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## **CO-OPERATIVES AS AN ELEMENT OF ENTREPRENEURSHIP DEVELOPMENT IN SERBIAN AGRICULTURE<sup>1</sup>**

### **КООПЕРАЦИЯ КАК ЭЛЕМЕНТ РАЗВИТИЯ ПРЕДПРИНИМАТЕЛЬСТВА В СЕРБСКОМ СЕЛЬСКОМ ХОЗЯЙСТВЕ**

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**Abstract:** Agriculture is considered as strategic sector of the Serbian economy. One of its basic characteristics is large number of agricultural holdings employing a large share of labour contingent, but mainly limited by low economic size (ability to gain an income) and small and fragmented estates, that in the end affects a lack of competitiveness of individual producers at regional and global market.

The main goal of this paper is to present the state of agricultural co-operatives in Serbia and to analyze the potential of co-operatives as a driving force for development of the Serbian agriculture and rural areas. Research was based on desktop research, supported by methods of analysis and synthesis, primarily leaning on secondary data gained from national statistical organization and public institutions.

Despite the presence of several issues that co-operatives in Serbia are currently facing with, establishing of proper legal, economical and social ambient will enable co-operatives to take a role of legal entities more preferable than many SMEs involved in development of national agriculture and rural areas.

**Keywords:** co-operatives, agricultural holdings, agriculture, entrepreneurship, Serbia.

**Аннотация:** Сельское хозяйство является стратегическим сектором экономики Сербии. Одна из его основных характеристик – большое количество сельскохозяйственных холдингов с высокой долей трудового участия, но в основном небольших размеров (что связано с ограниченными возможностями получения доходов) и небольшими и

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<sup>1</sup> Paper is a part of project III 46006, funded by Ministry of Education, Science and Technological Development of Republic of Serbia, for the project period 2011-2017.

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фрагментированными поместьями, что в конечном итоге отрицательно влияет на конкурентоспособность отдельных производителей на региональном и мировом рынке.

Основная цель этой статьи – рассмотреть состояние сельскохозяйственных кооперативов в Сербии и проанализировать потенциал кооперативов как движущей силы развития сербского сельского хозяйства и сельских регионов. Исследования были проведены с помощью методов анализа и синтеза вторичных данных, полученных от национальной статистической организации и государственных учреждений.

Несмотря на наличие ряда проблем, с которыми сталкиваются кооперативы в Сербии, создание надлежащего юридического, экономического и социального климата позволит кооперативам стать более предпочтительным видом юридических лиц, чем многие МСП, участвующие в развитии национального сельского хозяйства и сельские регионы.

Ключевые слова: кооперативы, сельскохозяйственные холдинги, сельское хозяйство, предпринимательство, Сербия.

## **Introduction**

According to the official definition of the International Co-operative Alliance (ICA), cooperative can be presented as autonomous association of persons joined voluntarily to satisfy their common economic, social and cultural needs and aspirations through jointly-owned and democratically-controlled enterprise. As alternative definition can be used one that describes co-operatives as a associations of people with common problems and community of interests whose main goal is to improve the standard (quality) of living for all members throughout the mutual working in the form of voluntary and autonomous business organization under the universally accepted co-operative principles (Mendoza, Castillo, 2006).

As a concept, co-operatives are presented in almost all spheres of society and economy. Co-operatives usually operate as: a) consumer co-operatives that bring together interested purchasers with the main goal to influence on limitation of existing monopolies, as well as to prevention of excessive profiting of intermediaries in trade; b) housing co-operatives, primarily established for the mutual help among the members related to building and investment in maintaining of available living and business space; c) building societies, that are established in order to facilitate approach to favourable credit lines, as to develop independent savings of involved members; d) agricultural co-operatives (AC), gather agricultural producers and serve them as a tool for achieving of common benefits from the fields of products and services selling, supply of inputs, marketing, accounting services etc.; e) other co-operatives (gather members around the different economic activities and services), (Borbaš, Mikšić, 2003).

