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**Effectiveness of producer cooperative in developing
countries**
Master thesis

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I declare that this thesis independently and used only the sources that I quote in the attached bibliography.

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Abstract

A cooperative in general is an autonomous organization based on democratic control and voluntary membership, where profit-making is only part of the story. The other important factor is social benefit of involved people. The importance of cooperatives can also be highlighted by the fact that the United Nation called year 2012 as the Year of cooperatives. The thesis is based mainly on critical review of the secondary data published on cooperatives so far. For research were important law and the rights of members, history of the cooperative movement in chosen countries, sharing costs of production and what more a cooperative offers to its members. The studied cases are from Africa as a whole and one study case of Kenya, Asia - China, Vietnam, India; Latin America - Brasilia, Paraguay, Cuba and Mexico. Author also mentions the cooperative's situation in the Czech Republic. Author also interests in the cooperative movement as a tool of development, this will be examined on examples with Georgia and Haiti. All known facts in the case studies were parted according several theories. The facts were given in a new context. In thesis was concluded that the cooperative movement could work in time of crisis, but it is influenced by several factors - history of the cooperative movement, also a trust between people, well-educated management and workers, access to modern machinery and last but not least the legislative approach a government to cooperatives.

Key words: cooperative, small farmer, transaction costs, institutions, rural development

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I. List of abbreviations

AFD - Agence française de développement

AMUL - Anand Milk Union Limited

ANAIC - Nation Alliance independent farmers of Cuba

CAP – Agricultural Production Cooperative

CEPCO - Oaxa State Coffee Producers Union

CM – cooperative movement

DC – Developing countries

EC – European commission

EEA - European Economic Area

EEC - Council adopted Regulation

EU - European Union

FAO – Food and Agriculture Organization

GDP – Gross Domestic product

GEPA - alternative trade group in Germany

ICA - International Cooperative Alliance

IDB - Inter-American Development Bank

ILO – International Labor Organization

IYC – International year of cooperatives

MERCOSUR – Southern Common Market

NASVR – National Assembly of the Socialist Republic of Vietnam

NGO – non-governmental organization

NTUC - National Trades Union Congress

PC – personal computer

PDC - Phudon Dairy Cooperatives

SCE - European Cooperative Society

TDC - Taxuan Dairy cooperatives

UCIRI - Dutch organization, first fair-trade certificate producer

UEPC - Economic production and marketing units

UN - United Nation

UNRISD - UN Research Institute for Social Development

VBP – Vietnam Bamboo products

VND – Vietnam Dong

WB – World Bank

WTO – World Trade Organization

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1. Introduction

Each farmer wants to succeed on the market. This success is increasingly more difficult. For customers is easier buying agriculture straight from hypermarkets than search for better products, for example on farmers markets or straight from the farmer. There are two main reasons for establishing cooperatives - success on the market as a first reason and second one – social security. This rule applies everywhere - in Europe and also in developing countries.

Cooperatives are stronger than alone farmers. But in this case is necessary to choose a good business partner. And this goes hand in hand with good choice is the trust in your partners.

This thesis wants to introduce a cooperative as one of alternative way or better to say one of the possible solutions of the current economic crisis. On cooperatives is possible to examine several theories by many authors. Author found cases around the world and tries according these theories to find the answer to basic questions, if cooperative are so workable and what are their negatives and positives.

And why not have an interest about cooperatives right now in 2013. In the middle of the world economic crisis, only a short time after the end of 2012, what the UN calls the Year of cooperatives.

The first chapter introduces the history of the cooperative movement. There is described the first cooperative in England and after skipping into the cooperative movement 20th century.

In second one is easily explained the term cooperatives. How a word “cooperative” explain the United Nation and the International Cooperative Alliance. And also the principles on what cooperatives are based.

In third chapter are explained of types of cooperatives according several criteria and authors. How is possible to understand to a term cooperative by economists and international

organizations. Author's main interest is agriculture cooperatives. This is a reason why is necessary to explain the term of agricultural cooperatives. This is done is in a subchapter.

In Fourth chapter are explained theories, what are used in the methodology and result part. For reader as necessary to know the criteria, what are important for author's research.

As a title suggests, this thesis focused on developing countries. Author found several study cases and these parted into subchapters according continents. The reader meets, in this chapter, cooperatives from Africa – Kenya, Tanzania, Uganda, Ghana, Nigeria; from Asia – Vietnam, China, India; and from Latin America – Brazil, Peru, and Cuba. This is a chapter five.

The sixth chapter explains the cooperative movement in the Czech Republic. Author focuses on to two the most important terms for Czech or Czechoslovak's history - collectivization of agriculture sector in 1948; and maybe the most famous cooperative in Slusovice. In this case the author wants to show how cooperative can work and how can end. In this chapter also includes the introduction of the cooperative's situation in the EU.

In next chapter author deals with establishing cooperatives as a one development tool for reducing poverty. There is written about some development projects aimed on establishing cooperative – in Georgia and Haiti.

In eighth chapter is introduced the connection of cooperative the movement and fair-trade. There are mention study cases from Mexico, Kenya, India, Pakistan and Palestine and Canada.

2. History of cooperative movement

The term “cooperative” was firstly used in the early 19th century and has evolved as an economic and organizational form since then. Some of the most noted scientists studying cooperatives include great economists John Stuart Mill, Leon Walras, Alfred Marshall and Charles Gide. We find ourselves in 1843, when a group of 28 weavers from the cotton mill in Rochdale (England) decided to find first successful cooperative. Since their incomes were low and the goods in the local shops expensive, they collected money among themselves, their families and friends and founded the Rochdale Equitable Pioneers Society, which on December 21, 1844 opened a small co-operative shop in Toad Lane, 31, Rochdale. During the

first days, they offered only 5 commodities: flour, oat flakes, butter and candles. They were successful because of low prices and also by setting their principles; it became the historical pattern for European coops.

O'Connor (2004) explains the three main motivations why establish the cooperatives. The first is for increasing bargaining. At the beginning of 20th century in USA and Australia, farmers, through membership in the cooperative, negotiated better conditions and higher prices for their crop products. The second motivation is supporting the government, in the form of tax relief. Many countries do not taxed the profit before then they are distributed to members. It decreases tax burden of members, when the tax rate is paid by farm enterprise, it is lower the corporate tax rate. The third motivation applies for new cooperatives and is actual mainly in last decades. Author means observation same and common business goal and subsequent decreasing of costs. On the other had this brings higher risk for the cooperatives. The one thing how the cooperatives can protect themselves is a specific innovation (for ex. Innovation of production processes).

3. Cooperatives as agents of social change

The International Cooperative Alliance describes a cooperative as “*an autonomous association of persons united voluntarily to meet their common economic and social needs and aspirations through a jointly-owned and democratically-controlled enterprise*”(ICA, 2012).

Principles according ICA (2012):

1. Voluntary and open membership

The membership is open for everybody regardless his/her gender, social, racial, political or religion.

2. Democratic control member

The cooperative is controlled by all members, who use cooperative's services and actively participate in setting policies and decision making process.

3. Members' Economic Participation

Members contribute equally. Most of them prefer to into business than rather accumulate a capital, what is subscribed as a condition of a membership.

4. Autonomy and Independence

Cooperatives are autonomous and independent on all actors of business.

5. Education and training

The one of cooperatives' function is education. Cooperatives increase scholarship of its members and managers, but also large public.

6. Cooperation among cooperatives

Cooperatives serve for its members and support world cooperative movement.

7. Concern for community

Cooperatives focus on filling the needs of members, work for sustainable development of communities according policy accepted by members.

The United Nations Secretary-General Ban Ki-moon says: *"Cooperatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility."*(IYC, 2012)

FAO (2012) explains a cooperative as an association what connects men and women together. A cooperative is democratically controlled and making profit is only a part of the story. The cooperatives want to offer its members security by providing social, culture and economic ambitions. And mainly cooperative promote peace and democracy.

4. Types of cooperatives

It is possible to find several distributions of cooperative, it only depends on point of view, and for instance ICA (2012) divided cooperatives into:

- Consumer cooperative

In this type people buy something from cooperative - child care cooperatives, electric and telecommunications cooperatives, food co-ops, health care co-ops, housing cooperatives, and many more.

- Producer cooperative

This type produces some commodities. This is the most common in agriculture.

- Worker cooperative

This cooperative is owned by workers - industries, including childcare, commercial and residential cleaning, food service, healthcare, technology, consumer retail and services, manufacturing, wholesaling and many others.

- Purchasing/Shared Services cooperative

This cooperative is owned by some organizations or business.

- Hybrid cooperative

This cooperative is made by people with common interests. It could be developing multi-stakeholder hybrids, which seek to balance the sometimes conflicting needs—for example, between consumers' desire for affordable products and producers' desire for higher prices for their goods.

The Cooperative development institute (2011) has division on:

1. Producer co-ops
2. Worker co-ops
3. Consumer co-ops.
4. Credit unions

This cooperative provides services to consumer members, what is the difference from common banks, also create jobs for local people.

5. Retail or Purchasing co-ops

The goal of these cooperatives is sharing services during their activities.

6. Social coops

Provide special social service to members – health care.

Nilsson (1999) introduces four types of cooperatives:

Type I: Traditional cooperatives. Members perceive their patronage relations as very rewarded; their patron will be probably in a role over-shadowing investor. The firm can be financed collectively without any problems, since members will effectively control it anyway from their patron position. In this context there are no problems in the face of high member involvement, despite collective ownership and co-operative residual rights.

Type II: Entrepreneurial cooperatives: The members are highly involved in both roles – patron's and the investor's role; the co-operative is effective in strengthening the members' market position. The residual claims are tradable as equity shares. The members are willing to invest large amounts and they get remuneration for their capital.

Type III: Degenerated cooperatives. If the members are convinced, that they have insufficient capacity to correct market failures, while also failing to appreciate their investor role, their cooperative is in difficulties. There are monitoring problems and the market functions are weak. The firm is probably inefficient, and there is a risk that the management and/or the board will seize control. If no reorganizing action is taken, the resources may become exhausted, whereupon the cooperative's existence will be threatened.

Type IV: Ex-cooperatives (non-co-operatives). This type of organization is an investor- owned firm rather than a cooperative, but the owners of the firm may be former members of a cooperative society, or the firm may be owned by a cooperative firm. Ex-cooperatives are mainly the end result of degenerated cooperatives that have run into insurmountable difficulties and have failed to convert into traditional or entrepreneurial cooperatives.

4.1 Cooperatives in Agriculture

According FAO (2012) are known two types of cooperatives involved in agriculture: – the service and production cooperatives. Service cooperatives provide services for its members – share land, machinery and costs.

Production cooperatives allow its members, especially small stakeholders, sell their products (maize, cotton, bananas, coffee, livestock etc.) on markets. Increasing incomes lead to improving living conditions of farmers, what subsequently improves rural development in all less developed communities (*Food and Agriculture Organization, 2012*).

5. Cooperatives theories

In this chapter are introduced theories what are commonly used during evaluation of effectiveness of cooperatives. Economic theories are one part of the economy. Economic theories do not provide any summary formed immediately applicable conclusions for policy development. Rather than a doctrine is a method, a set of intellectual tools that enable their holders to help draw the right conclusions.

5.1 Institutional theory

This theory examines relationships inside of a cooperative. It also takes into account soundings around a cooperative – social relationship, government condition and history facts.

If cooperatives are taken as a part of the social economy, it is necessary to ask on the positives and negative issues for involved people.

Stryjan (1989) and Craig (1993) claim in sociological and institutional theory that people working for cooperatives are not motivated only by vision of economic grow, but also by solidarity, equality and fairness.

5.1 Neoclassical theory

According to classical economic theory cooperatives have large volumes of business and by this large savings. By large product diversification they are better protected against increasing expression of market failure (*Sexton, 1986*).

5.2 Transaction cost theory

In cooperative movement is an important transaction cost theory (*Staatz, 1984; Staatz, 1989; Fahlbeck, 1996*). For cooperators are important as to get to product chain, chance to success is small for them, if they are alone. From same reason they better face of possible market failure. This is an example of small farmers in developing countries.

5.3 Game theory

Game theory is about strategy what a cooperative should choose for the maximization of own profits. It is connected to a model of prisoner's dilemma.

This theory could be taken from the point of view brings benefit its members – improve their living conditions or not, or if it has some negative impacts.

5.4 Property rights theory

The background of property rights theory and also agency theory claim that cooperatives are not effective. Alchian and Demsetz (1972), Jensen and Meckling (1979) and Fama (1990) explain it by unclear defined property rights of members. Fulton interesting deals cooperative selection between production and providing services. According Fulton (1995) could be more efficient if members are owner of these services.

5.5 Agency theory

According to Jensen and Meckling (1979) explain agency theory as an activity of agent/agents in this case management staff, what is responsible for working a cooperative. The management staff should to the best job, in the opposite case owners changes the management staff. In the case that management staff does not fulfill its function in right cooperative's leading, members have right recall management staff.

