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CENTRAL AND EASTERN EUROPE AGRICULTURE IN TRANSITION

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Reorienting the cooperative structure in selected Eastern European countries

Case-study on Poland



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Case-study on Poland

by
T. Hunek

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
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TABLE OF CONTENTS

Foreword	iv
1. Introductory Remarks	1
2. Assessment of the Current Situation of Agricultural Cooperative Societies	6
3. Assessment of the Present Polish Agrarian Structure	17
4. Analysis of the Present Agricultural Policy for Production and Marketing	30
5. Assessment of the Cooperative Supporting System Such as Cooperative Unions and Federations	36
6. Analysis of the Experience in Promoting Cooperative Programmes with Special Emphasis on Incentives Provided to Cooperatives	39
7. Identification and Discussion of Possibilities to Reorient the Present Agricultural Cooperative System	41
8. Assessment of Cooperative Training Institutions and Future Training and Education Requirements	47
9. Identification of Technical Assistance Needs	49

FOREWORD

The present case study on "Reorienting the Cooperative Structure in Selected East European Countries - The Case on Poland" was prepared by Prof. T. Hunek of the Polish Academy of Sciences according to the terms of reference provided by the Human Resources, Institutions and Agrarian Reform Division of the Food and Agriculture Organization of the United Nations. The objectives of the study, both from the descriptive as well as from the normative point of view, were to:

- present the general picture of agricultural cooperatives in Poland during the period of economic transition from a centrally planned economy to a market-oriented one;
- make an assessment of the activities of the Polish authorities in the process of reforming agricultural cooperatives;
- present an academic point of view of the role and perspectives of agricultural cooperatives in period of economic reform in Poland.

Agricultural cooperatives are analyzed both as "products" of the transition process taking place in agriculture and the rural areas of Poland, and as active factors of those changes.

1. **Introductory Remarks**

The process of reorienting the cooperative structure in Poland is determined by three basic factors:

- i. The process of transforming the economy from a centrally planned system to a market oriented one

The government programme to change the economic system in Poland aims at replacing the system of command economy, an economy of shortage, which has existed for over 40 years, with a market economy open to the world. The programme assumes that, following a stabilization period of 2-3 years, the basic elements of the new economic system will be established in three main areas:

- ownership relations with the dominating private owners, achieved through massive privatization and individualization of the basic part of the productive sector of the State, by the creation of municipal and cooperative property and share-holding;
- expansion of market mechanisms and related institutions as a basic regulatory factor of economic processes within the sphere of production, as well as the distribution of the national product;
- tax regulations, a financial and banking system suitable to a market economy, and the convertibility of the zloty and opening of the economy to exports and imports.

It should be stressed that the implementation of this programme will create a totally different situation in agriculture from the previous one, i.e. both with regard to agricultural management and its relations to the environment. Agriculture needs to adapt itself to the philosophy of the new economic system in Poland, and to new external parameters for the management of the agricultural sector. The main determining factors of the new situation seem to be the following:

- the introduction of market prices for agricultural products and inputs means that the price level is determined by the laws of demand and supply and by intermediaries, who are often monopolistic. The bargaining power of agricultural producers has weakened; prices are no longer negotiated as they used to be, i.e. between the State and the producers (minimum prices guaranteed by the Government have been abolished) and are the result only of commercial bargaining between trading partners;

- the reduction or elimination of food and agricultural input subsidies has led to an increase in consumer prices for food, which in turn has led to a decrease in food demand, determined by the economic and social situation in Poland;
- the removal of credit and tax advantages for the agricultural sector has caused particular difficulties for creating new farms or enhancing the productive potential of existing farms;
- the convertibility of the local currency and the opening of the Polish economy to the world mean that Polish farmers have to compete with American, West European and Soviet farmers.

All these factors have caused numerous problems in the adjustment process of agriculture to the national economy, as well as to the international environment.

It is obvious that the reform of the national economy and the adjustment process of agriculture determine the framework for the reorientation of agricultural cooperatives, and affects the very essence of cooperative societies and the cooperative structure.

ii) The importance of adopting the cooperative principles/cooperative structure to the new social and economic environment

Agricultural cooperatives are faced with an essential question which has two main aspects:

- How to transfer the centrally planned economy into a market oriented economy and in this process how to reorient the cooperative structure?; and
- How to limit (eliminate) inertia and bottlenecks in the agricultural cooperative sector in the economic reform process, and furthermore, is it possible for agricultural cooperatives to play a dynamic role in this process?

The historical background of the Polish cooperative sector and its present position among the highly developed economies point to the fact that cooperative institutions and activities have great potential. It is assumed that the cooperative sector is capable of performing and should perform the following functions in a market economy:

- create, together with other units, a local market, economic infrastructure and the conditions for competitiveness;
- play the role of a countervailing power introducing, in addition to enterprises whose main purpose is to achieve maximum profit, units which meet the needs of specific social groups (based on principles of adequate profit, minimum profit or non-profit, according to their activities) and which would undertake non-economic activities for the benefit of these social groups (training, support to cultural events, etc.);

- perform an effective role, in a situation of capital shortage, in integrating the dispersed financial resources of the population in order to realize common activities to satisfy specific needs;
- support, under market conditions, economic activities of economically weak units, thus contributing to the creation of small- and medium-scale private enterprises and thus to the formation of a middle class;
- counteract social dispersion, particularly within local communities (small towns and villages), by introducing the elements of democracy and social solidarity;
- be effective while operating under homogeneous conditions for all units.¹

Under the specific conditions prevailing in Poland, the activities of cooperative type enterprises are well justified, because of their significant economic infrastructures. These activities cannot be reduced or stopped without causing great losses to the whole national economy and, for legal, social and economic reasons these enterprises cannot be rapidly transformed into private or individual enterprises. The cooperative sector is particularly useful in the provision of agricultural services to the dispersed Polish farmers.

However, an analysis of the current state of the cooperative sector indicates that it needs to undergo a profound and difficult process of adjustment in order to be able to make use of the opportunities created by a market economy. This process requires a complete reassessment of the philosophical and ideological principles underlying the cooperative sector and a change of the cooperatives' economic system, in order to ensure more efficient functioning under conditions of economic competition.

Systemic changes should remove direct political influences on the cooperative sector, reduce the State's influence to a minimum level, redirect the objectives of the cooperatives to meet the needs of and benefit their members and their farms, ensure the members' participation in bodies of supervision and control, enhance the importance of their own capital, particularly shares, expand the incentive system, strengthen the competitiveness of cooperative enterprises and, wherever necessary, decentralize and change ownership relations in order to promote the privatization of cooperatives.

Despite unavoidable limitations in the contribution of the cooperative sector to the national economy, this sector will continue to play a fundamental role in trade in the rural areas and in the procurement and processing of some agricultural products. The cooperative banking sector, which provides particularly good support to the agricultural sector and various units servicing agricultural and other micro-enterprises, has great potential for development.

1 Cooperatives in the Polish Market Economy. A Report. Spółdzielczy Instytut Badawscy, Warsaw, 1990. Mimeo.

iii Harmonizing the reorientation of the cooperative structure in Poland with cooperative models in Western Europe

Assuming that the conditions (economic, political, social, etc.) present in each country influence the way in which their cooperative movements are organized, and without taking into consideration detailed differences in their organizational structure, but only the most essential features, the following three types of cooperative structures can be distinguished in Western Europe and should constitute the model for the reorganization of the Polish cooperative structure:

-)a an organizational structure based on the cooperative sub-sector. Such structures dominate in England, France, Greece, the Netherlands, Ireland, Luxembourg, Germany, and many other countries;
-)b an organizational structure based mainly on non-economic factors (national, religious, political). These types of structures are common in Belgium, Denmark, Finland, Spain and Italy, and were common also in Poland before World War II. In these countries the criterion for creating a cooperative sub-sector is of secondary importance;
-)c an organizational structure in which cooperatives are partly integrated with social and trade union movements (trade unions, farmers' organizations) and non-cooperative associations based on the principle of mutual assistance. This structure is common in such countries as Sweden, Norway, Belgium, France, and others.

The basic factors determining the organizational structure of the cooperative sector in Western Europe, which should be taken into account in the process of harmonizing the reorientation of the Polish cooperative structure can be described as follows²:

- .i All countries which are being analyzed (and in all other states as well), have more or less complex organizational superstructures for their cooperatives.
- .ii These superstructures (the internal organizational infrastructure of the cooperatives) are represented by:
 -)a apex organs responsible for coordination and representing the interests of the cooperative movement either in the form of apex organs of the cooperative movement or in the form of State cooperative institutions;

2 Fundamental Problems of the Cooperative Movement in Poland. Spółdzielczy Instytut Badawczy, Warsaw, 1989.
Boleslaw Struzek A Comparative Analysis of the Organizational Structure of Cooperatives in Selected Countries.

-)b central, multi-sectoral unions (unions of central unions, unions of cooperative central unions and non-cooperative organizations) defined as apex unions or associations of cooperative unions;
-)c central unions of one sub-sector (performing only audit and patron functions or a combination of both with economic activities for the benefit of associated cooperatives);
-)d regional unions or unions covering a large area of administrative provinces;
-)e unions and economic federations at national level with a network of regional branches.

In some countries, the economic infrastructure of the cooperatives is represented by the following bodies: economic federations and regional branches, regional federations, national cooperatives (of tertiary level) and regional cooperatives (of secondary level), joint stock companies with cooperative shares, other joint companies. As far as the activities of the cooperatives are concerned, the economic infrastructure of the cooperative sector covers wholesale companies, banks, insurance companies, central enterprises of foreign trade, manufacturing companies, companies providing special services for the benefit of the associated cooperatives.

iii Usually the organizational infrastructure of the cooperative sector reflects the specific conditions of a given country (economic, legal, political, social, etc.).

iv The organizational structure of the cooperative sector has undergone changes throughout its history. The most important determining factors of these transformations include:

- an increase in the types of cooperatives (the process of establishing different cooperatives according to their activities, specialization of cooperatives, the number of various cooperative sub-sectors);
- a process of merging of primary cooperatives;
- a need to strengthen the competitiveness of cooperatives;
- the level of development of inter-cooperative cooperation;
- cooperation between the cooperative sector and para-cooperative organizations, trade unions and agricultural organizations; and
- linkages between some cooperatives and political movements.

v The integration of cooperatives to form audit unions, economic unions, joint enterprises in the form of cooperatives of legal persons or other legal forms. constitutes a general organizational rule of cooperative movements in some countries. This integration enables the primary cooperatives to better fulfil their needs.

