

Marinela – Daniela MANEA  
“Valahia” University of Târgoviște

# THE DEVELOPMENT OF THE COOPERATIVE SECTOR WITHIN THE EUROPEAN AND ROMANIAN AREA

---

## Keywords

Social economy  
The consumer cooperative  
Indivisible part of the patrimony  
Voting rights  
Investment recovery

## JEL classification

P13, P19

---

## Abstract

*The current study sets out to analyze the cooperative sector throughout several decades, both in the European and the Romanian area. After a presentation of the definitions and characteristics specific to the cooperative societies, as well as the principles and methods of the cooperative organization, this study goes through the defining elements of a cooperative in the European Union and Romania. Given the geo-political conditions encountered in the Romanian space, our attention was focused particularly on the opportunities and limitations encountered in the development of the sector for the future.*

## 1. INTRODUCTION

For the last decades researchers and political people that deal with the problems of social welfare within Europe have focused their attention on the cooperative societies and on the social economy. In Romania as well, in the last few years the public debate regarding the social economy has gained proportions. The explicative approach (Petrescu C., POSDRU/84/6.1/S/57676, pg. 409) of the social economy phenomena is necessary to start from knowing the entities that correspond to the social economy's characteristics: having a social mission, democratic government and limited distribution of the profit. The main actors

of the social economy are: the cooperatives, the mutual societies, the associations and the foundations.

Over 20% of the total of the Romanian social economy organizations conduct their activity in the rural environment, the most characteristic of them being the agricultural communities and associations within the nongovernmental sector and the consumer cooperative, which is rather a rural phenomenon. In the following pages we set out to analyze the Romanian cooperative phenomenon, answering the following questions: what are the theoretical approaches of the phenomenon on a European level; how did the main economic indicators of the cooperative evolve in the last 5 years, respectively what are the opportunities and limitations in the development of the Romanian cooperative sector.

## **2. THE DEFINITION AND CHARACTERISTICS OF THE COOPERATIVE SOCIETIES**

The cooperative society is (Law no.1/2005) an autonomous association of natural and/or legal persons, as applicable, based upon their free consent, for the purpose of promoting the economic, social and cultural interests of the cooperative members, association that is owned jointly and controlled democratically by its members, according to the cooperative principles.

From an economic perspective, cooperatives are considered small and medium entities that have some important characteristics (S ulean, 1998):

- ✓ they consist of a group of persons that share an economic interest;
- ✓ the purpose is to satisfy the members' needs through common action and mutual assistance;

- ✓ their main objective is to produce goods and services that can financially sustain their members as well as their families.

The characteristics that distinguish the cooperative from the commercial societies (Petrescu C., POSDRU/84/6.1/S/57676, pg 415-416) lie in the purpose of their activities, the different way of government, sharing the profit and the methods of recovering an investment. Therefore:

- ✓ the purpose of a commercial society is to maximize the profit, whilst that of a cooperative is, besides making profit, satisfying the social, cultural and educational needs of its members;

- ✓ within a private society, those that hold the shares are the ones that lead, the vote depends on the number of shares a person owns. In a cooperative, governance is based upon the principle "one man, one vote";

- ✓ in the case of commercial societies, the profit is distributed according to the owned social capital. Within a cooperative, the profit is distributed in proportion to the conducted activity;

- ✓ when withdrawing from a commercial society, the initial investment is recovered according to its current commercial value. In a cooperative, the members that leave only receive what they invested. The current cooperative members' rights do not extend over that part of the patrimony considered "indivisible" which constitutes the fortunate accumulated in time and destined for the future development of the organization.