6. Cooperative movement in developing countries

In this chapter author shows the cooperatives on each continent – Africa, Asia, and Latin America.

Developing countries are attempting to organize farmers into cooperatives, but it has been often unsuccessful, although cooperatives have the potential to supply farm inputs and market farm products that are both important for agricultural development (*Ortmann & King, 2007*). Chambo (2007) demonstrates, than the cooperatives could work in crisis situation or in harsh conditions. For instance in Africa is a good field for establishing cooperatives by small farmers. Chambo (1999) also wants to point out on the close connection between cooperativeness and the rural development and food security, what is the hot topic in Africa. O'Connor (2004) reminds that the cooperatives are basic stone for agricultural industry both in developed countries and developing countries.

6.1 Cooperative movement in Africa

In Africa are cooperatives popular modes for export. The incidence of cooperatives, mainly with agriculture and marketing focusing, in Africa is not accidental. In history the practice of cooperatives was a combination agriculture inputs and outputs. But this model was unfair towards small farmers, who were not able to meet production requirements. The liberalization policies and competition force cooperatives to leave an input supply from their package service. This step had had a negative impact in some cooperatives.

When we want to speak about starting cooperation, we have to return to colonialism era. The cooperatives were established because of agricultural export - mainly for exporting coffee, cotton, cashew nuts and cocoa, how it was in Tanzania, Kenya, Uganda, Ghana and Nigeria (*Carlsson, 1992*). The colonialism government knew that cooperatives had been important for organizing whole country. The reason, why cooperatives structure is influenced by shock increasing prices of agriculture commodities on world markets, is that, Africa did not change production and consumption rate. Apart from Ethiopia, Africa does not drink coffee, same as in Africa people do not eat cocoa products and cashew nuts. In 1908 was established fist cooperative. The membership was limited by white colonists. The door for African was fully opened in 1944. In 1945 the Cooperative Societies Ordinance was enacted together wither African participation the cooperative movement. In 1859 were registered 400 cooperatives. This rising was evidence for government the cooperation has vehicle power for African socialism. The liberalization in early 90's brings fully depend government, what was controlled on the market. For many cooperatives were difficult to follow this situation. There were not prepared for competition with private firms. The problems of cooperatives: lack of training by cooperatives, poor sequencing of the reform policy, lack of government protection, political interference, inadequate political reform, slow decision making process, government policy, international prices, weather condition, lack of infrastructure, low ability of competitiveness and we cannot forget about high prices of agricultural inputs. Many cooperatives were not able to fulfill the obligations of its members, who started have got problems with the food security and incomes.

Another weakness of African cooperatives is according Nilson (1999) a collective ownership with a minimum capital investment. They were not able to transform themselves into market competition agents. Instead they motivate own members for expanding capital

and investment, they stayed depend on patronage fund. Next limit in Africa is opaque policy and legislation, what get slow the cooperative movement. The state is main propagator of the cooperatives. The bigger member – state – decreases the contribution to profit for other members. In this case is transformation very difficult. Another problem is education and training. That is problem with whole Africa. These mention factors show, why the cooperative mission in Africa is still unsuccessful.

Holloway (1999) calls cooperatives to build their basics on small farmers. And secondly, to increase production of small isolated farmers, by delivering products to market in time. According Orthman (2006) the cooperatives have to stimulate poor farmers for entrance into market with enhanced knowledge about norms and standards for perishable commodities.

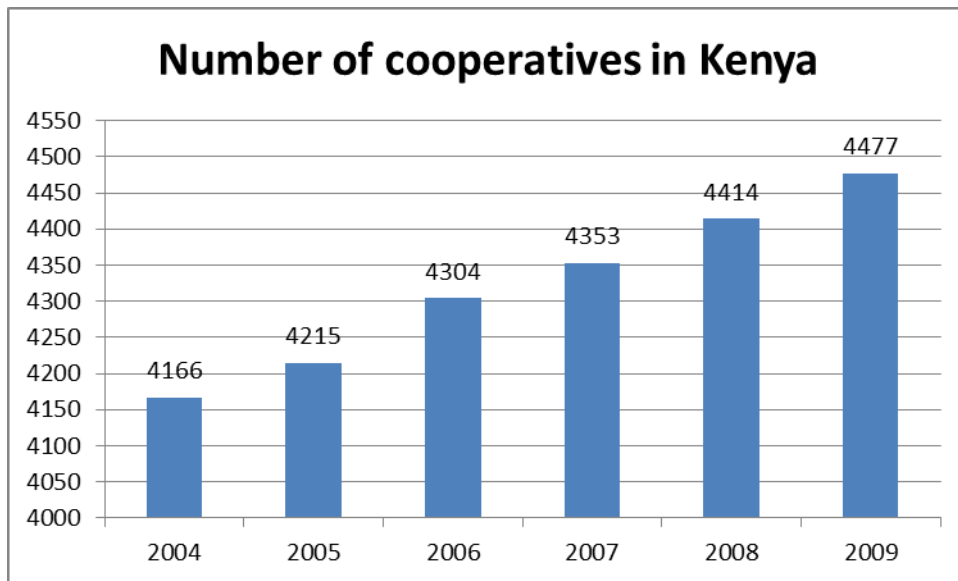
Chambo (1999) mentions that poor farmers could construct good houses or send their children to school or pay health insurance to sustain rural livelihoods. According Volamen the cooperatives could play significant role in business and trading with commodities, because of enhancing demand for food. Mainly in developing area, where is high technological and technological risks and never ending civil scuffles.

6.1.1 Cooperatives in Kenya

For instance, let the author to chart the situation in Kenya. There are the cooperatives indispensable for production, processing and marketing of agricultural and livestock commodities. Their main goals are protected and fulfill members' interest according cooperatives principles. The critical points are in allowing property and economic grow in the country. Their vindication stems from maximization of profit, boosting social capitals, providing education opportunities, improving market access and contributing to poverty reduction.

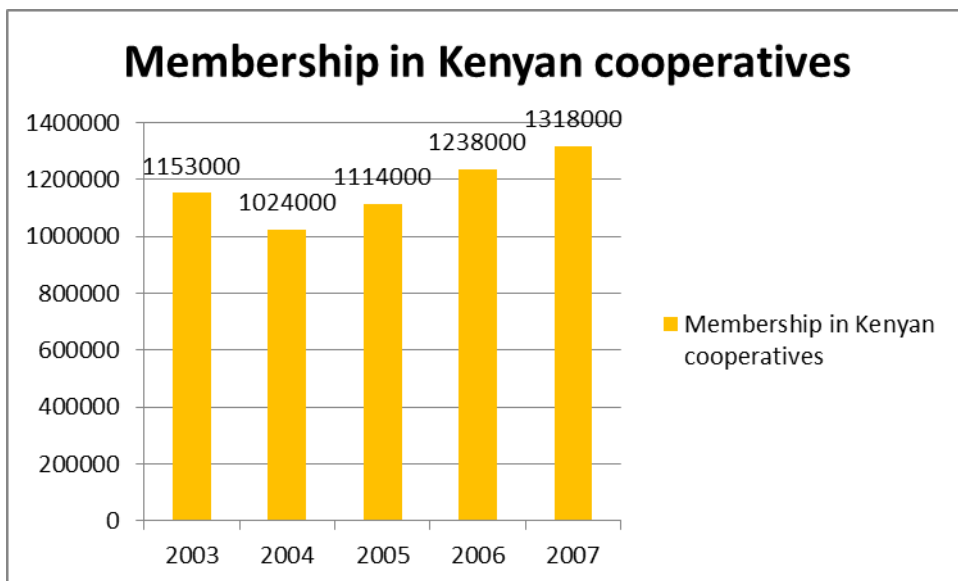
At this time, the flag boat for Kenyan cooperative's movement is orientation on flowers and sugar production. Here is a challenge for farmers; the production could increase, thought high prices of import sugar from Sudan, and the fact, that now people pays three times higher price of sugar.

Figure 1: Number of cooperatives (2004 – 2009)



Data source: (Wanyama, 2009)

Figure 2: Number members in Kenya (2003 – 2007)



Data source: (Wanyama, 2009)

According Gamba and Komo (2009) it is necessary to help cooperatives, make for them better conditions. Building capacity, better contacts with local leaders, educated the members and make for them good legal surroundings.

6.2. Cooperatives in Asia

Mendoza and Rosegrant (1995) describe the agriculture supply chain in the developing countries as a system, where are many small widely-dispersed farmers growing perishable crops on one side and on another side marketing system with fewer traders. Here are high cost, cause of non-effective transport system. The supply chain from primary producers to customers is long. It is missing variety and quality of products. Despite all efforts to establish a cooperative in developing countries failed. The benefits derived from cooperative marketing were allocated to people with bigger political power and with higher social status (*Lele, 1981*). The Batt's research (2004) in delta Red River in Vietnam wants to examine the supply chain of producers of fresh potatoes. This research wants to answer on the question, how to improve the producers' ability to fulfill customers' needs and long term relationships between both groups.

Small farmers and enterprises are typical of the Red Delta River. The majority of them plants potatoes in October or November and the harvest in January or February. This short vegetation period, seed with poor quality, soil compaction and inappropriate using of fertilizers bring average yield 16.7 per hectare (*Batt, 2004*). 88 % farmers will earn less than \$67 per month (*Batt, 2004*).

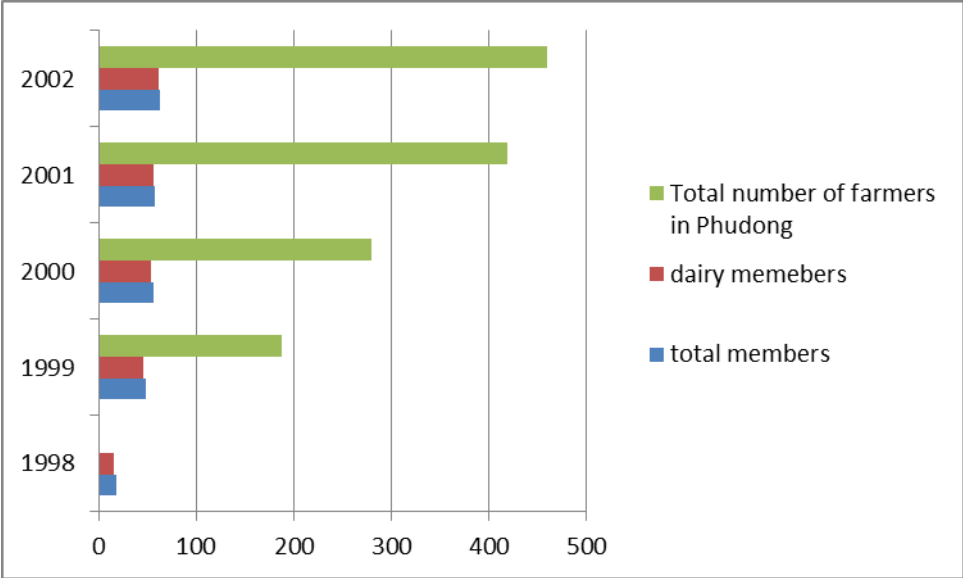
From the result we can read that farmers, collectors and traders do not see big problems in their communication, prices and relationships. It is logical that for wholesalers are not so important close relationships with end customers. Shepherd and Futrell (1982) discussed about meaning the cooperatives. They claim that large market margin is false. Only straight way from farmers is right. The marketing margin could be zero, and the market could be inefficient, if selling and buying prices would be same. Their main argument is the efficiency of the market improves after elimination of middlemen.

6.2.1 Vietnam case

In developed countries the main role of agricultural cooperatives is supporting local farmers to get their products to market, this role is irreplaceable. If it is possible to admit that cooperatives are needed for rural development, but every socialist country is really difficult to vindicate the cooperative movement. The main objective of Vietnam's cooperatives was rice production. But the require restructuring of economic sector brought new cooperative law and other news. The other change was start establishing dairy cooperatives. In the first these

cooperative were not so popular. Quach’s and Kawaguchi’s (2003) research introduces dairy cooperative in Hanoi and HCM city.

