SUPPORTING AGRIBUSINESS IN UKRAINE: COOPERATIVES AND BEYOND

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Abstract
The paper considers the concept and a system approach to the formation of supporting agribusiness infrastructure in Ukrainian agriculture. The mission, functions and organizational design of newly appeared agriservice companies are in the focus of the study. The market transformation of the agri-food sector of Ukraine’s national economy has contributed to the establishing and broadening the above market institutions. The important role of cooperative agribusiness has been especially emphasized. Results of the study have shown why certain elements of market infrastructure are progressing slowly.

Keywords: agricultural producers, agribusiness, market infrastructure, large-scale companies, cooperatives.

Methodology
A system approach to the studying of supporting agribusiness infrastructure formation is the methodological foundation of the research. It is based on the idea of three interrelated and interacting parts, i.e. marketing, financial and informational. The infrastructure institutions may be both privately owned and cooperative.

The working hypothesis of the research supposes that agricultural producer can receive more gains if the infrastructure be founded on the cooperative basis. It means that agricultural producers will own, control and enjoy benefits of its functioning. The cooperative ideology is able to provide the equal market access for agricultural producers of different type [Zinovchuk 1995].

Results
The organizations forming the institutional environment of Ukraine’s agricultural producers can be classified as business, public and professional (now called sectoral and intersectoral). The business organizations render technological, purchasing and marketing services. Besides, they ensure producers’ access to the market of social services. We can expect that the business organizations associated with the land market development will become more numerous in Ukraine. All relevant business structures can be divided into those aimed at gaining profits and those whose aim is to render high quality services to their patrons (Fig. 1).
Figure 1. Agribusiness service organizations in Ukrainian agriculture

Source: own research.

As a rule patrons-oriented organizations do not pursue an object of making profit. Thus credit and part of agricultural marketing cooperatives\(^1\) may be referred to as non-profit organizations. However, this does not affect their efficiency but only testifies to the special financing of the business and prevalence of their members’ interests. At the same time patrons-oriented organizations (consumer cooperatives and part of marketing cooperatives) are of a profit status, though satisfying needs and wants of their members is of primary importance for cooperatives of this type.

**Profit-oriented companies.** After the state ceased to render servicing activities in the rural area agricultural producers’ demand for services has mainly been met by privatized or newly established enterprises, primarily of a cooperative type. As a rule they are joint-stock companies, although a certain part of the services market belongs to private sole proprietorships. The rural services market cannot be considered highly competitive, for its development is restrained by both low profitability of farm producers and unsatisfactory solveny of Ukraine’s rural population. Classifying profit-oriented companies as large agribusiness corporations and small&middle service enterprises must help us get a deeper insight into their functions.

**Large agribusiness corporations** are increasingly growing in number in Ukraine. These companies exercise highly diversified activities, provide farm producers with services connected mainly with innovations, have affiliations and other business contracts nearly in all regions of the country and abroad and use developed international links. They cooperate mainly with large scale

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\(^1\) Marketing cooperatives are created by agricultural producers in agribusiness but not directly in the sphere of production. They are actually the Western type of cooperatives. In order to distinguish this type of cooperatives from the so called production cooperatives which operate in agricultural production on the collective basis the Ukraine legislation recognized them as “agricultural servicing cooperatives”.

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agricultural enterprises capable of large-scale investments aimed at improving and developing their production. Some large-scale corporations organize their own agricultural production, thus demonstrating potential abilities of modern technologies in practice.

What is common to such corporations is that they are all engaged in supply business with a distinct innovation orientation. They demonstrate their ability to meet modern needs of the elite part of Ukrainian agricultural producers. The similar example can also be found in the processing sphere. But in this case needs and wants of agricultural producers are met through their participation in the vertically integrated holding.

Some large agribusiness companies demonstrate the opportunities for fruitful collaboration of agricultural producers with processors, thus organizing on this base a vertically integrated system. However, taking into account that the main part of agricultural and animal produce in particular is manufactured by small producers, it is expedient to consider examples of their collaboration with large corporations. In this case corporations often have a well-organized system of processing raw materials and are, as a rule, oriented to the relatively regular suppliers, use standard mechanisms of payment for the produce purchased.