In the light of the above comparative analysis, the following conclusions can be drawn concerning the process of harmonizing the cooperative sector in Poland with the West European cooperative sector:

- i. The Polish cooperative sector cannot be deprived of its own organizational structure (audit unions and economic structure).
- ii. As can be seen from the number of cooperatives and the economic position of the cooperative sector in the national economy, the organizational structure of the Polish cooperative sector is not very developed.
- iii. Changes in the organizational structure should, in the first place, lead to a reduction of regional unions and to the possible takeover of their economic functions by regional cooperatives (cooperatives of primary cooperatives).
- iv. It is necessary to develop cooperation between cooperatives as well as between different sub-sectors of cooperatives in various legal and organizational forms (joint stock companies, cooperatives of the second and third level, mixed multi-sectoral enterprises, etc.).
- v. Various forms of integrated activities should be developed between agricultural cooperatives (especially service cooperatives) and the Rural Solidarity trade union, in order to create better conditions for agricultural development and protect the interests of agricultural producers.

2. **Assessment of the Current Situation of Agricultural Cooperative Societies**

Agricultural cooperative societies can be traced back to the 19th century. The number of agricultural cooperatives and their different activities developed in a particularly dynamic way in the period between 1918 and 1939, when Poland regained its independence. After 1945 the cooperative sector was subordinated to the general socialist policies, and became a sort of "inferior", transitional form of state property. In spite of these limitations, it can be said that during the preceding 40 years, there was a particularly dynamic development of the cooperative sector with growth of its assets and potentials, and an increase in the number of members. An important cooperative sector with a crucial role to play in the social and economic development of Poland was established.

However, following World War II and with the introduction of political changes, the basic "philosophy" underlying the cooperative sector was changed. It was included as an instrument for building a new system. In the socialist economy, the most important function of the cooperative sector was to support or directly implement the transformation in ownership and serve certain general social purposes, formulated at the central level within the economic plans.

The following basic ideological cooperative principles were violated:

- instead of satisfying the needs of the members and supporting their farm activities, the main task of the cooperatives became to fulfil the general needs of country;
- the system of central planning deprived the cooperatives of the right to make decisions concerning their own aims and activities;
- democracy was replaced by "democratic centralism". Elections, although organized according to formal rules, followed in practice the principle in force at that time in Poland, according to which candidates were designated by political bodies;
- a system of centralized planning and monopoly prevailed, involving banking, the provision of goods, procurement and, partly, marketing. The financial system which was maintained over many years led to a reduction in the role of the equity fund in financing primary cooperatives, which as a result became increasingly dependent upon external sources of capital. The principle of self-financing ceased to exist and the members' responsibility for the activities of the cooperatives disappeared.

As a result, serious problems arose. Cooperative organizations lost their authenticity, the motivation of the members and linkages between them disappeared, leading to a lack of identification of the members with their cooperative.

In this centralized planning system, the cooperative sector covered a broad range of activities, partly on its own initiative and partly as a result of decisions taken at the State level, because the State sector became increasingly unable to perform certain activities in an economy of shortage.

In many areas the cooperative sector became monopolistic. The main areas in which the cooperative sector had a dominating or leading role include: provision of agricultural production inputs, purchase and processing of agricultural products, provision of consumer goods to farmers (mostly food), savings and credit activities in rural areas, production of goods and provision of services (mainly marketing), housing.

As regards the social sphere, it should be noted that cooperatives play a major role in training, education, and in supporting cultural events and sports at community level. In addition, cooperatives play an important role in the creation of new jobs and in the reintegration of disabled persons.

During the 1980s, the cooperative movement did not prepare itself for its new activities in the changing environment, particularly in the period when the political system finally broke down.

At the end of 1989, i.e. before the transformation from a centrally planned economy to a market oriented economy started, the cooperative sector employed 1.8 million people (about 14 percent of the total working population). Its contribution to the GNP amounted to 11 percent. Until 1990, all primary cooperatives had to be organized in regional (voivodship) cooperative unions, which in turn formed central (national) cooperative unions.

The cooperative unions acted as intermediaries between the authorities in charge of economic planning and the primary cooperatives, managing wholesale enterprises and processing plants. Particular cooperative sub-sectors were represented at national authorities and international organizations, such as the International Cooperative Alliance. The Supreme Cooperative Council represented the Polish cooperative movement at national level

Within the framework of a limited economic reform in 1982, a new cooperative law was formulated. This law, and the amendments of 1983 and 1987, introduced the right for primary cooperatives to form unions of their own choice or to operate independently without belonging to any union. These legal changes, however, had very little impact on the expansion of the apex organization of the cooperative structure, as well as on the membership of primary cooperatives.

By the end of 1989, there were over 15 000 primary cooperatives in Poland, with about 15 million members. There were 8 000 rural cooperatives and about 7 000 urban cooperatives. The primary cooperatives were affiliated to 400 regional unions, which in turn belonged to 17 different central unions, each of which was in charge of a different cooperative sub-sector.

Types of Cooperatives

Peasant Self-Help Cooperatives

The Peasant Self-Help Cooperatives originated in 1948 when a number of existing agricultural and marketing cooperatives were merged to form what was called "Peasant Self-Help Supply and Marketing Cooperatives". In the rural areas, these are primary level multipurpose cooperatives which provide both for the production needs of the farmers and for the consumer requirements of village and towns people. The economic activities of these cooperatives were divided into three main groups: production, wholesale and retail trade, and purchase of products. The activities classified as wholesale and retail trade are clearly the most important for the operation of these cooperatives, which operate over 70 000 retail stores as well as warehouses and purchase centres. Other activities include catering services, such as restaurants, cafes and bars, wholesale warehouses, various production units such as bakeries, soft drink factories, grain mills, animal feed plants and transport services.

Although these cooperatives cover a wide range of activities, according to their statutes they are to give special attention to the agricultural sector. By supplying agricultural inputs and purchasing farm produce, the cooperatives are assigned the role of stimulating agricultural production according to the requirements of the national economy. The provision of consumer goods to the rural population is a complementary activity of the Peasant Self-Help Cooperatives. They supply food and industrial goods, engage in food processing, mainly serving the needs of the local population, and provide catering facilities and a wide range of other services. cooperatives were re-established and a new national-level organization, the Union of Dairy Cooperatives, was created. For some time, the dairy cooperatives were placed under the control of the Central Agricultural Union of Peasant Self-Help Cooperatives, but they were re-established in 1981 and given the same organizational structure as they had had before 1975.

At the local level, milk producers are members of the Peasant Self-Help Rural Cooperatives, which are in essence supply and marketing cooperatives. There are some 1.2 million milk producers in the country and, through their local cooperatives, they are affiliated to 48 voivodship dairy cooperative unions. These operate nearly 10 000 milk collection points and own over 700 production units of various types.

Horticulture Cooperatives

Horticulture is a major sector, contributing nearly as much to farm incomes as dairying. It is concentrated, involving a relatively small number of growers. Cooperatives are less important in this sector, accounting for about 35 percent of horticultural output.

Horticultural cooperatives bring together vegetable and fruit growers and honey producers, providing them with means of production, purchasing and processing their produce, and selling it on the domestic and foreign market. In 1988, there were 140 horticultural cooperatives affiliated to the Central Union of Horticultural Cooperatives through 11 voivodship unions.

Although the value of horticultural exports has tripled and the volume more than doubled over the last decade, it has declined as a proportion of total agricultural exports (from 22 percent in 1986 to 18 percent in 1989). Over two-thirds of agricultural exports are in the form of processed products. The Hortex Cooperative accounts for 40 percent of Polish frozen horticultural produce and 20 percent of fruit juice production. Hortex, with 20 major plants in 10 enterprises and 30 cold stores dominates the horticultural industry in Poland. As part of the Central Cooperative Union, together with the regional cooperative unions it is currently under the direction of a liquidator appointed by the government. The major Cooperative assets under liquidation have a book value of US\$ 82 million.

Cooperative Banks

This cooperative institution, which includes 1 600 cooperative banks, is according to the rural population, truly a cooperative. It offers services ranging from savings accounts to credit for agricultural purposes and for rural households.

Cooperation among Agricultural Circles

There are about 2 000 service units (SKR), which provide services in the field of agricultural mechanization, transport and construction, mainly for small-scale private farmers.

Agricultural Production Cooperatives (2 240 units)

Collective farms cultivate 75 000 hectares of land and employ 190 000 people.

The effectiveness and efficiency of the cooperative sector could be compared to the state sector both with regard to the production of material and the provision of services. Nevertheless, the primary cooperatives were not well prepared to provide services and did not react in an appropriate manner to the needs and expectations of their members. The activities of most regional and central unions were expensive; these unions often undertook the activities of primary cooperatives. In addition, support services, such as advice in the management of primary cooperative, were neglected. However, while assessing the activities performed by the cooperative up till now, it should be recalled that the cooperatives were unable to adjust themselves to the political and institutional conditions under which they operated.

Recent Developments

Transformation to a market economy means that the present shape of the cooperative sector needs to be changed; its objectives, tasks, organization and activities have to be changed. Because of the depth of the necessary changes and the general conditions, particularly economic conditions, under which these changes are to be implemented, they have to be introduced gradually, but in a systematic and consequent manner in order not to increase the costs of the process.

It is assumed that the market economy will provide the chance to reintroduce authenticity to cooperative organizations. However, in order to do this, the cooperative principles need to be applied in every-day activities.

In searching for ways and means of transformation, the principles of Christian social programmes, the achievements of neo-liberal theory and the current socio-democratic theory are applied. The principles of the programme of the International Cooperative Alliance are also inspiring, particularly the concept of universal values of the cooperative movement and the United Nations' attitude towards cooperatives. The aim of the cooperative sector is to become a form of economic mobilization of social groups with identical or similar interests, based on the principles of self-help and mutual aid. In fact, contrary to economic companies, the purpose of cooperatives is to satisfy defined needs and not to achieve maximum profit.

The linkages between primary cooperatives and their regional and national unions have always been the cause of problems and conflicts in Poland. In 1963 and 1987 the cooperative law was amended in order to allow primary cooperatives to form separate cooperative unions for activities outside the structure of "official" unions. Very few cooperative actually implemented this law. The monopolistic resistance of cooperative unions turned out to be effective. Following the establishment of the "Solidarity" Government in 1989, another amendment to the cooperative law was introduced at the beginning of 1990, aiming at a radical restructuring of and at introducing democracy in the cooperative sector. In this respect the following steps were recommended:

-)a election of new representatives of cooperative members at the primary level; and
-)b liquidation of all regional and national unions, including the transfer or sale of their assets to new owners.

In practice, it turned out that the restructuring of the cooperatives based on the 1990 amendment to the cooperative law was conceptually inaccurately programmed and improperly implemented. The restructuring process did not adequately take into account the existing difficulties and, being inappropriately implemented, it created new problems and difficulties to the cooperatives.

