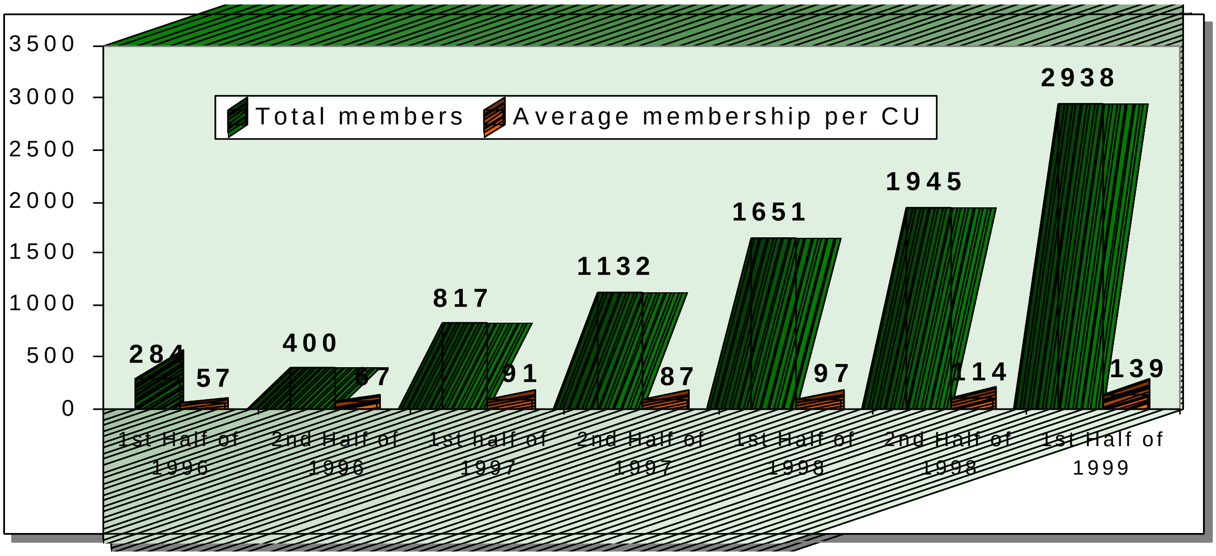


3) Current Network Performance

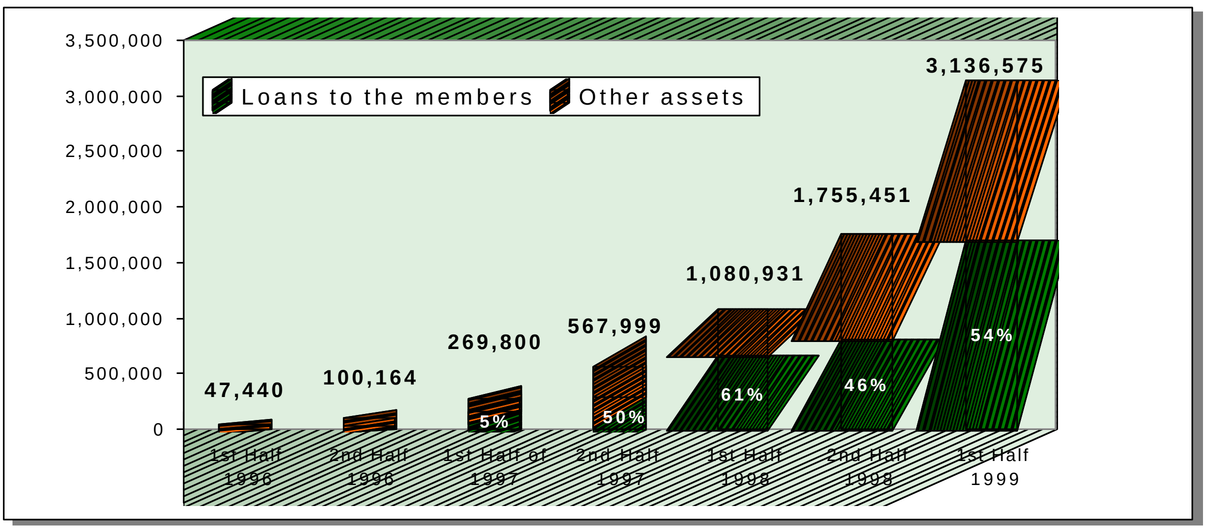
Number of Credit Unions



Number of Members of Credit Unions



Total Assets of CUs in Canadian Dollars CDN



Other Financial Data (3rd Qtr of 1999)

Average asset	USD	95,000
Average loan	USD	935
Average term deposits	USD	1,445
Average interest rate on TD		9.5 %
Average interest rate on loans		15.0 %
Liquidity		124% (> 30%)
Capital adequacy ratio		56% (> 13%)
Return on assets		2% (End of 1998: 1.6%)
Provisions for doubtful Loans		0.6% (End of 1998: 0.94%)
Outstanding loans	USD	1,280
Repaid loans	USD	2,534

4) Services

Background History of the Association

- November 1997: Founding of the Association Lietuvos Kredito Unijos ALKU by 11 CUs;
- February 1999: DID staff in Lithuania became staff of ALKU;
- October 1999: ALKU unites 22 CUs

Main Activities:

- Leading CU development in Lithuania by setting up a common strategy; participating in the working group to improve legal basis for CU activities; representation and awareness-raising
- Assisting in starting Credit Unions
- Training Programmes
- 'Microbanker' maintenance
- Marketing Programme
- CU supervision and technical assistance
- Assisting CUs with liquidity problems
- Managing a "Credit Line" from SEDF to support small businesses.

5) Current Strengths and Weaknesses of the Network

Strengths:

- Credit Unions have their centre - Association Lietuvos Kredito Unijos;
- Good Relations with, Parliament, Government; Central Bank; other institutions
- Standardization:
  - One Credit Union Law - the same bye-laws;
  - Internal forms and documentation;
  - The same accounting System 'Microbanker' & Chart of Accounts;
  - Management procedures;
  - Services and Marketing Strategy;
  - Logo, Slogan;
  - Modem network in order to make the balance consolidation and distant monitoring.

Weaknesses

- Economic environment not favourable: former crises of pseudo-financial institutions and commercial banks, low income of citizens, Russian crisis, etc.
- No deposit insurance for credit unions.
- Imperfect CU law.
- Low activity of elected officers in the CUs.
- Lack of knowledge and training for elected officers in CUs
- Low salaries for CU managers.

6) Priorities for Future Activities

- Education of members
- Training of elected officers of existing CUs
- Revision of CU Law and State Deposit Insurance Law
- Creation of a Central Credit Union
- Marketing Strategy
- Strengthening ALKU
- Collaboration with European credit cooperative movements.

Annex: 4 Overview of World Council of Credit Unions activities in Central and Eastern Europe with specific focus on projects in Romania and Poland

Normunds Mizis, Programme Officer for Europe and Asia, World Council of Credit Unions WOCCU

Introduction

It is a great pleasure to be present here at the COPAC Open Forum and I would like to take this opportunity to thank our hosts for the invitation to the conference and the opportunity to speak to this honourable audience.

My presentation today will provide a brief overview on WOCCU's activities in the region, concepts and principals for successful development of credit unions in economies in transition and two case studies from Poland and Romania.

Someone said: "A bank is a place where they lend you an umbrella in fair weather and ask for it back again when it starts to rain." Credit unions, in turn, have been long known as institutions that assist their members to solve their financial problems in the shortest possible time and at fair cost.

WOCCU has been involved in credit union development in CEE since 1992 and has been working in the following countries – Poland, Ukraine, Latvia, Lithuania, Romania and Macedonia. We finished our programmes in Latvia in 1998 and Poland and Ukraine in 1999, but have just started a new programme in Bulgaria and have extended our activities in Romania for another four years. Lithuania project is scheduled for closure in year 2000 and Macedonia in 2001.

Why were credit union support programmes necessary in CEE? As you know a number of problems related to availability of efficient financial services to the population appeared and still exist in the countries that are in transition from planned to market driven economies. Let me mention just a few of them:

1) Inadequate financial system: the average citizen had great difficulty and quite often even no possibility accessing personal, small business or agricultural credit services.

2) Absence of market-oriented financial skills: it has resulted in too optimistic forecasts for development and financial strengths of newly established institutions, population's unreasonable trust in institutions offering extremely high interest rates for deposits, fraud in financial market and inevitable bankruptcies.

3) Lack of people's participation: individuals have had very little or no role in determining or evaluating the services provided by the financial sector.

4) Inappropriate and conflicting legislation: allowing the establishment of various kinds of financial institutions without providing adequate regulation and lack of proper supervisory and monitoring capacity of state regulatory agencies.

The World Council of Credit Unions WOCCU has proposed the following solutions, ensuring provision of technical assistance to those countries that are trying to resolve the emerging problems mentioned above:

1) Development of savings and credit union system to provide consumers and small producers and traders with competitively priced, market-driven savings and credit products by using exclusively internal financial resources - member savings.

2) Transfer of skills and technology required for managing cooperative financial institutions in the conditions of increasing competition.

3) Credit unions serving as models of private, member-owned, democratically governed financial institutions ensuring every member their rights and the possibility of participating in the decision-making and management of credit union.

4) Policy and legislative reform encouraging greater reliance on market mechanisms in the financial sector, providing for adequate regulation and supervision and eliminating subsidized credit, paying positive returns on savings and establishing sufficient reserves.

WOCCU is using the following methodology in building Model Credit Unions:

Ideology – A credit union can only fulfil its social role if it is well-managed and it is a financially safe and sound institution. In the modern competitive world, business orientation should prevail over the social aspect of CU activities and CUs must attract diverse groups as members. Credit unions must be viewed as institutions for saving in the first place versus traditional appearance as a primarily lending institution.

Legislation – Credit unions should be part of the formal financial sector with proper and adequate legislation in place, prudent regulatory environment and supervisory authority able to perform supervision of CUs.

Financial structure – The main source of funds must be member savings deposits, while CU capital must be formed by reserves rather than member shares.

Financial disciplines – Credit unions must be both adequately provisioned for loan losses and capitalized and maintain appropriate liquidity levels at all times.

Credit services – All decisions must be based on the 5 'C's of credit unions – Character, Capacity to pay, Capital, Conditions and Collateral. The ratio of unsecured loans to total loan portfolio must be carefully monitored and exposure to increased risks due to unsecured loans minimized. Information systems on delinquent borrowers must be up to date and follow up on past due payments immediate and collection procedures effective.

Marketing – CUs must be, and promote themselves as, safe and sound financial institutions providing efficient financial intermediation services to its members and be competitive in the local financial markets.

- **WOCCU and Credit Union Development in the Region**

Let me provide you with some information about the status of credit union development in countries where WOCCU has been active since early 1990's:

Latvia – Law regulating CU operations enacted in 1995, Central Bank in charge of regulation and supervision of CUs. 9 credit unions licensed and operating. Total assets of USD 1.5 million. National association established and operational, providing mainly representational and informative services to CUs. CU service centre established providing accounting software maintenance and support.

Lithuania – Law on CUs since 1995, Central Bank responsible for regulation, 11 credit unions (only WOCCU), total assets over USD 1 million

Ukraine – Presidential decree allowing operations of CUs, Special credit union law in the process of discussion in the Parliament, National Association providing representation and information to CUs. In addition it has approved financial performance standards and monitoring system and is developing its regulatory capacity. Service centre and training centre operational. 82 CU members of UNASCU. USD 2.5 million in assets.

Macedonia – Working with mutual savings house to strengthen cooperative governance principles, introduce efficient management techniques and competitive products and services.

- **Credit Union Development in Romania**

And now let me provide you with more detailed analysis of the conditions and status of CU development in Romania.

The history of credit union development in Romania is almost 100 years old. It survived the planned economy but found itself unprepared for economic changes and fluctuations. Let me share with you some figures. In 1991 there were 5,534 financial cooperatives with a total membership of 3.6 million and USD 225 million in savings. At the year-end of 1998 there were 4,653 CUs with 1.8 million members and USD 86.6 million in savings. There has been a decrease in membership by 50% and a decrease in savings by 62%. The reason for this dramatic decrease has been the fluctuating economic environment combined with inability of management to adapt to the new conditions. Let me mention some facts:

Inflation. Year-end inflation for 1997 was 151% and 42% for 1998. CU difficulties can be traced back to 1991 with high inflation rates and inappropriate pricing policies and lack of a strategy to minimize the effects of inflation on member savings and loan portfolios.