So, large agribusiness corporations are important constituents of the institutional environment of agricultural producers in Ukraine. Very often they are the only opportunity for small commodity producers to enter a civilized market. In the sphere of supply business they strive for a wider representation at the regional level. They are characterized by constant diversification of activities and a relatively high level of competitiveness. Large corporations in the sphere of marketing, especially connected with procurement and processing of farm raw materials, form their own infrastructure of procurement, hire adequate personnel and purchase equipment. The strategy of their growth is aimed at the involvement of ever increasing raw materials zone, as well as at the diversification modernization of production. However, working with a large number of small raw materials suppliers, they have to pay much attention to their quality control, the latter requiring additional expenditures. This problem will be of special interest in the context of Ukraine’s joining the WTO.

Small and middle service companies. At the regional level small and middle businesses\(^2\) compete with large corporations. They have fewer possibilities as to the investment in expanding and branching their business, though their great economic and social mission in the market system is well known. In this aspect the modern agrarian sector of Ukraine is not an exception, as the number and specific weight of small and middle businesses in it are constantly increasing.

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\(^2\) In accordance with the article 63 of the Economic Code of Ukraine, small-scale enterprises (irrespective of the form of ownership) are determined as the ones where the number of employees does not exceed 50 people and the volume of gross income coming from marketing produce (goods and services) does not exceed the sum equal to EUR 500,000.
The privatization of former state service enterprises resulted in the formation of a large number of enterprises of the type, though many businesses have appeared and are still appearing owing to the entrepreneurial initiative. Their business area lies mainly within a definite administrative region, though interregional operations are also widespread. However, unlike large corporations, they do not establish a network of their offices in different regions. As a rule small and middle businesses are represented in any legal form in a large agribusiness organization.

The characteristic feature of some small and middle businesses is the formation of a relatively stable circle of partners in agriculture, as it is the case with large corporations. However, a considerable part of small and middle businesses contacts with occasional clients, though the process of finding and choosing them is well organized at these enterprises. On the whole, marketing technologies adapted to enterprises of the type are still in the process of development in Ukraine. The research conducted shows that small businesses do not always use the concept of marketing in their activities; they do not have proper experience in forming their own trade and price policy. Besides, the financing of commodity promotion and marketing is inadequate.

So, the agricultural sector of small and middle service business is persistently expanding. However, this process is limited by the financial possibilities of the commodity producers and an inadequate experience of small- and middle-size enterprises themselves. The ever increasing competition gives them impetus to the strengthening and diversification of private business for increasing service subjects among commodity producers and establishing business relations with them on a permanent basis.

Cooperative organizations. Within the context of this study a cooperative organization refers to an organization or business that is owned and controlled by those using its services. Historically, the cooperative organizations of all three leading guidelines (consumer, agricultural and credit) came into being and played a significant part precisely in the agriculture of Ukraine. However, under the Soviet regime the agricultural and credit cooperatives ceased to exist through certain ideological obstacles, but they surfaced again, after Ukraine proclaimed its independence. Today it is reasonable to state that a cooperative sector of full value is being formed in nation’s agriculture which plays an important part in the institutional surrounding of agricultural producers. Their formation will be held at democratic conditions “from bottom to top” to suit the international principles of cooperation.

In today’s Ukraine consumer cooperation has proved most structurized. It has its organizations, practically in all administrative oblasts and regions, it sustained membership organization and relatively powerful material resources even despite a sustained tendency for its progressive decline. The highest integral structure of consumer cooperation is the Central Union of Consumer Societies of Ukraine (Ukoopspilka). The consumer cooperatives actively operate in rural area.
Having gained the legal grounds for its development in 1997, the agricultural cooperation is progressing dynamically, though it doesn’t have a clear-cut structure identical to the system of consumer and credit cooperation. In spite of a rapid pace of marketing cooperatives increase in number, their integration into associations and other federal structures is accomplished rather slowly. The National Union of Agricultural Cooperatives of Ukraine established in 1998 holds the greatest interests of agricultural cooperatives today.

Ukraine’s credit cooperation is presented by the credit societies and their organizations both in cities and towns. In more recent years the trend has been toward the increase in importance of credit societies for giving loans to small farm producers. In Ukraine credit societies were revived in 1992 and their representative organization – The National Association of Credit Unions of Ukraine – was formed in 1994.

**Consumer cooperation.** The system of consumer cooperation is the oldest economic organization in Ukraine. It dates back to the latter part of the 19th century (the first consumer partnership appeared in 1866). Over the Soviet period the entire system of consumer cooperation was under strong government control. In fact, its denationalization started in 1992, once the Consumer Cooperation Law of Ukraine was adopted by the Parliament. The same year its highest organization – Ukoopspilka – joined the International Cooperative Alliance, and it is a unified Ukrainian member today.