The main purpose of the amendment was to make the cooperative movement democratic through the election of new authorities of the primary cooperatives. However, the elections were not adequately prepared and organized and as a result only a minority of the members participated therein. The change in representation at the Supervisory Councils and Cooperative Boards turned out to be quite insignificant. Thus many representatives of cooperatives were still not trusted by their cooperative members and the political environment. Furthermore, the Supreme Cooperative Council constituted based on the elections in the primary cooperatives had similar problems.

The second objective of the amendment, i.e. the liquidation of the cooperative unions and the transfer of these unions' assets, clearly had negative effects. It is beyond any doubt that the unions were inefficient as far as the provision of support services (i.e. assistance in management, auditing, etc.) to primary cooperatives is concerned. The decision to liquidate them was based on the principle that the restructuring of these unions and the improvement of their activities was not possible. The amendment did not, however, envisage the possibility of forming new unions until mid-1991, and as a result of this regulation, the primary cooperatives could not be provided with any support services during the adjustment period, i.e. at a time when they needed such services more than ever. Furthermore, the liquidation of unions led to alienation from the cooperative sector of many enterprises managed by the unions (involved in wholesale, processing, transport, etc.). Hence, during the liquidation process and before the designation of the new owners, the enterprises performed their activities in sort of vacuum, i.e. the owner did not have a representative who could act effectively. This situation had an enormous negative impact on the activities and existence of union enterprises, including the disruption of financial linkages between them and credit institutions and export contacts with foreign commercial enterprises. Finally, the restructuring of unions' assets, including their enterprises, in accordance with current plans gives rise to doubts from the legal point of view. The result will be a breakdown in essential services and linkages between industry and the cooperative movement. Consequently, the process of restructuring the cooperative system and the change of owners of union assets, led to a fragmentation of the basic linkages between the industrial and service activities of the cooperatives, causing doubts about the new ownership structure. The management of these enterprises has been dominated by workers' councils formed by the employees of the enterprises.

In practice, the problem is very serious. It originated with the law of 20 January 1990 concerning changes in the organization and functioning of the cooperative sector, which provided for the establishment of cooperatives whose members could be employees of the enterprises so far managed by the cooperative unions, and the assets of these enterprises would be taken over by these cooperatives. This solution is in conflict with the interest of the cooperatives affiliated to the union up to the present time and to that of their members. It does not guarantee them any influence in the activities of the units which should have as a task to serve the cooperatives and enable the workers, who have taken over the assets by paying a small share, to use them for other purposes. The attempts to join the interests of the cooperatives with the interests of the workers of union enterprises, through the creation of cooperatives with mixed membership of legal persons and natural persons, has in general resulted in organizations with conflicting interests.

A more appropriate form of organization would therefore be a company which can guarantee the cooperatives control over the assets and activities of the unions operating for their benefit.

It should be noted that the cooperative law in Poland is more restrictive than in other ex-socialist countries of Central Europe. This law stresses the socialist ideology in many aspects. For instance, it considers cooperative organizations as a so-called socialized economy, as opposed to the private sector, and as a result cooperatives are subject to state control and regulations. Neither does it recognize the business character of cooperatives or the full ownership of cooperative members, and gives staff an excessive role in management.

Inadequate legal regulations of the cooperative restructuring process have brought about some unique phenomena of transformation of cooperative societies into share holders' firms.

Joint stock companies provide greater economic freedom, independence from the state and the possibility to implement more efficient management methods. The restructuring of cooperatives in Poland has shown dramatically that the interest of cooperative members in the future of their "own" cooperative was extremely low. The restructuring process was introduced in order to reconstitute the cooperatives taken over by the socialist system to agricultural producers and the rural population. In practice, it turned out that agricultural producers and villagers were not interested in taking over the cooperative or did not believe that this was possible. This is a very important fact and its many consequences need to be taken into account if the cooperative movement is to be rebuilt in Poland. All this leads to the conclusion that the cooperative legislation needs to undergo rapid and profound changes.

New legislation needs to be enacted to provide an overall framework defining the general nature and basic structure of cooperatives and their movement. Important principles to be embodied in the law include: designating cooperatives as part of the private sector, owned by and doing business on behalf of their members, managed entirely by democratically elected representatives and appointed professionals. The law should also specify a few additional structural elements, such as registration of cooperatives, supervisory and management bodies, and audit requirements, based on the various cooperative models operating successfully in Western European countries. Other aspects which are not essential for the definition of genuine cooperative and which go beyond some basic structural elements, such as organization, objectives, operations and internal structure, should be left to the cooperatives to be regulated by their statutes.

Role of Cooperative Members with Regard to Cooperative Principles

The role of the cooperative members should be regarded as a basic value of the cooperative sector, as embodied in the programme of the International Cooperative Alliance (Stockholm, 1988).

In the light of developments up till now, the co-participation of members can be classified as one of the most important basic values. Cooperatives are strong only when they are able to mobilize people. It is the human activity which determines the strength of the cooperative and the names of people listed in the register.

Due to the instrumental treatment reserved to it by the economic policy during the previous 40 years, the cooperative movement ceased to be a social movement and became instead, to a large extent, an external organization (to the society) which pursued state objectives and not the needs of affiliated groups or local communities. This process occurred despite the fact that cooperatives were socially accepted which, according to the opinion of many cooperative activists, resulted in the increase in the number of members. As a result of this process, Poland became the country with the highest level of "cooperativization". This is measured by calculating the number of cooperative members as a proportion of the whole adult population or of the number of families. However, an essential question arises on whether the people connected with (because of their membership) a cooperative were actually part of it. The supposition that only part of these people joined the cooperative consciously, i.e. by their own choice, seems to be well justified. It would be interesting to examine to what extent a characteristic pressure had a role to play. For many members joining the cooperative was necessary because there was no other possibility to purchase certain goods or services. Thus a peculiar phenomenon of administrative recruitment of people to cooperatives emerged.

As a result, throughout the development of the cooperative sector, there seemed to be a breaking or at least weakening of the members' ties, understood as the source of members' interests in performing activities in a given cooperative in pursuance of a common goal.

Another problem which has had a negative impact on the members' ties is the increase in the size of cooperatives. Analysts of the cooperative movement are in agreement in this respect. As an illustration, we shall quote two viewpoints of entirely different analyst circles, but presenting the same approach. "All leaders, particularly management boards, have to be aware of the danger of alienation connected with the development of a cooperative and its size". And further, "for most cooperatives the major problem will be to overcome the results of the growth of the size of a cooperative and preserve the cooperative character."³ This problem was noticed in Poland by A. Maliszewski many years ago, who wrote that going beyond certain size limits (the number of members and the area) of the cooperative as an affiliation is systematically lowering its coherence. "Typical phenomena that accompany the weakening of affiliation coherence include the heterogeneity of members; weakening of members ties"⁴

1 A.F. Laidlaw, The Cooperative in the Year 2000. Spółdzielczy Kwartalnik Naukowy 1/1981.

4 A. Maliszewski, Cooperative Association as a Purposeful Social Group. ZW CZSR, Warszawa, 1978.

Forms of Re-establishment of Members' Ties

Against a background of the critical situation which appeared in the Polish cooperative sector, for various reasons different initiatives aiming at changing (improving) the situation were undertaken by cooperative members, employees and activists. These actions undertaken by numerous circles indicate that the so-called "healthy" core of the cooperative structure has survived, that the cooperative idea is still alive and that there is willingness to reorganize the movement.

The key element in restoring members' ties is a change in the purpose of the cooperative's activities; a change of purpose from an unclear concept of social benefits to group or individual benefits in accordance with the principles 'activities for and by members'. This implies that cooperative members are capable of making decisions.

Thus, cooperatives should exist in the current Polish conditions if their members are in the centre of interest. That also means, among other things, that cooperative membership should bring certain benefits (not only material benefits). It is only then that one can talk about and endeavour to execute members' loyalty. All this can be realized under democratic cooperative conditions, which are of basic importance for the actual participation of the members in cooperative activities. Without the possibility of making decisions, cooperative members have no motivation to engage themselves in cooperative matters and cooperation.

This brings us to an extremely important statement, which is crucial not only from a theoretical point of view, and concerns the alienation of cooperatives from their members. This means that the members are not needed for the cooperative (a cooperative was established so the founders are redundant), the equity capital is meaningless and the council can only be a hindrance to management and, in extreme cases, can even be disregarded. This is to certain degree a consequence of the current economic development of cooperatives: they comprise many members who have different economic and social positions, and among whom neighbourhood ties have disappeared. It is a typical phenomenon of heterogeneity of the membership structure which has resulted in a weakening of the ties and members' identification with the cooperative.

One of the most important negative phenomena which has occurred in the cooperative sector and which has only been partly overcome is a lack of information for cooperative members. The problem of lack of information flow, particularly between the cooperative and its members, seems to have arisen for many reasons which need to be stressed.

To sum up, the restoration of members' ties is one of the conditions of the return to the source of origin and basic values of cooperatives. This constituted an important message of the Congress of Polish Cooperatives in December 1989. Let us quote two statements of the Congress:

"Members are the subject of cooperatives. That means that a cooperative should:

- operate on a definite basis of material arrangements as well as social activities of its members;
- be managed independently by members;
- develop economic activities and social activities, taking into account the needs and aspirations of its members."

"Basic rights and obligations of members, covered by the current legislation, should be amended by:

- participation in the processes of managing cooperative assets in accordance with principles included in the law and statutory solutions;
- the possibility of contributing extra shares to a cooperative (material or non material) in accordance with separate principles defined by the statute;
- protection of members' rights within the framework of inter-cooperative action and court action;
- participation in covering cooperative losses defined in the statute provisions (e.g. multiplication of share)."

It is a common view that members' ties can be of economic as well as social character and a significant part of these ties can be institutionalized in the form of provisions included in the statute and may concern both rights and obligations.

Considering the economic ties, they can be seen in the form of benefits obtained by members as a result of the cooperative's activities, including, among other things, the following benefits:

- higher purchase prices and lower prices while buying commodities or services;
- more convenient conditions for obtaining services (e.g. priority to members in the provision of services, information about commodities);
- improved effectiveness of a member's farm through better provision of goods, sales guarantees, vocational training, availability of technical equipment, etc.

Economic ties are accompanied by specific obligations in the form of the so-called members' loyalty (e.g. the sale of the whole commodity production in one's "own" cooperative) or a contribution of specific shares (which is connected with defined capital responsibility), or work on various self-government bodies.

Social ties also play an important role in the cooperative sector and are the result of: (i) ethic values of the cooperative, such as mutual aid, solidarity, reliability of activities, limited of exploitation; (ii) the possibility of self-realization of particular members by participating in the management of the cooperative; (iii) the possibility of positively influencing phenomena of a broader range than the activities of a given cooperative (by influencing the quality of local community life), etc..

We concur with the view that the basic principle of members' ties is in full compliance with the laws governing the following aspects:

- a) voluntary and indiscriminate joining of the cooperative as a member;
- b) the active and passive vote;
- c) provision of complete information on the activities of a cooperative;
- d) the possibility of controlling all management levels of a cooperative.