Pricing of savings – Under such high inflation rates, CUs continued to work according to the old methods – requiring obligatory monthly share contributions and paying low interest rates (around 3-10% per annum), as well as issuing loans at low rates (15-20% per annum). As a result of CUs not protecting the value of savings against inflation, members began leaving CUs and savings decreased dramatically.

The net result has been a loss of purchasing power of CU loans – the amounts of CU loans are now insufficient to allow members to purchase goods that were commonly financed prior to 1991, i.e., cars, houses, etc.

Privatization. Privatization involved increased efficiency of operations of privatized enterprises and loss of employment as State-owned enterprises went through the privatization process or downsized as a precursor to privatization. The impact on CUs, the majority of which are closed employer-based, was a smaller field of membership. The employer based CUs expressed guarded willingness to expand their field of membership outside the work place.

The proposed solution for the current situation is to introduce savings and loan products priced according to market conditions.

Implementation of the new project includes two major components:

1) **Modernization of CUs**: In order to expand both CU membership and services, the programme is implementing the model credit union approach in 20 CUs. This methodology focuses on (a) institutional development, (b) savings protection, (c) a first round of credit administration (new credit policies and procedures, repayment capacity analysis, delinquency control, collections, risk analysis), (d) savings mobilization, and (e) a second round of credit administration (product and service diversification to meet members' microenterprise and other credit needs). The methodology utilizes a financial performance monitoring tool known as PEARLS (Protection, Effective Financial Structure, Asset Quality, Rates of Return and Costs, Liquidity, and Signs of Growth).

Through this approach CUs will be able to move from traditional services to a more effective financial structure that emphasizes new, market-based services. Modernized CUs are being positioned to expand the range of financial products and services they offer to their members while improving their safety and soundness as financial institutions. This will lead to an improved public perception of CUs as a safe place to save and borrow and, thus, increases membership within the community.

2) **Model CU Certification Programme**: A Model CU Certification Programme will be instituted to recognize those CUs that meet international credit union prudential safety and soundness standards. Membership in the certification programme will require that the CU adhere to the operating policies, financial disciplines, and performance standards established for Model CUs.

The goal of the Model CU Certification Programme is to present an improved and consistent public image of CUs and to gain public confidence in CUs as safe and sound financial institutions. The Model CUs will seek to distinguish themselves from traditional CUs and will be marketed as a select group of financially strong, highly disciplined CUs which will help to accelerate savings growth in the certified CUs and provide an incentive for other CUs to emulate the certified CUs.

This Model CU rating and certification programme will serve as the basis for a long-term regulatory framework for CUs. Given the possible amendment of Law 122/1996 WOCCU will undertake dialogue with agencies of the Government of Romania including the Ministry of Finance and the National Bank of Romania to develop a suitable regulatory framework for CUs.

The following results have been achieved by the end of July 1999:

184 CUs out of 4,544 have introduced the new services, covering 33 of 42 Territorial Associations. Membership utilizing market priced services grew from 42,361, at the beginning of the year, to 69,901 by the end of June.

During the first six months of 1999, membership continued to decline and reached 5%, however, member savings showed positive growth for the first time in the past four years and reached the growth of 9%. This was largely due to the new services introduced.

WOCCU has just started a new programme in Romania that will continue for four years and will be implemented on the basis of the principals described above. We are certain that we will be able to share a success story of the recovery of a large credit union system in the future.

- **Credit Union Development in Poland**

However, in CEE most of our activities have been working in countries where credit union systems did not exist or were destroyed during the Communist era. One of the examples of building a new and rapidly growing credit union system is from Poland. Let me take a few moments to describe the experience of credit union development in Poland.

At Polish request, the World Council of Credit Unions (WOCCU) provided technical assistance funded by the US Agency for International Development (USAID) to help create a credit union system after the fall of Communism in Poland.

In 1992, the project established a National Association of Savings and Credit Unions (NACSCU) and created a Central Finance Facility (CFF), a Stabilization Fund, and an Insurance Company. This technical assistance project did not focus on strengthening a number of primary level credit unions at the base, but instead had a top-down approach. NACSCU has directed and implemented most of the project initiatives. As of 31December 1998, the following indicators were recorded:

Number of Credit Unions Registered:		220
Total Membership/Clientele:		268,700
Total Savings Deposits Mobilized:	USD	138,895,066
Total SCU Equity Capital:	USD	14,660,634
Total Assets:	USD	158,073,027
Total Loans:	USD	112,949,678
Average Loan Size:	USD	437
Average Savings Deposit:	USD	537
Loan Delinquency:		0.74%

The total cost of the entire seven years of USAID project assistance to Poland was USD 3.9 million. For every US dollar that was spent on this project, over USD 40 of new assets were generated. Assets of USD 158 million have made the Polish credit union system the fourth largest financial network in Poland. A survey of 604 credit union members in 21 credit unions completed in March 1998 reveals the depth of outreach of Polish credit unions. For more than 50% of the members surveyed, the credit union is the only source of formal finance available to them.

Besides credit union-level achievements, the development of NACSCU as a financially sustainable second tier national association, is a remarkable project accomplishment. The National Association of Cooperative Savings and Credit Unions is the apex organization through which virtually all credit unions are allowed to do business in Poland. There are many national associations throughout the world that even after thirty years of existence are still not financially self-sustainable. NACSCU's overall success and financial independence are largely due to its ability to attain: legal significance, commercial significance (as evidenced by income-generating services including central finance facility, stabilization fund, training seminars, SKOKOM computer software, equipment services, supervisory/audit services, insurance products), political significance, and supervisory significance.

As is the case in most successful projects, there are a variety of factors which, when combined together, produce a synergy that yields an output greater than the sum of the individual pieces. In the case of Poland, this synergy is readily apparent. The success factors in the development of the Polish Credit Union Movement include:

- successful national macro-economic reforms
- political support from the Solidarity Trade Union and Solidarity political party
- strong credit union leaders and competent employees
- favourable credit union legislation
- starting in the workplace
- Polish economic and social underpinnings, and
- international credit union network and volunteer partnership agreements.

Considering that no credit unions had operated in Poland since before World War II, it seemed aggressively optimistic to assume that a credit union network could start from nothing in the early 1990s and build a large base of self-sufficient, primary level credit unions throughout Poland within seven years. Unbelievable as it seems, that is exactly what has happened. In addition the project has also created a number of second tier organizations providing financial services present in virtually all of the developed credit union movements around the world.

Today, credit unions in Poland offer a sophisticated variety of products and services ranging from short-term instant loans, medium term credits, long-term housing loans, share deposits, withdrawable voluntary savings deposits, systematic savings programmes, fixed term deposits, automated teller machines (ATM), electronic payment of monthly bills, credit cards, to life insurance. Credit union interest rates are more attractive than those of commercial and state banks. Credit unions typically pay several percentage points higher on savings deposits and charge one or two points less on credit.

Let me mention second tier organizations operating in Poland.

Development of NACSCU was mentioned already. Something to be added is the fact that with the approval of the Credit Union Act of 1995, NACSCU assumed a pre-eminent role as the true axis of the entire Polish credit union network. Legally, NACSCU has been charged with the responsibility of establishing prudential standards and norms for credit unions, and then enforcing those norms through a comprehensive audit and supervisory role. This legal structure, in essence, guaranteed that NACSCU would always play a significant role in the development and supervisory control of the credit unions. At the centre of its supervisory responsibilities are the prudential standards of safety and soundness that NACSCU imposes on all of the Polish credit unions. To effectively monitor the compliance of these standards, NACSCU requires strict monthly reporting requirements of all credit unions. The growing database of credit union financial data and statistics has become a powerful, centralized source of information for NACSCU, on the status of the Polish credit union system.

The key to the financial success of NACSCU has been the commercially-oriented products and services which it has offered to credit unions to help them provide better services to their membership base. The sale of these products and services has created sufficient revenues to cover the operating expenses and attain financial sustainability. The services listed below are offered either through NACSCU, or a subsidiary or affiliated organization through which NACSCU receives a financial benefit:

Central Finance Facility (CFF). The CFF was created in order to provide liquidity protection to credit unions in the event of unanticipated member savings withdrawals. The current fund balance of USD 17,263,165 has grown as a result of the legal requirement that all credit unions maintain at least 5% of all savings deposits and external loans and 100% of their capital reserves (shares and institutional capital) in the CFF. The role of the CFF is to manage the liquidity of the credit union network. It is the only credit union entity that can borrow from banks, so primary-level credit unions can only borrow from the CFF for their financing needs. It pays a competitive return to credit unions for the obligatory liquidity reserves that they must maintain in the CFF. Currently it is 12%, which is at the same level with Polish Commercial Banks.

This return is significantly higher than that of the competition. For example the National Bank of Poland requires banks to deposit 11% of their risk-weighted assets as obligatory liquidity reserves, and pays 0% interest on those funds. Aside from the obligatory liquidity requirements, the CFF also offers a volunteer savings programme which pays higher interest than savings accounts in a bank.

The CFF has two investment options with its liquidity. It may either invest in government bonds which currently yield 14%, or it may loan funds to member credit unions in need of external financing. The loan interest rate varies between 16-20%, depending upon the term of the loan. The CFF has tried to "smooth out the highly volatile interest rates in the financial marketplace by not reacting immediately to rate changes. By lagging the market, the CFF provides greater stability to the credit unions still struggling with proper interest rate pricing.

Stabilization Fund. The Stabilization Fund was set up to assist credit unions that have experienced financial difficulties in the volatile economic conditions of the financial marketplace. Credit unions must deposit 1.22% of their total assets in the Stabilization Fund, at 0% interest, in order to help weak credit unions strengthen their financial position and protect their member savings deposits. NACSCU lends this money out to weak credit unions at preferential rates of interest (currently between 5-8%). As of December 1998, the balance of the Stabilization Fund was USD 2,045,000. Of this amount, USD 250,000 is loaned out to financially troubled credit unions while the balance is invested in government bonds.

Mutual Benefit Insurance Company. This credit union-owned insurance company provides credit unions and their membership with a variety of important insurance products, such as property and casualty insurance, credit disability insurance, fidelity bonding insurance, and savings deposit insurance up to 8,000 EURO per account holder.

The H&S Software Company. All credit unions that belong to NACSCU must use SKOKOM credit union software, developed by this company. Increasingly, this software has become a centrepiece for offering new financial products (e.g., ATM cards, credit cards) as well as for the supervisory activities conducted by NACSCU, as mandated by the new credit union law. H&S also handles the purchase of a variety of office supplies, equipment and furniture for the credit unions, such as desks and chairs, copy machines, computers, ATMs, paper shredders, safes, marketing materials and forms.

Credit Union School and Training Centres. The Credit Union College and the regional training centres, equipped with very capable people, have done an excellent job in training credit union personnel in all matters related to credit union principles, philosophy, operations, financial management, and member services. Training is an on-going activity, which is conducted in regional training centres throughout the country. Fees are charged for these seminars.

The Foundation for Polish Credit Unions (FPCU). This is a tax-exempt foundation that owns the building of NACSCU and the SKOKOM software programme. In addition, it has invested in TUW-SKOK Insurance, a Brokerage Service Business, and computer hardware. It uses donor contributions to help develop and strengthen various activities within the Polish Credit Union Movement.

I hope that the examples presented to you revealed the role and importance of the credit unions in today's financial markets and proved the sustainability and competitiveness of financial cooperatives in today's conditions.

And let me finish my presentation by quoting a CEO from a credit union in southern Poland, which summarizes the role and place of credit unions in the financial markets of Central and Eastern Europe today:

> "Recently a bank opened a branch near the coal mine and it was perceived as a competitor to our services, but this is actually not the case. The bank wanted to meet with us and we did. During this meeting, the manager of the branch frankly admitted that they would be unable to compete with us in terms of the range of services and the speed of delivering services because they are not in a position to provide the type of retail banking services that we do." *(Stanislaw Silski, CEO of Wesola Coal Mine Credit Union in Southern Poland).*

Thank you very much for your attention.