Figure 3: Size cooperative in Phudong, dairy cooperative (1998 – 2002)



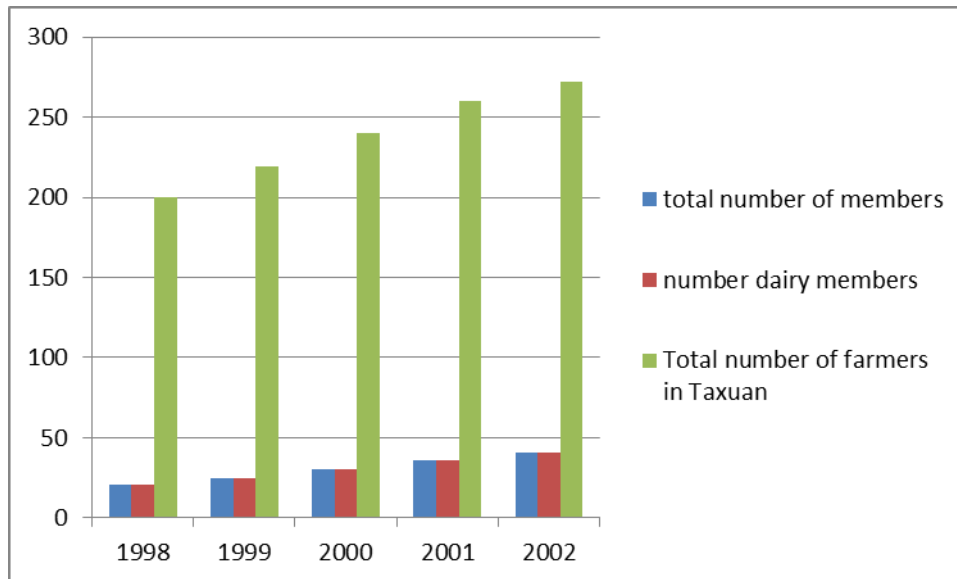
Source of Data: (Quach, Kwaguchi, 2003)

In Quach’s and Kawaguchi’s research (2003), there is written, than before June 1998 65-70 % of dairy farmers on the suburb of Hanoi sold their milk through the middlemen. For farmers it was one reason how to sell their milk. Sometimes it happened that farmers got from middlemen lower prices. The help brought new milk receiving stations financed by Vietnamese and Belgic government. The PDC (Phhudong Dairy Cooperatives) was established in August 1998. PDC has support from several national on international organizations. Also PDC cooperates with Vietnamese-Belgium project. Breeders in Belgium offer PDC farmers access to capital, semen and cow breeding know-how. Ensuring inputs and sales should motivate the farmers to produce milk. The private milk collectors try to use same market technics as PDC. But it is just PDC who determines prices. Farmers difficult negotiate milk prices with factory. If collectors cannot offer higher prices than PDC hard motivate farmers to produce milk.

In the same year as PDC, another dairy cooperative was established – Taxuan Dairy cooperatives (TDC). 41 farmers cooperate in this cooperative. 81 farmers use their credits (*Quach and Kawaguchi, 2003*). TDC helps own farmers in building barns, cow buying and

feeding. Also TDC brings new technics in milk procurement, input supplying and veterinary service.

Figure 4: Membership in Taxuan (1998 – 2002)



Source of data: (Quach, Kwaguchi, 2003)

The main activities of TDC are: fresh milk procurement and selling, feed supplying and veterinary service, processing and marketing milk products, producing and processing food for cows, poultry and other domestic animals. General meeting of all cooperative members is held once a year. The management has responsibility for informing members about the time schedule for next ten years. The general meeting makes decision on these things:

1. Report on output of annual manufacturing, business and service activities of the cooperatives, report on the operation of the management committee and audit and control committee;
2. Report in public on finance-accounting, plan of surplus distribution as well as dealing with losses;
3. Policy on manufacturing, business and service; plan of operation and raising cooperative's funds for the continuing year;
4. Increase or reduction of the share capital; setting up funds of the cooperative;

5. *Election, removal of the cooperative's manager; election, additional election or removal of other members of the management committee and audit and control committee;*

6. *Approval of admission of new members as well as withdrawal of members from the cooperative, decision on expulsion of members;*

7. *Wages and bonus for whom working in a cooperative.*

8. *Amendment of the bylaws and external rules of the cooperative;*

9. *Merger, division and dissolution of the cooperative;*

10. *Other issues as requested by the management committee, audit and control committee or by at least 1/3 of all the members (Quach and Kawaguchi, 2003).*

The family relationship between members of the management committee is forbidden.

In Hanoi there is another situation. The cooperative has verbal treatment with farmers. There are two collecting times. Farmers get 2 700VDN (0.10 EUR) per 1 kg milk (*Quach and Kawaguchi, 2003*). Every farmer has to sign the contract that their cows have an inoculation against epidemic control, there are 4 collecting stations, and each station has 2 – 3 collecting tanks. The capacity is much higher than in TDC. The cooperative can market 5 – 7 of raw milk every day.

During starting-up phase both cooperatives offered the cows as inputs. PDC also supplied feed for cows. But the profit from this service was quite small. PDC left this business. PDC misses veterinarians, without them they are not able to organize insurance for cows, services and other protection for breeders of milk cattle.

The providing of loans for its members is not a priority for TDC. They obtained the financial resource for People's Credit fund and Woman Union for decreasing hunger and poverty reduction.

The education is another weak point of TDC. While education is one of basic stones of cooperatives, administrative agencies, agricultural research institutes, veterinarians and other groups. The farmer has not a good impression when he does not feel educated enough.

The structure of milk market changes so fast. Farmers and cooperatives have to respond to the changes and stay competitive. With the challenges are faced both dairy

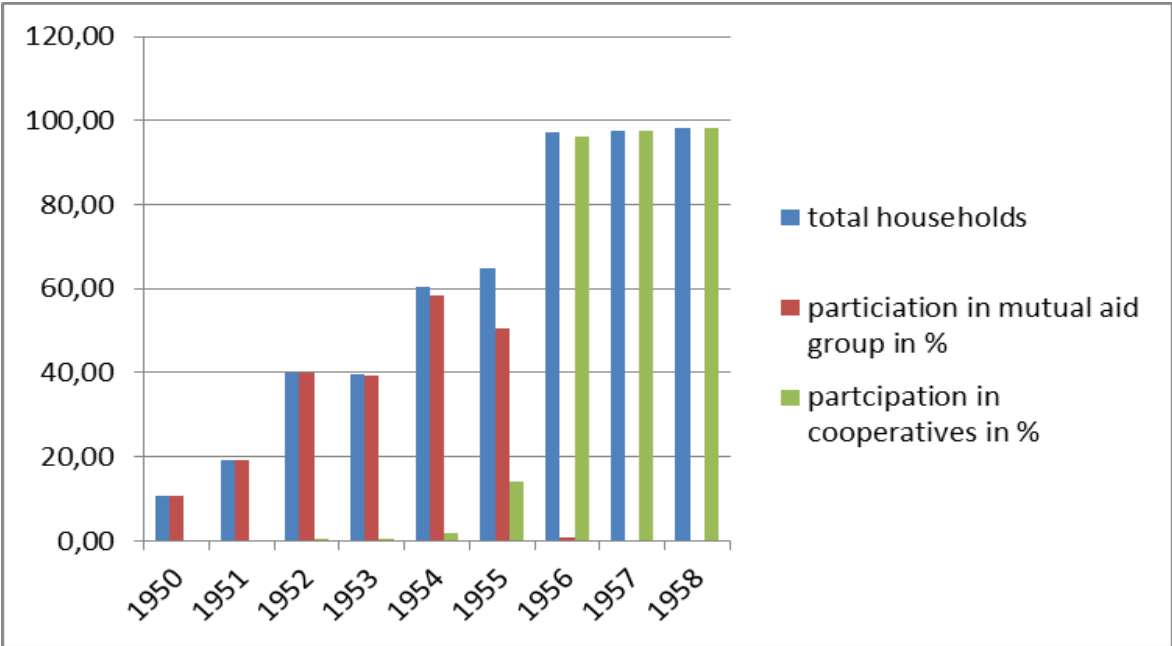
cooperatives in Hanoi and in Hochiminh city. Many farmers used to be rice producers, but production collapsed by providing weak service. PDC director nearly brought the cooperative to bankrupt. So he lost the confidence of farmers. In HCM city farmers afraid to join because, they do not want to lose their heritable land. On the question: “*Why do not join to cooperatives?*” Farmers answered: “*We do not see any benefits. We do not have enough information. Our neighbors are not members too.*” These farmers do not see a benefit in the long-term horizon. If farmers will see only short-horizon benefit, for cooperatives will be difficult to compete with the private sector. It shows that cooperative managers are not active. They have to bring more another developing projects for attracting people. The problem is lack of capital. Both cooperatives do not have own trucks. They have to rent it and this brings bigger costs. The cooperatives have to expand their activities and also have to motivate local farmers to become a member.

6.2.2 China case

According Zhou’s (2004) research, in China, as in other countries, their cooperatives serve as a tool for improving business condition of little farmers and also improving the daily life of the local community. The cooperatives have started to be popular in the mid-fifties last century in China. In 1957 ten thousands of cooperatives were established across the country. Their application field was not only agricultural production and marketing, but also supply credits. This big movement of cooperatives brought some changes. The cooperatives changed on production teams or production brigades. Under the influence of economic reform in 1978 the cooperatives were gradually dissolved. The households obtain more independent. The government control of agricultural production in rural areas. Let’s look, if this step was right.

The first evidence in China about cooperatives, we can find in the 1920’s under the Kuoming Tang government (*Pan, 2002*). Similarly as in former Czechoslovakia, right collectivization started, when the communists took control in 1951. Farmers were allowed to work on their own fields, they had enough zeal, but basic tools, draught animals and capital were missing. It was necessary to create mutual-aid groups. These mutual-aid groups made 2.72 and 4.68 million agricultural production in the years 1951 and 1952. It was 11 and 19 % of rural households (*Pan, 2002*) in those years. The government resolution from 1953 about Mutual aid and Cooperation in agricultural production increased the proportion of households participating in Mutual-aid groups from 20 % to 40 % (*Huang et all, 1992*).

Figure 5: Percentage of households participating in agricultural cooperation out of total households (1950 – 1958)

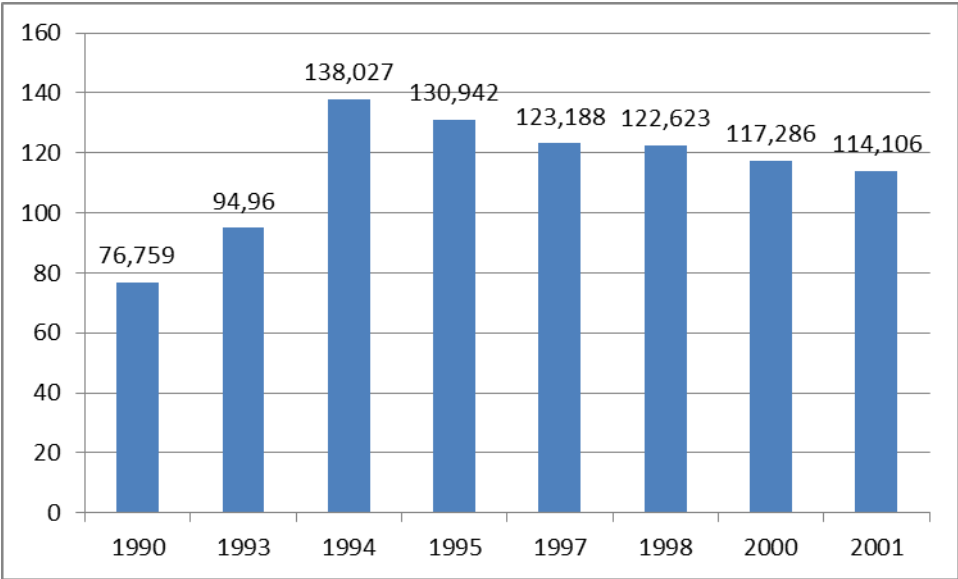


Source of data: Huang et al., 1992.

From time 1992 there are no evidence about numbers of cooperatives, because farmers did not want to talk about cooperatives. In 1998 General Office the Rural business started to evidence cooperatives, these results could be of higher quality, but the ICA is not sure if all cooperatives work according the ICA’s rules. After 1994 the number of cooperatives has started to increase. It means that farmers search another way of cooperation (Du, 2002).

The situation of Chinese cooperatives will reflect on the political situation in the country. They realize that cooperatives and new agricultural possibilities for Chinese farmers are beneficial.

Figure 6: Number of cooperatives in China (1990 – 2001)



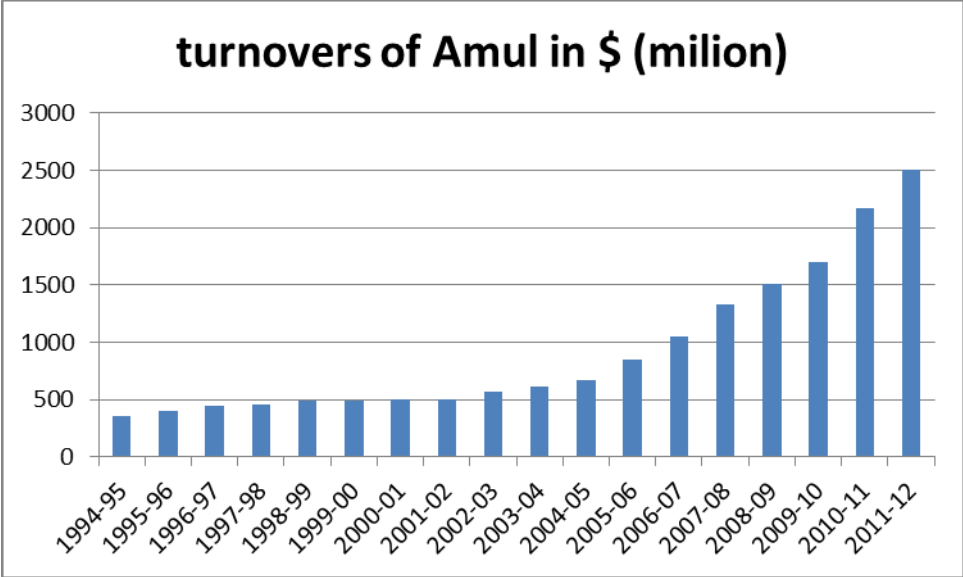
Source: DRCEM. 2013.