On the whole, the creation of the above conditions should promote members' cooperation, which is the basis of the cooperative movement. According to L. Marcus, President of ICA, it is necessary to have members who "make demands, propose and exert pressure, promote, defend, care about progress as well as failures, are well informed to choose their leaders and employ appropriate professional experts"⁵

5 L. Marcus, Cooperatives and Fundamental Values. *Spółdzielczy Kwartalnik Naukowy*, 4/1988.

3. Assessment of the Present Polish Agrarian Structure

Historical Legacy of Polish Agriculture

Contemporary Polish agriculture is the "product" of a planned, socialist system. In the ideological-doctrinal imperative of Marx and Engels, the vision of agriculture in a socialist economy lying upon a uniform state-owned property of collective team work and industrial methods of production - as well as utilitarian interests of central authorities of real socialism, was expressed by going towards the elimination, or at least pacification of the peasantry which was - as a social, political and economic power - fully controlled.

The subordination, through authority and doctrinal principles, of peasants to the political system was given priority. The change in production relations and particularly in ownership relations constitutes the core of this strategy. A replacement of private ownership by state ownership was acknowledged as the main purpose and strategy in agricultural reconstruction. A demonization of the so-called "socialization", which meant nationalization of means of production, does not only seem to be part of the past. Some organizational concepts about farming led to the introduction of "plasticity" of the peasantry, even in the process of dynamization and rationalization of agricultural production. Collectivization, i.e. the spreading of state farms, was a means for achieving that purpose. But, although in Poland, due to farmers' resistance, the process of collectivization failed, complete submission - organization and economic - of the peasant sector to the state was still being implemented.

It is worth mentioning that the Soviet kolkhoz model, as well as the sovkhos principle, very diffused in socialist countries of Eastern Europe, were dominated not by production or economic functions, but mainly by non-production. In addition, since they acted in a situation in which there was absolutely no relation between the quality of work and the revenues achieved, these models did no longer constitute a dynamic and rational factor influencing agricultural production. In a situation dominated by the alienation of collective farm workers, it was not possible to overcome the fundamental conflicts of the collective farm model, since this conflict existed between the level of current revenues and the scale of accumulation and the expansion of the enterprise. In fact, the collective farm model has resulted in both the destruction of the human factor, as well as that of the material resources, including the soil (a decrease in the soil's humus resources).

In Polish agriculture, dominated by private, peasant farms, the defined deformation also occurred. The most dangerous process was the spreading among the peasants of an attitude oriented exclusively toward survival, i.e. at maintaining the farm at present levels without any desire to modernize or expand it. As a result, increased income was pursued through the employment of available productive resources in non-agricultural activities, and the idea dominated that increased output could be achieved while passively waiting for the creation of more favourable production conditions by economic agricultural policies, instead of trying to achieve better results under the present conditions of price relations and supply.

As a result of the socio-economic doctrine governing progress in Poland, a food-block was introduced which absorbed the major part of the country's productive potential, manufacturing expensive food items, not giving any satisfaction neither to agricultural producers nor to consumers.

This means also that the field of action of rural cooperatives was enormous. As a matter of fact, Poland is a country in which agriculture and the food structure play an important role, a fact that proves the relatively low level of economic development. This gives rise to the problem of the so-called optimum position of agriculture in the national economy. The point is whether agriculture should be a passive factor in the strategic development options of the national economy, placing the main emphasis on non-agricultural sectors, or would it be an active factor trying to find solutions to the problems of the country. The latter possibility concerns mainly modern agriculture which is technology-intensive and able to fulfil one of the roles related to the dynamization and rationalization of national development.

In trying to optimize the relations between agriculture as a sector producing material goods, the agricultural producers on the one hand and the national economy, i.e. non-agricultural sectors, on the other, embarked in the area of harmonizing the institutional-economic structures and mechanisms instead of the rule of unilateral subordinations.

The institutional harmonization of the structures and mechanisms of the rural areas and agriculture with the external surroundings can be obtained at two levels:

- the relation of agriculture to other elements of the food complex (industries manufacturing agricultural production means, the provision of services, agro-industries);
- the relation of agriculture to the non-agricultural sectors of the national economy and the national economy as a whole.

The above structures are shown in Table 1.

Table 1
The share of the agricultural and food sector in the national economy
in 1986
(percentage)

Specification	Total food industry	Agriculture	Nationalized food industry	Nationalized industry of means of production for agric. And the food industry
1	2	3	4	5
Employed in the food economy (1987), employment	31.4	28.3	2.4	0.7
Gross value of durable means of production	35.2	29.3	3.8	2.1
Total outlays for investment	20.2	15.2	3.4	1.6
Outlays for investment in production	30.8	23.2	5.2	2.4
Share in the creation of the final product	26.9	14.5	10.6	1.8
Share in the creation of national income	20.9	14.1	5.9	0.8

Source: Poland 1984-1987. Main Statistical Office, 1988.

The data presented permit us to formulate some important statements on the scope of Polish agricultural development strategies. We shall limit ourselves to the following three basic areas:

- i. Food production absorbs a considerable part of the productive potential (material and human) of the Polish economy - over one-third of this potential is engaged in direct food production, whereas taking into consideration other areas linked to food production, the share increases to about 40 percent.
- ii. In the structure of the food economy the productive potential is dominated by factors pertaining to agriculture, both human and material.
- iii. Productivity of the food economy is low as compared to the magnitude of global production and national income, both in terms of the human and material factor.

Polish agriculture has at its disposal about 18.7 million ha (1989) of arable land, i.e. 60 percent of the country's area. This means that each inhabitant has about 0.5 ha at his disposal, which is an important and positive strategic figure. The need for agricultural raw materials can be met by applying relatively low levels of technology intensive cultural techniques, low use of fertilizers and pesticides, i.e. a system of ecologically neutral agriculture.

The basic agrarian structure in Poland is presented in Table 2.

Table 2

Polish agrarian structure (1988)

	Area harvested		Labour resources		Value of assets	
	'000 ha	%	Units ('000)	%	Billion zloty	%
Total agriculture	18.742	100	4566	100.0	6498	100.0
Private farms	14.295	76.3	3735	81.8	4801	73.9
State owned farms	3.521	19.7	501	11.0	1377	21.2
Collective farms	701	3.7	186	4.1	307	4.7
Agricultural circles	59	0.3	142	3.1	13.	0.2

Source: Non-nationalized agriculture in the food economy. Main Statistical Office, 1989.

In the agricultural economy the predominant part of the arable land is destined for sowing. However, since the mid-1980s, a decrease of the sowed area can be observed by tens of thousands of hectares yearly. This should lead towards a more effective utilization of the arable land, the introduction of a rational economy or an increase in the size of production units from one hectare.

During recent years, the structure of sowing has changed - the area cultivated in basic cereals, including wheat and wheat-rye (at the same time rye production is diminishing) is increasing and the area cultivated in potatoes is decreasing. In spite of the considerable under-investments in agriculture, the 1980s were characterized by a systematic increase in the yields of basic cereals, the highest for wheat (from 26.0 to 38.5 dt/ha). However, the average cereal harvest in Poland, i.e. 32.7 dt/ha, is much lower than in other European countries (France 60 dt, West Germany 56.1 dt, Hungary 53.2 dt, Czechoslovakia 48.4 dt).

On average, cereal crops have increased during the past decade by 4 percent/year. It seems that this is a satisfactory rate, if Poland's population growth rate is taken into consideration, which is at present about 0.5 percent per year, with forecasts up to 0.7 percent per year. It should be emphasized, however, that there is a need to increase animal production, which after the reduction in fodder imports is based mainly on national plant production. The conversion of fodder into animal raw materials is still not very efficient, if compared to the developed countries. An improvement in its scope together with the prevention of losses may and should have significant importance for Polish food security.

In the economically developed European countries, it is accepted that in order to achieve food self-sufficiency, national food production for current needs should cover at least up to 90 percent of requirements, and an index of 0.7-0.9 tons of cereal per habitant is sufficient to satisfy all food and fodder needs. However, in the opinion of some Polish scholars, self-sufficiency can be achieved even with a production below 0.7 tons/inhabitant. This would probably be possible with high production and consumption of potatoes.

National cereal production per inhabitant was 712 kg in 1989, and imports covered about 10 percent of the consumption of main cereals. In the light of the above data and according to the definition provided earlier, it can be supposed that Poland has achieved food self-sufficiency.

The Social Aspect

Polish agriculture is dominated by the peasant economy (see Table 3). This is a result of the failure of collectivizing agriculture. Small farms are predominant, even if governed more by a logic of survival than by a logic of development and expansion.

Table 3
Agrarian structure of private farms, 1986

Size	No. of farms	% of total	Area harvested	% of total	Average size
ha	'000	%	mill. ha	%	ha
1-5	1.108	48.7	2.7	19.9	2.4
5 - 10	692	30.4	4.4	32.4	6.4
10- 15	293	12.9	3.2	23.5	10.9
Over 15	183	8.0	3.3	24.3	18.0
Total	2.276	100.0	13.6	100.0	6.0

Source: Institute of Agricultural and Food Economics, Warsaw.

The rural population (40% of the total) lives in 42 000 villages organized in 2 121 communes. The infrastructure - apart from the recently expanded road network - is however of a considerably lower level of development than in urban areas. Only 29 percent of the villages have a system of waterworks, 8 percent have telephones. The equipment of rural schools and health centres is unsatisfactory.

The above data show that the development of Polish agriculture is far behind that of highly developed countries. The basic food production structures in Poland are more typical of traditional agriculture and traditional ways of food production than modern.

For a fuller presentation it is worth noting Poland's place regarding the level of development of particular countries of the world.

The results of research carried out by the United Nations Development Programme (UNDP) should be cited in this context. The research was conducted in 1987 in 130 countries (all the countries of the world with a population over 1 million). Taking into consideration a suitably balanced life expectancy, literacy rates, levels of national income corrected by local purchasing power, a so-called social development index was elaborated, according to which the countries of the world were ranked from the lowest to the highest value of this index. Lowest on the list we find Niger and highest Japan. In order to facilitate analysis of the list, the 130 countries were divided into so-called decyl groups. Relevant data are presented in Table 4.

Table 4
Level of social development of 130 countries of the world

Decyl groups of countries according to social development index	Value of index from 0 to 1	Mean life expectancy	Literacy index	National income corrected by purchasing power in US\$ - 1987 per capita
I 1-13	0.187	45.9	23.7	617.6
II 14-26	0.291	49.4	39.37	719.1
III 27-39	0.396	54.3	48.3	948.9
IV 40-52	0.516	56.5	62.6	1712.5
V 53-65	0.646	62.9	66.1	2640.0
VI 66-78	0.747	65.5	78.3	3903.0
VII 79-91	0.814	69.6	84.4	3940.9
VII 92-104	0.903	72.0	93.2	5008.6
Poland 98	0.910	72.0	98.0	4000.0
IX 105-117	0.950	74.4	96.5	9763.7
X 118-130	0.977	76.3	99.0	13730.1

Source: Human Development Report. UNDP, New York, 1989.