Resource materials used:

- Evaluation Report: Introducing Savings and Credit Associations in Romania, Brian Branch, Curtis Slover; WOCCU; March 1998
- Project status report; WOCCU/Romania; September 1999
- Polish Credit Union Development Success: Building a Sustainable Network of Financial Services to Serve Low-Income Masses; Anna Cora Evans, David C. Richardson; WOCCU; 1999

Annex: 5 Institutional Patterns of Rural Development in the Countries of Central and Eastern Europe

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Outline of Presentation

(1) Introduction
(2) Land Tenure
(3) Land Markets
(4) Non-farm rural enterprises and other institutions
(5) Services
(6) CSOs, NGOs including farmers organizations, unions, associations
(7) Some closing observations

1) Introduction

The Rural Development Division (SDA), Rome and the FAO Subregional Office for Central and Eastern Europe (SEUR), Budapest, Hungary have launched a joint project, entitled ***Institutional Patterns of Rural Development in the Countries of Central and Eastern Europe***. The project is financed by SDA and SEUR from their Regular Programme funds.

The project focuses on the institutional aspects of rural/agricultural development, including the following, closely interrelated technical areas: the status of land transactions, land tenure types, farm management types, (private, cooperative, corporate, etc.) and non-agricultural rural institutions/organizations, (off-farm income generating institutions, service providers, etc.) The long term objectives of the project is to develop post-transitional institutional models of rural development for the specific conditions of the former centrally planned economies of Central and Eastern Europe.

The project is being implemented in two phases. Phase I was carried out from November 1998-July 1999 and aimed to assess the present status of institutional changes, and national institutional policies/strategies and establish institutional development patterns in selected pilot/strategic countries. It covered four countries in the sub-region, representing a cross-section of all former centrally planned economies in CEE. In the framework of the project country studies were prepared by national authors from Hungary, Lithuania, Poland and Romania.

This first “pilot” phase is scheduled to be followed by an implementation phase during which the programme will be extended to further countries and will conclude in the preparation of a normative output to serve, *inter alia*, as a basis for future FAO assistance in the sub-region. However, the methodology and final work programme for Phase 2 will be designed based on experiences gained through Phase 1, which requires a thorough and consolidated assessment of the four country studies prepared so far and preparation of a revised concept paper and schedule of activities for follow-up.

This report summarizes the findings of the four country studies mentioned above, with particular emphasis on institutions that have a direct bearing on cooperative development in the respective countries.

2) Land tenure structures

As part of the transition from a centrally planned to a market oriented economy, the Governments of all four countries decided to abolish landed property of the State and collective farms soon after they had opted for the introduction of market economic principles. While each country applied different procedures to achieve this objective, it can be generally stated that the privatization of landed property and the development of land markets has not been implemented in a well-designed, systematic manner. In all four countries under review the Governments have frequently introduced changes and amendments to legal provisions regarding land transactions, which indicates their lack of experience in market economy and perhaps their incapacity to conceive the implications of their political decisions.

Without discussing the process of reform implementation, the effects of the adjustment process on the land tenure structures of the countries concerned can be summarized as follows:

In Hungary, the polarized agrarian structure with the preponderance of large-scale farms, the existence of a large number of fragmented dwarf holdings and the lack of medium-sized farms has been maintained. There are about 2,600 large-scale farms with an average size of 1,800 ha which cultivate 52% of the agricultural land. The remaining 48% belong to the private farm sector and are owned by 1.8 million households. Eighty percent of them own less than 1 ha.

In Poland, structural transformation of arable land (mainly in the form of lease arrangements) embraced more than 4.5 million ha, i.e. 24% of all arable land. The transformation process created a potentially strong sector of privately managed large-scale farms, covering at present about 12% of arable land. The peasant farm sector which covers 82% of arable land, increased its area by only 2.4% through purchase or lease of land. The main purchasers were small and very small farmers. The major reason for this development is the lack of interest of peasants in increasing the area of their farms which in turn may be explained by the low efficiency of the agricultural sector, i.e. the high costs of inputs compared to the low prices obtained for agricultural products.

In Lithuania, the abolition of the state and collective farm sector was achieved rather rapidly covering by January 1993 some 80 % of this property. As a result of the privatization process, 196 000 family farms were established until early 1997. Their number is constantly growing. In the course of privatizing the property of large scale enterprises by creating shareholding companies and distributing shares to its former operators, a total of 4,300 agricultural companies had originally been created, however, their number is constantly decreasing and in early 1998 amounted to only 1 800. The majority of these companies were liquidated by the decision of the shareholders to cease activities. Following the enactment of a new law in 1997, members of agricultural companies are encouraged to establish family farms and their number is expected to increase.

In Romania, the Land Law of 1991 established two types of land ownership; namely that of the private sector, administering 12.3 million ha agricultural land and that of the state sector which manages 2.4 million ha. The private sector is composed of a) family farms with an average size of 2.3 ha, covering more than three quarters of private property land, b) land of family associations with an average size of 132 ha and c) land of legal associations with a size of 435 ha. There is a high share of subsistence farms with less than 3 ha (72 % of all private farms) and a low share of farms larger than 10 ha (0.3 %). The largest part of the land held by the State sector is managed by joint stock commercial companies in which the State has the majority of the share capital. They have an average size of 3,370 ha. These companies are in a difficult financial and technical situation and most of the private 250,000 shareholders do not receive the dividends to which they are entitled.

3) Land markets

The development of land markets is equally heterogeneous. As a general trend, it can be observed that the introduction of private land ownership enabled the creation or, in the case of Poland, the reinforcement of such markets.

In Hungary, an unlimited land market was established in 1989 and allowed a group of capital owners to purchase public land at low prices. The land lease market is well developed. Some 52 % of the land fund is cultivated by legal entities on a lease basis.

The land market in Lithuania is in its initial stages. The size of holdings sold is usually small amounting to an average of 2.6 ha. Active trade takes place in areas close to cities and in attractive locations. Because of legal limitations juridical persons, i.e. larger agricultural enterprises cannot become landowners. They can, however, resort to the land lease market which is well developed and more active than the land sale market. Some 440,000 land use units have been established on leased state land covering 43 % of all agricultural land.

In Poland, the formation of a land market is influenced by an oversupply of land resulting from the liquidation of state farms. This applies in particular to regions with a large share of state farms. As a result, quite a specific land market emerged dominated more by administrative decisions and rules, rather than by market principles and mechanisms. The process of complete privatization embraced only about 15 % of big farms land, while the rest is not yet covered by the privatization process and so far, only private management of farms has been achieved. In recent years, however, the situation has undergone important changes. The process of transformation of state farms is coming to an end and an effective land market begins to gain importance.

The land market in Romania has started to operate legally only in 1998. The average size of land sale-purchase contracts is 1.3 ha. Land prices are relatively low due to a general lack of interest in buying land, the low price for agricultural products and the lack of capital and credit for buying land.

4) Non-farm rural enterprises and other institutions

Economic activities of rural populations are becoming increasingly diversified in the countries of CEE. According to the country study of Poland, a particular feature of contemporary agriculture, mainly of developed countries is the process of “dis-agrarization” of the national economy on the one hand, and the “explosion” of rural areas economy and a development of various forms of economic activity related and unrelated to agriculture on the other. Although Poland, as a result of the socialist agricultural policies, remains undoubtedly far behind in the process of ‘de-agrarization’ of the national economy, these processes resulting from the logic of functioning of modern economic systems take place in the Polish economy as well and the systemic transformation of the nineties brought about their dramatic acceleration.

In Lithuania, nearly 90% of rural dwellers are involved in agriculture. Nevertheless a considerable part of them obtain additional income from other activities, the majority of whom are owners of small, up to 5 ha plots. About 49% of non-farm enterprises in rural areas are involved in trade and public catering. In many places, rural crafts based on local raw materials prevail. In the terms processing, the most important activities are slaughtering, meat processing and timber processing. These activities are mainly carried out by small enterprises with the average number of up to five employees. The development of non-agricultural enterprises in rural areas are influenced by geographic location, natural features, self-government institutions, business infrastructures and other factors. However, suburban areas have the largest number of such enterprises because of a larger market and the convenience of arranging administrative formalities of enterprise registration. Similarly, in the regions with soils of low fertility, rural people are more inclined to diversify their activities. It is important to note that these small enterprises use primitive ways of input supply and selling their products mainly due to lack of appropriate organizations. In an attempt to avoid the involvement of middlemen, they sell directly to consumers or through retail trade channels and public markets.

5) Services

Services are generally underdeveloped and service providers are missing in the rural areas of CEE countries. In Hungary, the Ministry of Agriculture, realizing the importance of the demand of private farms for services and the necessity of the improvement of production standard, encourages the re-launching and extension of integration activities by large-scale farms, promotes the organization of marketing and purchasing co-operatives based on the initiatives of private producers and has established and operates a consulting network covering the entire country.

The consulting (extension) network was set up in 1994 with the aim to provide farmers with adequate information regarding the establishment and running private farms, including both technological and other production related questions and information about tender possibilities

In Hungary, the consulting (extension) service is provided by a dual system. Basic services are provided free of charge financed from the state budget. This network was initially operated by the Ministry of Agriculture, and later by the Chamber of Agriculture. Recently it has been managed by the Ministry of Agriculture and Rural Development and has an extended scope activities. Services are carried out by agricultural experts with a university degree called village agronomists. Consulting operates on a territorial basis. One village agronomist usually covers 1 to 8 settlements. At present, the network is composed of 650 individual village agronomists.

In addition, there also exists a private consulting network. This includes experts listed in the Directory of Consultants who carry out their services for compensation as entrepreneurs. The costs of the services are partly reimbursed by the state budget. Until 1995, this cost refund was only available for registered private and corporate agricultural but it has now been extended to small-scale agricultural producers as well.

Besides the above, the Ministry of Agriculture and Rural Development subsidizes secondary schools and universities of agriculture in modernizing their tuition system and teaching material so that students could obtain knowledge corresponding to the transformed circumstances. The role of educational institutions is also very important in extension proper.

The development of village tourism – especially agro-tourism – is a relatively new field which, since 1997, has been treated as one of the most important tasks of rural development. At present, the Ministry subsidizes advertising activities and special consulting on this field. In Lithuania many non-farm services focused on social infrastructure with the exception of health care and education. These were privatized and because of the inefficiency have ceased to exist. In Romania, an economic, social and institutional followed the collapse of the centralized system. The government promoted a large number of new associations and NGO including farmers' organizations to provide services to the rural areas. The foundation of rural associations is the basis of the modern cooperative system.

6) CSOs, NGOs including farmers organizations, unions, associations

Generally speaking, the countries of CEE are caracterized by two types of civil society organizations: On the one hand, a significant number of old organizations survived and operate, although to a larger or lesser extent reformed, under the new conditions. On the other hand, an increasing number of new organizations emerge with a great variety of activities.

After restoration of independence in Lithuania, more than 40 different membership based agricultural, food producer and specialist professional unions, associations and societies have been established. Some of them are newly founded, others continue activities and traditions of rural organizations that were functioning before. The *Lithuanian Farmers' Union* is the main organization representing the interests of farmers. It unites about 40 thousand farmers. The Union has its own structural subdivisions in districts and provides its members with information and consultations. The *Lithuanian Association of Agricultural Companies* represents the interests of agricultural companies and enterprises, takes care of the improvement of their activities, education and management skills. The members of the Association are the strongest and most efficient agricultural enterprises. The *Lithuanian Confederation of Agricultural Trade Unions* had nearly 30 thousand members at the beginning of 1995. Since then, however, their membership has decreased. Meat, milk, grain, sugar and food production enterprises, growers of certain agricultural crops and animals, agro-service and land reclamation enterprises have also united into associations. The unions have been established by agricultural engineers, agronomists, zoo technicians, beekeepers, economists and landowners. Individuals and farmers have set up societies to facilitate exchange of information on the production of specific products such as caraway, cranberries, mushrooms, herbs, strawberries, snails, quails, rabbits, etc. The number of their members is not exactly known because some farmers participate in the activities of several organizations.

In Hungary, establishment of working committees exploring and mediating the special problems of rural territories and representing their interests is encouraged. Such committees, together with rural development organizations at different levels are supposed to participate as equal partners in the preparation and implementation of rural development programmes. The rural development working committees will also develop close collaboration with sub-regional development associations established at the beginning of the 90s. These organizations, established mainly on the initiative of local governments of settlements, have already prepared and carried out several rural development programmes. This is in line with the aims of the Government to build rural development on local initiatives. For the realization of this objective, the civil society organizations, whose number has been increasing and scope of activities expanding, have a significant role to play. One of the positive examples is the *"Village Parliament"* established on the initiative of several civil organizations. Local Governments, organizations of sub-regions, counties and regions are represented in the Village Parliament. Another initiative is the *Hungarian Telehouse*

Association which is of special importance in improving the flow of information in small settlements and villages**.** One further field of operation of civil organizations is the development of backward sub-regions in critical position, aiming to establish local enterprises and create workplaces as well as strengthen village communities *(*e.g. *Cserehátí Association)***.** Initiatives to revitalize and maintain cultural traditions are also very successful. In many settlements, there are non-profit organizations subsidized by local Governments serving social functions.