The above mentioned characteristics/differences between the cooperatives and commercial societies can be summarized as follows:

Table 1  
*Boundaries between cooperatives and commercial societies*

| Specification       | Cooperatives  | Commercial societies   |
|---------------------|---|--|
| Purpose             | Production for the shared needs of the members  | Make profit for the share holders  |
| Voting rights       | Based on the <i>one man, one vote</i> principle. The control is equally shared between the cooperative's members  | Based upon the number of shareholders and the social parts held by them. Whoever holds the most social parts has the control of decisions                          |
| Investment recovery | The members don't invest from the perspective of recovering the investment, but rather because they are the goods' and services' beneficiaries. On leaving the cooperative, the members only receive the invested sum | The initial investment is acquitted by the shareholders and the social parts held by them. The initial investment will be amortized through the received dividends |
| Profit              | It is distributed according to the activity within the cooperative and not according to the held capital  | Distributed through dividends according to the social capital held.  |

Source: Jarka Chloupková, European Cooperative Movement – Background and common denominators, 2002

### 3. COOPERATIVE ORGANIZATION PRINCIPLES AND FORMS

International Cooperative Alliance Statement of the cooperative identity – ICA 1995 has set forth 7 principles through which the cooperatives implement their values, however the cooperative are free to change them according to the particular needs of each. The seven principles set forth by the ICA and taken over by the Romanian legislature through Law no. 1/2005 regarding the cooperative's organization and functioning are:

- ✓ voluntary and open association;
- ✓ democratic control exerted by the members;
- ✓ the members' economic participation;
- ✓ autonomy and independence;
- ✓ education, formation and information;
- ✓ cooperation between the cooperatives;
- ✓ concern towards the community.

*Voluntary and open associations* starts from the hypothesis that the cooperative

societies (art. 7, alin. (3) a) from Law nr. 1/2005) are voluntary organizations based upon free consent and are open to everyone who is capable to use their services and who agrees to take the responsibilities of a cooperator member, without any discrimination about nationality, ethnicity, religion, political orientation, social origin or gender. The text taken from the Romanian regulation supports the following theses, such as:

✓ one cannot coerce people to become cooperatives, their association lies in the voluntary adhesion to the values that underlie the cooperative society;

✓ the free affiliation involves assuming responsibility, like: exerting the right to vote, attending the meetings, using the offered services, respecting the equity principle for fulfilling the needs, etc.

✓ it is prohibited to adopt discrimination criteria between those who intend to adhere to the cooperative, based upon social class, culture, race, political orientation or religion; likewise, it is essential that the cooperatives adopt certain procedures in order to ensure that there is no discrimination of any kind between the associates, guaranteeing the

equal participation of women in the programs of training and development of the management competences.

*The democratic control exerted by the members:* the cooperative societies (art. 7, alin. (3) b) from Law nr. 1/2005) are democratic organizations controlled by the cooperative members that participate in establishing the policies and taking decisions. The persons that serve the members' interests as elected representatives are responsible before them. The cooperatives' members hold equal voting rights (one person equals one vote).

*Economic participation of the members:* the cooperative organizations' members participate in realizing economic activities and constituting in an equitable manner of their property. Amongst the methods of contributing to a cooperative's capital, there are:

- ✓ flowing one or more shares for association in the cooperative, subsequently the cooperatives members earning double status – both the associate one and the entity's employee;

- ✓ allotting, when the socio-economic conditions make it necessary, a part of the dividends that go to the cooperative members;

- ✓ subsequent financial contributions from the members with establishing the interests that will be applied to the investment policies;

- ✓ the indivisible part of the patrimony consisting of the profit obtained as a consequence of the activity developed by the cooperative which, according to the law, cannot be distributed to its members;

- ✓ the indivisible part of the patrimony derived from reassessments, subventions, respectively through the incorporation of the indivisible patrimony of another cooperative society through fusion.

The profit made from the developed activities will be attributed (art. 7, alin. (3) c) from Law nr. 1/2005) to the following possible destinations:

- ✓ the development of their own cooperative;

- ✓ recompensing the cooperative members according to their own participation rate through granting dividends;

- ✓ promoting other activities approved by the cooperative's members.