The emergence of co-operatives can be linked for the far history of mankind, or the moment when, except the common life of individuals, to family was assigned the function of the collective economy. Besides the fact that with development of civilization they evolved in a more complex social forms based on association of individuals, in some world regions, until recent were, or still are present organizational units similar to modern co-operative, but set up by family members. Examples can be found in the family (home) or rural communities called “Zadruga”, typical for the Balkan countries in Europe (Filipović, 1976), or in Joint families present in India (Etienne, 1968), parts of China or Russia (Ruggles, 2010), as well as in Communal families in USA (Bowden, Greenberg, 2010) and Kibbutz in Israel (Ben-Rafael, 1997), etc.

Contemporary co-operative movement was born in Europe during the mid XIX

century, spreading to other industrialized countries such as USA or Canada, primarily as a tool for facing the extreme poverty (Hoyt, 1989). Formally, the first recorded co-operative was in Fenwick (Scotland) during the 1761 (the Fenwick Weavers' Society). But officially as the first modern co-operative is considered Rochdale Equitable Pioneers Society (it involves artisans) established in 1844. in Rochdale (north of England). Facing the miserable working (low earnings) and life conditions (high price of food and costs of living), co-operative members started with pooling of their modest resources and with joined work in order to access the basic goods at a lower price (ICA, 2017). So, the co-operatives have occurred as a different business alternative for existing private-ownership model of that time.

Power of co-operatives could be seen through the fact that this is a globally common organisational form in several economic, trade and service sectors. They exist in both developed and developing countries, and contribute to survival of more than a half of world's population. Results of some estimation are that they currently gather around the 800 million to over a billion co-operative members in over the 750 thousands co-operatives. Further, the biggest energetic companies from USA or tour operators in UK are co-operatives; each fourth resident of Germany is co-operative member; in France co-operatives create over a million jobs (each co-operative additionally employs almost 35 persons), or they employ around 3.5% of economically active population; agricultural co-operatives in Brazil has been recording annual export of around 1 billion of USD; in Denmark they cover over the 36% of retail market; credit co-operatives in Canada gathers around 5 million members; in New Zealand co-operative sector participate with 3% in GDP; etc. (NCC, 2010; Ševarlić, Nikolić, 2013).

Agricultural co-operatives (AC) showed up few decades later than other forms. Firstly, they have been established in western part of Europe, such as the Netherlands and Denmark. At that moment their development was based on farm insurance, financing (rural credits), cattle breeding and dairy products, as well as on transfer of knowledge. The majority of early formed co-operatives had informal character, usually supported by local dignitaries (Bijman, 2016).

Today, they are covering a wide range of agricultural activities, gathering a larger number of producers specialized in certain sector or line of agricultural production. Functioning of all types of co-operatives is based on universal principles that reflect the best values underlying within the idea of cooperation. Between the basic principles and underlying values of co-operatives can be drawn next relationships (Nilsson, 1996): a) principles of voluntary and open membership, as well as democratic member control, or autonomy and independence are in line to equality, human rights and freedom; b) principle of members' economic participation is related to economic justice; c) principles of education, training and information, or cooperation among co-operatives and concern for the community are reflecting throughout the mutual assistance of participants.

Besides, there are emphasized certain unique characteristics of co-operatives relative to other „regular—businesses, such as: a) they are owned and managed by their members (one member – one vote principle), but not by external investors; b) at the end of certain period, overbalanced income is returning to each member in proportion to his use of co-operative services, but not to his total investment or ownership share; c) members are not motivated by profit, so main benefit is recognized in achieving of services that will

satisfy basic members' requirements related to affordability and quality; d) purpose of co-operatives is just to serve their members; e) co-operatives cover all taxes related to earnings achieved from investment and reserves, while overbalanced income is, by previously determined key, given back to each member who later cover all taxes contained in that income (Ortman, King, 2007).

Co-operatives are legal entities that are functioning within the relevant legal framework. They have significant contribution to overall development in almost all economies. Starting from last few decades of XX century global intentions are in revising of national co-operative laws with a main goal to bring them in line with the unique co-operative values and principles (ILO, 2017). So, as the International Labour Organization is improving the co-operative business model in order to establish sustainable entity, it realized that co-operatives contribute a lot in maintaining of low unemployment rate and income gaining. On the other hand, it is aware of all differences between the co-operatives and other legal entities (as are stock companies), as well as requirement of legislation that will accept their specificities. According to that it provides precise guidance (Guidelines for co-operative legislation) for the establishment of appropriate ambient for co-operatives' further development, both on national and international level. With mentioned support it assists to all policymakers update and improves existing co-operative legislation, as well as to more and more adjust national to global regulations (Hagen, 2012).