We shall limit ourselves to two conclusions which can be drawn from the data presented in Table 4.

Optimistic: in the world ranking of the level of social development Poland occupies the 98th place. It is part of a group of 30 percent of the most developed countries. It is characteristic that in terms of non-economic (general) development, the place of Poland is higher than in economic terms.

Pessimistic: the level of economic development measured by the purchasing power referring to the individual citizen place Poland on the 83rd place. Simultaneously, with a purchasing power of US\$ 4 000, the country is in the company of "poor relatives" with respect to the 20 richest countries of the world, in which the purchasing power is twice and three times higher than in Poland. It is worth noting that in the nine richest countries, the accepted poverty line is a purchasing power below US\$ 4 861. This limit in the strategy of development is interpreted in such a way that people with this level of income are not expected to accumulate or realize economic or non-economic development, but live for survival and wait for "better times" or help from outside.

The parameters of Polish agriculture presented in Tables 1, 3 and 4 form the basis for an important agricultural development strategy. The main parameters can be formulated as follows:

- i. The data indicate a low level of socio-economic development of Poland. Agriculture is dominated by traditional production models, typical for averagely developed economies.
- ii. In the formulation of agricultural policy instruments, such arguments do not fit the Polish reality (because such solutions are applied in Western Europe where the level of development is different).
- iii. The key challenge emerging on the basis of the above statements, is the need to transmute the parameters of Polish agriculture into a positive and creative factor in the strategy options for the development of the sector.

Based on the experience gained by Poland in the past 40 years, the basic parameters of harmonious relations between agriculture and the national economy can be formulated as follows:

- in the field of orienting non-agricultural sectors towards the food complex: the working capacity of food processing should increase by approximately 1.5 times as compared to the supply of agricultural raw materials, and the production capacity of the industry producing inputs for agriculture at a rate approximately 2.5 times higher than the final agricultural output. There is a strong need to moderate the increase in the share of the industry servicing the food economy in the whole industrial sector;
- the rate of agricultural and food exports and imports of agricultural means of production should increase proportionately, i.e. at least twice as fast than agricultural production;
- the economic conditions of exchange between agriculture and the rest of the national economy should be maintained equivalent to the present time; the corresponding measure should be a relatively constant level, basically determined by the market, of the relation of price indexes of sold products to the whole of the productive factors or the whole of the purchased production and consumer goods;
- maintenance of the above parameters and a broadly conceived improvement of the human element in agriculture provide the possibility to permanently improve the global effectiveness of agricultural production by 2 percent per annum. At this rate the global effectiveness should be permanently improved and constitute the main factor for expanded agricultural production, equitable incomes and higher living standards for agricultural producers.

Polish Agriculture in the Process of Transformation

In what conditions is Polish agriculture today, on the verge of transformation from a socialist economy state-dominated political system to democracy and a market economy? In some respects agriculture is in a better position than other sectors of the economy. Polish agriculture has preserved to a great degree private ownership and a market orientation. The relationship between labour, ownership and management was maintained, at least in the private sector. An important asset of the individual agricultural sector was its great adaptability to the variable and sometimes extremely difficult conditions of management.

On the other hand, some elements inherited from the previous system remained, which put agriculture in a difficult situation vis-a-vis the new management criteria. Development took place in considerable isolation from the world market and objective market parameters. The possibilities for agricultural development were strictly limited, among other things, by the ideology and political system. The farm size had upper limits and access to production factors was difficult. On the other hand, the state authorities ensured stable conditions of production, isolation from the most significant market fluctuations and guaranteed prices and the sale of the output. The beginning of the systemic transformation in Poland in 1990 caused a kind of "adaptation shock".

These radical reforms of the economy brought a particular danger for the agricultural sector, risking its destruction. For many reasons, and as mentioned above, agriculture is less effective in the transformation process than the non-agricultural sectors of the economy. Agricultural production is generally highly subsidized, hence the removal of the subsidies and an opening to import-export expose this sector to a hard test of frequently dishonest competition - since most agricultural sectors in highly developed countries is to a large extent subsidized. Moreover, agriculture is subject to many legal regulations and an institutional system - hence it is to lesser degree prepared to accept the rule of market forces. In addition, in order to defend the level of food consumption of urban inhabitants, it is necessary to look for external sources of food, which in general have negative consequences on domestic agriculture.

In analyzing the experience of Polish agriculture in 1990, i.e. the shock period when the main reforms were applied, it can be said that it passed the test unexpectedly well; as revealed by the considerably lower level of recession in this sector as compared to other sectors, the relatively low decrease in incomes and living standards of rural families, and the greater flexibility of agriculture in the process of adaptation.

It can almost certainly be stated that in the period of radical reforms in the Polish economy, agriculture did not play a blocking function and possibly incurred lower social costs than the other sectors of the economy. A question remains, however, to be answered: "How to provide the agricultural sector with a dynamic function in the continuing process of economic reforms?"

On the verge of the reform of the economic system, Polish agriculture is faced by several dilemmas of transformation⁶. If an attempt were to be made to formulate the basic concepts of an agricultural strategy in the process leading to an open market economy, these concepts would consist in the necessity to overcome the determined thresholds of development.

The following would be the basic concepts:

- surpassing of the threshold when the relations between agriculture and the market, demand and supply are reversed: instead of a predominance in the demand for agricultural products over their supply, a transition to a situation in which supply dominates over demand. The preliminary phase of implementing the economic stabilization programme created a demand barrier for foodstuff as a result of which supply exceeded demand. If higher supply than demand is recognized to be artificially high, it is a result of the drastic decrease in the income levels of the population and the greedily elevated convenience rent by monopolistic food processing enterprises and their turnover, then its effects - with the success of the programme of stabilizing the economy - will remain permanent. This same type of relationship, characterized by higher supply than demand, is also developing in the field of agricultural input supply. To overcome this threshold means a basic change in the instruments used by the agricultural policy, and a reorientation in the type of agricultural enterprise - it is more important to know how to sell the produce than to produce a specific agricultural commodity;
- surpassing the threshold at which quantitative goals dominate; the increase of agricultural production and the transition to qualitative goals concern both the supply of agriculture with streams of outlays as well as agricultural and food production. If the goal of the agricultural policy has so far been to maximize production, translated in the maximization of farm-level crop and livestock production, at present the main imperative is to reach economic effectiveness, both of national agriculture and farm-level production. From the point of view of the agricultural producer, an increase in crops makes sense since it is accompanied by a decrease in the production costs per unit. This, however, means a basic change in the "philosophy" of the agricultural economy and in the policy of agricultural production;
- surpassing the threshold at which the dual function of agriculture is propagated; this means an expansion of non-food products in the process of agricultural production and the dissemination of a multi-functional (also non-agricultural) utilization of productive farm resources;
- surpassing the threshold at which the criterion of economic "profit" is an absolute measure in evaluating agriculture and the agricultural economy, and

⁶ T. Hunek, Conception of the Strategy of Development of Villages and Agriculture in Poland. Polish Academy of Science. Warsaw, 1990. broadening these criteria by ethic and aesthetic considerations; this means the need to reach a social agreement for the implementation of some social functions and not only productive criteria;

- surpassing the threshold at which ecological considerations are recognized as equally important as the socio-economic ones, and perhaps are even given priority in agricultural development.

The Structural Options of the Agricultural Development Strategy in Poland

The development strategy for Poland's agriculture is considered very important by the country's policy makers. Specific structural options should, however, be treated not as a goal in itself, because no so-called optimum structure exists, but as only one of the parameters for a dynamic and rational sector. In this situation, it does not seem rational to base action only on improving the structure, which should rather be considered the result of the process to rationalize the agricultural economy.

It can be assumed that the present macro-structure of Polish agriculture - the predominance of the peasant sector, the significance of the state-farm sector, and finally the agricultural production cooperatives - will continue to exist for a long time to come. However, processes of change and transformation will certainly take place. The process of decentralizing state-farms will dominate, which means that this sector will essentially be limited by the peasant sector and the food-processing business. It is also possible that the productive activities of agricultural cooperatives will diminish in favour of so-called non-agricultural activities, for which this type of enterprises seem better suited than for strict agricultural production.

The most complex structural changes will take place in the peasant sector. The size of this sector and the extreme reduction of the farms require an extraordinary conception of structural change and quite a long time for its implementation.

The reform process of the Polish economy and the creation of a new order will undoubtedly give the structural changes new impulse and direction.

Taking the functioning of the agricultural household as a basis for these changes, let us try to make an analysis of the adaptive processes of the farms which have been taking place recently.

Three basic types of behaviour can be noted on the part of the farmers.

Type 1:

Giving up agricultural production, liquidation of the farm, complete transition to other sources of income, utilization of production resources outside the farm, obtention of social income or other sources of income. Acute market conditions - the relatively low profitability of less efficient farms, ceiling of demand - will undoubtedly make pressure towards this kind of behaviour. On the other hand, the transformation process introduced in the national economy will effectively limit such final decisions. The economic restructuring and related unemployment will effectively limit the possibilities to find a job for those who have liquidated their farms. Conversely, as a result of unemployment, some peasant-workers will not be able to find a job outside the farm. Incomes from other sources, such as social subsidies, will surely slowly decrease. In the process of stabilizing the transition to a market economy, all these phenomena, i.e. the elimination of farms and the cessation of the peasant economy, will presumably be rather limited. The farms endangered by the new external conditions will assume an attitude - as is confirmed already in practice - motivated and calculated by survival strategies.

Type 2:

This is the behaviour of those agricultural households which are set on survival, waiting for the process of economic stabilization to create more favourable conditions in the new economic order. It seems that this will be the most widespread behaviour of farmers during the stabilization period. However, this is a procedure which causes or intensifies economic recession. The productive potential of these farms will even decrease, as result of limited inflow of means of production (high prices, decrease in demand). Hence, there may be a danger of decreased production and consequently lesser incomes from agriculture - if this type of behaviour assumes mass proportions. The aspirations of agricultural families vis-a-vis their standards of living are becoming lower and, as a consequence, the productive and social dynamism of the farm is decreased. A balance will gradually be reached, at a more and more basic level, between the level of income and standard of living. The situation of those agricultural farms which fall in this category of survival strategies, will surely constitute a major problem for the new agricultural policy. Firstly, the size of the phenomenon may endanger national food security, although at the end of the first half of 1991 such fears were not confirmed. At the same time, recession has destructive dynamics which are progressing, just as the process of growth and development. The basic problem is how to shorten this period and how to find a way out of the stagnation of the state sector and recession and move into a state of development and dynamism instead. Secondly, although the behaviour of agricultural farms set upon survival allows to save basic productive resources, the time span cannot be prolonged too much because, beside the gradual depreciation of production factors, there is a danger of destroying the entrepreneurial spirit, dynamism and aspirations of the agricultural producers and their families.