#### **4. THE COOPERATIVE IN THE EUROPEAN UNION**

In the European Union, the cooperatives are well established in each sector of the economic activity because the cooperative's principles can be applied to any form of economic activity. They can be founded by individual persons and their size (Cace S., 2012, pg. 32) can vary from small enterprises (for example a store) to bigger and more complex unities. The main types of cooperatives that operate within the European Union are: agricultural, financial intermediation (banks, insurances), retail sales, house building, working constructions (craftsmen, traders, farmers etc.). Other important types are the consumer cooperatives, pharmaceuticals, production, social, women's cooperatives, fishing cooperatives, health, education, credit unions, banks, tourism cooperatives, and in Spain there are even labor societies, workers' special entities, employability of workers companies and others.

In the European Union (Cace S., 2012, pg. 46), in the case of cooperatives (explicitly admitted in the 48<sup>th</sup> section of the Rome Treaty), although a regulatory framework has been established through which the activity and the right of their members are guaranteed, as well as those of a third party, it can be noticed that there are no special laws at a national level that could regulate all cooperatives. Therefore, in some countries, like Denmark, Czech Republic or Great Britain, there are no provisions that refer to a specific type of cooperative, while in other countries, there are some laws that refer to a certain type of

cooperative, like the household cooperative in Denmark or the credit cooperatives/unions in Great Britain or Czech Republic. These countries are in contrast with other members of the European Union, like Spain, Italy or France that recorded a legislative inflation in this domain, with a series of laws that provide the activity of different types of cooperatives on a central and governmental level (on a state and region level).

On a European Union level there are 250.000 cooperatives owned by circa 163 millions of citizens, one out of three EU citizens are members of a cooperative. As

a market share, the cooperative within the European Union function as follows:

- ✓ in agriculture: 83% in Holland, 79% in Finland, 55% in Italy and 50% in France;

- ✓ in silviculture: 60% in Sweden, 31% in Finland;

- ✓ in the banking sector: 50% in France, 37% in Cyprus, 35% in Finland, 31% in Austria;

- ✓ in commerce, retail (consumer cooperatives): 36% in Finland, 20% in Sweden;

- ✓ in pharmacies and medical services: 21% in Spain, 18% in Belgium.

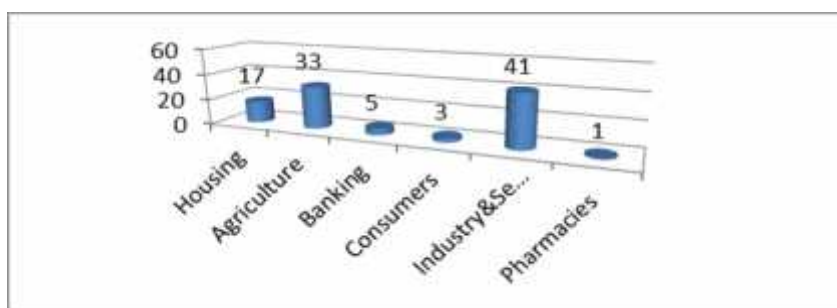


Figure 1 - Cooperative distribution on activity domains on EU level

Source: European Co-operatives – Key Statistics 2010, Cooperatives Europe ASBL

In Italy the cooperatives represent 15% of the economy's ensemble. In the last years, these have also extended in the services domain of general interest like education, public transportation, electricity, etc. Below we'll render an extract from the analysis of the cooperative

sector at the level of 2010: cooperative distribution on activity domains on European Union level, cooperative members in European Union, hired personnel in cooperatives on European Union level.