Romania considers that a modern democratic society presupposes the existence of a pluralistic system of institutions. This was the main reason for the establishment of the *Foundation for Civil Society Development* (FCSD) in 1994 as a non-government organization. The Foundation's mission is to contribute to civil society development in Romania through the support to NGOs. For accomplishing its mission and goals, FCSD developed four programmes: Funding Programme, Centre for NGO Development, Training and Development Programme and Research Programme.

In 1998, the *Centre of Resources for NGOs* was established with PHARE assistance, through FCSD and in partnership with the Farmers' Association of Romania, the Private Farmers' Federation and the Romanian Society of Horticulturists. Among the actions undertaken by the Centre of Resources for NGOs, 294 NGOs or NGO branches from the rural have been identified for support at national, county and local levels. Rural NGOs are involved in a great variety of activities in Romania and include associations for livestock raising; crop growing; processing of raw materials; food industry; milling and bakery; agricultural services; rural economic development activities; partnership activities; soil protection and conservation; protection and conservation of forests and waters; agricultural training and consultancy in agribusiness.

The most important rural NGOs and their main activities are as follows:. The *Farmers' Association of Romania*, established in 1996, is meant to protect private farmers' interests for the development of crop and livestock production and to promote the marketing of surplus products at profitable prices. As a young organization, the Association is still in the process of development and consolidation taking place "bottom-up" determined by farmers' needs. At present, the association has branches in 34 counties and it has about 800 members (natural and legal persons). The *Federation of Private Farmers of Romania* (FAPR) was established in 1991 to help consolidate private agriculture in the country. Members affiliated to FAPR account for 45% of agricultural land. The *Romanian Livestock Society* aims to contribute to livestock development by periodical sector analyses and organization of round tables, workshops, and livestock fairs. The *Federation of Mountain Farmers-Dorna* supports households in the mountainous areas through maintaining stores with low-price merchandise, granting mutual aid for investments, purchasing agricultural machinery, organizing local handicraft activities for women and providing machinery services for farmers. The *General Association of Cattle Breeders of Romania* promotes the introduction of modern technologies in cattle raising, establishment of profitable small and medium-sized farms and organizes livestock fairs and auctions. The *Romanian Society of Horticulturists*, with branches in 39 counties, safeguards horticulturists' and vine-grower' rights, stimulates private initiative, disseminates documentation and information on horticultural management and marketing, organizes professional training courses, fairs, exhibitions, contests and workshops. The *National Association of Landowners and Shareholders* endeavours to improve legislation, facilitate the procurement of equipment, animals, seeds, fertilizers and organize young farmers' agricultural practice abroad. The *National Association of Milling and Bakery*

Industries contributes to development of private milling and bakery sector, elaborates studies and projects, provides consultancy and other services and promotes co-operation with foreign partners. The *Society of Agriculture without Frontiers*, in view of EU integration of the Romanian agriculture, supplies information for private farmers and facilitates contracts with foreign companies. Last but not least, the *Foundation for Rural Associations* promotes the development of a modern co-operative system in agriculture providing legal, technical and economic assistance to private farmers in the process of establishing co-operatives.

7) Some closing observations

The most general observation one can make in reviewing the above, is the fact that not much has been said about cooperatives. This is in part explained by the general nature of the FAO project that aims to cover the broadest range possible of rural institutions and does not specifically focus on cooperatives. However, even if we take this into due consideration, it is rather evident from the four country studies that cooperatives have lost relative significance in the sub-region particularly in comparison with their roles in the former centrally planned economies of the countries in question. The explanation for this situation is obviously much more complex than just the overall scope of the study.

No doubt, one of the reasons is that many old cooperatives, in particular, large scale cooperative farms have been either dissolved or transformed even if they remained “corporate” enterprises, such as limited liability companies or joint stock companies. At the same time, although there are successful cases and positive examples in each of the countries, there has not been a massive emergence of new cooperatives in agriculture. Furthermore, newly established rural and/or farmer self-help organizations tend to avoid calling themselves cooperatives even if in technical terms they perform cooperative functions. A case in point is Romania where a great number and variety of associations came into being but only one of them, the *Foundation for Rural Associations*, aims at promoting the development of a modern co-operative system of private farmers in agriculture. Obviously, this reluctance towards using the term cooperative has a lot to do with negative past experience with parastatal cooperative organizations.

Notwithstanding the current “cooperative vacuum”, in the long term genuine co-operatives will, for sure, become indispensable institutions of agricultural and rural development in Central and Eastern Europe. By way of examples, the following areas of potential cooperative action could be mentioned: Consolidated tenure of highly fragmented landed properties could be promoted by establishing “land renting” cooperatives well known in pre-war Hungary. It goes without saying that provision of various services through cooperatives is a proven and natural way of action the World over. It is made particularly important in CEE by the fact that the dismantling of former large-scale cooperative farms created a hiatus of service providers not replaced so far by either the private or the public sectors. This applies to agricultural as well as non-agricultural services, such as extension, health and child-care, etc.

The most important area of cooperative action in agriculture has traditionally been and remains the provision of services in the up-stream and down-stream sectors. In other words, cooperatives have a crucial role to play in input supply for primary production, including capital, and in promoting value-added production through processing and marketing the additional revenue of which is channelled back to the farmers themselves. The only way to fully achieve this objective is through the establishment of farmer-owned cooperative enterprises that are able to offer a tangible “trade-off” to the farmers for their contribution as cooperative members.

Annex: 6 Producer Marketing Groups in Transitional Economies: Comparing Poland, Moldova and Uzbekistan

John Millns, The Plunkett Foundation (UK)[14]

1. Summary

Voluntary owned and controlled producer groups formed to provide maximum benefits to producer members, can work and compete effectively within a market economy. Logically these groups should provide answers to many of the rural problems faced by the transitional economies of central and Eastern Europe and the former Soviet Union. Yet few exist in a pure form and their evolution seemingly cannot be divorced from wider economic, historical, political and social considerations.

Over the past decade, the average gross domestic product or GDP of transitional economies has almost halved and the rural sector has suffered the most. Key indicators suggest that successful market orientated reforms require a clarity of purpose and commitment to a civil society, supported by, the systematic strengthening of institutions, macro-economic stabilisation, price and market liberalisation, all enforceable by the rule of law.

Progress in Poland has been the most impressive and largely buoyed by growing investments and clear economic decisions taken in the early part of the 1990s. A sense of purpose, discipline and direction has been further instilled into political and commercial life through the signing of a pre-accession treaty with the European Union in 1997.

But Polish agriculture remains a stubborn, structural and social issue. Agriculture accounts for a small proportion of GDP, but more than a quarter of the livelihoods of the population. It will require systematic transformation, with potential consequences, not only for Poland, but eventually for the whole of the European Union.

Polish farmers, not used to huge subsidies, have learnt to compete and are learning to cooperate. With domestic and export market opportunities in abundance and a primarily private farming sector the foundation for market focused producer group development has been established. New groups are forming and are beginning to trade, but they need to mature. Clarity of purpose, ownership and investment are sometimes confused and membership agreements to commit produce to agreed specifications are rare.

In Moldova, a former ‘garden’ of the Soviet Union, the future is not so clear and effective farmer groups are weakly rooted. Despite a radical land privatization programme, few countries have suffered as extremely over the past decade. With a fractious Parliament and

[14] Mr Millns has since 1990 primarily been involved in agriculture and rural enterprise re-structuring programmes in central and eastern Europe and the new independent states of the former Soviet Union. His main areas of work have focused on enhancing rural incomes and employment, primarily through supporting the development of a privatized agricultural sector, promoting the development of producer groups and encouraging rural enterpreneurship. The views expressed in this paper are the views of the author and not necessarily those of the Plunkett Foundation. The Plunkett Foundation is an independent charitable trust based near Oxford in the UK. It has been established for more than 80 years with the remit of furthering rural co-operation.

immense bureaucracy the country half-heartedly stutters towards a market economy. Farm privatization urgently needs to be supported by institutional reform to encourage investment and allow farmers better access to markets, input supplies, finance and technical assistance.

In Uzbekistan caution prevails, alongside experimental and controlled ‘privatization’ and reform. Less than 5% of farmland is outside of collective farm management. Private farmers are supported by a semi independent Private Farmers Association and informal family based groups are common. The extent to which the government enables further liberalisation remains to be seen but it could decide the complexion of central Asia for some time to come.

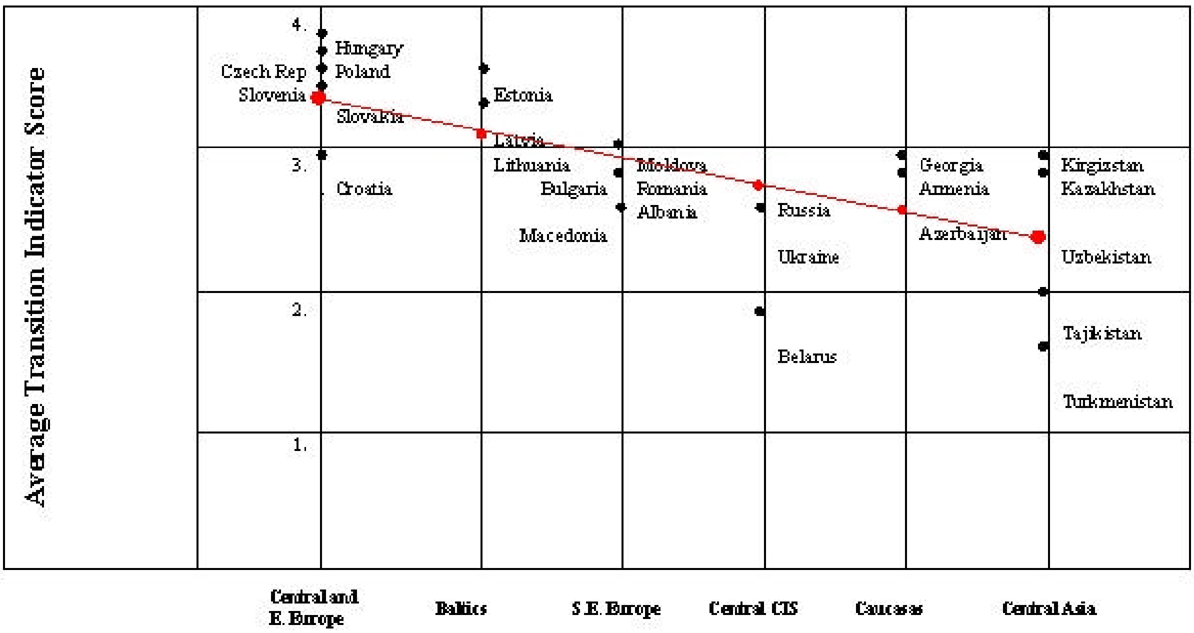
2. Economic reforms in Central and Eastern Europe over the past 10 years.

Few people could have envisaged the changes in Central and Eastern Europe over the past 10 years. Just under a decade ago, the Poles elected their first non-Communist government. At the end of September 1989, Leszek Balcerowicz the new Finance Minister, went to Washington and outlined to the IMF and the World Bank the Government plan for giving the country a market led economy. In 1990 the transformation began and creating a domino affect throughout the Socialist economies of Eastern Europe and the former Soviet Union.

It has been a long and difficult road, but last year the gross domestic product of Poland was 17% higher than when transition began. Its economy has grown at between 5-7% a year in every one of the last five years. Russia by contrast has lost close to half of its output and has experienced negative economic growth in every year since transition. This year according to World Bank forecasts, the domestic product of Russia will be a mere USD 167 billion, which would make it smaller than that of Belgium.

This contrast with Poland defines a decade of transition. Turning a Socialist dictatorship into a market economy is feasible but hard. Some have managed, others have failed and some have not really tried (figure 1).