After the heated discussion about the collective property of the union and demonstration of illegitimacy and economic inexpediency of its privatization, the congress of Ukoopspilka, held in 1994, established the standard according to which 51% of the unions authorized fund became indivisible. So, the union in fact acquired the features characteristic of private joint-stock company whose controlling package of shares is in charge of its top management, and the establishment of its own bank and a number of affiliated companies imparted to it the characteristics of a holding.

So, from the position of this study it should be noted that consumer societies and their unions play and will still be playing a significant role in the institutional environment of not only agricultural producers, but also of the whole rural population of the country. Since, on the one hand, their function of procurement of farm produce and raw materials still remains important which is sometimes the only access to market, on the other hand, trade and provision of services in many rural areas exist owing to consumer cooperation.

However, it is obvious that the increase in competition consumer societies and unions meet from small (sometimes even unregistered) private businesses and agribusiness corporations which try to expand and control raw materials zones and rural segment of their produce marketing. On condition of disregarding some aspects of shadow economy that accompany the process of small business formation, we may say that on the whole the process of farming the competitive environment in the services sector is taking place to its benefit. But it becomes evident that even in the very near future the system of consumer cooperation in Ukraine will require the transition to a new competition strategy,
flexible diversification policy and intensification of integration processes in the rural cooperative sector.

**Agricultural marketing cooperatives.** In the agrarian sphere agricultural marketing (Western type) cooperatives represent a special type of enterprises of a corporate (integration) type created by means of voluntary pooling of funds and efforts of agricultural producers (individuals and legal entities) being at the same time its owners and clients but incidentally remaining independent economic subjects. This explains nonprofit nature of cooperatives, since they are oriented not to gaining profits (as it is natural with common enterprises), but to qualitative servicing of their client-owners with the aim of securing their profit-making activities through services provided at prices maximally approximate to cost value. For all this, expanded reproduction of cooperative business is carried out not at the expense of other sources. Nonprofit character in no way concerns the efficiency of cooperative society activities, but it only indicates a special, subordinate mode of distributing enterprise finance results (which in common corporations obtains the form of profit) in the interests of cooperative client-owners.

We should take a more realistic view of appearing agricultural marketing cooperatives, for most of them have only been registered and haven’t yet started their activities. One more part is functioning with considerable violations of cooperative principles (pseudo-cooperatives) and the other part only formally belongs to cooperatives (quasi-cooperatives). There is no centralized system of collecting processing and generalizing statistics about the volumes of the cooperatives activities, of the commodity circulation and financial results of their activities. Moreover there exists no body to identify the conformity of cooperative activities to the international cooperative principles and to monitor agricultural cooperative development on the national level. Thus, making the multi-sided and authentic assessment of the present-day agricultural cooperation development appears quite problematic.

At the same time one can observe an ever growing number of functioning cooperatives which should be classified into three groups: specialized cooperatives, based on cooperative principles and community-based cooperatives.

Specialized cooperatives concentrate their attention on the exercising of definite functions or on combining several functions within the framework of a single branch. These functions are delegated to them by their client-owners and include storing, processing, marketing farm produce; input supply, technological, information and advisory support. Such cooperatives may unite producers of a similar type (grain, fruit and vegetable, dairy cooperatives). Specialized cooperatives are open to producers of any organizational and legal status. We may expect the establishment of specialized cooperative formations ( federated cooperatives) as to their functional, sectoral and territory characteristics.

As a rule, agrotrade houses as multifunctional service cooperatives are set up at the district level [Климюк, 2003]. They unite agricultural enterprises and
large private farms, form consignments and market the production of their client-owners, supply them with necessary material and technical resources and provide them with information and consulting support. At the same time they do not shoulder the property rights on the production and resources but they function as market agencies and are paid for services rendered within the limits set by client-owners themselves. In future they may possibly appear interdistrict agrotrade houses and their regional associations.

Community-based cooperatives are set by peasant and small farms for getting services connected with the management of these farms, namely the cultivation of land plots, produce procurement and marketing, utilization of complex machinery, input supply, artificial insemination of animals, information and advisory services [Швець, 2007]. Sometimes such cooperatives include dwellers of several villages. They are mostly set up in places where agricultural enterprises are not able or interested in rendering services to the local population. Cooperation, and in due course integration, of rural community cooperatives with agrotrade houses functioning on a cooperative basis appears promising [Зіновчук і Климюк, 2003]. The above will contribute to the systems character of forming the agrarian market infrastructure at the regional level.