6.2.3 India case

In India Raju’s research (2004) a dairy production as a sub-system of traditional agriculture. The majority of the farm’s operations are based on available domestic labor, where is important the involvement of women. The Keheda district milk producers’ cooperative union in Gujarat established AMUL (Anand Milk Union Limited). This Indian cooperative’s movement has started in 1946, when the country was still under British political control. The fathers of this idea were Tribhuvandas Patel, farmer leader and Dr Verghese Kurien, architect of the world’s largest development program, Operation Flood, what made from India the biggest milk producer. The maximum amount of milk to AMUL is contributed by district Keheda. In Kapadwajn Taluka is problem with intensive production, because lack of water resources. For most families is a milk production basic source of incomes. In mention area, there are also working cooperatives unions (*Babu and Reddy, 1995*). Lower production comes from irrigated areas, what offers more job opportunities. It does not apply to villages, here is dairy production is one of small possibilities how to earn some money. The dairy production is ideal for farmers with land lower than 2 hectares or for people without land. This is the case for 57 country households, in 170 milk sheds serve to consumers in about 500 city centers. The majority of farmers have or two cows for daring, this is around 70

% production of milk 98 million cows and buffalos are held by 70 million households. In average milk production make 22.5 % of the income rural households (Raju, 2004). This is presenting an Indian way how to improve the living conditions in rural areas. During the last thirty years India has made a huge step in development, in term milk production and also empowerment of women. Despite all of this Indian is far below under world average, with 18 % (Raju, 2004) world population of cattle, India contributes on 14 % (Raju, 2004) milk to world production, this is reason why milk production is agriculture sub-system. 50 % (Raju, 2004) of milk farmers can let for themselves, big amount of milk is processed into local products – sweet, culinary products, such as a cottage cheese (paneer).

Figure 7: Turnover of Amul (1994 – 2012)



Source: Amul. 2013.

The purpose of dairy cooperatives is to increase production of milk, to increase incomes in countryside, milk marketing and to provide modern technology to farmers. The cooperativeness movement in India had had three phases. The first phase was financed from the World Food Program and from selling skimmed milk in India. It was focused on 18 best milk stations (Raju, 2004) in four metropolitan cities – Delhi, Mumbai, Calcutta, and Madrast. During second phase 1981-85, was increased the number of city milk market from 136 on more than 290.43 000 milk cooperatives (Raju, 2004) were covering 4.25 million producers. Thanks direct marketing from producer cooperatives on the market was higher profits from milk contracts, this step increase production the milk by several million liters per day. In

1985-1996 (third phases) were improved veterinary and health care services providing to cooperative members.

Dairy cooperatives now days are the biggest producers of milk in India. 10 cooperatives unions proceed and market the milk. Cooperatives are supported from financial and also technical point of view. The most known brands are: Amul (GCMMF), Vijaya (AP), Verka (Punjab), Saras (Rajasthan), Nandini (Karnataka), Milma (Kerala) and Gokul (Kolhapur). The weak points of cooperatives are political control in cooperatives, undue bureaucratic and pervasive control of state governments, regulation by restrictive and repressive cooperative laws and lack of professional responsibility. All of these points plus lack of assets to state contracts bring cooperatives inability to pay back loans, effectively cope with market national and international competitiveness; and cooperatives lost their function. During there were some attempts to try returning autonomy and independent cooperatives, but in case unsuccessful efforts was recommended call bankrupt.

6.3 Cooperatives in Latin America

For better understanding we have to have clear ideas about history in Latin America. They had been established by immigrants from Europe. They were tools in creating social and economic organization. First cooperative was established in western Paraguay and Brazilian by colonies of Japanese, Italian and Germans, according similar cooperative model known from northern Europe. Production cooperatives became more popular after II. World War. In top-down management was established against fear from social inequalities and poverty in less developed rural areas. Emphasis was placed on saving costs by sharing resources and labor and also by creation credit opportunities (*McGrath, 1978*). But often cooperatives have been closely connected with political parts. These activities did not go with cooperative democratic principles. According Bennet (1983) cooperatives started to be entirely different forms of enterprises. It was a case mainly marginalized regions where interests of the class were more than democratic principles. In socialist countries were cooperatives taken as a political organization, what is able to change the status quo in poor areas. In Cuba case, higher education opportunities and more jobs in the army and construction led to decreasing labor force in agriculture, what brought increasing machinery. All of these factors plus a degree of planning and centralization led to decreasing effectiveness. Agricultural and fisheries cooperatives were controlled in 1970 – 1980 under the Institutional Party (*Vásquez-*

León, 1998). Gagnon (1976) criticized the cooperative movement as an ineffective, without democracy, equity, solidarity and social transformation. Gagnon also reminded that in capitalism countries better integrate as a dominant factor into the economy. Despite all critics and efforts for change, some similar cooperatives in Brazil still work (*Vásquez-León and Finan, 2006*).

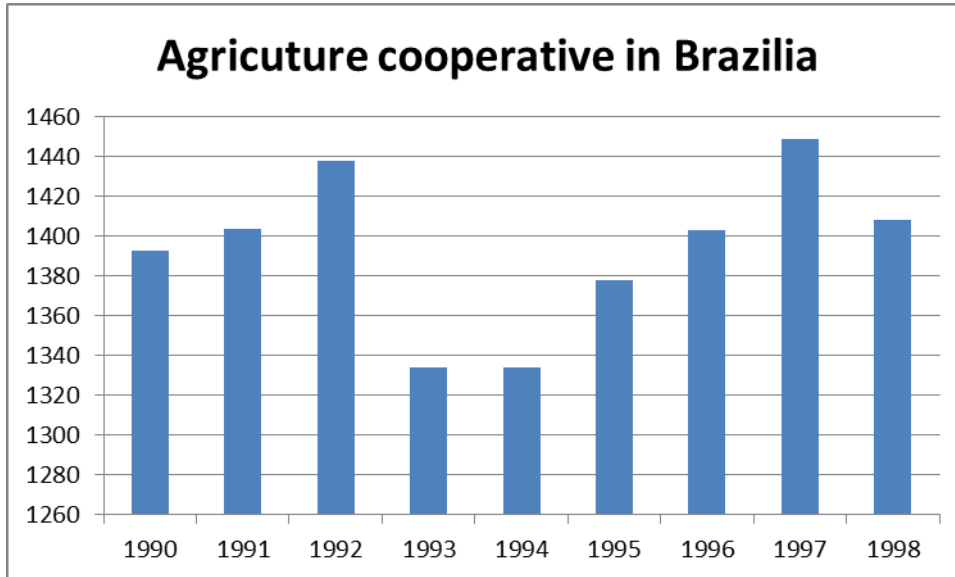
The privatization of cooperatives started in eighties. In Mexico due the collapse of the inelastic system cooperatives lost own economic protection. What brought increasing costs, entry fees and basic social services. The collapse in Cuba lead to decentralization and state farms were converted to cooperatives.

Jarround (2007) claims that in Chile is well known successful the National Confederation of Organisations of agricultural cooperatives and unions, the Cooperative for wine and fruit cultivation of La Rioja in Argentina Nation council of cooperatives in Costa Rica. One third of industrial production in Argentina is produced in cooperatives, in Brazil cooperative are involved in 37 % of agricultural production, 18 % habitants of Costa Rica are members of cooperatives and in Chile exist more than 1 800 cooperatives (Jarround, 2007). The reason is the huge influence of cooperative and their success in the markets. The cooperatives, in pursuit of earnings, do not forget, fair allocated surplus between its members. The challenges faced by depends on conditions of each country.

6.3.1 The cooperative case of Brazilia

The Japanese-Brazilian cooperative Cooperativa Agrícola Mista de Tome-Açu is internationally producing black pepper, cocoa and tropical fruits. This cooperative form provides sustainable forest agriculture. Elastically solve social and economic problems its members. Market failures in world pepper production learnt members and management staff learnt a lot about needing institutional and economic resilience. The resistance and ethnic identity help a cooperative make production diversification and other differences from others cooperatives.

Figure 8: Number of cooperatives in Barzilia (1990 – 1998)



Source of data: Bialoskorski, 2000. Changes in Brazilian Social economy and Institutional Environment in the Co-operatives Development

Amazon Coop produces Brazil nuts. This cooperative is led by Brazilian government and private enterprises. Despite involving indigenous group, the cooperative misses with regard to autonomy management a sense of ownership.

6.3.2 Paraguay case

Vasquez-Léon (1998) introduces sugar fairtrade cooperative in eastern Paraguay. Despite this cooperative owns all international certificates, the sugar is a source of uncertainty. Through international links the cooperative is independent of government.

The Guayaibi Unido cooperative is exporting bananas to Argentina. This export is possible through MERCOSUR. This cooperative is in difficulties for strict government control and large competitiveness in the world banana market. The cooperative did less in inter solidarity building and economic sustainability.

According Vasquéz-Léon both cooperatives participates in strikes and people protest and by this way they try to asset social need of its members. They do not prevent against globalization. But they only take advantage than have a contribution.

What is common for all Latin cooperatives international cooperation. By this is acting could be needs poor smallholders easily forgotten. According Dávila Ladrón de Guevara et al. (2005) despite growing calling of Latin social movement cooperatives can have a potential in democratic change and rural development. But they should want to.

6.3.3 Cuba case

Let author to introduce Alwaréz's (1999) research from 1000 from Cuba, where in 1700s and 1800s focused on producing primary products. Tobacco, sugar, coffee and slaver were more than 150 years main Cuban commodities. The plantation 's economy was unsustainable. The main disadvantage was lack of rural labor. High costs led to start off using slaves. It was a beginning of Cuban foodstuffs (*Aranda, 1968, Valdés, 1990*).

The time, when an author can use term cooperative or Cuban cooperative movement, has started in 1977, when was established Agricultural Production Cooperative (CAP), what, according Castro's government led to democratization of rural areas and improving food security. States farms had to access to export into former Soviet Union. It is impossible to speak about the protection of the environment (*Brent, 2010*).

Cooperatives in Cuba cultivate 28 % (*Brent, 2010*) of land. It is not long time what the Cuban government approved a package of measures for protection cooperative. Due this package cooperative does not lose their independence.

In September 1993 the Cuban government by law No. 142 let 45 % land (*Brent, 2010*) in farmers' using, who were willing to cooperate in cooperatives. It was a big change. New cooperatives offered 266 000 job's positions. Beyond inputs what farmers got on call, they also were trained in state research institute. In Cuba case, it could be seen in a cooperative as a chance for democratic participation in any agricultural organization (*Brent, 2010*). In 1994 the autonomy of cooperatives was constricted the level of sustainability. More accurate in 1997 were established two first independent cooperatives. Early after this occasion, farmers started to involve in Nation Alliance independent farmers of Cuba (ANAIC). After establishing ANAIC, it started to more speak about needs of farmers. It was first after the

revolution in 1950, when the occurrence of the collectivization and farmers became state employees. It was necessary to ensure food security of the habitants. Farmers only planted food for own consumption. But in Cuba is also a problem with the market, especially black market. The government had emphasized on state buying and selling policy of agricultural products for the farmer sector, impact on women's lives, and tasks of environment protection.

At the beginning of working ANAIC and other cooperatives was excessive optimism about some democracy and communication with state organ. The government assured cooperatives that everything would be in order, if their activities will have only business character. After bans of first two congresses of ANAIC it was soon clear that "independent" cooperative members will be still under politic control from side the government and state security intelligence. The government called that problem is not in a management or in more resources, but that cooperatives do not fill their basic goal – feeding population. So next it was more control and less autonomy. What is it got to deepen food problems. The other issue is providing credits to cooperative. After initial bans, the bank received the permission, but after what the cooperative got money, their permission for coffee production was interrupted.

From 2 519 cooperatives in 1994 stayed 1 989 in 2012 (*Alwaréz, 1999*). In 2013 the Cuban government has a clear goal – cooperatives to get a grip of debts, agriculture development and decrease export of food.

7. Cooperatives in the Czech Republic and EU

For many people in the Czech Republic is the topic of cooperatives delicate and somewhat difficult, it is due to the violent establishing of cooperatives during the Communists government at the end forties and at the start of the fifties. We all know that it was a bad decision; the goal of this was to destroy and conquer private agricultural sector and people, who was working on that.