Currently in force, in Republic of Serbia is recently redefined and amended Law on Co-operatives. Mentioned Law regulates the legal status of co-operatives, procedure of their establishment, registration and management, as well as it defines their organizational structure and status of co-operative members. Also, by law is defined a book of co-operative members, the concept of co-operative property, co-operative regular business activities, distribution of profits and covering of losses, as well as liquidation of co-operatives, or other issues significant for its functioning. From the aspect of legislation, the co-operative is defined as a legal entity or a specific form of organization of physical persons (members), by whose operations based on co-operative principles all members achieve their economic, social, cultural and other interests (OGRS, 2015).

### **Methodology and data resources**

The main goal of the paper is to present state of agricultural co-operatives in Serbia and its potential role as element of entrepreneurship development within the Serbian agriculture.

The conducted research is based on desktop research and methods of analysis and synthesis. Paper is primarily lean on secondary data obtained from national statistical organizations and public institutions. All results and derived conclusions are in line with the statements from the available national scientific and professional literature focused on co-operatives and entrepreneurship in agriculture.

### **Results with discussion**

Strength and problems of agricultural holdings

State of national agriculture can be also quickly considered throughout the strength of agricultural holdings (economic performances), as well as the problems that are generally facing.

According to last Census of agriculture in 2012, in Serbia has been recorded

631.552 agricultural holdings (AH), that have on disposal around 3,861,477 ha of agricultural land, or around 3,437,423 ha of utilised agricultural area (UAA), (SORS, 2013). Some of their basic characteristics could be visible within the next tables (Table 1-3.):

Table 1.

**Agricultural holdings based on organizational and legal forms (in 2012)**

Element	AH			Structure of AH (in %)		
	Total	FAH	LEE	Total	FAH	LEE
Serbia	631,552	628,552	3,000	100.0	99.5	0.5

Source: SORS, 2013.

Note: Agricultural holdings (AH); Family agricultural holdings (FAH); Legal entities and entrepreneurs (LEE).

Toward the organizational and legal form of agricultural holdings (Table 1.), the vast majority belongs to the group of family agricultural holdings (FAH).

Table 2.

**Available land area to organizational and legal forms of agricultural holdings (in 2012)**

Element	Available land area				
	Total	UAA	NUAA	Forests	Other
FAH					
Land area (in ha)	3,538,376	2,825,068	158,196	468,018	87,095
Structure (in %)	100.0	79.8	4.5	13.2	2.5
LEE					
Land area (in ha)	1,808,221	612,355	265,858	555,018	374,989
Structure (in %)	100.0	33.9	14.7	30.7	20.7

Source: Ševarlić, 2015.

Note: Family agricultural holdings (FAH); Legal entities and entrepreneurs (LEE); utilised agricultural area (UAA); non-utilised agricultural area (NUAA).

In previous table could be seen that in structure of, to FAH available land fund, almost 4/5 is occupied by UAA (Table 2.), as well as that they possess more than 82% of the total amount of UAA. Other categories of land have much lower participation. On the other hand, at LEE has been already presented almost identical share of UAA and forest areas, as like significantly higher share of NUAA. Also, considering UAA, it can be noted a certain gap between the size of the available areas at FAH (4.5 ha) and Lee (204.1 ha), or in general, a low value for average AH (5.4 ha).

Focusing to the economic size of the AH<sup>5</sup>, it can be seen the growth of average size of UAA that follows the increase of economic size of AH (Table 3.). Also, there is a more expressed growth of UAA within the defined classes of economic size at LEE than the FAH, where the maximal difference of available UAA occurs at the highest economic class of holdings (for almost the 6 times).

<sup>5</sup> Economic size of AH represents the value of overall standard output realized during the usual business conditions for certain agricultural holding.

Table 3.

**Structure of UAA according to class of economic size of AH (in 2012)**

Element	Class of economic size of AH (in EUR)							
	0-1,999	2,000 – 3,999	4,000 – 7,999	8,000 – 14,999	15,000 – 24,999	25,000 – 49,999	50,000 – 99,999	100,000 and higher
AH (in ha)	1.2	2.8	5.0	8.8	15.5	30.2	71.1	375.2
FAH (in ha)	1.2	2.8	5.0	8.7	15.3	29.4	64.8	140.7
LEE (in ha)	1.5	4.1	12.5	20.3	31.8	63.5	193.4	840.8

Source: SORS, 2013.