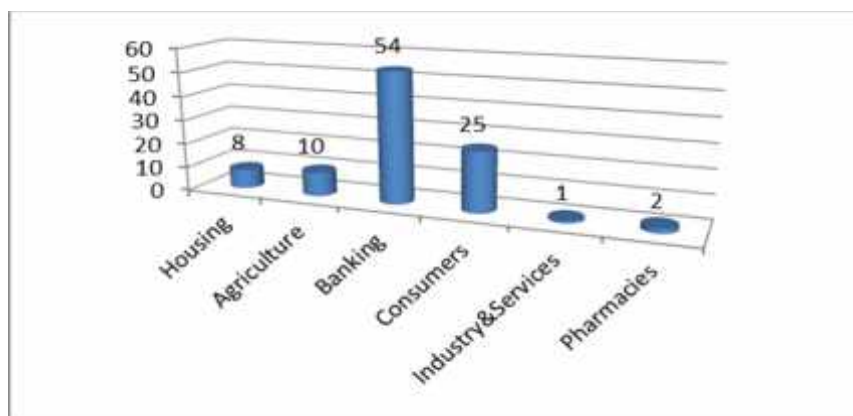


Figure 2 - Cooperative members in EU

Source: European Co-operatives – Key Statistics 2010, Cooperatives Europe ASBL

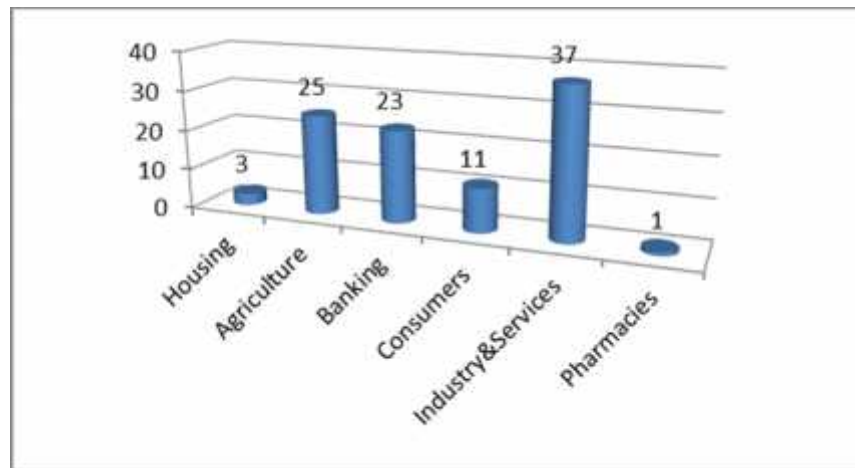


Figure 3 - Hired personnel in cooperatives on EU level

Source: European Co-operatives – Key Statistics 2010, Cooperatives Europe ASBL

## 5. COOPERATIVES IN ROMANIA – OPPORTUNITIES AND LIMITATION IN THE SECTOR’S DEVELOPMENT

In Romania and not only the cooperative emerged as a necessity to protect the people in the middle class. The cooperatives represent entrepreneurial initiatives of the middle class

that lead to the creation of small economic entities, allowing the fulfillment of the members’ and their families’ social needs. The

basic principles traded before the communist period were the salt and kerosene.

Although between 1945-1989 we witnessed a growth of the cooperative consume sector, this state of affairs is the result of dissolving the private trading by the Communist Party, nationalizing the production means, the banks and trade, collectivizing the agriculture, etc. Since the people were forced to become cooperative members in order to benefit from food products and not only, we can’t talk about a real growth of the cooperative system in the communist era, but of an artificial one.

The situation (Bidilean V., Cri an I., 2012, pg 100) at a national level in what regards the evolution of the activities undertaken by the Romanian consumer cooperative between 1950 –1989 is shown in the chart below:

Table 2

*The evolution of the activities conducted by the Romanian consumer cooperative between 1950–1989*

| Years | Trade and public alimentation | Production and services | Acquisitions | Other activities | Total  |
|-------|-------------------------------|-------------------------|--------------|------------------|--------|
| 1950  | 4.020                         | 285                     | 569          | 179              | 5.052  |
| 1955  | 7.700                         | 538                     | 879          | 1.447            | 10.564 |
| 1960  | 11.193                        | 255                     | 3.096        | 2.858            | 17.402 |
| 1965  | 17.855                        | 704                     | 1.651        | 4.466            | 24.676 |
| 1970  | 24.962                        | 2.224                   | 817          | 3.534            | 31.537 |
| 1975  | 34.476                        | 4.847                   | 1.502        | 4.218            | 45.043 |
| 1980  | 46.599                        | 7.496                   | 1.454        | 2.836            | 58.385 |
| 1985  | 56.171                        | 12.064                  | 3.181        | 1.531            | 72.947 |
| 1989  | 57.977                        | 16.667                  | 1.277        | 1.269            | 77.190 |