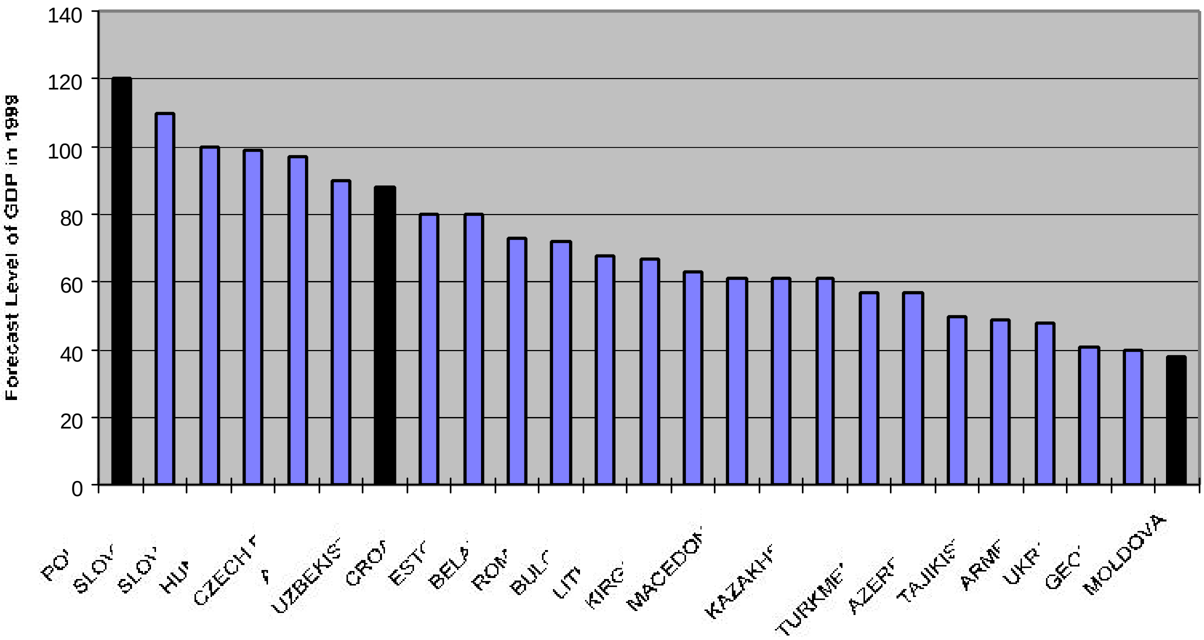
FIGURE 1 TO BE OR NOT TO BE?



Source: EBRD

However the halfway house between reform and the status quo seems to be worse than either extreme. The Russian experience is by no means the worst. The divergence in outcomes between countries real levels of GDP compared to 1989 is shown as figure 2.

FIGURE 2 TOPS AND BOTTOMS

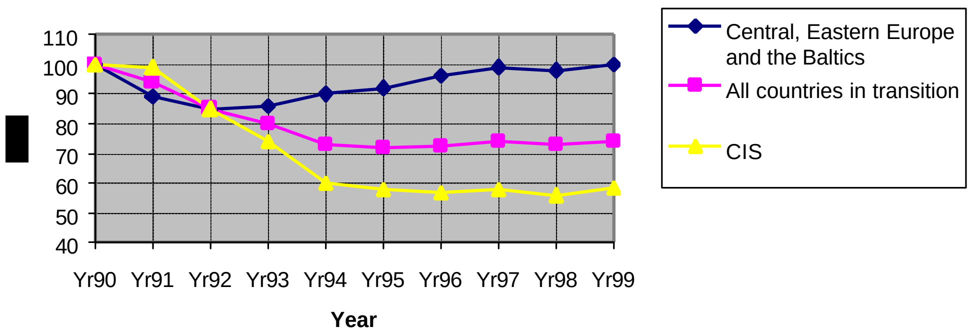


Source EBRD

The contrast between Russia and Poland is part of a wider divergence between Central Europe and, including the Baltics, and the rest of the former Soviet Union (figure 3).

FIGURE 3 SNAKES AND LADDERS

Index and real GDP (1990=100)



In summary the former have reformed with greater determination and consistency, they have experienced substantial initial declines in GDP, but then recovery. The latter have sustained declines with no reversal.

Recent conclusions by the World Bank suggest that market orientated reforms have to be combined with social reform, institutional strengthening, macro-economic stabilisation, price liberalization and the rule of law. Most important however there also needs to be a supportive political culture as well as a level of human resource within the country able to absorb, understand and accept change.

Certainly the upheaval involved during the fragmentation of the Soviet Union was much greater than anything that happened in most countries of central and Eastern Europe. But within all countries the rural sector has suffered greatest from change. Traditional markets have disappeared and real concerns have appeared for rural communities. In particular these include; access to finance and markets, supplies of inputs and provision of technical assistance, as well as the wider rural community and social infrastructure issues.

There is no easy solution to these problems. Solutions and approaches vary widely between countries. Rural co-operation is often seen to be a universal answer. The following provides comparative approaches to rural development in three countries: Poland, Moldova and Uzbekistan. Each has each with widely differing approaches to reform and to co-operation. This paper looks at one area in particular – marketing.

3. The concept of producer marketing groups

Throughout Central and Eastern Europe and the former Soviet Union there is an immense confusion over the interpretation of the words (and concepts) of producer groups, organizations, cooperatives, collectives or associations. Producer marketing groups (or organizations in standard EU terminology) have distinct structures and forms and should not be confused with Ministry intervention, state marketing boards or trade representational bodies.

A true producer-marketing group is open to the same market and economic forces facing all types of business and can expect to compete with other producer groups and companies. They, like all other businesses, require proper planning and market analysis, good buyer relationships, proper financing and well-trained, motivated and visionary management.

In other important ways, producer-marketing groups are unique and different. In particular, a producer-marketing group is an enterprise voluntarily owned and controlled by private, individual producers. Most importantly, the main objective of a producer-marketing group is to provide the maximum benefit to producer members in proportion to the amount of produce they market through the group and not on the basis of investment. Without a strong base of market minded producer members working to ensure its success and willing to commit produce of defined qualities, it is likely to fail. Control should be in the hands of these committed producer members.

Producer-marketing groups do provide an opportunity for farmers to access higher value markets by adding value to production, and are managed in such a way as to obtain better prices or obtain improved services for their producer members. They may simply market a single crop to a single defined market, or employ an agent, to market produce, on their behalf.

The benefits to a producer member are most clearly measured by the increased financial rewards obtained from being able to access higher value markets either through being able to:

- work with buyers prepared to pay higher prices for agreed standards of produce quality, quantity and delivery reliability beyond the capabilities of individual producers, or,

- provide the opportunity to spread the costs of major investments which will add value, or reduce losses, to the product, such as through storage, grading, cleaning, packaging equipment or by product branding.

Seemingly the most successful groups also conform to a number of other basic criteria. In particular,

- They are formed with a clear business objective and undertake commercial and not producer representational activity. A clear market opportunity is established and trusting, ongoing and long-term relationships with buyers are developed.

- They are owned and controlled by producer members and managed for the benefit of those members. Any surpluses from activities which are returned to members (either annually or on cessation of membership) are distributed in proportion to the trade by the member through the group and not according to shareholding.

- Produce is sold on behalf of producer members and the full sales price is returned to members, less agreed charges for the services provided. This provides full transparency of all transactions through the group.

- A voting system is based upon one person, one vote or according to usage of the group by individual members. For example this may be measured according to the amount of produce sold through the group by individual members. The maximum share of any total vote by a single member is less than 10% and of the total sales through the group of any individual member less than 50%.

- A condition of membership is a signed and legally enforceable member's agreement. This agreement sets out the obligations and commitment of both the group to the members and members to the group, for a defined period. A membership agreement is important because it specifies which types, qualities and quantities of produce will be marketed through the group. In particular the agreement clarifies what produce will be accepted on delivery and what will not. It is the responsibility of the producer members to ensure that it is enforced.

  Producer members are normally contracted to supply 100% of a particular crop to a defined specification. Failure to sign this agreement will exclude the producer from membership of the group and so enables committed members to maintain control.

  Groups which aim to sell a wide range of members produce, as well as to supply other services, such as machinery, chemicals or credit have considerable difficulty in ensuring a consistent quality of marketed produce and a clear brand image. It is not the role of a producer-marketing group to sell all member produce regardless of quality or type.

- The group is properly financed, managed and controlled.

  Proper planning and effective communications with producer members is a vital part of producer group activity. Group members can expect to receive regular and timely information on market requirements as well as on prices, charges and payments.

  Membership capital should always amount to at least one third of total capital requirements. The total costs of services provided by the group may be covered by levies on sales. This levy needs to be set at a realistic level in order to cover all costs. Producer members also need to be made aware of the possible need to provide funds for capital investments (if required) in proportion to their use of the facility.

- The group has an approved legal entity.

  Informal groups are invariably short term. Long-term development will require proper legal registration and business structuring. The group can then develop its own by-laws and members' agreements and so provide greater confidence for both the buyer and the producer. An approved legal entity also ensures that any arrangements made with third parties are properly structured and documented.

The following is a review of progress in Poland, Uzbekistan and Moldova using these criteria as a base.

4. Agriculture and producer marketing groups – Poland

On the face of it, the remarkable transformation of Poland almost seems complete and the main strategic political and strategic objective of the country is now integration within the European Union. In July 1997 the EU Commission recommended, at the request of the Polish Government, that negotiations for their accession into the EU should be opened. An accession strategy has been prepared with precise indications of priority adjustment activities, together with a timetable for their implementation until 2002.

With respect to agriculture the following priorities have been formulated:

- establish a coherent structural and rural development policy
- adopt implementing regulations and the enforcement of veterinary and phytosanitary requirements, particularly with regard to inspection and control arrangements for protecting EU external borders
- upgrade and restructure certain food processing establishments (milk and meat sectors) and certain testing and diagnostic facilities
- reinforce administrative structures to enable the necessary resources for implementation of the Common Agricultural Policy CAP
- consider in detail of the environmental aspects of agriculture.

Within agriculture 14 working groups have been given responsibility for implementing this programme and for recommending to Government the necessary changes to legislation. Each area of activity is screened through regular visits by working group representatives to relevant EU departments. The Polish Government also maintains close contact with the European Union and prepares quarterly reports evaluating the economic situation within the country with particular respect to implementing the accession programme.

Preparations for the entry of Poland into the EU have aggravated an already deep-seated problem. Before 1990 Poland was largely fortunate in having a predominately private and individual farming sector. Only 19% of arable land was state-owned. Even so, a hefty 27% of Poles still work in the fields compared with just 2% in Britain and 5% in Denmark. Yet farmers contribute only 5% to Polish GDP and this is steadily decreasing (11.8% in 1988). One problem is that many farmers are smallholders. Of the 2 million farms in Poland 55% are under 5 hectares compared with an EU average of 17 hectares. The Government also estimates that there are a further 2 million unemployed persons living in rural areas.

Polish farmers have been hit by a series of blows since subsidies were withdrawn in the early 1990s as post Communist Governments ended the guaranteed market for their produce and made agriculture subject to a western style market economics. Meanwhile farm subsidies within the EU have quadrupled over 20 years to about USD 45 billion per year, around 50% of the EU budget (USD 20 per week for the every EU tax payer) despite farming accounting for less than 5% of employment and 2% of GDP.

The EU bolsters prices by means of suitable customs policies, licensing and export and production quotas, intervention purchases, export refunds, compensatory payments, credit preferences, production subsidies and preferential tax policies.

Polish farmers are not used to high subventions and refunds and have faced much tougher and harsher market conditions compared to EU farmers in recent years. But the Poles are learning fast. Current interventions focus upon compensatory payments and targeted credits. However the Ministry of Agriculture and Food and associated agencies have developed their knowledge of the mechanisms of the EU Common Agricultural Policy and are starting to improve their capacity to implement and eventually enforce it. Using the current support mechanisms, Polish entry into the EU could add a further 30% to the total bill.

In the meantime the flood of cheaper imports from the European Union, particularly cereal crops, dairy produce and pork, coupled with the loss of the Russian market have seriously hit farming incomes. The scale of the crisis dwarfs anything experienced by agricultural communities in other European countries.

A Polish pig in 1999 averaged only USD 74 when sold, but costs at least USD 90 to feed and a further USD 18 for labour, heating and shelter. The average price per ton of wheat was in 1999 set at USD 100, including an agreed USD 15 subsidy from Government, but still 25% below prices achieved in 1998. Prices barely cover input costs, many of which have risen by 30% over the past year (fertilizers and chemicals). Many small farmers are having to seek work in nearby towns in order to supplement incomes or are attempting to diversify activities.