In average, at national level AH is characterized by economic size of around 6.000 EUR. On the other hand, average strength of FAH is around 5,000 EUR and around 205,000 EUR for LEE. Facts such as total number of FAH, or share of 68% that has economics classes 0-2 thousand of EUR and 2-4 thousand of EUR within the total number of AH (together with average size of household that does not exceed the 3 ha of available UAA, lead to ascertainment that in national agriculture dominates small agricultural holdings by its economic size and its size of available estate (Paraušić, Cvijanović, 2014).

Besides previously mentioned, AH and agriculture at all are facing next problems: demographic evacuation of rural areas (migrations to urban areas) and rapid aging of rural population; generally low level of farmers education in compare to EU, that correspondents to obsolete mechanization and slow transfer of technological achievements; to farms available good production potential (natural elements and unpolluted environment) does not initiate adequate volume of total production, so present production is still to extensive without stronger specialization (presence of low productivity and unsatisfied production structure, so production is usually just partly market oriented); insufficient use of chemicals; estates (farms) are to small (atomized) and usually fragmented on 6 parcels; according to quality, products from majority production lines are commonly not homogenized; during the last few decades, the agrarian budget was to restricted and not developmentally oriented. Along to that the funding mechanism (commercial credits) was usually not properly adjusted to producers needs; Producers are poorly organized and generally non-present at international market. Market channels are too weak with more often presence of monopolistic behave of intermediaries and retailers in agro-products realization; etc. (Pejanović, 2009; Jeločnik et al., 2011).

All mentioned are factors that limit the further tech-tech development and competitiveness strengthening of national agriculture. Low income potential generally makes agricultural holdings so vulnerable and individually unprepared for global market game.

#### Strength and problems of agricultural co-operatives

Serbia could be considered as a country with rich co-operative history and long tradition, but without unique tempo of development over the different regions. Beginning of co-operative history was related to the establishment of farmers' credit co-operative in province of Vojvodina (northern part of Serbia) in Bački Petrovac during the 1846. That

was the third co-operative established worldwide (Chronos Krasavac, Petković, 2015). The first co-operative established in Central Serbia was credit co-operative formed in 1894 in the Vranovo village near the Smederevo (Bojić, Vapa Tankosić, 2015).

Up to the establishment of first agricultural bank (Privileged Agrarian Bank) in the first half of the XX century, these were only one specialized institutions for farmers crediting. Their establishment is primarily linked to the elimination of usury, but over the time they evolve in independent developmental credit organizations. They contribute to rural population in strengthening of their creditworthiness, as well as to returning of economic freedom and legal security. During the few decades they have been succeeded to attract almost 18% of the total number of active rural households (Gnjatović, 2010).

Throughout the history, co-operative in Serbia has its ups and downs, depending on social-economic and political conditions that affect their functioning. Although AC have had always a positive influence on development of agriculture and improvement of living conditions in rural areas, unfortunately, while worldwide there are around 0.8 billion of co-operative members and over the 100 million employees linked to co-operatives, this activity in Serbia is in phase of disappearing (IPN, 2010).

According to available data, in Serbia in 2011 was recorded 2,381 co-operatives, where 1,585 (66.6%) of them belong to the class of agricultural co-operatives (AC). After exclusion of 202 AC that were officially in the process of bankruptcy, co-operative base of national agriculture was set up on 1,383 AC, where 743 (53.7%) were located in Central Serbia, while 640 (46.3%) of them were in province of Vojvodina (Ševarlić, Nikolić, 2012).

Previously developed strategy of agricultural co-operatives in Republic of Serbia (Ševarlić, Zakić, 2012) has recognized next actual problems:

a) Relation of AC and co-operative unions according to co-operatives identity<sup>6</sup> and current legislation – its related to insight into the level of adjustment of used internal regulation and realization of business activities with worldwide co-operatives and ethical principles, as well as with valid national and international legislative, etc.

Newly established Law on co-operatives improves the processes of co-operative establishment and bankruptcy, makes more transparent all management activities that much stronger relies to the basic co-operative principles (Simonović et al., 2016). It should be mentioned, that according to existence of organizations of higher complexity in the field of agribusiness there are still no real clusters, where most of them are similar to associations and co-operatives (Paraušić et al., 2013).