After 1989 the consume cooperative met an accentuated decline, as a consequence of many causes, such as: technologic causes, causes that have to do with the fiscal regime, but also causes regarding the de-capitalization of the cooperatives. Moreover, increase in inflation, introduction of VAT, have had

significant incidences on direct acquisitions. According to the data published by INS (calculations based on INS data, 2011), for the period between 2000– 2009 a slight growth in the number of cooperatives has been recorded, as follows:

Table 3  
*Number of consume cooperatives between 2000-2009*

| Specification | 2000 | 2005 | 2007 | 2008 | 2009 |
|---------------|------|------|------|------|------|
| Cooperatives  | 874  | 941  | 927  | 922  | 894  |

After 2009, however, the decline is obvious, both on a level of cooperative members and number of cooperatives, and concerning the activity performed by the cooperative societies. If we refer to the consume cooperative's evolution between

2008– 2012, the information provided by the INS outlines a decrease of the majority of the economic indicators, with a direct effect on their degree of performance.

Table 4  
*Economic-financial indicators for 2008-2012*

| Specification                         | 2008          | 2009          | 2010          | 2011          | 2012          |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Trade                                 | 574.406.289,0 | 527.094.421,0 | 459.792.091,0 | 420.312.212,0 | 379.103.790,0 |
| Production                            | 136.224.144,0 | 120.145.790,0 | 104.002.948,0 | 108.741.569,0 | 107.364.424,0 |
| Net turnover                          | 710.695.892,0 | 647.331.633,0 | 563.925.298,0 | 529.220.001,0 | 486.604.140,0 |
| Operating revenues                    | 765.082.879,0 | 692.745.317,0 | 604.555.784,0 | 571.577.725,0 | 532.958.412,0 |
| Gross profit                          | 14.864.356,0  | 8.088.434,0   | 3.004.295,0   | 2.297.460,0   | 6.215.440,0   |
| Total expenditure                     | 767.784.629,0 | 693.077.475,0 | 625.818.760,0 | 573.081.570,0 | 533.289.432,0 |
| Net income                            | 755.149.387,0 | 688.611.594,0 | 622.356.809,0 | 571.934.876,0 | 529.135.646,0 |
| Net result                            | 12.360.634,0  | 4.465.881,0   | 3.461.951,0   | 1.146.694,0   | 4.153.786,0   |
| Consumed resources profitability rate | 1,97          | 1,17          | 0,48          | 0,40          | 1,21          |
| Return on revenue                     | 1,94          | 1,17          | 0,48          | 0,40          | 1,20          |
| Return on net income                  | 1,61          | 0,64          | 0,55          | 0,20          | 0,70          |
| Borrowing of operating cycle          | 10.553.790,0  | 12.528.352,0  | 10.116.354,0  | 9.608.302,0   | 6.367.724,0   |

A dramatic decrease of the turnover can be noticed by 46% in 2012 compared to 2008, respectively of the total incomes by 43% in 2012 compared to 2008, with implications on the other calculated indicators. Income reduction between 2008– 2012 is partially a consequence and an effect of the economic crisis, but especially of the decline of the activity recorded by the cooperative. In the development of the sector we encounter, amongst considerable limitations, some opportunities.

Amongst the limitations in the Romanian cooperative area, the following can be mentioned:

✓ consequence of a faulty management, many cooperative societies have given up the activity object which consecrated them – production, choosing, instead, to rent their spaces and the *survival* of the cooperative entities based upon the income from rents;

✓ inconsistency in applying the managerial decisions, consequence of some oversized administration councils which aggravate the decisional process;

this is, actually, the consequence of not implementing the provisions of law nr. 1/2005 which urgently requires the clear delimitation between the executive and administrative management;

- ✓ each cooperative unity's independence has led, most of the time, in Romania, to wrong decisions and ignorance of assuming responsibility derived from the decisions that were taken; destroying the control system and the possibility of alienating the patrimony towards the members has allowed the discretionary activity of some of the administrators with beneficial effect on their economic prosperity to the detriment of the interests of simple cooperative members;

- ✓ the lack of unity of the Romanian cooperative system;

- ✓ the disappearance of cooperative schools with implications on ensuring qualified contractual personnel;

Opportunities in the cooperative's development can be:

- ✓ promoting and applying the beneficial concepts with implications on the system's unity;

- ✓ making loyal cooperative members through literally involving them in taking decisions and assuming the responsibilities that stem from here;

- ✓ resuming the activities through the food production unities and exploiting the country's agricultural potential;

- ✓ implementing a unitary system of stock management for a more efficient sale, with implications on the activity's profit's growth.