Type 3:

In addition to the two scenarios described above, i.e. the elimination of productive farms and the behaviour based on survival, the period of transition of the Polish economy to a new economic order gives also rise to a new type of farms able to translate the new conditions and rules into dynamism and expansion. This group of farms has already marked its presence. It should be subject to special analysis, as it finds the key to solve the problems related to the development of agriculture in Poland, both during the period of economic stabilization and for the future, new economic order. These farms can most easily overcome the shock caused by the drastic change in economic conditions and translate them into dynamic factors of development. However, it is important to answer two questions: "How many farms of this type are there in Poland?" and "What kind of farms are they?". It is impossible to give a precise answer to the question regarding the number of such farms. It is believed, however, that they are a minority. If their ranks are calculated on the basis of their production potential and the scale of marketed agricultural production, the share of these farms in total agriculture would be maximum 50 percent. It is easier to answer the question on what kind of farms they are. The following four features seem to be predominant:

- these farms have at their disposal an essential number of productive resources, both land, means of production and manpower;
- they are characterized by a rather high level of economic efficiency; the leading group of this category of specialized farms represents about 30 percent of the higher level of economic efficiency;
- they are to a high degree open to the needs of the domestic market, and partly to the international market. These specialized farms are characterized by an economic efficiency which, even with an exchange rate of the dollar at 9 500 zlotys in 1990, gave them a chance to be competitive on the world market;
- finally, these farms have a large potential for enterprise, an essential if not basic factor for achieving economic success.

The third type of farms becomes an important strategic premise for agricultural development in Poland. They constitute the starting point for the creation of a resilient, economically aggressive sector of "purely" agricultural, dynamic and highly efficient farms. Altogether, the process of structural polarization which has just begun in Polish agriculture will proceed, as it seems, in the following three directions:

- i. a system of social "farms" in which incomes from benefits will constitute the basis for sustenance, with the farm supplementing these incomes and creating the possibility of maintaining a certain lifestyle of the generally "descending" owners of the farms;
- ii. a system of farms of multi-functional utilization of agricultural resources, obtaining incomes from both agricultural and non-agricultural activities. The fulfilling of Czajjanow's balance⁷ will, to an increasing degree, shift towards non-agricultural activities;
- iii. a system of resilient, and in the material sense, relatively concentrated farm production factors, with a high level of entrepreneurial spirit and economic efficiency. The scale of production and level of economic efficiency will create the basis for a suitable living standard and the development of the productive potential of these farms.

⁷ A.W. Czajjanow, *The Theory of Peasant Economy*. New York, 1966.

4. Analysis of the Present Agricultural Policy for Production and Marketing

Expectations with respect to the agricultural policy in Poland are unusually high, both among consumers and food producers. The question arises whether, in the conditions of the Polish economy, and especially on the basis of the resources and possibilities of Polish agriculture, the conditions exist objectively for the formulation and subsequently the implementation of such an agricultural policy.

In this respect, it is worth referring to the opinions of foreign experts, who state⁸ that:

"Poland's agriculture possesses many positive characteristics which should help it through the transition from a command economy to a market economy:

- compared with other countries in transition, the private farm sector is large and has deep-rooted traditions;
- Polish farmers have consistently demonstrated their resilience and survival abilities; although the economic transition is difficult and sudden, they have the imagination, strength and willingness to make it on their own, essential ingredient for future entrepreneurs;
- there is an abundant, albeit not always adequate or well distributed farm infrastructure, a well developed rural road network, and electricity is available in nearly all villages. Heavy farm subsidies during the past ten years have at least equipped the sector with machinery, without creating much indebtedness at farm level. This should alleviate the need for costly investments in the immediate future;
- Poland is geographically well situated for export markets both to West and East, possesses an appropriate exchange rate, a convertible currency, and has a substantially free trade regime;
- most importantly, Poland has a good technical knowledge base, and a substantial number of farmers, particularly younger ones, are well educated. Crop husbandry is sound, but can be substantially improved: although yield increases have been high over the past ten years, they remain largely below their potential. Animal husbandry is basically sound, and veterinary standards are high."

The transition to the market economy has changed not only the basic production and economic mechanisms of the centrally planned economy (completely new market principles for the establishment of prices and incomes, new bases for the decisions taken by farmers regarding production and investment), but also the basic principle of the agricultural policy. The main strategic thought which previously determined the continuous need for production growth is being substituted by a strategy based on the effectiveness of incurred outlays and the verification of production by market parameters (supply-demand - prices). This change is the source of the present shock state in which both producers and consumers find themselves, and the basic problem of the agricultural and economic policy becomes the need to adapt and transform agriculture to the new conditions of the market economy. Already the first, relatively short period of functioning of these conditions indicates that the process of the discussed transformation will be rather prolonged and painful. The understanding of this situation is so far insufficient.

⁸ An Agricultural Strategy for Poland. Report of the Joint Polish/EC/World Bank Task Force. Warsaw, 1990.

The introduction of a market economy abolishes the need for a continuous growth of agricultural production, which characterized the period of the economy of shortage. This fact constitutes the basic limitation for the development of the agricultural and food economy. It is necessary to adapt the level of production to the market demand and the prices of food products to the income levels of the society. Agricultural products which are not sold on the market at profitable prices simply become unnecessary. In view of the incomes and limited demand, and the natural tendency of agriculture to increase supply, this means that there is a need to create new possibilities and conditions for agricultural development. Such possibilities emerge from the new definition of the village development strategy, based on an increase in the share of their non-agricultural activities as an additional source of income for the villagers (including also agricultural families), which with the slow decrease in the number of farms promises benefits for the whole national economy. This may limit, to some extent, the scope of unemployment, reduce the social costs of economic transformation and become a stabilizing factor for income-generation, thus helping to improve the living standards of the rural population.

The following premises may decide about the degree of utilization of the current potentials:

- costs of agricultural production, with consideration of alternative possibilities for food imports;
- the role of agriculture in the utilization of labour resources and fulfilment of the income aspirations of agricultural producers;
- ecological criteria conditioning the intensity of agricultural production;
- the non-productive functions of agriculture in the economy of space and development of villages.

Agricultural Income Policy

The process of income generation in agriculture, which is most essential for the farmers, has not an autonomous character, but depends on the level and rate of increase of national income, and therefore on the incomes of the agricultural population. Up to 1980, the income policy of the state was based on the principle of equal rate of increase for incomes derived both from agricultural and non-agricultural activities. Due to the lower rate of increase of work efficiency in agriculture, the implementation of this principle required the redistribution of the national income to agriculture. This was done by implementing changes in prices in favour of agriculture and by lowering the share of financial burdens on behalf of the state on the incomes created in agriculture. In the 1980s, the income policy of the state adopted the principle of parity of incomes by the agricultural and non-agricultural population, which, however, with the exception of 1981 and 1982, was not fully implemented.

Until 1989, the state's income policy, which fixed official prices for agricultural products and inputs, assumed in advance the level of remuneration in agriculture. At present, under the conditions of the market economy, the situation has been reversed. Today, the level and relation of agriculture prices are not determined by a level of incomes assumed in advance, but by the law of supply and demand. However, in order to achieve further development of the agricultural sector, ensuring its modernization and improved effectiveness, national food security and dignified living and working conditions of the agricultural population, all these factors cannot be left to be decided only by market conditions, but the intervention of the state is also necessary. The form and scope of state intervention in the area of income policy will be directly related to the level of economic development of the country and, therefore, dependent on the real incomes of the non-agricultural population, on the possibility of manpower outflow from agriculture, and on the rate of increase in agricultural production and the income generated in agriculture.

The Policy of Structural and Technical Reconstruction of Agriculture

The structural and technical reconstruction of agriculture is becoming an objective tendency connected with general economic and social development. The future of Poland as a developed and prosperous country, close to or as part of the economic system of the European Community, cannot be reconciled with the present large numbers of backward peasant farms from the technical and organizational point of view, the poverty of large groups of the rural population and the underdevelopment of the great agricultural regions. Modernization does not concern only the sectors of equipment and production, but also the working and living environment of the rural population. Sooner or later modern living conditions must be ensured for the rural population, i.e. comfortable and well equipped housing, access to schools, libraries, communication, trade and service centres, recreational infrastructure, etc..

The whole process of modernization of villages and agriculture is and will continue to be costly. This means that there will continuously be problems related to costs and the conditions of modernizing villages and agriculture. On the basis of the experiences of other countries, it can be said that there is no chance that the costs of modernization can be borne exclusively by the rural population. The conditions should be created for the state (society) to bear a considerable part of the costs involved.

In present and future policies for the transformation of Polish agriculture, there is a distinct, ever increasing need to harmonize economic, social, ecological and cultural goals. The socio-productive development and reconstruction of the village is a complex process, continuously and visibly dominated by economic and production-related goals. These goals, while ensuring effectiveness, make it possible to implement other goals - social (creation of appropriate living conditions and standards for the agricultural and rural population), ecological (protection of productive resources and conditions, the environment and food, and the preservation of landscape values, etc.), and cultural (development of educational and cultural infrastructures). The principle of harmonizing development efforts in the rural areas is becoming an increasingly important requirement for both present and future rural development. Both the centrally planned economy as well as the market oriented system have a tendency to minimize action and expenditures in the fields of ecology, and the protection of the environment and natural resources.

The possibilities for modernizing and reconstructing agriculture are in direct relation to the social and economic needs of the whole national economy. Also the non-agricultural and macro-economic conditions for reconstruction are a result of this. The sources of contemporary economic development are unusually differentiated (industrialization, development of science, service systems, electronics, modern biology, etc.) and dependent upon the general economic level. The low level of economic development in Poland, the present long lasting recession and the limited investment and organizational possibilities indicate that the possibilities for general material and financial support to changes in agriculture will be limited. From the viewpoint of rural and agricultural development, the effective realization of such a level of economic development, which will ensure rapid growth of national income, is significant. This means that there is a need to formulate the demands of the agricultural sector in such a way as not to infringe on the conditions of general economic development at the national level. In the first place, this will require a clear definition of the place and role of agriculture and the food economy in the process of economic and social development of Poland.

A particular role in the development and functioning of the agricultural and food economy is played by self-government, professional and cooperative institutions and organizations. The self-organization of farmers for rural and agricultural development, has always been a form of self-defense in difficult situations and of utilizing the possibilities for development, such as rural or neighbourhood purchases and investments, and of economic and social cooperation of the rural population. Two peasant organizations, the Rural Cooperatives Movement and the Agricultural Circles Movement, have played a fundamental role. At present, after the limitations and inhibitions of the recent decades, there is an urgent need for a rapid and determined renewal of rural cooperatives and other forms of cooperation among the farmers.