Polish agri-food trade continues to show a deficit which in 1998 amounted to USD 742 million. 48% of imports and 42% of exports (an increase of 18% over the previous year) being with the European Union. Compared to 20.5% exports with Russia. Food products account for 11% of total exports and 9% of total imports.

Polish agriculture requires systematic transformation. It is not that Poland has poor farmland. Poland has many efficient farmers most of them in the north and west, but in east Poland the world is far removed from the newly found prosperity of many urban areas. Over half of the smallholdings lack running water, four fifths are without telephones, and electricity is patchy at best. Few smallholders can afford to invest in farm machinery, so the land is still worked by hand. Most are likely to remain poor and inefficient and will be unable to compete with EU farmers without help.

Such changes take time but the smallholders are impatient. They also carry political clout and last year organized very effective roadblocks leading to the Government meeting may of their demands, at least half way by buying 50,000 tons of pork at a decent price.

The task is not only to upgrade farming but also to turn the countries abundant produce into something more valuable. Much of Polish food processing is still largely state owned and has changed little from Communist days. Plants are relatively small, reflecting the scattered pattern of farms and their condition is deteriorating, largely as the state cannot muster the necessary investment.

To date sponsored wholesale markets have been the main Government support policy for market development. This programme was approved in 1996 and to date the Government has spent USD 30 million (half of the total cost) primarily on supporting 23 markets. The aim has been to shorten the distribution channel between producer and consumers and enable farmers to access professional storage, processing, warehousing and packaging facilities and quality control facilities.

Over the same period the country has experienced considerable direct foreign investments primarily into the development of the food processing and retail sectors. Retail supermarkets and hypermarkets now account for around 15% of total food sales, while the wholesale supply sector remains buoyant and continues to supply more than 200,000 small local shops, a threefold increase compared to 1989.

Market opportunities seem to be in abundance for suppliers able to provide a regular and consistent supply of specified produce and develop good buyer relations. Many EU farmers have even begun renting land from Poles in the belief they can make good money from farming in a lower cost country, but most smallholders are suspicious of pooling assets in local cooperatives after their experience with Communist collectives. Instead many prefer to continue selling on traditional open-air markets and even to try to eke out a living from subsistence farming.

The Government is well aware of this problem and is increasingly promoting the concept of producer-groups, primarily through agricultural chambers (obligatory membership but self-governing bodies of farmers, funded from the national budget) and the agricultural advisory services (ODRs).

More than 100 new groups have been registered in recent years, but less than 10% are probably operating with real commercial affect. Some have developed strong supply links with export and domestic buyers, such as Pakoslaw (vegetables to Holland), Debowa Lace (pigs to Morliny and eventually McDonalds) or Opole (grain to Cargills). Groups may register as associations or companies with limited liability. Associations are not allowed to conduct any type of trade activity and are largely ineffectual.

The structure of many limited liability groups does seem to confuse ownership between investment capital and produce commitment. Ownership and control is often invested in non-farmers as well as farmers (including employee and some continuing state ownership with regard to former state and ‘restructured’ process plants). Others are developed from buying groups formed to obtain better bulk purchase prices from input suppliers. In most cases this creates a lack of clear purpose and conflict of objectives.

Although buyer contracts do exist, membership agreements, in the main, do not. Groups tend to rely on by-laws as the main management contract for the group. The Government is presently trying to introduce a producer co-operative law aimed at further resolving many of these issues. But probably of even greater use will be their recent promise to introduce incentives which further stimulate, both the understanding and commercial establishment of, these business types.

Tax exemptions for mutual status presently do not exist but are under consideration. So too are targeted credits based on farmer groups adding product value or clearly committing produce or long-term finance to the group activity.

In summary, Poland has come a long way since 1989, but to some extent, the rural community has lagged behind despite a growing economy, new investment and ever widening market opportunities. The rural community, (predominately smallholder farmers), comprise a major part of the population if not the GDP.

The seed for commercial development of effective producer groups has been planted. A few new and interesting groups are under development, based on truly voluntary producer led cooperation. Their further growth and development will depend on the extent to which these groups are seen by other farmers as providing real financial benefits to their members. It will also depend on whether the Polish Government is able to stimulate (rather than over protect) their growth. Possibly of equal importance is whether the EU Common Agricultural Policy can be restructured and so enable true co-operation, competition and marketing to develop across an ever-widening Europe.

5. Agriculture and producer marketing groups – Moldova

The Republic of Moldova is a small (33,700 km2) rather densely populated country on the western edge of the Commonwealth of Independent States (CIS). The country became independent on 27 August 1991 and formed as a Republic with a democratically elected President and Parliament. The country is landlocked and bordered by Ukraine and Rumania. Its capital is Chisinau. Over 50% of the ethnically diverse population of 4.4 million live in rural areas. 67% are ethnic Rumanians, 14% Ukrainian, 13% Russian, 4% Gagauz (a Christian Turkish people) and 2% Bulgarian.

Moldova looks to be stuck in a wretched economic and political plight. It is one of the poorest countries in Europe and the CIS with a GDP/capita income of USD 35 per month (when wages are paid), unemployment at 20% and inflation at 27% according to official figures. It has no oil or gas few (4.3 million people) and an economy worth only USD 1.6 million per year – no bigger than an average European town - and shrinking. In Europe only Albania is poorer.

Transformation has not been easy and recent statistics from the European Bank for Re-Construction and Development (figure 2 above) forecast the level of GDP in Moldova for 1999 will be less than one third of that of 1989. This places Moldova as the worst performer in economic terms of all transition economies of Europe and the CIS during the 1990s.

After recording a positive GDP growth rate in 1997 (the first time since independence), the Russian economic crisis of 1998 undercut gains made through privatization and output fell by 9% that year virtually destroying Moldova's priority wine and brandy export market overnight. The IMF estimate that the external debt (primarily to Russia for energy and historical debt repayments) will exceed USD 1.1 billion this year of which service charges cost around USD 230 million per year – two thirds of budget revenues.

Moldova has also negotiated free trade agreements with 10 countries and The European Union has granted Moldova a ‘generalized system of preference’ enabling tariff reductions on selected products, but the country will continue to largely depend on the prosperity of its larger neighbours, Ukraine, Russia and Romania for some time to come.

Moldova's biggest asset is its soil. Moldova is predominately an agriculturally based economy. Agriculture and the agro-processing industry contribute around 40% of the GDP and half of employment. Fertile, black chernozem soil covers 80% of the country and makes agriculture highly productive. The country has a temperate continental climate, with short and relatively warm winters and long hot summers.

Moldova has some of the highest crop yields of the CIS but despite this yields are, on the average less than 50% of those of Western Europe, fertility yields of livestock a third lower and feed conversion ratios less than half of Western standards.

It is not as if the country has not followed a reformist path. Since independence the country has gradually established the basics of a constitutional and legal framework for a market economy, with the adoption of more than 400 enabling laws. These (often over complex and restrictive) laws cover a wide range of areas including property, enterprises, entrepreneurial activities, anti monopoly and restrictive trade practices, competition, foreign investments, banking activities, bankruptcy and liquidation, leasing and purchase laws and taxation.

The number of Government officials has doubled since 1992 with a queue of applications for jobs for which payments are officially less (when wages are paid) than the national average. A small rural company can expect to receive more than one visit per month from Government officials representing the tax inspectorate, the fire, electric and sanitary departments as well as the economic ‘police’. Registering a new business will mean liasing with 7 different authorities. The official export of fruits and vegetables requires the completion of 17 forms.

The country's land privatization plan is one of the most radical in the former Soviet Union. Some 500,000 former workers on collective or state farms are due to get about 1.6 hectares of land each. For most rural based citizens the land quota remains their only revenue source or social security.

By the end of 1998 out of 950 large-scale former kolhoz farms, 74 had been dismantled with land titles provided to their new private owners. A further 67 farms are in the process of restructuring. The financial situation of a great number of many un-restructured farms is not good. Many are effectively bankrupt or are returning profits at less than the rate of inflation. A legislative framework for enabling farm liquidation and bankruptcy proceedings is underway.

This has resulted in considerable agri-sector debt with a total tax collection for agriculture at 37% compared to a national average of 60%. The agricultural sector is responsible for 38% of all outstanding tax and social fund arrears to central and local Governments.

The World Bank and IMF promise more help if the Government continues to privatize land and sell off state assets. But ongoing reforms will depend on political stability that a fractious parliament and Government are struggling to provide it, with an old guard Communist Party having a large minority in parliament and a centrist coalition with a bizarrely scraped up majority of one seat.

It will also depend upon the will of the people to accommodate further reforms. While generally welcoming land privatization, the break up of land to individual units has created a period of enormous uncertainty in rural areas. The reform has led not only to the break up of the Kolhoz but also to a break down of the community and social infrastructure.

For newly independent farmers there are immediate post privatization concerns, particularly in relation to, input supplies, markets, finance and technical advice. Large state monopolies have traditionally controlled the supplies of feeds, chemicals, fertilisers, seeds and animal health products.

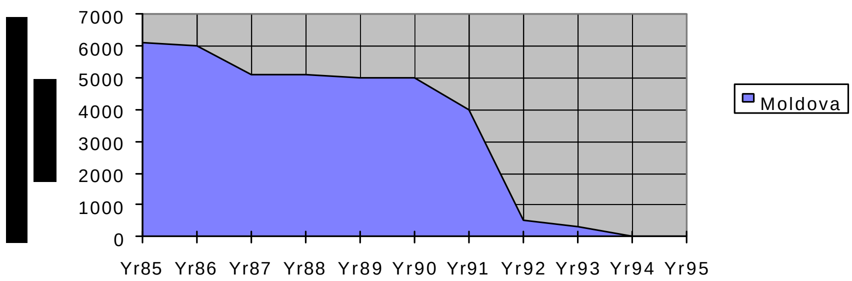
Local (including former Soviet Union) fertilizer and agro-chemical production has declined dramatically from its 1990 level. Mineral fertilizer applications have more than halved and phosphorous applications reduced by almost three-quarters. High quality pesticides and potassium and potassium-based fertilizers may be imported. However largely due to cost and lack of availability are, on the whole, not used. For smaller farms, supply and cost considerations are further compounded by the lack of available guidance on chemical applications and management, including integrated pest management.

Manufactured feeds no longer contain a significant share of protein meals and feed additives. In the past few years, due to a shortage, increasing amounts of relatively low density energy content feedstuffs has been fed to animals and shortage of roughage are common, especially during long winters and the spring feeding periods.

Access to a wider variety of quality seeds and plants is also not so easy for farmers. There is little information on their availability or growing conditions. Farmers are reliant on personal contacts as purchase of seed from the street, wholesale market, retail shops, or even certified seed companies, is likely to result in low germination.

There is almost total absence of suitable mechanisation. In February 1997, a World Bank report on agricultural mechanization in Moldova concluded that the current agricultural machinery stock in Moldova was dating rapidly and that there was an acute lack of investment in agricultural machinery within Moldova. This is graphically shown in figure 4.

FIGURE 4. GOING SOMEWHERE?
Procurement of Tractors 1985-1995



SOURCE: WORLD BANK

At the present time, land is not a wholly tradable commodity and cannot be used as collateral against a loan. Access to loans are therefore very limited for farmers and rural entrepreneurs. Savings levels are low and most farmers have insufficient equity or assets to purchase inputs or to add product value. Some farmers have increased their land areas either through forming a farming association or by leasing or buying land from other owners. Farmers' associations have largely developed from the necessity to share machinery or manage larger land areas, rather than to market produce.

Markets are underdeveloped and there has been little foreign investment in recent years. Barter remains an important form of trade and the informal economy operates on a large scale. Intermediary agents regularly visit larger farms, with payments made in cash. These agents sort and transport products from the farm and deliver to buyers in both domestic and export markets. Monopolistic structures and Government interference continue in most domestic and export markets.

A great deal of produce is prepared in a semi-processed form (pickled, salted or smoked) and often for the personal consumption of the producer. A number of retail markets have begun to develop in larger towns, which are managed through municipal authorities. In many markets there is insufficient space for new stalls and unauthorised street trading occurs, with small quantities of goods sold from household plots.

The processing sector is largely inefficient. Despite being 'privatized' most processors have seen little new investment from their new owners which often comprise of employees, the former Kolhoz as well as the state and private investors. Most remain unprofitable (albeit supplying often very profitable 'marketing' agents). Delays in payments by processors to farmers are common if payments are made at all. Last minute changes to prices can and does occur and guaranteed payments in cash can be transformed to payment in kind.