## 6. CONCLUSIONS

The period of time between 1950–1989 was a prosperous time for the Romanian cooperative, which also resulted from the nationalizing of the main production means, the banks and trade, collectivization of agriculture by the socialist power. After 1989 the changes that occurred through switching from the

centralized economy to the market economy constituted a challenge for the Romanian cooperative that it failed to live up to. Under the circumstances of the ever more scarce available resources, the cooperative societies did not find the necessary methods to comply with the new tendencies. From the action we initiated, the following conclusions can be drawn:

- ✓ after 1990 there was recorded on a cooperative level a significant decline regarding the number of the cooperative members, as well as that of the employees;

- ✓ concerning the economic-financial indicators, there have been identified for the interval between 2003-2007 significant increases in productivity and profitability, however the situation started changing in 2008. Thus, from 2008, the cooperative has deeply regressed, giving up the production activities and concentrating more on the income obtained from renting owned spaces;

- ✓ a major element in this decline scene of the Romanian consume cooperative is the apparition of Law no. 1/2005 regarding the organization and functioning of the cooperative;

- ✓ law no.1/2005 has had negative implications on the cooperative sector if we agree to only refer to *the destruction of the control system* but also the permissiveness/possibility of estranging the patrimony to its members. In the cooperative system, before the appearance of this law, there was a fairly rigorous control system for the cooperatives' activities, within a fairly strict hierarchical organization. In the old legislative formula, the 1<sup>st</sup> degree cooperatives' activity was controlled by the 2<sup>nd</sup> degree ones, whilst in the sense of the Law no.1/2005 1<sup>st</sup> and 2<sup>nd</sup> degree cooperatives are associated on a county level. Under this formula, the county union, 2<sup>nd</sup> degree cooperative, does not have surveillance and control right, since each cooperative is now independent. Control dissolution has allowed, under the specific conditions of the Romanian area, the discretionary



action of some of the cooperatives' administrators for their own benefit, sectioning off the interests of simple cooperative members;

✓ however, the cooperative systems can still be revived, provided it is thought in an economic way, oriented towards promoting and implementing the beneficial concepts and correlated with an adequate management and investing policy.

## References

- [1] Bidilean V. and Cri an I. (2012), *Consume cooperative. Principles and values of the cooperative*. University Publishing, Bucharest;
- [2] Cace S. (2010), – coordinator, “*Social economy in Europe*”, Expert Publishing, Bucharest;
- [3] Cri an I. (2010), *Consume cooperative. Evolution, structures, development strategies*. University Publishing, Bucharest;
- [4] Chloupková J. (2002), *European Cooperative Movement – Background and common denominators*, Unit of Economics Working Papers, no. 4/2002;
- [5] Petrescu C., “*The Romanian cooperative – actor of the social economy*”, PROMETEUS Project, Contract: POSDRU/84/6.1/S/57676;
- [6] S ulean D. (1998), *Defining the Cooperative Sector in Romania*, FDSC, 1998, Bucharest, available on-line at [www.fdsc.ro](http://www.fdsc.ro);
- [7] \*\*\*, Law nr. 1/2005 regarding the organization and functioning of a cooperative, M.O. 1<sup>st</sup> part, nr. 172/28 February 2005

## Biography

Dr. Manea Marinela-Daniela earned his PhD at Academy of Economic Studies Bucharest at 2006 and his post-doctorate at “Alexandru Ioan Cuza” University of Ia i on february 2013. Currently she is a lecturer of accounting at “Valahia” University of Târgovi te, Romania.