Some research showed that the majority of directors of AC find that dissemination of information is the dominant activity provided by co-operative unions to CA, so towards that issue regional unions are better tool in everyday activities (solving of daily problems) to the CA than the Co-operative Union of Serbia, what is logic related to their better insight into the current situation in certain territory, as well as their most often and direct contact with co-operatives (Ševarlić et al., 2009).

b) State attitude towards AC - in order to preserve the village and improve the standard of living in rural areas, state authorities have to support the agricultural co-

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<sup>6</sup> Basic characteristics of identity of contemporary co-operatives are presented with three components: definition of co-operatives, co-operatives values and co-operatives principles (Nikolić, 2009).

operatives as important part of agribusiness and useful model of social entrepreneurship. Support has to cover adjustment of wider legislation framework, official social and business affirmation of co-operatives concept, better subsidize policy directed to co-operatives, elimination or limitation to agricultural co-operatives unfair competition, etc.

According to that, some understandings underline the need for new agrarian and social reform that will cover legal and technical arrangement of land and water sources, issues of farmers organization (primarily co-operatives), as well as strengthening of rural local government, systemic state support to scientific institutions turned to agriculture, etc. (NES, 2013).

Mentioned is also supported by available data about mostly low level of public support in one of previous years directed to all agricultural co-operatives for fundamental research and development (below 15,000 EUR), or low inflow of financial assets as subsidies (below 60,000 EUR for building or purchase of fixed assets) and premiums (below 140,000 EUR for covering of operating costs). Besides, although AC provide a business activity for almost 32,000 co-operative members and over 100,000 co-operators, as well as they are officially classified as legal form into the group of SMEs, they were not into position to use at competent Ministry subsidized credits, financial assets for promotion of export, or some social benefits (linking of years of service), etc. (CUS, 2012).

c) Property issues related to AC and co-operative unions – usually are linked to the fact that the most of assets is still in form of social ownership (more than 40%) that is extra-constitutional category; still exists a lot of properties that were previously nationalized but haven't compensated; inability to register co-operatives property in cadastre; managing with property that have social ownership status could be done only with permission of privatization agency; remaining co-operative property after its closing does not transfer to co-operative union, but to national office for property; etc.

d) Transformation of non-nominated capital and small possibility for recapitalization – co-operatives are practically excluded from the process of increase (external or internal recapitalization) of investment potential, caused by historically self-sufficiency of co-operative assets throughout (de)integration processes, or by strong distrust for establishing of co-operative-private partnership.

e) Financing of co-operatives – effect of reconstruction of monetary system at the end of XX century disable approach to state primary emission and directed all stakeholders in agriculture to capital market (existence of social property eliminate function of mortgage in case of co-operatives). Besides, co-operatives were excluded or have a minimal approach to public subventions.

Also, there have been constant attempts of AC to reach the more transparent conditions of financing, both in crediting and purchase processes (e.g. better terms in gaining of certain inputs from suppliers, or clearer presentation for final costs of financing at capital market), (Jolović et al., 2014). During the transition process, ACs were staid out the most important processing facilities and on that way partly eliminated from the market of final products, or they were primarily reoriented to production of raw materials (NES, 2013). According to practice of AC from developed European countries, unlike to Serbian AC, it could be seen that function of production becomes secondary. As primary function is recognized realization of products and services,



with accent to marketing concept in business operations (Nestorov et al., 2015). Additionally, the presence of gray economy greatly affects the shortening of the agricultural products list that traditionally were produced and realized by AC.

Despite the market economy principles, growth of investment activities in agro-complex sometimes requires deeper state involvement, as are more promptly establishing of entire financing regulative linked to agro-sector (e.g. regulation of capital market, development of savings-crediting co-operatives, implementation of new financing instruments, such as leasing, etc.). Also, government as primary strategic partner to agriculture has to enable establishment of stabile political and economic ambient that will result further investment attraction (Paraušić et al., 2007).

f) Relations between members of co-operatives, co-operators and employees - Current Law is still not deeply involved in mechanism of mutual relations between all stakeholders, as like rights of co-operative employees versus the co-operative members (Simonović et al., 2016).

