

PECULIARITIES OF AGRICULTURAL SERVICE COOPERATIVES DEVELOPMENT IN LVIV REGION

The article aims to study the recent trends and identify the main problems of the agricultural service cooperatives development. The processes of establishing and functioning of cooperatives in Lviv region are investigated. The dynamics of number of established cooperatives shows a gradual growth in recent year, while the share of operating units is rather low. The size structure of the agricultural service cooperatives in Lviv region proves that the rural population is insufficiently active in participating in cooperatives. The most popular sphere of activity of the cooperatives in the region is dairy production, while the most wide spread type of cooperative is a marketing cooperative. The analysis of the sales of agricultural products by the cooperatives of the region by distribution channels shows that on the present stage of their development service cooperatives can hardly cope with their main objective which is to overcome the monopoly power of commercial intermediaries. This is evidenced by the fact that the share of agricultural production sold by cooperatives to the intermediaries is still significant.

Keywords: agriculture; agricultural service cooperatives; small and medium agricultural producers, Lviv region.

Scientific problem. The development of agricultural service cooperatives (hereinafter ASCs) is an important dimension of improving the competitiveness of the agricultural sector. It also contributes to the social and economic development of the rural areas due to increasing incomes of small and medium agricultural producers and creating jobs for rural population. However, the rate of spread of ASCs and scope of their activities are still insufficient to meet the needs of a large number of small agricultural producers. Therefore, there is a need to investigate the conditions and particular characteristics of the existing cooperatives' operational activity to find out the main problems and constraints to their further development.

Analysis of recent research and publications. Various aspects of agricultural cooperation in terms of its opportunities and advantages in solving social and economic problems in agricultural and rural development were explored in the research papers of such scholars as F.Horbonos [4], M.Malik [5], O.Mohylny [6], L.Moldovan [7], Y.Ushkarenko [8], V.Zinovchuk [9] and others. Some questions of formation and functioning of the ASCs in Lviv region are covered in the publications of P.Berezivsky [2] and A.Burak [3]. Yet, many aspects are left without proper attention.

The objective of the article is to analyze the recent tendencies, existing problems and peculiarities of functioning of ASCs in Lviv region.

Statement of the main results of the study. An agricultural service cooperative is a form of economic cooperation and integration of small agricultural producers: farmers and personal subsidiary plots of the rural population. Among the important institutional characteristics of this phenomenon we should mention a voluntary and open membership, non-profit nature of cooperatives in the service of its members and democratic management based on the principle of "one member – one vote" [9, p. 43–44]. The development of service cooperatives in the rural areas of Lviv region as well as in Ukraine in general, is important because of the presence of a large number of small farms that produce the bulk of certain agricultural products, such as vegetables, milk and meat [2].

The number of ASCs registered in the region, decreased by 12 units during the period 2006–2010. However, the last years are characterized by a gradual growth. The bigger number of cooperatives (10 units) was established in 2013 (fig. 1). Such changes in dynamics are in particular related to the support policy for the development of ASC at the national and regional levels. For example, the increase in the number of registered cooperatives in 10 units in 2013 coincides with the adoption of the Comprehensive program to support the development of agriculture in Lviv region in 2013–2015 which among other actions contained the measures of financial assistance to

cooperatives by allocating funds from the local budget. However, the next year the increase in the number of cooperatives virtually stopped due to the complicated procedure of the contest and determination of the winners among cooperatives, as well as problems during the allocation of funds from local budgets for the purchase of equipment for cooperatives.

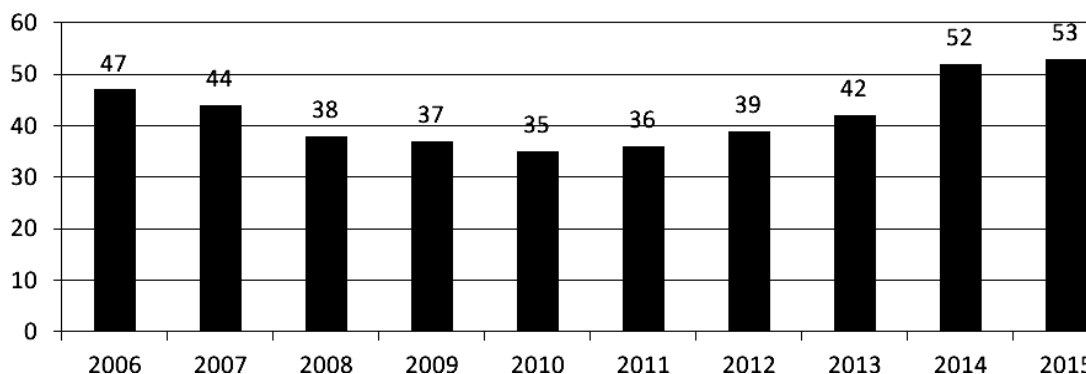


Figure 1. Number of agricultural service cooperatives in Lviv region during the period 2006–2015 (at the beginning of the year), units

Source: According to the Department of Agricultural Development of Lviv Regional State Administration and [3]

Speaking about the extent of service cooperatives among the rural population of the region we should explore their size structure (fig. 2). The size of the agricultural service cooperative is determined by the number of its members. More members have a cooperative more services it can provide, and more products produced by the members it may sale.