Maybe it could be, that many people imagine the term cooperative as something what is closely connected with communist era and something what is a step back and it was the trust, what people often missed; because the trust is the most important thing for good working of the cooperative and no matter, where the cooperative is. Till opening borders, cooperation with western countries and entrance process to EU shows Eastern countries all positive aspects of agricultural cooperatives.

The start of Communists era in Czechoslovakia has affected on all spheres of life. The exception was not the agriculture. In December 1948 was discussed the bill on collective cooperatives began to by the Ministry of Agriculture. After a few minor modifications approved by deputies of the Uniform Act on agricultural cooperatives 23rd February 1949 the National Assembly.

According to law no. 69/1949 Coll. Uniform agricultural cooperative should replace all existing types of cooperatives, with the exception of consumer cooperatives, artisan, commercial and residential. In each village had to create a single unified team. In the event that was more cooperative in the village, the teams merge in uniform agricultural cooperative. Collective farm took over the assets, liabilities and membership of existing cooperatives. For establishment of the Single Agricultural Cooperative was at first necessary to establish a preparatory committee of five to ten members, which was allowed the current members of agricultural cooperatives, and if possible people was allowed to choose a politically reliable. Single member agricultural cooperative became "voluntarily every working farmer" or a person who "by their participation was allowed to somehow contribute to the future operation of cooperatives." The members of existing cooperatives have passed into universal team automatically, if not notified on time performance. According to the model articles by members of collective farms could become a big farmer - called kulaks - assuming that they are not in the leadership collective farm. Communists in that first saw the possibility of re-education, but they later attributed the role of "subversives' collective farm." This cooperatives making was according Vienney (1980) is disobeying principles of ICA, because was forced by a third person, in this case by the state.

After 1989, in 1991 was adopted new about the cooperatives. Where is written: The cooperative is a community based non-restricted number of persons for the purpose of securing business or economic, social or other needs of its members. Cooperative, which provides housing needs of its members, the cooperative housing. The company team must include the designation "cooperative". A team must have at least five members, this does not apply if the members at least two legal entities. The team does not affect the duration of additional members or termination of membership of existing members, the team meets the conditions of the preceding sentence.

7.1. The case of Czechoslovak cooperative Slušovice

This chapter is written according by Sukova (2012) with own translation. In Czech (Czechoslovak) history author found an interesting example of the cooperative. In one Moravian village Slušovice, where in the beginning fifties (20th may 1952) established agriculture cooperative. The Slušovice's leader was doc. Ing. Čuba during his leadership (1963 - at the beginning nineties) was able to obtain from the former and political conditions the maximum, not only for himself, but also for cooperative and people who work for it. The bankrupt of this cooperative let still hot question:

- Were Slušovice true economic marvel of its time?
- What was the reason of bankrupt?
- Where were mistakes?
- Why cooperative did not able to work in a democracy? (*Suková, 2012*)

In the first years Slušovice failed. It is true that the cooperative was successful in animal production, but plant production was lost. With Čuba's entrance, who changed cows herd with another cooperative, what focused on plant production (nobody knows was this changed possible in socialism), incomes of Slušovice started to increase after this change.

The answer to question, why other cooperatives in Czechoslovakia were not same successful is, that others were not able to enough follow official regulations. Another was factor that Slušovice had a huge number of associated productions. In 1986 associated production of Slušovice was 69.4 % - it was 94.4 % from all district Gottwaldov (now Zlín) (*Suková, 2012*). Associated production replaced sometimes lost agriculture production. But can we speak about agriculture cooperative, in this case with so huge percentage associated production?

Čuba same as for instance Baťa knew that full democracy in the company has never worked. Despite all governing authorities managed in Slušovice to create a business environment with decentralization. Cooperative Slušovice reached increasing incomes by cancellation of unprofitable activities. All enterprises were motivated to the highest production. The fact - to be same successful as companies in the West was basic stone to motivation all cooperative's workers. All employees were responsible for their work, if their

activities did not lead to higher profit, it reflected their salaries. In cooperative worked precious controlling of people. But if they carried out appropriate work, their salaries were higher than an average all Czechoslovakia. The maximization of profit and production could eliminate with employees' desire for higher salaries, but on the contrary, is perfectly complemented.

The cooperative was predominantly financed by own financial resources. The financed support from the government side was minimal. Other interesting resources were own savings of employees. How did it work? The cooperative had own bank. All employees had an account in this bank, had credits card and checks. It was possible to pay in all cooperative's shops by credit card, what decreasing levying of money from cooperative. Money what people let on an account was very important money source for cooperative. The cooperative bank also sold the special warrant for employees. This warrant could be evaluated for 18.5 % (*Suková, 2012*). In the interest of employees was the highest possible profit of cooperative, by this way their warrants were the most evaluated.

The high motivation of employees was connected with high demands. Employees were under permanent pressure. But not only under fear factor, but employees were also influenced by factors of happiness, competitiveness and principle self-realization. But not all people were able to hold on with these conditions, it was connected with fluctuation in human resources. The cooperative was appealing chance for graduates. People could go to conferences, symposium, field day etc. held in Czechoslovakia and also in other eastern countries what was sporadic during communist government.

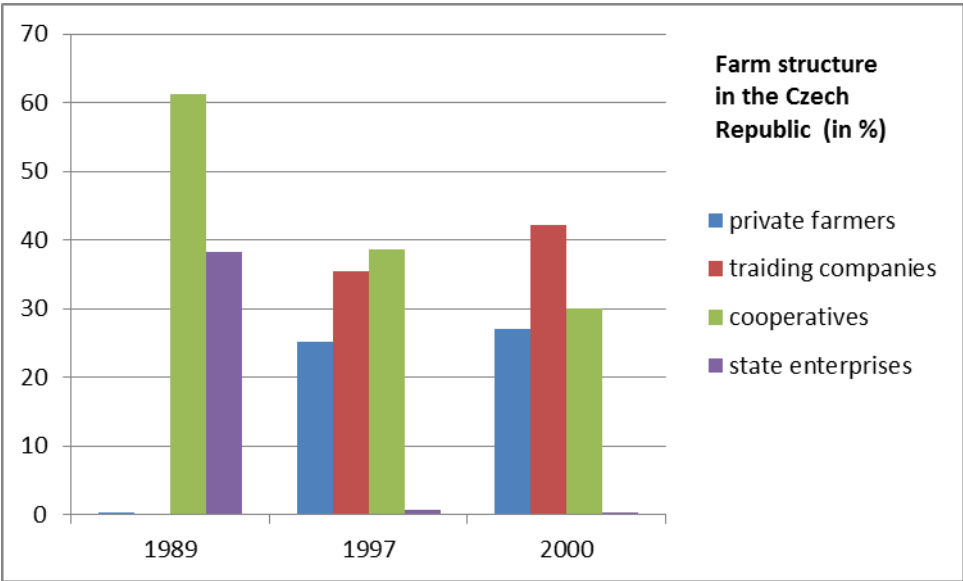
Employees need to have the same free time after hard work. The Slusovice cooperative had a large program of free-time activities for families, elderly people and disabled people. The commonplace was high health care for employees and their families. The emphasis was placed on clean work environment. According Čuba people likes to go to a clean environment and giver higher job performance. The Slusovice cooperative provided a huge scale of service for members – renting cars, repairing cars, delivery to home and travel agency.

The straight support was never demonstrated. Maybe the Slusovice cooperative was able to better use the opportunities at that time.

The other interesting task was exported to abroad. During the communist government was export implemented by enterprises for foreign trade. The Slusovice cooperative but got an exception for establishing own foreign trade enterprises. But this exception brings newness decreasing of agriculture production.

Due to the state system, that was a year ago 89, in Czechoslovakia did not exist market price, competitiveness, private property and private business, some goods were missing. Agriculture employed the most people, but profits were not high. The associated production could be as a helpful tool. But in the case of Slusovice cooperative, the associated production made the majority of the profit. Unfortunately this associated production was not connected with agriculture. If Slusovice cooperative made, for instance agriculture machines, everything seemed in order. But Slusovice made PCs, mined gravel, sewed gloves and the production of mineral fertilizers could be connected with agriculture, but in reality has belonged to the chemical industry.

Figure 9: Farms structure in the Czech republic (1989 – 2000)



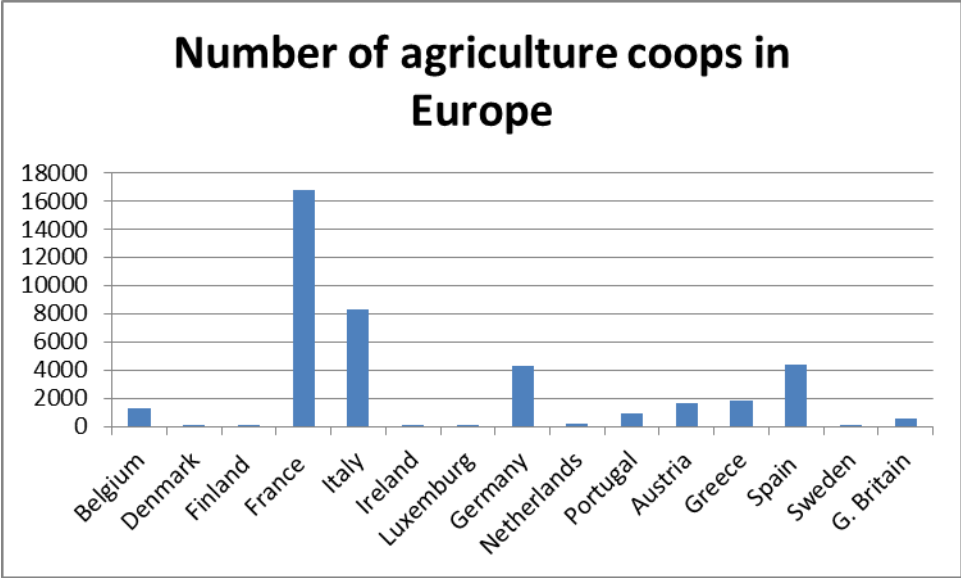
Source: Královec. J. 2013

7.2 Cooperatives in Europe

In this part authors makes short introduction of cooperative movement in Europe. For instance, about 60% of all fruits and vegetables produced in the Netherlands were sold through co-operative auctions or marketing cooperatives (*Bijman and Veerman, 2000; Noruzi and Westover, 2010*). A research Swedish government shows that cooperative enterprises

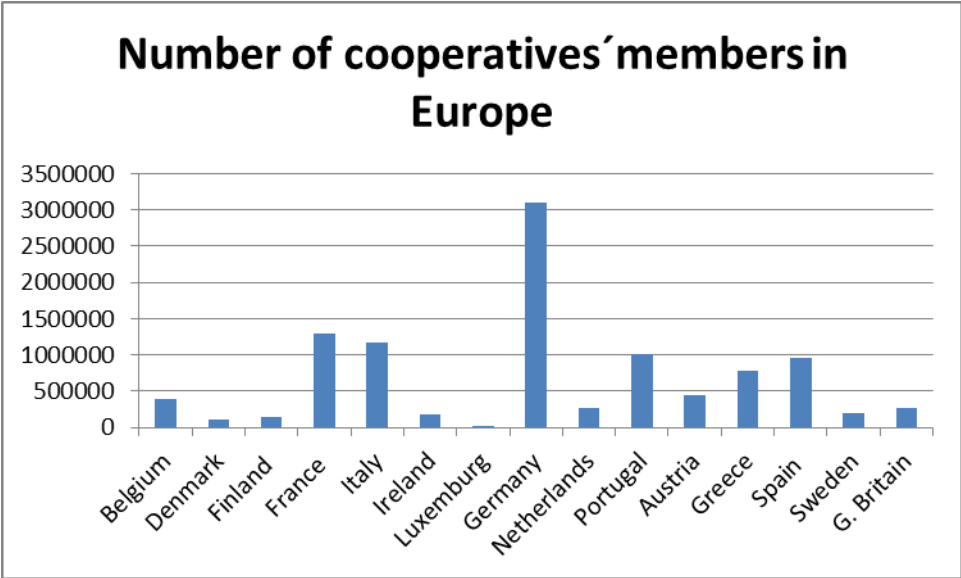
account for 8% of the Swedish gross national product and 14% of the country’s private consumption (*Attityder, 1996*). Sweden’s agricultural markets are dominated by farmers’ co-operatives; the largest grocery chain (35% market share) was until recently a retailer co-operative and the second largest is a consumer co-operative.

Figure 9: Number of agriculture cooperatives in Europe (1996 – 1999)



Source: Higher Council for Co-operation 20002002.

Figure 11: Number of agriculture cooperative’s members in Europe (1996 – 1999)



Source: Higher Council for Co-operation 2002

8. Cooperatives as a development tool for international cooperation

According to some NGOs and governments cooperatives are benefits for poor communities. Because everything is working at local level, while big international enterprises do not care about people's needs living in poor areas.