In general, in Serbia related to co-operative establishment and proper functioning, low level of social trust could be an important issue. Small-scale agricultural producers are involved in co-operatives by their own self-interest, having an opportunity to learn to do business together, as AC provides possibility for boosting of social trust in rural areas. Real co-operatives could present a good example for local communities (e.g. consumers trust to co-operatives more than to investor-owned businesses, preferring to do a business with them. Logic lies in reason that primary co-operatives mission is providing quality goods and services to all members, but not the realizing of investors' expectations for profits. Consumers usually have trust in the co-operatives due to their business transparency, as well as they are framed by more strict legal rights and stronger protection than private business (Simmons, 2012).

g) Reaffirmation of co-operatives audit - Last updating of legislative turned its focus more to the aspect of co-operative financing and audit. Previously, although external audit conducted by Cooperative union was obligated (each second year) usually in practice it's done partially or not at all.

h) Education of co-operative members, co-operative managers and officials from co-operative unions - Lack of knowledge and skills could be considered as one of the basic factors of co-operative business failure. Also, co-operatives need by education competent and skilful managers that have previously passed adequate trainings. Similarly, they need employees to perform different professional tasks, what also require continuous skills improvement (Zakić et al., 2013). Program of education of all co-operative stakeholders has to be based on regular few-level education and additional trainings about certain issues.

i) Use of IT in agricultural co-operatives - As one of the characteristics of modern business, IT is generally modestly used in the sector of co-operatives (e.g. small number of co-operatives and unions has a website, or use software for everyday operations). From the aspect of individual co-operative, the implementation of IT should go both in direction of internal, as well as external use (multi-co-operatives connection or co-operatives linking with other relevant institutions within the agro-complex).

Today appears new generation of co-operatives that adapt their structure and business strategy to changes occurred in industrialized and globalized agriculture, as

strengthening of vertical integration, better coordination in farm production, transfer of new technology, etc. They skip their focus to food processing and value-added products rather than production and realization of raw commodities or supplying farms with inputs. Also, their focus is achieving dominant market position in small market segments (such as organic products), throughout the large scale operations, with a high investment in production, processing and marketing. During the previous decades, despite the domination of traditional AC few contemporary co-operatives emerge in Serbia (Ševarlić et al., 2007).

Serbian economy, as well as agriculture is still in process of market driven restructuring that affects rising unemployment and poverty, so it desperately needs new sustainable businesses schemes that will generate decent incomes. It should be oriented to investing, use of local natural and material resources, establishment of comparative advantages, solidarity at work, penetration at higher value added markets, etc. Although advancement of any form of small business and SMEs is too hard in ambient of global economic downturn, it's assumed that co-operatives could easily fit the recognized business framework (Bateman, 2010).

Additionally, co-operatives and small farmers' organizations are important tool that integrate small-scale producers in contemporary value chains, linking them with all companies from agro-sector, as well as boosting their overall competitiveness. Important role is given to policy makers as they have to establish suitable business environment and provide adequate support that will enable mentioned integration. So co-operatives play significant role within the agro-complex, as they connect producers with processors and traders, or bring them to quality inputs and services, new technology, prompt information and favourable financial assets. By proper contracting co-operatives could offer the agribusiness companies solid and continuous added value that cannot be done by small-scale farmers (Zakić et al., 2014).

### **Conclusions**

Agriculture is one of the economy sectors with high importance for the Republic of Serbia. Existence of number of agricultural holdings (primarily family owned), which are generally characterized by low economic strength (income power) and atomized holdings, additionally have aggravated the state within the national agriculture during the transition period and period of global economic crisis, affecting the decline of its competitiveness.

On the other hand, despite the long tradition of agricultural co-operatives, contrary to worldwide trends, co-operatives in Serbia is in the process of disappearance. It has faced the several problems, such as: still unrecognized identity and non compliance to co-operative principles, general problems with the available property and institutional support, difficulties in financing, mutually inarticulate relationships among members, co-operators and employees in co-operatives, level of required knowledge and skills, as well as the continuity of their improvement, poor IT infrastructure, etc.

After establishing a adequate legal-economical and social environment by policy makers, according to the similarities but also the advantages that have comparing to SMEs, to co-operatives should be given a role of legal entities which will gather small scale producers, involving them on that way in deeper revitalization of national agriculture and rural areas.

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