The agricultural cooperation is a promising instrument for the economic support of agricultural producers. It envisages the formation of available channels of marketing farm produce, the material and technical supply of the means of production, agroservices, financial and credit support of commodity producers on the most beneficial terms. Agricultural cooperatives development is a logical stage of market economy system formation.

Credit unions. Credit unions in Ukraine originated in 1869, when the first saving-credit society based on the Raiffeisen model of credit cooperative was set up in Poltava region. Before 1914, Ukraine had 3.5 thousand credit unions which, unfortunately, ceased existing under Soviet times. Their restoration began only after Ukraine’s independence had been proclaimed. Ever increasing needs of the population (rural dwellers included) in financial services became the economic basis for the credit cooperation appearance and spreading. It was either impossible or too expensive to obtain these services from other financial institutions, commercial banks in particular.

A credit union is a nonprofit organization functioning on cooperative principles with the aim of the social protection of its members through using their personal savings for the mutual crediting. Members of the credit union themselves determine the range of the financial services rendered, and impose conditions for providing these services. The 2002 Law of Ukraine “On Credit Unions” makes it possible for credit unions to be engaged solely in rendering financial services related to mutual crediting.

The development of credit unions in rural areas among well-formed groups of people having joint interests proves to be the most effective. As to the credit provision (guarantee of return), mortgage and other people’s guarantees are the most widespread in credit unions practice. Some credit unions create the
so called “loan circles” which envisage joint responsibilities for people who know each other quite well [Гончаренко и др., 2005]. Due to their nonprofit nature credit unions give credits with lower interests as compared to those of commercial banks and other financial institutions. Besides, there are definite advantages of crediting on the cooperative principles, such as: simple and cheap procedure of setting up and registering a credit union; tax benefits proceeding from its nonprofit status; a relatively quick and plain procedure of getting credits [Шишута, 2001].

There exists one more problem which cannot be solved by credit unions so far, namely large-scale crediting, for credit unions include mostly rural physical persons who are mainly owners of individual family and small private farms. Maximum volume of credits they get is limited to several dozens of thousands of hryvnyas\(^3\), and only in single instances this sum did not exceed UAN 100,000 for agricultural producers. Besides, it should be borne in mind that credit unions offer short-term credits. It means that borrowed money for a medium-size farm covers only field-work expenses and those for buying working assets. So there arise two urgent problems: 1) the involvement of legal persons in credit cooperation, without which a qualitatively higher level of its capitalization is impossible; 2) the necessity of further structurization of credit cooperation with the aim of providing high maneuver of capital and its entrance to inter-bank market.

**Conclusions**

Summing up the investigations devoted to the supporting agribusiness institutions, one should pay attention to a particular complexity of the process of establishing cooperative organizations, for neither state nor government can directly participate in the process. Cooperatives can appear and start working only when cooperative members themselves express their desire and accomplish corresponding organizational procedures. However, the state and the government cannot stand aloof from the development of cooperation processes in agriculture and must assist them in creating corresponding conditions and promoting them thoroughly [Могильный, с. 328]. Doing this, the state and the government will wage real and efficient policy of the economic support of farm producers and their social protection. The formation of the cooperative sector in agriculture is impossible without a clear understanding of the essence, mission and principles of cooperative organizations, without determining the development of cooperation in the country-side as the component of the government agrarian policy, without creating a corresponding legislative basis, as well as without taking necessary organizational measures. One should take into account that this process has to penetrate into people’s awareness, for the entire process is impossible without their own conviction, mutual confidence and personal loyalty, which in itself requires a definite period of time.

\(^3\) 1 hryvna is equal to EUR 0,157 (May, 2007).
References

КООПЕРАТИВИ І ДРУГІЕ ОБСЛУЖИВАЮЩІЕ
СТРУКТУРИ В АГРОБИЗНЕСЕ УКРАЇНИ

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Аннотация
Данное исследование посвящено концепции и системному подходу к формированию обслуживающих структур агробизнеса в украинском сельском хозяйстве. Основное внимание сосредоточено на миссии, функциях и организационном дизайне недавно появившихся агросервисных предприятий. Рыночная трансформация аграрного сектора национальной экономики Украины способствовала формированию и распространению этих рыночных институций. Особо акцентирована роль кооперативов в агробизнесе. Результаты исследования показывают причины пока еще медленного развития отдельных элементов рыночной инфраструктуры.

Ключевые слова: сельскохозяйственные товаропроизводители, агробизнес, рыночная инфраструктура, крупномасштабные предприятия, кооперативы.