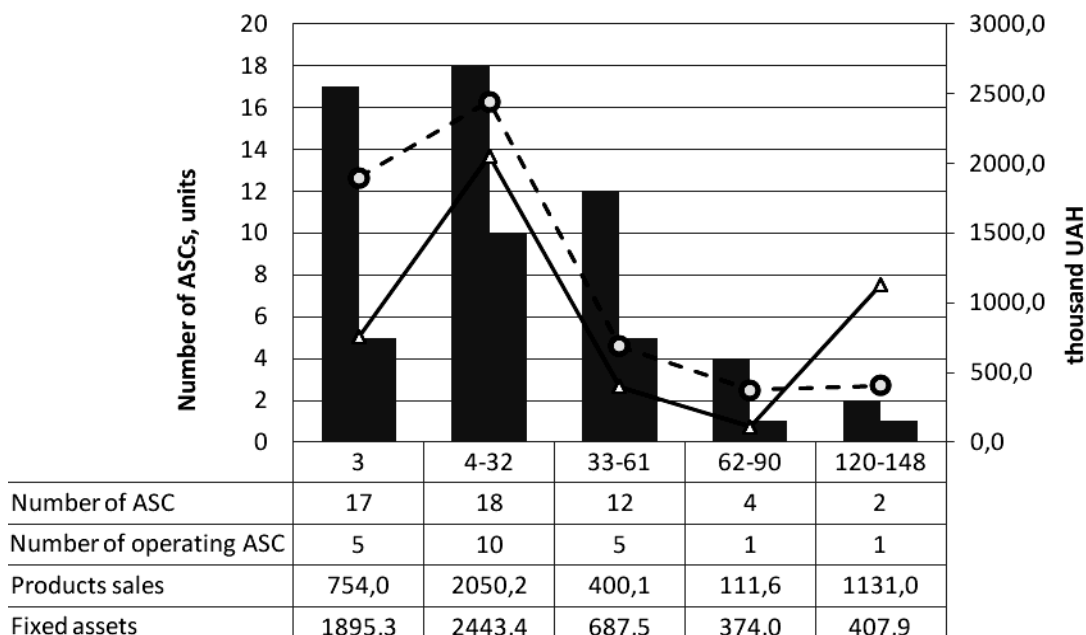


Figure 2. Size structure of the ASCs in Lviv region in the year 2014

Source: Author's own data processing according to the Department of Agricultural Development of Lviv Regional State Administration

As shown in figure 2, most cooperatives registered in Lviv region have membership which is strictly equal to the minimum value, that is, three members who actually are the founders of the cooperative. However, most existing cooperatives are concentrated in the group with the number of members from 4 to 32. These ten operating cooperatives together sell agricultural produce of the total value over 2 million UAH and the ASCs of this group have at their disposal the fixed assets amounting to almost 2,5 million UAH.

Most ASCs established in Ukraine are multifunctional. The reason is that their members often need to be provided with multiple types of services but have no desire to participate in the activities of several different cooperatives. In contrast to the national trend, Lviv region belongs to the few regions in which agricultural products marketing cooperatives dominate and most of them are dairy marketing cooperatives (fig. 3). This fact shows one of the most vital problems of the local small agricultural producers, namely, their need to get access to the products sales on the agricultural market while predominantly dairy specialization of the marketing cooperatives is caused by the implementation of the “Ukraine Dairy Business Development Project” supported by the Canadian Government in collaboration with the Lviv Agrarian Advisory Service. In terms of the mentioned project, dairy marketing cooperatives could get loans in banks due to the provision of financial guarantees at the expense of the project.