About the connection the developing projects with cooperative movement author can speak from the start the colonialism era. At this time colonialism agencies with missionaries started to establish cooperatives in countries, which they colonized.

The independence totally changed a view on cooperatives, what was taken as a symbol of national unity and as a promotion of the government economic strategy. The government control was strong, because of higher benefits and production and cheap labor power.

Since 1999 the UN general assembly has supported establishing cooperatives as an important actor in development aid. The International Labour Organization (ILO) focuses attention by Recommendation no. 193 (2002) and recommends them the economic and social independence according the ICA's rules and values. U.S Agency for International Development (USAID) prefers electric, telecommunications, shelter and insurance cooperatives and also cooperatives as credit unions. The main keys for establishing cooperatives are:

- Buy cooperatives rebuild HIV/AIDS devastated communities in East Africa
- Adopt western market approaches and emerging market
- Target cooperation at local level with large scale and impact
- Cooperatives as a solution of economic and social challenges, with a special focus on agriculture, economic systems, community-owned infrastructure and community services
- Promote research tools of cooperatives weakness and strengths for international institution as the UN or WB (*Develtere and Pollet, 2004*).

8.1 The case of Georgia

Georgia's political situation is similar to the Czech Republic. Fortunately there is one big difference. The Czech Republic is food-independent. Czech researchers wanted to make Georgian agriculture more independent by establishing agriculture cooperatives. But these attempts have not been successfully fulfilled yet. In Georgia there is a lack of enough educated agriculture managers, lack of machinery and lack of markets etc. (*Transparency, international Georgia, 2012*).

Czech researchers from the Czech University Life Science, Czech Development Agency and Development Humanitarian Aid for Georgia did not find in Georgia agriculture cooperatives or associations, what influences work or protection farmers. Černá's research team (2012) see positives in cooperative establishing, that farmers will have access to missing outputs. But on the other hand farmers are afraid about their property – what they had yet.

Unfortunately the goals were not completely fulfill. One of the reasons was confusing financing by many responsibility organizations and second reason was, that project was made for 250 farmers, but in reality there were only 71 farmers. In the case milk production, reasons unsuccessful mission were, that marketing channel was so long, that is why has been cheaper buy from lone farmer, the costs on cooperative work are high, there are no stable customers, the milk is not available all year, the cooperative is not willing to carry all risk, for instance payment farmers in advance. The same destiny has had fruit production association. By missing contacts on labels, it was not clear who has been a true producer of fruits. The association stopped their work in 2011 and since that time nobody has started again. According Transparency International - Georgia is not the happiest country for establishing cooperatives. This pancea does not work here.

The other project by Charitas in the Khulo distinct, autonomy republic Adjara was also establishing agriculture cooperatives. The success was establishing non-profit farmers' organization. They share services and machinery together.

Eklund (2010) takes cooperatives as a one of several possibilities how to overcome the curse of smallness. The basic difference between some cooperative and some and other business organization, Eklund see in ownership – cooperatives are owned by people how work for them. In the case Georgia Eklund advises start to establish in short time period

agriculture cooperatives, which will associate small farmers, as a tool in reducing poverty. This brings positives in improving competitiveness, stabilization of producing prices and also diversification of production.

Eklund does not think that only top down model could work. It is necessary to the decision making process involve all members. In cooperative movement is important to crate favorable legislative positive attitude from the government side.

8.2 The Case of Haiti

In Haiti the agricultural sector creates 25 % of GDP and offer of 50 % of the job's positions. Despite these factors agriculture unsustainable sources of money and over two-third people in rural areas live in poverty. The main reasons why Haitian agriculture is unsuccessful are weather, nature disasters and lack of mechanization.

Fritz-Gerald (2012) is confident that agriculture cooperatives could improve living conditions of the Haitian people, improve a rural development and increase food security. Cooperatives can buy new machines, to educate farmers, better negotiate the prices, to be a better partner to banks in negotiating of loans.

An international project of the Agence française de développement (AFD) and the Inter-American Development Bank (IDB) support coffee producer cooperatives. Nestlé is the main provider of technical aid and planting materials to Haitian farmers.

9. Cooperatives and fair-trade

The Author of this work wants to show the close relationship between cooperatives and Fair Trade movement, it is an ideal connection. As a very helpful tool will be a book by Jeffe (2012) Nobody cannot forget that the criteria for fair-trade are: the guarantee a minimum price for producers and the resulting social development premium, *advance credit and payment*, democratically controlling, long term relationships between buyers and sellers, production of environmentally friendly, public responsibility and financial efficiency, safe work and life conditions worker workers (Jeffe, 2007). Despite all views for and against fair-trade, what it WTO tries to make some market ambience, what support fair-trade cooperatives.

For instance in Italy the cooperative Legacoop has created the fairtrade chain. Legacy has done business with Kenya, India, Pakistan and Palestine. The sales are still increasing. The assistance in fairtrade networks also provides Dutch Raboak foundation and Canadian NGO Socodevi. Socodevi is owned from 51 % Guatemalan cooperatives and by 49 % by Canadian retailers (*Develtere and Pollet, 2004*). Studies about potential cooperative trade are made by Canadian CIDA. In 2004 an international fairtrade cooperative was organized in Beijing. The participation was taken by all-China federation of supply and marketing cooperatives, the Canadian co-op Atlanta, the U.K. cooperative group, Singapore NTUC fair price and ICA (*Develtere and Pollet, 2004*).

The approaching between fair-trade cooperatives from developing countries and markets from developed countries started 1988 and the participants were the UCIRI cooperative Oaxaca Mexico and Dutch development organization Solidaridad. The change between alternative trade and fair trade was in the creation of the first certification – structure of fair remuneration for small coffee cooperatives. Coffee was first the product with fair-trade certification.

Ricón is separated from geographical point of view. Until eighties last century, people had transport goods from these communities by footpath across on the Canjonos river. This way lasted eighteen hours in a good condition. The dirt roads were constructed in 1983, in the most separated village Tilpec has had road up 2003. Travel to Rincón could be still problematic during rainy season. The electricity and phone lines came to area in 80's and 90's. The common ownership of land allowed effective using of land, for the both community development purposes, the author maintains home garden public offices, church, school and health care center. Other parts of land were used for agriculture.

The participation in Michiza and in CEPCO brings to farmers many benefits, for instance they receive more money – let's say fair prices – than coyotes were offering. It is only up to farmers how the use labor force, decision making in way of harvesting and selling coffee. Others positives what farmers find after joining to cooperatives are apoyos – government subsidies for small farmers. Here are difficulties, because apoyos observe only organized farmers, not lonely farmers that could be a little bit unfair. The Mexican government thinks that by this way avoid abusing of state subsidies by non-farmers. In the future government wants subsidies also for individual farmers. Michiza's members advocate

cooperatives by providing (instead apapyos) other tangible and intangible benefits –easier penetration of the market, technical support, training, educating and improving producing processes of producers. Farmers are better protected in the case of crisis, because in the cooperative is observed higher prices.

In 2002-03 Michiza and CEPCO harvested average more 500 kilograms of coffee, against conventional producers with 320 kilograms of harvesting coffee. This difference stems from higher using organic production methods and regulation the oldest plants and their replacement for younger farmers. Fair-trade families sell a coffee with low quality (what is not accepted by CEPCO and Michiza) to coyotes. The forced to the best quality of coffee is not an accident; the distance between producers and buyers is so long. It is difficult to convince the costumers, they buy really fair-trade coffee with high quality. By this reason, Michiza's producers are under pressure because of higher quality. By this way fair-trade farmers are better protecting against economic crisis (*Jeffe, 2007*).

It is a true that fair-trade prices want to break the poverty circle. This mission will not be enough successful to time, when fair prices will be different state. What the author means is, that they get fair prices, but their production cost, connect for instance with travel cost, is higher than alone fair prices.

The next question is why farmers stay in the cooperative. The reason is the gender. The cooperative supports alone women with children, women as a head of families. The cooperative want them to be successful in female sphere. Another reason is that fair-trade founds create social infrastructure. Michiza and fair trade ensure to his members' food security, higher gross income payments and better for local people.

10. Objectives of thesis

Cooperatives are successful and sustainable enterprises. UN (2011) International Year of Cooperatives said that: “The 300 largest cooperatives in the world have combined sales of over a trillion dollars. They are accounted for 100 million jobs, care about communities, put people together, before profit, they are owned member and democratically run, empower women, empower people.” On the other hand if the cooperatives are so perfect, somewhere has to be some hidden negatives. In this work author wants to find some negatives, same as some positive impacts to world society.

The aim of this thesis is:

- To provide the critical review based on secondary data revealing on cooperatives' effectiveness
- To compare benefits and negatives of cooperatives based on selected criteria from theoretical approaches on cooperative social capital

The research will be based on secondary data and author's critical evaluation and conclusions.

11. Methodology

The methodology part is based on 44 scientific articles, whence 3 resource focused on cooperative situations in developing countries in general (*Ortmann & King, 2007; Chambo, 2007*).

6 scientific works focused on cooperatives in Africa (*Carlsson, 1992; Nilson, 1999; Holloway, 1999; Orthman, 2006; Chambo, 1999; Volamen; Gamba and Komo, 2009*).

12 works on cooperatives in Asia (*Mendoza and Rosegrant, 1995; Lele, 1981; Batt, 2002; Shepherd and Futrell, 1982; Kolhls and Uhl, 1980; Quach and Kwaguchi, 2003; Cho, 2001; Zhou; Pan, 2002; Huang et all, 1992; Du, 2002; Raju, 2004*).

Cooperatives in Latin America are introduced in 10 works (*McGrath, 1978; Bennet, 1983; Vásquez-León, 1998 Vásquez-León and Finan, 2006; Jarround, 2007; Dávila Ladrón de Guevara et al. 2005; Alwaréz, 1999; Aranda, 1968; Valdés, 1990; Brent, 2010*)

Cooperatives in the Czech Republic are introduced in 2 articles (*Vienney (1980); Sukova (2012)*).

Introducing Europe's cooperatives is in 3 works (*Bijman and Veerman (2000); Noruzi and Westover (2010); Attityder, (1996)*).

The topic – cooperatives a tool for developing a project is solved in 6 articles (*Transparency, international Georgia 2012; Černá 2012; Eklund, 2010; Fritz-Gerald, 2012*).

The connection cooperative movement and fairtrade is described in the book by Jeffe (2007) and in work by Develtere and Pollet (2004.)