Most production still follows former state directives and there are considerable opportunities to expand the range of products and varieties grown in Moldova. In particular toward high added horticultural soft fruit and other added value crops, requiring labour intensive production. Labour is relatively cheap compared to other costs.

The CIS GOST standard remains the dominant measurement of food quality. These standards seem to be particularly wide in relation to product size, stage of maturity and uniformity. There is a lack of adequately designed and controlled cold stores, or cooling facilities, for either storage or transport of produce, particularly with respect to air circulation or humidity control. There are also few facilities for post harvest handling and distribution which are adequate to deliver a good quality product to identified markets.

In summary, Moldova has been through a dreadful decade resulting from the break up of the former Soviet Union and primarily due to the subsequent loss of key export market sales for agricultural produce. Falling incomes have led to serious poverty in many rural areas.

The primary agricultural policy in recent years has been towards land privatization and re-structuring of former Kolhozes, but the future challenge will need to focus on the development and establishment of a sustainable post privatization infrastructure able to support a burgeoning privatised farm sector. This will be no easy or inexpensive task and will require some innovative solutions from Government and the rural community.

Since 1996 the World Bank have supported a rural and savings and credit association programme aimed at loaning relatively small amounts of capital to savings and credit groups and in order to develop rural based initiatives. This project has had some success and is a small contribution to a major problem.

Farmers' associations based on production are likely to break up further as members agree to lease land or further subdivide assets. To date no proper producer marketing group has been commercially developed despite significant encouragement from western donors. Experience of collectivised structures remains in the minds of most farmers, with most still unable to perceive how independent farmers can effectively market together.

On a more positive note, local self help programmes aimed more at social development, may eventually lead to increased trust, greater independence from authority and eventually joint marketing. This may take time, but the potential for Moldovan agriculture is well recognised worldwide. It may be that the economy is over the worst and can be rejuvenated, if lawful trading confidence can be established and domestic and foreign investments encouraged. In this scenario farmers may quickly learn the need to create effective produce supply groups.

5. Agriculture and producer-groups – Uzbekistan

With a population of 23 million and land area of almost 450,000 sq. kms, Uzbekistan is a leading country of central Asia in terms of economic potential and regional political influence. Native Uzbeks account for 75% of the population, the remainder being 6.5% Russian, 4.8% Tajik, 4.1% Kazakh and 10.1% other nationalities including Tatars, Karakalpaks, Koreans and various groups of European origin.

With the demise of the former Soviet Union influential clans (already influential within the former Soviet Union) have increased their power at the heart of the Uzbek State. These are normally informal regional groups centred on powerful families and now largely in control of the main natural riches of the country, cotton, gold and gas.

Almost three fifths of the Uzbekistan land area is desert steppe broken by irrigated, fertile oases along the banks of two main rivers. Even so, agriculture accounts for approximately 30% of GDP of which cotton is predominant. The country is the world's fifth largest producer and second largest exporter. Cereal and tobacco are increasingly Government priorities.

Uzbekistan has mild winters, hot dry summers and an average rainfall of less than 20 cms per year. With access to irrigation this creates excellent growing conditions for fruits and vegetables and this is probably of greater interest to most rural inhabitants.

The country is divided into 12 regions. The most fertile area being the Ferghana valley (about the size of Ireland) with six million inhabitants and the key to the production of cotton and grain as well natural gas and oil. It is also home to many devoutly Islamic people. Although few, of Central Asia's traditionally moderate Muslims, share a passion to build a fundamental Islamic state what happens over the next winter could decide the complexion of Central Asia for some time to come.

The economic, political and social management of Uzbekistan remains largely as it was before the collapse of the Soviet Union albeit from Tashkent rather than Moscow. The Government boasts a policy of careful and structured reforms and points to a decline in GDP well improved on that of other CIS countries (Figure 2 above).

The media, freedom of movement and information remain largely controlled. Property rights and an independent judiciary are weakly rooted. For the ordinary citizen the State maintains a semblance of law and order, but can confiscate almost anything it wants. This includes household savings through unrealistic currency and price controls and generally poor economic management, to the lives of its citizens, through forced labour, such as mandatory cotton picking, or non-payment of wages.

Although most Uzbeks tolerate, in silence, a degree of official lawlessness and corruption in their country, there is no evidence that they actually like it. In the Ferghana too much promotes dissent and breeds rebellion. On a superficial level the structures and values of legality are in place and nobody is above the law. But reality is often different from what is visible and corrupt officialdom pervades.

Only the most steely-nerved and well-connected foreign firms are probably able to survive. Build a factory you will pay one lot of bureaucrats to get it going and another to keep it running. These are straightforward commercial arrangements which may typically run at about 10-15% of profits. The resulting protection is a hybrid of insurance, security, a guaranteed national or regional monopoly, a lawyer and friendly civil servant. If you skimp you risk paying large and unpredictable costs.

Movements of almost all tradable goods inside and outside the country are controlled and the majority of local food-processing companies remain unprivatized. But few managers can be accused just of incompetence if compared to the constraints under which they are expected to work. This includes a requirement to sell (at uneconomic prices) some product to the Federal Government, a need to export something into a hard currency market and set up barter arrangements, while at the same time as providing municipal services and trying not to make a profit. Customers are served only by chance if at all. Indeed the best thing for many businessmen to do is nothing. Hyperinflation and currency depreciation quickly reduce debts.

Collective farms continue to maintain considerable influence in agriculture. Collective farms and account for 90-95% of land area. Each collective managing an average farm size of 2000 hectares. Since 1998 farmers have been able to apply in respect of obtaining leasehold land from the collective for private farming purposes. This requires an agreement from the local Khokimiat (local Government) as well as normally the collective farm manager.

Around 50,000 farmers have obtained land and are normally allocated less than 10 hectares. They can grow and sell whatever they want. Even so private farmers are still largely dependant on the state and the local collective for access to machinery, fertilisers, chemicals and improved seeds as well as access to markets, credit and crop insurance. Few farmers are self reliant in agricultural machinery or have a full range. Supplementary equipment may be leased from the state managed agency, but with unpredictable scheduling and access delays and although well stocked with equipment it is primarily suitable for large farms.

Following a presidential decree 9th April 1998, regional private farmers' associations (PFAs) were established at rayon level. These have the objective of implementing and monitoring legislation related to the establishment and management of private farms, including completing financial audits. They also aim to ensure that private farmers have access to inputs and loan finance and assistance in carrying out marketing activities.

148 farmers' associations are therefore represented at national level. The federal PFA chairman reporting directly to the Cabinet of Ministers. On average 8 persons are employed by each association (1 for every 42 farmers in the region). PFAs do not compete against each other for members. Each has a defined region of operation.

Technically PFAs have voluntary membership but in reality it is difficult for farmers to access the inputs or advice they require from outside the associations unless they have other strong personal connections. Farmer members pay around USD 20 per hectare to the PFA for each year of membership and 2% of their audited profit.

Farmer support for PFAs vary greatly and is largely dependent upon the extent by which they are able to provide services to farmers. This ability varies considerably between regions. Most farmers are resigned to supporting their role, particularly in relation to representing private farmers in the complex inter-relationships between the Hokimiat, collective farms, machinery and chemical suppliers and processors.

PFAs certainly play a useful role in assisting newly privatized farmers to understand the some of the legal nightmares and pitfalls likely to befall them as well as their mountain of documentation and administrative paperwork they need to complete. More recently PFAs have attempted to become more closely involved in trade activities. The Government has allowed them special tax exemptions of up to 50% for exported product.

Marketing is a specific problem although few farmers openly complain. All trade has to be made by bank transfer and many payments are either delayed or not paid. Most farmers prefer to deal directly with agents visiting farms and paying in cash. These agents are primarily sourcing fresh produce for the Tashkent or export (Russian) market. In reality the agent also needs to pay an additional 10% to get official licenses or unofficial access to any transfer money in the bank.

Other marketing options are relatively limited. A number of diverse and small retail buyers and caterers exist and are serviced mainly through agents. Most farmers have debts of over two years with the processing factories or receive payment only in returned and semi-processed product. Trade documentation is time consuming and bureaucratic, particularly for sales outside an immediate region.

Local markets are buoyant and trade in small quantities directly to consumers. Produce is of a reasonable quality, and range. Traders are often garden growers or farmers selling surpluses. Women are often involved in these trading activities and prices are sometimes lower than can be purchased directly from the field by agents. Indeed agents often visit local markets in order to identify growers with surplus product. The Government also provides State directives on private farmer production over 10 hectares primarily for cotton and wheat. 100% of cotton has to be sold to the state and 65% of the wheat produced.

There are few examples of formally registered, voluntary and independent producer-groups as would be understood in Western Europe, other than those supported through donor programmes.

Informally many privatized producers are sharing and buying equipment or exchanging information and advice at village level and across families, but there is considerable reluctance to register them as legal entities.

Realistically, the commercial and economic development of competitive, independent and voluntary farmers' groups in Uzbekistan is likely to take some time to develop, unless there is a significant acceleration in the land privatization or economic reform programme.

The Government is continuing to follow a policy of controlled and cautious reform but probably cannot fail to note the increase in productivity from individual farm production. It is unrealistic to expect wholesale change of the Kolhoz structure for some time yet, but experimentation does continue. With the approval of the Hokimiat, experimental collective farms around Samarkand are now able to divide their own land into individual responsibility plots on a 10-year lease. All activities and costs of each individual plots are recorded in order to compare performances. The results may provide for an interesting analysis.[15]

[15] Special thanks are due to the advice provided by Edgar Parnell. The Plunkett Foundation and David Button, Genesis Business Consultants in providing background to this paper. References and data have been obtained from the Economist magazine, the Financial Times newspaper, the European Bank for Reconstruction and Development, The World Bank, the Agency for Restructuring Agriculture in Moldova and the Carana Corporation.

Annex: 7 Germany (East)

Dr. Volker Petersen, Deputy General Secretary, Deutscher Raiffeisen Verband DRV (Germany)

Number and development of Raiffeisen Cooperatives in East Germany 1992 – 1998

Year/type of cooperative	1992	1995	1998	Difference 98:92 absolute	Difference 98:92 in %
Supply and marketing	244	152	106	-138	-56.1%
Dairy total	33	32	29	-4	-12.1%
Meat and livestock	10	10	9	-1	-10.0%
Fruit/Vegetable/ Flowers/Wine-grower	45	34	27	-18	-40.0%
Agrarian	1,015	918	837	-178	-17.5%
Others	89	108	88	-1	-1.1%
TOTAL	1,436	1.254	1.096	-340	-23.7%

Situation in 1989

	West Germany	East Germany
Productive land	12 Mio. ha	6 Mio. ha
Type of farms	Family farms	Collective farms
Number of farms	550,000	4,000
Average size	∅ 20 ha	∅ 4.500 ha (Crop production.) ∅ 1.600 ha (Animal production.)
Work force	1.6 Mio.	0.85 Mio.