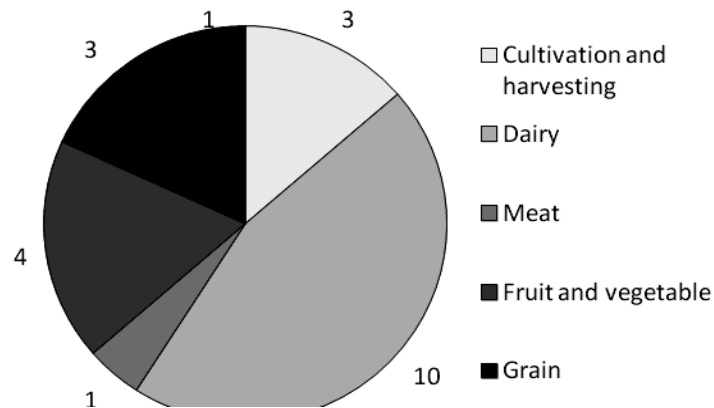


Figure 3. Operating ASCs by the spheres of activity in the Lviv region in 2014

Source: Author's own data processing according to the Department of Agricultural Development of Lviv Regional State Administration

At the beginning of 2014 there were 1465 members in 53 registered cooperatives in the region including 607 members in the operating ASCs. The fact that most cooperatives are characterized by a small number of members (below 32 members) and the share of operating cooperatives in total number of registered ASCs is relatively small (only 22 of 53 cooperatives or 42,3 %) shows the lack of activity of the population in participating in the cooperative movement in the region. Not a single cooperative is founded in Pustomyty district, and six other administrative districts have no operating cooperatives among the registered ASCs. However, no obvious correlation between the date of establishment of the cooperative, its size and operational activity was found. On the other hand, the evidence shows that most inoperative ASCs in the region have no fixed assets. So, the lack of funds to create a production capacity is one of the main constrains for the active development of agricultural cooperatives.

As for the marketing of agricultural products provided by the ASCs, we should mention that one of the objectives of an ASC is to overcome the monopoly power of commercial intermediaries on the agricultural market [1, p. 15]. However, the evidence shows that the situation is less optimistic (fig. 4).

In 2014 sales revenues received by the ASCs of Lviv region amounted to 4,7 million UAH. This is at 3,8 more than in 2013. At the same time during 2013–2014 the role of commercial intermediaries increases. Thus, in 2013 cooperatives have sold them about 29 % of production, in 2014 the share of commercial intermediaries was 39 % in the total sum of the ASCs sales revenues which is only by 3,1 % less than the share of processing enterprises. Simultaneously, the share of production sold by the ASCs directly on markets decreased from 26,3 to 16,8 %.

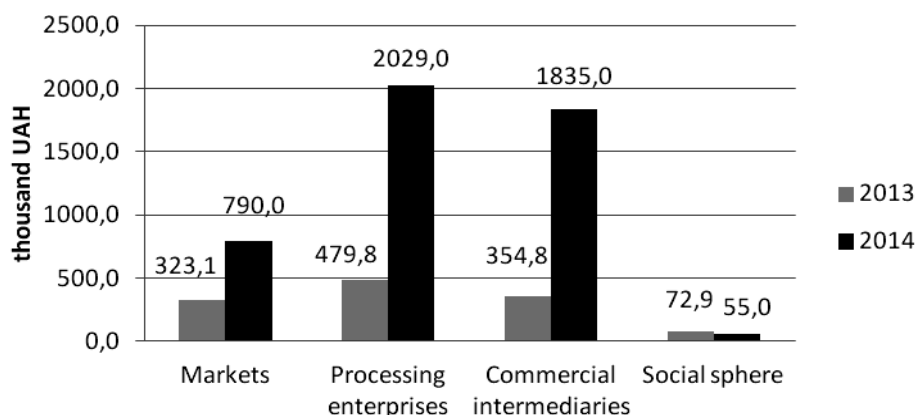


Figure 4. Sales of agricultural products of the ASCs by distribution channels

Source: Author's own data processing according to the Department of Agricultural Development of Lviv Regional State Administration

At the same time, by the number of cooperatives which choose a particular channel of distribution the most popular is direct sale on markets (9 of 22 operating ASCs). Processing enterprises and commercial intermediaries come next (5 cooperatives use each of the mentioned channels of distribution), and the least used is agricultural products supply to the social sphere (preschool educational institutions, schools, hospitals, military bases etc.).

Conclusions. So, among the main problems of ASCs development in Lviv region we should mention the following: the low activity of rural population in participating in cooperatives; the lack of funds to finance the fixed assets (e.g. technique and equipment) purchase which is one of the reasons why the most ASCs do not operate in fact; weak positions of the active cooperatives on the agricultural market and the prices for the agricultural products sold by cooperatives are still low. There are also some institutional issues which affect the further development of ASCs. First of all, the status of cooperatives as non-profit organizations is still not fully regulated. In this respect, there are still some discrepancies between the basic Law of Ukraine "On Agricultural Cooperation" and the Tax Code of Ukraine. In addition, the most cooperatives are not subjects of value added tax. This causes a considerable limitation to their interaction with the other subjects of the agricultural market which results in the above mentioned fact of the large share of the commercial intermediaries among other distribution channels of agricultural production. These issues will be covered by a further research.

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