Figure 10: Number of articles according geography location

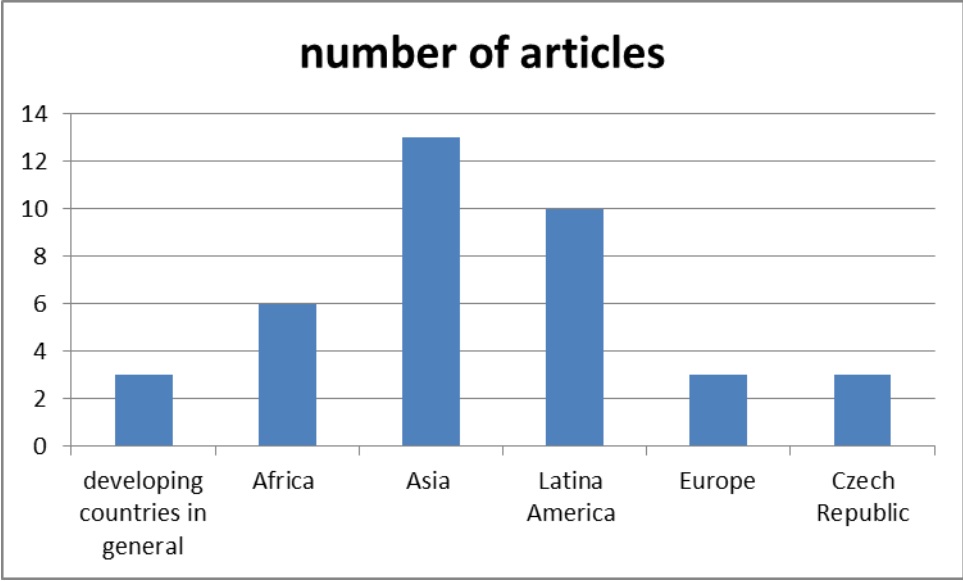


Figure 11: Number of articles in other

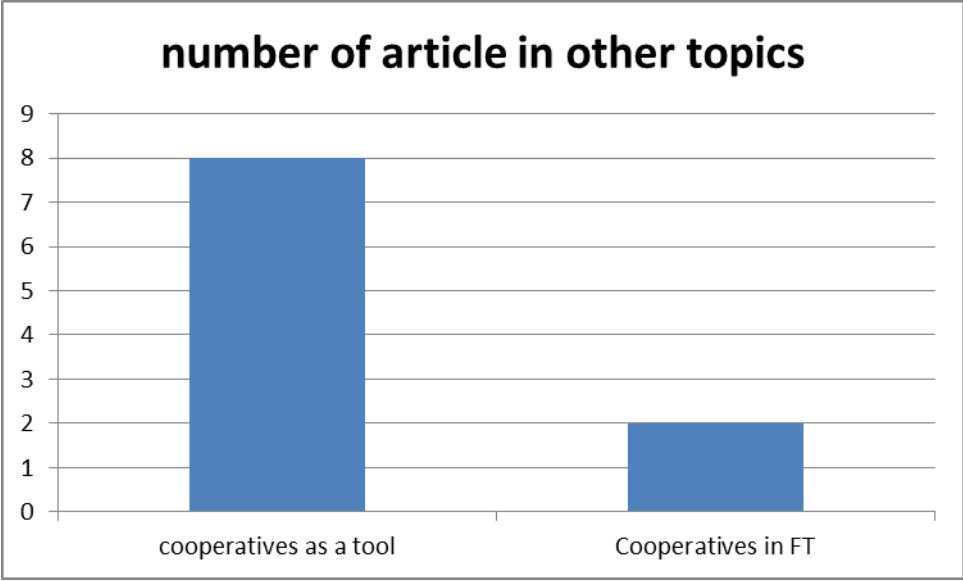


Figure 14: Attitude of all sources

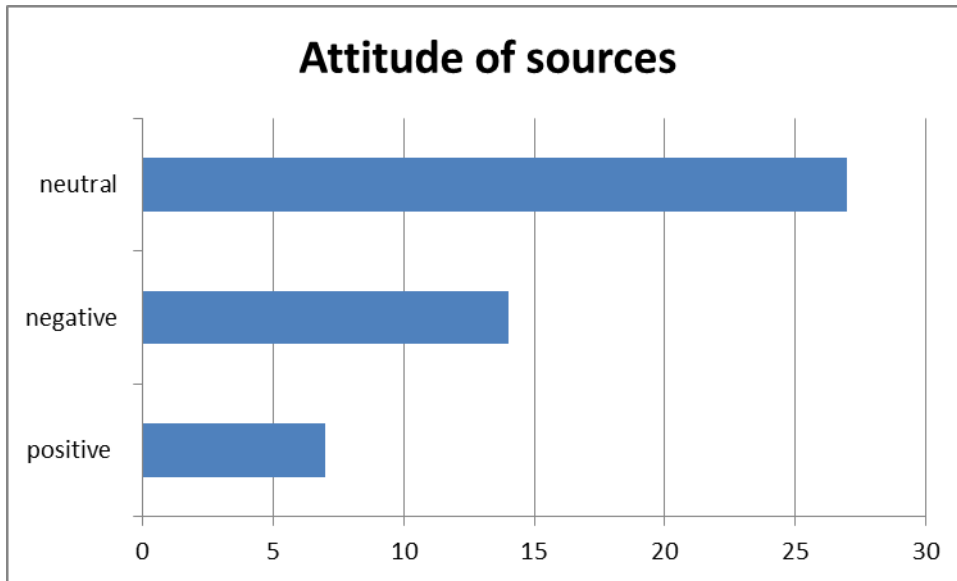


Figure 12: Attitude of articles according geography location

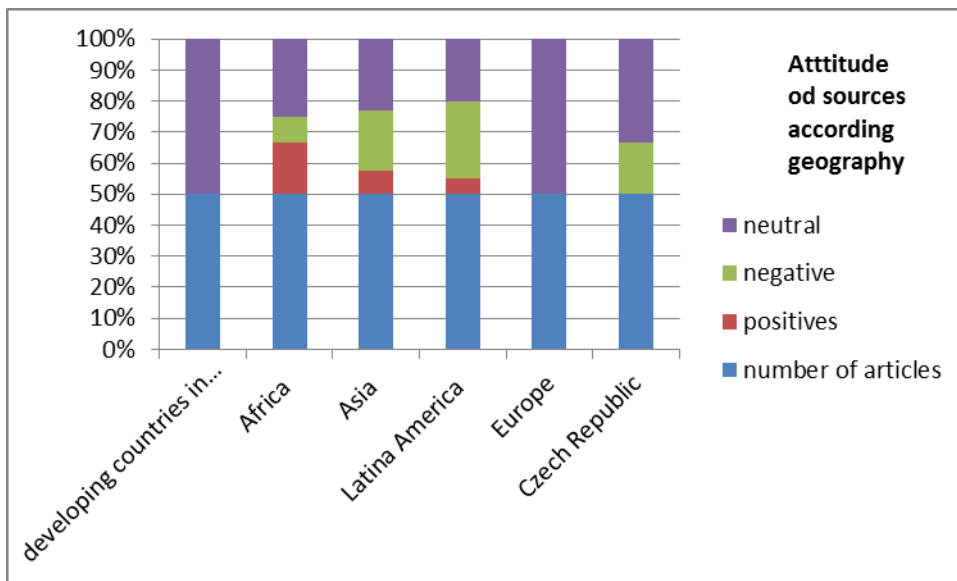
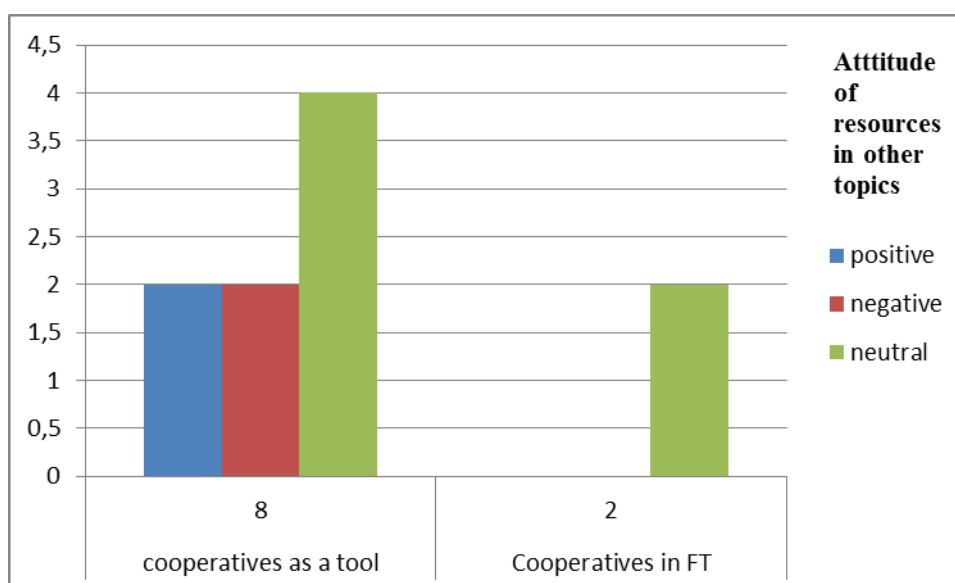


Figure 13: Attitude of articles in other topics



Critical criteria will be measured according theories, what are the most use for evaluation cooperatives - institutional theory (*Craig, 1993*); classical economic theory (*LeVay, 1983; Tennbakk, 1996*); transaction cost theory (*Staatz, 1984; Ollila, 1989*); game theory (*Sexton, 1986; Staatz, 1987*); property rights theory (*Fulton, 1995*); agency theory (*Hansmann, 1996*).

The important factors will be assessed in case studies according these criteria:

- Political development in a case study, what the author sees as an influencing factor of cooperative situation
- Benefits for farmers involved
- Benefits for community
- Participation in some developing project

The methodological approach derives from a study by Nilsson (1999).

12. Results and discussion

In results chapter author explains, on specific examples yet mention theories, own view on cooperatives.

12.1 Institutional theory

Figure 14: Institutional theory

	Positives	Negatives
	<ol style="list-style-type: none"> 1. Possible development cooperation with Europe NGO (Quach, Kwaguchi, 2003) 2. Promote research tools of cooperatives weakness and strengths for international institution as the UN or WB (Develtere and Pollet, 2004) 3. Providing technical aid (Fritz-Gerald.2012) 4. Connection of world (Develtere and Pollet, 2004) 	<ol style="list-style-type: none"> 1. The establishing cooperative as a goal of developing project could not be every time successful – depends on country (Černá et al, 2012) 2. International cooperation could forget on smallholders (Vasquéz-Léon, 1998) 3. Political control, much bureaucracy and pervasive control of state governments, regulated by restrictive and repressive cooperative laws and lack of professional responsibility (Raju, 2004; Alawaréz, 1999) 4. Using the term “cooperative” was forbidden (Zhou, 2004) 5. Connection with political parts (Vasquéz-Léon, 1998) 6. Autonomy could be lost due to economic liberalization (Raju, 2004)

This theory wants to explain relationships between state governments and donors. Also it tries to find benefits or negatives, what cooperatives bring to its members and to local communities.

The relationship with outside surroundings is depends on the ambience in a given state. If the state can see benefits from cooperatives create the laws in support of the cooperative. If cooperative movement does not match with government ideas, in this case the government does all of the restrictions of cooperatives. This is an evidence of cases in India and Cuba. In Cuba the rights of cooperatives were still limited to times when lost food self-sufficiency. In the case of the India government distinctly gets a work of cooperatives. Author agrees with Hunčová (2012), when the government supports of cooperatives, regardless if is it left and also right government, because people support themselves. It is wasting for state money.

This theory also involves the view on cooperative from the point of view help, let's say developed countries to developing countries. So establishing the cooperative could be one possible goal in elevation poverty. The success of a project depends on historical, social and political approach to cooperative movement. And how mentioned Fitz-Gerald (2012), in the case of Haiti, one of the basic goal of cooperatives around the world should be sustainable development in poorer localities. Fritz-Gerald recommends better communication between cooperatives and the Haitian government. The cooperative movement has a huge potential, but without management is ineffective. It is necessary to create a system of rules and to be a priority for government. It could be a tool in a reduction poverty and sustainability, mainly among young people.

On the other hand the international cooperation is a nice thing, but on the other hand, in a large international cooperative could be forgotten the interest of small and the poorest farmers, what should be a target group in an establishing of a cooperative.

12.2 Neoclassical theory

Figure 15: Neoclassical theory

	Positives	Negatives
	<ol style="list-style-type: none"> 1. Loans for members (<i>McGrath, 1978</i>) 2. Possible way how making business with the rest World 3. Fight with market failures 4. Cooperatives for smaller farmers – help them to get the product to market in time (<i>all by Holloway, 1999</i>) 	<ol style="list-style-type: none"> 1. In case the market failures are necessary to change production (<i>Quach, Kwaguchi, 2003</i>) 2. Huge diversification of production, what is not related to agriculture (<i>Suková, 2012</i>)

The neoclassical theory explains all financial services what the cooperative is able to provide its members; and also tells how the cooperative can protect itself against market failures. It is only on the decision of the cooperative's members how they chose the marketing strategy – in developing countries it could be fair trade labelling production or production in bio regime etc.

The contentious question of changing production or diversification forgets about the basic fact – fulfil needs of members. In the case that some production or market is the loss for cooperatives, it is logical to find something more profitable. But never have to forget on

interest of all members. In the case the in a cooperative is so many opinions and somebody can lose orientation it that, the poorest smallholder can lose own vote, cooperate with somebody else is a burden, in author's opinions, is better the a cooperative part of smaller one.

12.3 The Transaction cost theory

Figure 16: Transaction cost theory

	1. Access to inputs (<i>Chambo, 2009</i>) 2. Sharing label costs in the case of fairtrade (<i>Jeffe, 2007</i>)	1. State subsidies only for cooperative member (<i>Jaffe, 2007</i>)
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The generally known thing about cooperatives is the common sharing costs or inputs on a production. This is connected with sharing of profits between all members. This is a gist of a cooperative movement. Everybody is able to decide if he/she is willing to share. Maybe this sharing is so attractive for many governments, for instance in Mexico, where only cooperative’s members are supported. In the terms of support small farmers in less developed countries, this acting could be unfair.

Shepherd and Futrell (1982) remain than the main function of the cooperatives is decreasing cost. Kolhls and Uhl (1980) claim that in the case of market fruits and vegetable – season products the costs are not high, so is not necessary the cooperative power. It is same in The Red River Delta case. Even if farmers say that they prefer their current trade partners, on the hand their biggest problem is capital. Without it they are not able to fulfill sometimes demanding requirements of their partners.

We have to still ask why necessary establishing cooperatives are. Farmers have not fought against each other. By development capitalism is penetration to market for small farmers more difficult. But with sharing machineries, energy, capital, land and labor they can offer lower prices to customers and they can be equivalent rivals to large chain supermarkets (*Christensen, 1983*). On the other hand this fight will not be successful, when cooperatives themselves admit than is necessary their transformation and they need to seize vertical opportunities (*Van Bekkum, Van Dijk, 1997*). Same as than today is society does not admit that cooperatives are needed and that we need, in role of customers, closer relations with farmers who produce quality food.