Cooperatives in East Germany:

Compulsory
Primary production
Cooperative roots in supply and marketing
- 270 BHG,
- 80 Dairies
- 2 Wine growers cooperatives

Productive cooperatives of manual workers

Cooperatives in West Germany:

Voluntary
Supply and marketing

Framework for the transformation of agriculture and cooperatives

- Agricultural Adaption Act (1990/91)
  - Separation and merger of collective farms
  - Conversion of collective farms by change of legal form
  - Dissolving of collective farms
  - Leaving a collective farms
  - Establishment and reordering of land ownership
- Economic and monetary union
- West German cooperative law came into force in East Germany
- Accession to the European Union
- Privatization of land by Treuhandanstalt/BVVG (roughly 1 of 6 Mio. ha land were expropriated before 1949

Development of Cooperatives

- Primary agricultural sector
- Cooperatives
  - Result of transformation of collective farms
  - Farming on one third of the land
  - Legal persons still roughly 60%
- Organizational structure of cooperatives
  - Three legal levels
    1. Membership
    2. Labour relationship
    3. Rent of land
- Types of agricultural cooperatives
  - Public cooperative
  - Producer cooperative (supply and marketing)

Supply and marketing

- Totally different structure of agriculture requires a different structure in supply and marketing
  - This sector was owned and directed by government
  - Privatization by Treuhandanstalt (Trust company of German Government)
- Cooperatives started with cooperation of West and East German Cooperatives
- West German regional centre cooperatives engaged in privatization through buying from Treuhandanstalt

Structural development of the agrarian enterprises in East Germany

Agrarian enterprises with. 1 ha production land a.m.	1992	1995	1996	1997	1998	± to p. y.
Agrarian enterprises (Germany total)	600,543	555,065	539,975	525,101	514,999	-1.9%
Natural person	15,725	27,259	27,834	29,999	28,989	-3.4%
Legal person	2,749	2,902	2,894	3,115	3,008	-3.4%
from: Agricultural cooperatives	1,464	1,315	1,293	1,261	1,218	-3.4%
Limited company	1,178	1,417	1,432	1,605	1,560	-2.8%
Farm-area in 1000 ha (Germany total)	16,842	17,231	17,228	17,201	17,233	0.2%
Natural person	1,380	2.340	2,438	2,502	2,555	2.1%
Legal person	3,680	3,169	3,108	3,055	3,046	-0.3%
in % of production land in East Germany	72	57	56	55	54	
from: Agricultural cooperatives	2,251	1,887	1,843	1,786	1,744	-2.4%
in % of production land in East Germany	44	34	33	32	31	
Limited company	1,314	1,194	1,182	1,180	1,207	2.3%
in % of production land in East Germany	26	22	21	21	22	
∅ Average size in ha (Germany total)	28.0	31.0	31.9	32.8	33	0.6%
Natural person	88	86	87	83	88	6.0%
Legal person	1,338	1,092	1,074	1,006	1,013	0.7%
from: Agricultural cooperatives	1,537	1,435	1,425	1,416	1,432	1.1%
Limited company	1,116	843	826	735	773	5.2%

Selected numbers of the DRV-report about agricultural cooperatives 1997/1998

	1997	**1998**
Examined enterprises	171	185
Agrarian production land in ha	1,595	1,611
Rented land in ha	1,515	1,417
Members	72	68
Employed members	29	26
Work-force	38	41
Work-force /100 ha production land	2.41	2.20
Animal units/100 ha LF	59.1	55.9
Proceeds/ha production land in DM	2,504	2,434
Yearly surplus in DM	20.000	50,000
Yearly surplus + personnel expenditure /enterprise in DM	1,677,000	1,643,000
Yearly surplus + personnel expenditure /ha LF in DM	1,051	1,020
Yearly surplus + personnel expenditure /work force in DM	44,132	40,073

Annex: 8 Cooperative Development in Ukraine

Thomas Garnett, Vice-President of Cooperative Development, Southern States Cooperative and Board Member, ACDI/VOCA (United States)

- **Background**

Since independence in 1991, Ukraine has failed to capitalize on its huge agricultural production potential. Production in almost all crops has fallen, reflecting political and economic turmoil as well as disruption of the agricultural infrastructure. Notably, fertilizer use has declined by 50-80% over the past seven years, depending on the data. In addition, Ukraine has made only limited progress in privatization of farms and agri-business. Privatization efforts have been stymied by a moratorium on the sale of land. However, over 36,000 private Ukraine farmers exist today, farming approximately 2% of the arable land.

While virtually all of the Collective Agricultural Enterprises (KSPs), the former state collective farmers have been privatized on paper, they essentially continue to operate as they did under Communism. Former Soviet managers retain positions of power and exert their continued connections and influence to obtain preferential treatment from government authorities. Large, inefficient and poorly managed, it is not surprising that the vast majority of KSPs operated at a loss in 1997 and 1998 and, by all appearances, will face greater losses in 1999. In spite of this, US and multinational agri-businesses have continued to focus resources on business development in Ukraine in the hope that progress in the sector will eventually be made.

It is within this system of State-dominated production and State-controlled distribution that the Ukrainian farmer attempts to operate. The private farmer, regardless of his/her effort, skill and resourcefulness, faces fundamental difficulties in the procurement of supplies and machinery that would likely put many farmers in developed countries out of business. There is virtually no credit available. (Interest rates on loans to farmers are usually 80-100%). Machinery is scarce, and what machines there are (sprayers, combines, seeders, etc) are obsolete and highly inefficient. The supply of fertilizers, seeds, crop protection chemicals and other essentials is sporadic, costly and unreliable. Southern States Cooperative (SSC) and ACDI/VOCA staff visited with scores of private farmers in Western Ukraine, many of whom demonstrated a very high level of commitment and skill. All but perhaps two or three of the farmers with whom we visited indicated the unavailability of reasonably priced supplies as among the key constraints to profitability of their farms.

On the positive side, Ukrainian farmers are fortunately to have a cooperative law that allows them to establish farmer-owned and controlled cooperatives and benefit from the tax advantages provided to such business structures. Further the fact that they have received so little support from their government and international assistance efforts, has essentially forced them to start cooperatives. The organization and initiative that they have shown thus far is a very positive indicator that these courageous entrepreneurs will have the wherewithal to make their cooperatives and farms successful.

- **Project: Western Cooperative**

After visiting several private farm cooperatives in four Oblasts, we found one group in Rivne who had 17 members and who paid a membership fee of USD 300 and had hired a manager. After spending two day with them we determined they were men of integrity and were willing to cooperative with our project. The objective of our project was to find organized private farm cooperatives or groups of private farmers who sincerely wanted to forma a cooperative and then work with them to establish an operation input supply business to provide quality products and services to their members.

Our primary deliverable for this project is to help one cooperative - Western Cooperative in Rivne - become profitable. However, we are attempting to leverage this focused effort in a way that identifies and provides assistance to other cooperatives in Western Ukraine. Ultimately, no single small cooperative with limited membership will achieve the economies of scale required to provide meaningful savings to its members. Therefore, our outreach activities beyond Rivne are essential to longer-term viability of private farmers in the region.

Western Cooperative has been our primary focus for over a year. We have had multiple meetings with cooperative board members over that time and have been able to help them with structural as well as production issues. From the structural perspective, Western heeded our advice that a farmer member should not be the manager. Their original manager has stepped down in order to focus on farming and they have hired a new manager to work full-time for the needs of their members. Also, we are advising them on an on-going basis on such matters as membership development, pricing policies, and other matters.

Regarding production, we are continuing our efforts to help current members improve their productivity in order to attract new members. The project has provided mixed feed procured from a US/French joint venture feed mill, to several cooperative members to be used in tightly controlled feed trails for pigs and dairy cattle. Additionally we received a donation of seed corm from Pioneer Hi-Bred which the cooperative members grew this year in our first crop trial.

These trials have had good results. Increase in weight gain per kilo of feed for the pig trials has been very good increase in mill yield for the dairy trails has also been very good. As for the corn production, poor growing conditions had a major impact on production, but at least the farmers have proven to themselves that a short season hybrid corn can be grown for grain in Rivne.

Perhaps more important than the immediate benefits to farmers participation in the trials is the fact that Western Coop held an open house to demonstrate their progress to farmers who are not yet members of their cooperative. These "Farmers Day" were well attended and will contribute to a growth in cooperative membership, we believe.

Beyond the feed and crop trials the project is also donating a small feed mill to Western. During our last visit to Ukraine, we visited the site that the cooperative had chosen for the mill. We had lengthy meetings over its use and the manner in which the coop will charge users in order to build capital. The mill was shipped this past August and we sent a retired SSC employee to supervise the installation and start-up of the mill. The mill will serve several purposes, the first being the production of quality feed for cooperative members. Second, the mill should be a source of income for the cooperative, part of which will be made available for a revolving loan fund to be managed either by the cooperative or their own credit union which will be formed in the near future. The third purpose is to attract new members.

While we continued to work with Western cooperative, we are moving closer to the establishment of additional cooperatives. We have followed the same process that took place in Rivne (e.g. meeting with farmers at their farms, information gathering on credit, production and other factors, etc.) and hope during this present trip to make further progress with these potential cooperatives.

A key contact for us had been the President of the Ukraine Union of Cooperatives. He is studying for a year in the US to gain an understanding on how farmer-owned cooperatives are organized and operate. He has built a strong reputation as the leader of the Ukrainian cooperative movement.

Thus far in the project we have used three US volunteers who have been invaluable in providing expertise in animal health, nutrition and management plus feed mill operation. The ACDI/VOCA offices in Kiev and Lviv, Ukraine, have provided great support in assisting with shipments and administrative support.

- **Future Activities**

In January and February of this coming year, the manager of Western Cooperative and two of the board members will visit a local cooperative in Virginia for three weeks to be immersed into the day-to-day operations of an input supply cooperative. Although accounting procedures in the US are different from those used in Ukraine, the key factors of operating a successful farm cooperative are basic anywhere in the world. The Ukrainian board members will visit with and get to know board members of a local US cooperative. The board members will learn what their responsibilities are and the process for establishing policies governing the cooperative. The manager will learn how to control the business and learn the decision making process that is critical for successful management of a cooperative. The manager and board members will gain a clear understanding about the division of responsibilities between the members of the board and the manager. The Ukrainian board members will observe an actual coop board meeting where an established agenda is followed. The manager will spend many days along side the US manager learning how he makes decisions involving personnel assignments, personnel supervision, factors to use in establishing prices of products and services, document and records used to monitor the flow of inventory, evaluating profit and loss statement and learning key business indicators.

In July or August, it is planned for the manager and two board members of the US cooperative to visit Rivne Cooperative and learn firsthand about the unique challenges and conditions the Ukrainian private farmers faces. Farmer to farmer meetings are good because farmers have kindred spirit that transcends language, culture and methods of production. This allows a trusted exchange of information based on a common denominator of farmers helping each other and yields immediate improvement in management practices.

- **Challenges Encountered**

Some of the greatest challenges we have encountered in Cooperative Development in Ukraine are: farmers do not trust Government to act in their interest, there is a void of leadership at the farmer level, farmers do not trust each other, the unfair tax burden forces farmers to not keep accurate records, bartering is done to avoid "a paper trail" which opens the door for government to seize farm assets. The past Soviet system has "trained" the farmer to expect outside dependency, telephone and e-mail communication is not reliable, and there is essentially no system for farm credit.

In spite of the existing conditions, there are sparks of hope in the hearts of the Ukraine private farmer. If our project can start one small fire of cooperative success, we believe that fire will spread quickly and form a new foundation of private farmers cooperative in Ukraine.

Annex 9: The Experience of the Federation of Danish Cooperatives in Eastern Europe

Holger Hasle Nielsen, Federation of Danish Cooperatives (Denmark)

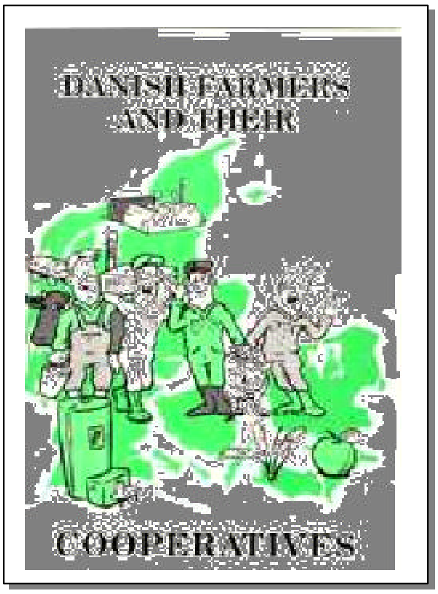
Since 1989, Danish agriculture has found new collaboration partners in Eastern Europe. Danish farmers wanted to have contact with their new colleagues and since those early days have developed numerous forms of collaboration.

This booklet is intended as a tool to help build collaboration.

The first phase of the new collaboration is to understand each other's situation. This, it appears, is not as easy as one might expect. There are differences in history, traditions, ideas and concepts.

It is our experience in Danish agriculture that it is very difficult to explain those things that we do not normally think about because we regard them as matters of course. In this text, we have attempted to emphasize the basics which for the last century have been the foundation for the business cooperation of Danish farmers, how Danish farmers have organized themselves in cooperative societies which own commercial cooperatives - dairies, slaughterhouses and farm supply companies.

It is our hope that the Danish experience may be useful, when farmers of the new democracies decide how they want to cooperate in order to manage better under market economy conditions.



The text has been written by the Federation of Danish Cooperatives in collaboration with the Agriculture Council. These organizations are ready to make themselves available to those wishing to know more about Danish cooperatives.

Copies of the booklet are available in 10 Eastern European languages and can be ordered from the Federation of Danish Cooperatives, Axelborg, Vesterbrogade 4A, 2nd Floor, 1620 Copenhagen V, Denmark. Tel: +45 33 121419. Fax: +45 33 126148. E-mail: hhn@landbrug.dk.

Annex 10: List of Participants

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