Agricultural and rural cooperatives can fulfil unusually important functions of supply, services, purchase and processing of agricultural products, *organization of rural communities*, etc., which directly or indirectly interact at the level of agricultural production. In the present transition period towards a market oriented economy and privatization, such organizations and cooperative firms, being the property of groups of farmers or consumers, can carry out different commercial and service functions, organize the production and sale of agricultural produce, stimulate agricultural development and improve the living conditions in rural areas. As an association of farmers, farm enterprises and a form of organization of economic activities, the active role of the cooperatives becomes impossible to substitute in stimulation and making decisions regarding farm production, as well as in taking initiatives and rationalizing peasants' farms. The quick reconstruction and renewal of agricultural cooperatives, the preservation of their property and the creation of a favourable legal and political framework for sound economic competition between peasants' cooperatives are indispensable conditions.

A similar evolution may concern the traditional activities of agricultural circles and organizations with a professional character (rural production and service cooperatives) and other forms of self-organization of the rural and agricultural population (joint purchase of machinery and equipment, development of institutions for the supply of water, gas, telephones, rural transport, infrastructures, etc.).

The Policy of State Intervention in Agriculture

The main problem of state intervention still pertains to the scope and manner in which the agricultural policy is implemented and to its compatibility with market regulations. We are taking a favourable stand towards market solutions and, in effect, toward the reduction and elimination of various constraints, such as legal, institutional and technical, the latter limiting in particular their efficiency. We place great hopes on realistic economic calculations, on more efficient allocation of available resources among the various sub-sectors of agriculture and among regions of the country, on the extension of production technologies, as well as on reinstalling the equilibrium between supply, demand and the regionalization of consumption.

It is, however, difficult to expect that market mechanisms will efficiently and properly resolve all the social and economic problems faced by Poland, in particular the implementation of scientific progress, the creation of technical innovations counteracting economic degradation, demographic and ecological problems, as well as the so-called problematic regions of the country. Another set of issues which need to be redressed are those related to the state budget. All these will have to remain within the sphere of state intervention.

Areas in which financial and organizational commitments by the state are indispensable, include:

- the improvement of the present level of rural technical and social infrastructures, particularly in the most neglected areas;
- financial support through the provision of low-interest credit for initiating economic activities and job creation and the economic development of remote areas;
- the creation of a network of economic, financial and production-related consulting services for small- and medium-scale firms free of charge or partially reimbursable. In this respect, it is necessary to establish certain common standards in order to guarantee that the services rendered in all the various localities are of suitably high quality. Attention should be drawn to the fact that the consulting points should be accessible to the rural population, even in sparsely populated areas. The activities of such outposts should be strictly coordinated with those of the currently operating reformed centres;

- connected with the above, is another postulate, namely state support for the promotion of marketing activities for export-oriented small- and medium-scale agricultural enterprises, because at present they are unable to cope with this issue by themselves;
- within the framework of a regional policy, which up to present is lacking in Poland, certain areas with particularly valuable natural resources should be protected, among other things through the introduction of ecological agriculture or agri-tourism activities.

As a result, the agricultural policy should promote the transformation and development of agriculture in accordance with the following model outlined by the World Bank⁹:

- Agriculture in Poland should become open, nationally and internationally, to ensure its flexibility and responsiveness to exploit its comparative advantage, and to produce competitively for domestic markets and for exports. This means that the drive for domestic autarchy, which is the traditional strategy for Polish farmers, must progressively give way to a production pattern mostly outwardly oriented.
- Agriculture and its upstream and downstream sectors should strive for efficiency and allow mobility of labour and capital. A labour and capital market should be developed and should function as freely as possible.
- Agriculture should be driven by market forces and thus be private; agricultural production should be on land which is essentially private. Similarly, marketing, transport, processing and storage activities should be private; as for prices, they should be determined by market forces.
- Agriculture should be free to use all trade possibilities, both domestically and internationally, since this is the only way it can benefit from its comparative advantage at any given time.
- The rural sector should be dynamic and an integral part of society; it should provide diverse sources of income by creation of employment outside the farming sector, and should consistently improve the quality of life in rural areas; holistic rural employment in the rural areas outside of, but connected to, agriculture. This would compensate for the loss of rural employment, and possibly also help absorb some urban unemployed.

⁹

Op. cit.

- The foreseeable long-term structural changes in the sector (increase in average farm size, decrease in overall farming population, increased specialization of production) will be progressive. These changes should be promoted by government action, but not forced upon the rural population. There will, for some time to come, co-exist in Poland an increasingly modern and high performance agriculture, not only on the large farms but also on small, modern and highly intensive ones, in parallel with the more traditional small farm sector. The interests of both extremes must be safeguarded.
- Since parts of the rural population will suffer from the consequences of those changes and may not be able to be self-employed, non market-distorting social safety nets should be designed, principally through subsidies de-coupled from production and prices.
- Agriculture should be protective and supportive of the environment; appropriate regulations and incentives should be designed and enforced."

5. Assessment of the Cooperative Supporting System Such as Cooperative Unions and Federations

As it has been mentioned earlier in Section 2, the amendment of the cooperative law introduced at the beginning of 1990, aiming at radical restructuring and democratization of the cooperative sector, contributed to the liquidation of all cooperative unions at regional and national levels and the transfer or sale of their assets. The law envisaged that primary cooperatives would be allowed to form specific unions and federations from mid-1991. Currently, the cooperative movement in Poland comprises a great number of primary cooperatives operating in various sectors and many thousands of cooperative enterprises that were managed previously by central and regional level organizations. As a consequence, the cooperative movement in Poland is extremely scattered, lacking coordination and a clear conception of its role in the process of economic transformation and in the new economic situation which will result from the reforms.

After lengthy discussions, proposals for solutions and arrangements have been made only recently. As far as the primary cooperatives are concerned, it has been acknowledged that, being independent socio-economic organizations, they have the right to associate to form unions on a voluntary basis.

The purpose of these unions is to provide assistance to cooperatives and objectively control that their activities meet the interests of their members and third parties.

There are two such models functioning at present in the world, i.e. one-function unions of audit-patron character and two-function unions performing audit-patron activities and economic activities. The most appropriate in the current situation seems to be the concept of voluntary one-function unions - patron-audit - financed by the cooperatives and covering, in addition to auditing, the provision of information, training, advice and other forms of aid, as requested by the cooperative members and included in the statute of the union. This means that it is necessary that numerous functions of economic and service character are performed by other bodies envisaged by the law in favour of the cooperatives, particularly by legal commercial companies, in such areas as banking, wholesale, marketing, exchange with foreign countries, joint production projects, etc..

As far as a national cooperative organization is concerned, it has been noted that foreign solutions have been diversified; in some countries such organizations do not exist, in other it has a loose organizational structure and little competence. But on the other hand, there are countries in which these organizations have obligatory supervisory functions with mixed state-cooperative membership and essential competencies for the functioning of the cooperative market.

Current developments in Poland in this field show that the Supreme Cooperative Council, created in accordance to the Law of 20 January 1990 as a voluntary organization based on the principle of equal regional representation, is not able to properly fulfil its role neither vis-a-vis the cooperatives nor in the area of relations between the state and the cooperatives. The reason for this is mostly the lack of acceptance on the part of the cooperatives.

In the current condition of the cooperative movement in Poland, characterized by the lack of cooperative unions, and in view of the need to expand cooperation and create new conditions for cooperative development, past solutions being inadequate, a new important proposal to establish a cooperative council with mixed state-cooperative membership and broad functions has been formulated. This organ, to be considered as a transitional institution, would particularly allow to undertake the following activities and solutions:

- coordination of efforts at the organizational and technical level in the process of adapting the cooperatives to the activities of a market economy (particularly as far as a draft cooperative law is concerned);
- training and advisory services for primary cooperatives;
- cooperation with the authorities with regard to the conditions for cooperative activities and their inclusion in the system of external assistance;
- promotion of direct contacts between foreign partners and cooperatives.

The strategic objective is to create a consolidated cooperative movement in Poland, determined by the following factors:

- a primary cooperative system able to perform competitively in a market economy;
- the structure of unions and federations at regional and national level based on "scale benefits" in the field of economic activities;

- a system of restructured local, regional and national enterprises managed by the cooperatives, operating in the basic areas of food production, agricultural services and rural areas.

It should be emphasized that the implementation of the proposed privatization strategy and the consolidation of the existing cooperatives, leading to the creation of new cooperatives at all levels, should be the result of a complex and delicate process of political, economic, social and legal aspects. This process cannot be limited only to cooperatives, but (in the context of the overall economic reform and privatization activities) should be equally important to other economic organizations. The essential implication of the proposed cooperative development strategy, i.e. the future role of the state, requires more attention.

The state's attitude to cooperatives depends, most of all, on the objectives of the state's socio-economic policy and the scope of activities of cooperative organizations in a given country.

In countries which have adopted a market economy, the state has an active economic policy, influencing, mostly indirectly, strategic economic processes, thus abandoning the realization of a liberal doctrine in its "pure" form. This approach also concerns the cooperative sector.

Under Polish conditions, the state should also actively influence the functioning of the economy, including cooperatives, but respect the cooperatives' independence, especially because they can play a crucial role in solving such social problems as unemployment, employment of invalid persons, economic reorientation of small-scale peasant farms, formation of a middle class, undertaking to solve or assisting local authorities in solving social problems.

In a market economy, various organizational and legal forms of "rules of the game" are established as far as relations between the government authorities and cooperatives and other market institutions are concerned. In Polish conditions, it is expected that the state will influence cooperatives by taking the following measures:

- issuing legal regulations;
- supervising cooperatives;
- establishing forms of cooperation between the state and cooperatives; and
- providing specific assistance for cooperatives.

State assistance to cooperatives should, however, not include obligations which are contradictory to the cooperatives' independence and interests; it should inspire, but not replace, the cooperative members' initiative. Public or semi-public aid should be transferred through the cooperative bank or another central cooperative organization, which would assume responsibility for its use and possible repayment.

Preferences can be provided to cooperatives in the form of preferential tax rates and guarantees for credit, and on a larger scale, in other forms as well, such as including cooperatives in the realization of government programmes, e.g. regional planning (Italian experience) and technical and social infrastructure building in rural areas.

6. Analysis of the Experience in Promoting Cooperative Programmes with Special Emphasis on Incentives Provided to Cooperatives

As has already been shown, Polish cooperatives are in a state of profound transformation, in which, unfortunately, the state policy (or doctrine) plays a fundamental role.

The evaluation of and practical attitude towards Polish cooperatives can be divided into two different basic trends¹⁰.