12.4 The game theory

Figure 17: Game theory

	Positives	Negatives
	<ol style="list-style-type: none"> 1. Cooperative movement (CM) could help in the alleviation of poverty (<i>Chambo, 2009</i>) 2. CM could work in the time crisis and can help members increase their incomes (<i>Chambo, 2009</i>). 3. Women's involvement in cooperatives (<i>Raju, 2004</i>) 4. CM brings sustainability for young people (<i>Fritz-Gerald, 2012</i>) 5. CM could provide veterinary and healthcare service (<i>Raju, 2004</i>) 6. CM support farmers during their life difficulties (<i>Quach, Kwaguchi, 2003</i>) 	<ol style="list-style-type: none"> 1. In the case of Cuba, in history, there is no evidence about environment protection (<i>Alwaréz, 1999</i>) 2. Disadvantageous price negotiations treatment small non-member farmer 3. The biggest competitors for cooperatives are private buyers and multinational companies 4. CM do not effectively protect against globalization (all by <i>Vasquéz-Léon, 1998</i>)

This theory could be explained is a face bellow the cooperative performs in public. Author means management staff, decision making process, a type of production, providing services to its members etc.

Silný (2012) introduces a cooperative movement as one possible business alternative. The common economy is the eldest and the most natural way of economy. The division of labor and money exchange brought the maximization of profit but also satisfied the peoples' needs. This development and economic efficiency led to waste and destroying nature and human lives.

It is all about decisions making process of cooperative and its members. There is on their shoulders, the decision, how large positive or negative impact will have their cooperation in their village, city, region our whole country or even impact their acting on the environment.

It means involving women in Africa, providing service supporting not only cooperative production but also service improving life conditions of members.

How shows Mexico case due government restriction cooperative used to think only on production and profits and forget about environment’s protection. This should not happen to cooperatives.

Author thinks that is hard to find the right policy for persuasion of farmers, if the entry has brought for them benefits or lost. Everybody has to recognize the own situation and market possibilities and concludes: “Yes for me the participation will have more beneficial, or I will lose.” This is a basic of democratic principle.

Author agrees with Chambo (2009), that cooperatives could be helpful in times of crisis. It decreases costs of production, offer some protection, tries to create some values. This is what people need to fight with crisis. Many economists compare the cooperation with the game Prisoner’s dilemma or free-rider dilemma according Olson and Marcur (1965). The comparison is not random. All participants have to observe behaving and decision making processes of others. On the other had every participant cannot forget on ownership interests. But only with involving all, the alone cooperative and all members can achieve fulfillment of their goals and satisfying their needs.

12.5 The property rights theory

Figure 18: Rights theory

	Positives	Negatives
		1. It is necessary to find some other source of income, in the case that contributions are small (<i>Nilson</i>) 2. Minimal investment into common treasure (<i>Nilson</i>)

This theory is maybe hard to explain. All what about it is critical of sharing profits – who has entitled to what. The cooperative has to find the balance between decisions – this part

of the profit will be shared between members and this part will be used for improving production or getting large the production. The property rights have to be defined between establishing cooperative. And sometimes it could be reason in no receiving new members. It is connected also with ending membership. Take the yet earned profit or let it in common cashbox. And the question for old members, who stay - when start to pay to new members; he could get money from the time when he was not a member, but what did with money of member who left cooperative.

The fact that the economic actors do not have to bear the full consequences of their actions shows the wrong function of market mechanisms.

The problem of common property does not influence only the owners, but it has an impact on all society. The mobile resource is the most important condition for a productive market. It is difficult to penetrate to market and to be competitive for a cooperative. Next difficulties are fast increasing their capital; there also exist problems with reducing and redirecting operations. According to a co-operative's statutes, capital should be used to benefit the members in specific respects (consumption, workplace, sales, etc.) and if market conditions change is necessary to help weaker member, or if they change the orientation of the company. The change of orientation should meet the needs of members and cooperatives can use undivided capital

The problem with common property we can connect with the problems with financing. Or better how to get the capital. We can forget that main for the cooperative is the fact: all is common – property, ideas, costs, profit and also losses. Of these losses is sometimes necessary to take loan from bank. Vitalliano reminds that for cooperatives is difficult to get the loan. From this reason start some banks in USA to specialize lending money to the cooperatives. The agriculture is closely connected with family tradition; therefore some older family members were not only against a cooperative, but also borrowing money from a bank. The new generation cooperatives solve these problems by sponsorship.

But no every the cooperative can go through all problems. The agricultural production is not sustainable. In some cases, there are so many difficulties with profit-sharing, with the decision making process etc. One important role plays also insufficient awareness of farmers, who is living in remote areas. This phenomenon is called hidden information. The problem

with inputs and their financing could be solved by renting the land to local householders. According empirical work by Poole (1998) is for farmers important the trust.

12.6 The agency theory

Figure 19: Agency theory

	Positives	Negatives
	<ol style="list-style-type: none"> 1. The member of management committee has to be an only cooperative member (Quach, Kwaguchi, 2003) 2. As an anticorruption tool has forbidden the family relationship between members and management staff (Quach, Kwaguchi, 2003, Nilson) 3. The strong leadership has a positive impact on cooperative's work (Suková, 2012) 	<ol style="list-style-type: none"> 1. Possible corruption of management staff (Quach, Kwaguchi, 2003)

This theory explains the role of an agent in the cooperative business. This role could be often overlooked, but equally important. An agent could find for cooperative new customers, market, marketing strategies, or can provide some service connection with primary production.

As in another enterprise or community is needed fixed order, the same applies for cooperatives. It should be clear, who is the management, the rights and obligations of the management. One of the good examples of management's obligations is informed of all members about its decision – changing strategy, dividing profits etc. But there are known cases, where members weren't informed, what will happen in a cooperative. But is the wrong election of the wrong people or bad communication between people. The communication and trust are the most important factors in the cooperative movement.

The face of a cooperative should be all members, but on the other hand is not bad, when the face of a cooperative is one person – its leader. How is it in case of Slusovice, when is this term straight connect with name doc. Cuba. It could happen that all positives and negatives, even if after more than twenty years, have fallen on his head.

When somebody wants to search the question, on what view is a cooperative other than common enterprises Stočes (2012) has possible answer. Unlike the typical enterprises, where is an employee in fact employee, in the cooperative is an employee a member, with one decision vote. Let's say welcome equality. This is a world, where employees are simultaneously owners, who will responsible for the cooperative. It is a world where do not exist managers and investor, who do not respect basic people need. In this case, it is possible to earn more money (Luna, 2012). If cooperatives are taken as a part of the social economy, it may be allowed that only cooperative wants to have high profits and also fill the needs of own members. Because here is not employee only taken as an employee, but also he is a member with one vote. This is a basic difference from "normal" enterprise; in cooperatives you invest the money, so in the case that you are not crazy you do not steal your money. Unlike other cases where were steel money from enterprise, because money was its property (Johanisová, 2012). If some authors can criticize strong controls in Slusovice, Čuba knew why he used to do it; maybe in the first years it was for him difficult to learn people, that they did not work for him or only for management, but also they worked for themselves.

12.7 Other possible problems of cooperatives

Problems of cooperatives by Schuster (1980):

- *The problem with common ownership (or the free-rider problem),*
- *The horizon problem,*
- *The portfolio problem;*
- *The follow-up problem (or the control problem)*
- *The decision-maker problem (or the influence costs problem).*

12.7.1 The problem of common ownership

A cooperative enterprise is the property of a co-operative society, which is composed of a number of members. That's why is the ownership of the firm's assets collective, which brings the possibility of negative impacts on individual action (Vitaliano, 1983). When co-operative society obtains new member, he immediately has access to all assets that members before him have accumulated. New members pay only a small entrance fee, and this causes of weakness the equity of the existing members. Logical impact is slow growth of capital. For

everybody is difficult to understand and to justify fair investment division to each member. But they cannot forget that the most important step is to invest in co-operatives firm (Condon and Vitaliano, 1983). The same problem is access to the assets ex-member, who left cooperative.

The fact that the economic actors do not have to bear the full consequences of their actions shows the wrong function of market mechanisms.

The problem of common property does not influence only the owners, but it has an impact on all society. The mobile resources are the most important condition for a productive market. For cooperatives are difficult to penetrate to market and to be competitive. Next difficulties are fast increasing their capital; there also exist problems with reducing and redirecting operations. According to a cooperative's statute, capital should be used to benefit the members in specific respects (consumption, workplace, sales, etc.) and if market conditions change is necessary to help weaker member, or if they change the orientation of the company. The change of orientation should meet the needs of members and cooperatives can use undivided capital.

The problem with common property we can connect with the problems with financing. Or better how to get the capital.

12.7.2 The horizon problem

Members who will not want to continue in a membership at the time when an investment pays off will oppose to it, so that a number of potentially profitable investments – particularly long-term investments – will not be conducted (*Jensen and Meckling, 1979*). Capital growth is thus hindered and the value of the firm is reduced. However, to a certain albeit reduced value the problem of future. It uses wrong that the market value of cooperatives is dependent on acting in the name of its members (*Condon and Vitaliano, 1983*).

12.7.4 The portfolio problem

In economic entities it is advantageous extension of assets between different operations. The risk of investor is limited by a well-composed investment. In co-operatives it is impossible to limit risk effectively, because the members are different and it is necessary to respect their risk preferences, capital worth, and other pivotal variables (*Vitaliano, 1983*). An investment decision making process in a co-operative enterprise best adapts by an

“average” of member preferences, but we have to count that this average covers a variety of individual preferences, and it will be a reason why the investment will be accepted only for a small group of the members (*Nilsson, 1997*).

12.7.5 The follow-up problem

Members can behave in a manner that does not serve their own best interest, but also interests of all cooperatives. Thanks to distorted market signals, which decrease the member's motivation to engage and to more invest, all of this is creating a misunderstanding caused by the market functions, which are in the relationship between the member and the organization – members receive insufficient reward for his membership, which means that the owner controlling is without function. The control over the enterprise is not high, the change do not come and goals will not meet since the attempts of members will not be more affected.

The most risky element of common property is the fact, that members can lose their interest in controlling their investments, the result is, that the management will not be able to promote its own interests (*Boettcher, 1980*). It probably brings expansion of the organization. It may concern the firm's situation in the industry, increased market shares, diversification and vertical integration (*Eschenburg, 1971*). “... *Cooperative managers may ... be able to pursue such goals as growth maximization and others posited in the various so-called 'managerial theories of the firm'.*” (*Condon and Vitaliano, 1983*).

In bigger organizations the management generally is secured higher salaries, safe employment, greater prestige and more challenging responsibilities. Management provides advantages for itself and for the closest partners. The costs increase without equivalent growth in income, since the incentives for the enterprises are based not on satisfying the interest of the executives and only to meet on the demand and supply (*Eschenburg, 1971*). If members are passive, the result of management will be a poor answer on its investment decisions (*Alchian and Demsetz, 1972*).

12.7.5 The decision-making problem

Problems may also come into relations between the board of directors and members, but they are reduced by the fact that the board is specifically responsible for controlling and directing. Author agrees with claims van Bekkum and Vandijk (1997) that cooperatives have

existed for ages and new co-operatives are still establishing around all world. Sharing and successful extending is typical for cooperatives in this time.

For the first few are ideal, with our mistakes functioning enterprises. But do they have some problems?

1. Sometimes the policy of public support may foster inefficiency to the detriment of the national economy; in other circumstances the support may contribute to the efficient production of a service what is important for society.

2. On the other hand in some was these theories being faille, because it is not necessary to organize the co-operatives collectively. The shares, what financed some cooperatives, are transferable at a market price and are connected with the residual rights.

3. Finally, the vast possibility of problems of cooperatives, or what to do when cooperatives in troubles. Start the rescue operation or better is to let crease the cooperative (*Nilsson, 1997*).

13. Conclusions

Cooperatives could work and be helpful for farmers in developing countries, but only under the same conditions for farmers involved.

On the other hand cooperatives need for a good working friendly approach of government. Also is needed clear a leading by management staff.

Other necessary factor is a trust – all members have to trust each and they have to have common goals – improve their economic and live conditions; but also fulfilling the needs of all communities.

Fair access to education for cooperative workers, same as access to modern machinery are very important for cooperative movement, especially in developing areas.

Despite all problems described in this critical review, the author does want to discourage some communities, farmers or other in establishing cooperative. It is one of possibilities how doing business and also share profits with other people. And why not still discover and examine the working of the cooperative movement for a concrete example, if it works or not? This is it what the author offers as next possible research. To longer examine of

choosing cooperative in developing countries. A description its relationship, government's influence, benefits of community, position in supply chain etc.

Till the time, when cooperative will here for its members; and members will do the best for a cooperative, around all word cooperative movement will work and still developed.

For donor one more recommendation, cooperatives are good example of developing goals. But implements should count with cooperative history in each country and go hand in hand with ethics rules. The manipulation with somebody, who claims that Cooperatives are so great, is very easy.

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