¹⁰ St. Nowacki, Concept of the Rebirth of Cooperatives in Poland. Yearbook of the Spółdzielczy Instytut Badawczy, Warsaw, 1991.

The first trend is to make critical evaluations of the past and present state of cooperatives. It is emphasized that the cooperatives implemented their tasks within the framework of the command-distribution system of the national economy, neglecting the interests of the particular cooperatives and their members. Through monopolistic policies, the cooperatives are becoming richer at the cost of society. They are dominated by the party "nomenclature", which opposes itself to social rebirth and economic reforms and to giving the responsibility of recent economic failures to the cooperatives.

Another trend is represented by the opinion that the cooperatives, although operating in an autarchic and bureaucratic system, had the advantage of having some independence which allowed them to implement certain cooperative ideals, and that it was only through the authority of the state that cooperatives became, in many areas, such exclusive economic organizations. All this is now changing, but it is considered that the cooperatives have made significant economic and social achievements, and that it is only because of bad will that these are not perceived. The cooperatives are not responsible for the crisis of the 1980s and, if it were not for their efficiency, the situation would be even worse.

The practical decisions reflected in the state policy, at least during the past few years, reflect the first critical trend. Hence the new legal system of the cooperatives not only did not give any preference to cooperative activities, but on the contrary, discriminated them through, for example, more restrictive tax regulations for the cooperative sector than for the private sector, slow processes for creating laws, etc. According to the Chief Cooperative Council, the limitations resulting from the economy policy in the field of cooperatives, can be described as follows:

- complete lack of declaration of intent on the part of government authorities with respect to cooperatives, a situation which is causing fear to the cooperative community over the future of cooperatives in general, and their shape and future role in the socio-economic life of the country;

- inadequate in-depth understanding of structural changes inherent in the ownership relations in the cooperative;
- very slow process for creating the legal foundation for this important form of economic organization, too often considered negatively because of ignorance and an evolution biased by the previous system;
- conflicting destruction of the system, not considering the self-government of cooperatives, without creating any regional and central structures or promoting cooperation and production, as well information flow between cooperatives;
- the facts have not been taken into account that communes and small towns constitute a much more stable environment for personnel, that the process of transformation is slowed down, and that this process needs to evolve over time;
- that fact has not been taken into account that many economic activities of the cooperatives are "naturally" slowed down by turnover of capital, hence privatization will be a long process lasting for several years and dependent on the stabilization of the national economy.

In addition to the negative atmosphere which has been created toward the cooperatives, whether intentionally or unintentionally, all this further worsens the organizational and economic situation of many of them, making their future uncertain.

As a result, Polish cooperatives are once again faced with essential questions, such as "Are rural cooperatives able to cope with the challenge of the present socio-economic development, both ideological, political and economic? Will that challenge revive the historical qualities of the cooperative movement, or lead to the development of new driving powers, new cooperative ideologies and organizational models? Will the cooperative idea engage high-level policy-makers and intellectuals, who will ensure a place for the cooperative movement in the coming new era of mankind?"

7. Identification and Discussion of Possibilities to Reorient the Present Agricultural Cooperative System

In the reorientation process, it can be said that the following four aspects of agricultural cooperative development in Poland are being identified and discussed:

- formulation of a new cooperative doctrine;
- relationship between rural cooperatives and private farming;
- role of rural cooperatives in the pluri-activities of rural regions;
- role of rural cooperatives in export and imports of agricultural produce.

Need for A New Cooperative Doctrine¹¹

¹¹ T. Hunek, The Possibilities and Limitations of Rural Cooperatives. Spółdzielczy Kwartalnik Naukowy, No. 2, 1985.

The basic issue to be addressed when looking for new cooperative principles relates to their efficiency. Efficiency, in this context, means the effectiveness of cooperatives in realizing their specific economic objectives, as well as socio-economic ones, which condition the proper functioning and development of the system, which needs to be more rational and dynamic. In other words, the efficiency of rural cooperatives is measured through the following criteria: the level of rationality in transforming productive resources into products, increasing the production volume, production and service capacities, introducing scientific and technical innovations, introduction of technical and social innovations in the performance of agriculture and in rural living conditions, harmonizing the development of production techniques with production organization and, finally, a gradual limitation of various negative effects in the ecological field.

Obviously, an evaluation of the efficiency and performance of cooperatives cannot be made in isolation, but has to consider non-cooperative forms of production organization, service or socio-educational organizations. The "raison d'être" of cooperatives can be reduced to a single question "How much more rational and dynamic are cooperatives than the state, private and/or other associated forms, e.g. companies?" In other words, what is the amount of the cooperative rent implemented by them? "The cooperative rent determines the sum of favourable or unfavourable effects achieved by a cooperative enterprise, because it is a cooperative enterprise" - G. Fauquet - Cooperative Sector, Warsaw, 1947.

To sum up the discussion on the above topic, the following statements can be made¹²:

¹² St. Nowacki, Concept of the Rebirth of Cooperatives in Poland. Yearbook of the Spółdzielczy Instytut Badawczy, Warsaw, 1991.

The new socio-economic system which is currently being introduced requires appropriate transformation of the cooperatives. At the same time, the system provides a great chance for cooperative development. A political system of parliamentary democracy and modern market economy with well developed state and local governments, creates the pre- condition for the dynamic development of authentic economic cooperative organizations.

The main purpose of the transformation of cooperatives is to change their role and activities from the realization of state functions to activities aiming at satisfying the needs of the cooperative members. This change, which leads to the establishment of authentic group management of cooperatives as a socio-economic movement, is of great social and economic importance.

Cooperatives are, in principle, a social and economic movement. The objective of this movement is to protect the economic interests of cooperative members and the cooperatives themselves as socio-economic organizations. Cooperative solidarity and cooperation play a crucial role in a competitive market economy. However, currently this is not sufficient. It is necessary to make the cooperative activities dynamic, thus promoting their economic strength and expansion into those branches which are most likely to succeed.

The basic principle of cooperative management is the voluntary association of natural persons to form a cooperative, the voluntary association of cooperatives as legal persons to form a cooperative, the voluntary association of legal persons to form cooperative unions in accordance with- the legislation in force. No exceptions are possible in this respect in the system of parliamentary democracy. The basic principle of creating cooperatives and their unions is constituted by the social and economic interests of cooperative members. The unions reflect their interests and consequently try to solve those problems which cannot be solved effectively by particular cooperatives. However, the emancipation of these unions and their autonomy, which are to be seen as the realization of their own interests through specific methods, is a violation of the basic interests of cooperative members. The elimination of such violations is an issue to be solved by the cooperative movement within the framework of existing laws and regulations currently in force.

The cooperative members are the most important assets of authentic cooperatives. It is the members who decide on their representation and who shall make decisions on their behalf, who shall assume responsibility for the socio-economic results of the cooperative and which form this responsibility shall take, and how to change the cooperative authorities.

According to the principles of a market economy, the economic and financial system of cooperatives should basically be identical to the systems applied by other economic organizations. Simultaneously, the system should have specific cooperative features, because according to the principle, cooperatives always perform social and economic activities at the same time. They are, after all, organizations which satisfy their members' needs through effective, economic activities and results. In this connection, cooperatives should decide independently about specific solutions within the system in force.

The management of economic and social activities of cooperatives requires professional competence. This is particularly important, and even indispensable, when performing dynamic activities aiming at increasing the economic potential of the cooperatives.

Cooperatives always play an important role in the local communities and particularly their economy. The creation of local and regional communities with natural, not administrative, social and economic ties is a positive process which can be of great importance in Poland in the near future. Cooperatives should actively participate in this process, performing social as well as economic activities which will have an impact on the local/regional market.

Role of Rural Cooperatives in Relation to Private Farming

The establishment of efficient, attractive cooperative services for agricultural producers is essential in the process of reorienting rural cooperatives in Poland. The model of such a system has not been implemented at all. The fact that both rural cooperatives and private farms are in a transitional period is a major difficulty. In this situation, it is possible to formulate only those principles which must be taken into consideration when establishing new relations between cooperatives and private farms. The (accelerated) evolution of private farms brings about new constraints and expectations connected with rural cooperatives, some of which are listed below:

- i. A drastic decrease in the number of peasant farmers does not allow rural cooperatives to maintain their past position as large-scale organizations with hundreds of thousands or millions of members. The number of members or the large-scale of the cooperative cannot be used as an argument in economic or political bargaining. Moreover, a drastic reduction of the number of cooperative members may lead to a diminution of the cooperative's accumulation power, and may considerably weaken the social approval of cooperative forms of activity as well, and reduce the risk of cooperative performance. Necessarily, cooperative "patriotism" is very limited, just as the number of farmers in present day agriculture is limited,
- ii. The subsumption of agriculture into the national economy means that basic parameters of agricultural performance, such as the level of agricultural production, prices for agricultural production means and for agricultural produce, must be established and uniform for the entire sector. There is no place for special privileges for cooperative members. Consequently, it turns out that agricultural cooperatives cannot set up parameters of their own for the performance of agriculture. For the agricultural producer, this means the limitation or elimination of the cooperation function as representative or protector of the farmers' interests.
- iii. The process of integration of agriculture with non-agricultural sectors, the development of the food economy and the expansion of large-scale transport, helps to strengthen the direct connections of agricultural producers both with suppliers of production factors and with the food-processing sector. In such links cooperatives are often not needed as "middlemen", because this would entail a rise in the cost of trade services.
- iv. The declining number of farms is, in most cases, preceded by a division of farmers into two groups: economically dynamic, large-scale farms, on the one hand, and small-scale farms of fading dynamics, on the other. This process undermines the basic rules of cooperative democracy and the equality of all cooperative members. In order to survive, cooperatives often give preferential treatment to those members who own big, dynamic farms, and tend to eliminate small farms from their range of interest.

At the same time, the transformation of agriculture also brings about, at the opposite pole so to say, specific possibilities for the development or even for the expansion of agricultural cooperatives. The main possibilities are the following:

- i. Servicing agricultural producers' households. The growing consumption of rural households and their increasing similarity with the consumption model of urban families, are creating a wide market for consumer goods and services. This is, undoubtedly, a potential field of activity for rural cooperatives.

- ii. The process of concentrating and specializing agricultural production creates the need for specialized services as well, which are often performed using expensive equipment and high skills. This field also constitutes a potential market for rural cooperatives.
- iii. Leisure time is more and more appreciated in the scale of values in agriculture and as part of the lifestyle of agricultural producers. To be able to set aside some time for leisure under intensive agricultural production is quite a problem. In this respect, rural cooperatives might be able to play a role which would be highly appreciated by agricultural producers.
- iv. Rural cooperatives could also promote the "inclusion" of agriculture in the national economy. This would entail the large-scale organization of enterprises in pre- and post-production agricultural services. Especially dynamic fields in which cooperatives could further develop are biological and technical research in agriculture.

On the whole, however, the evolution of agriculture creates more threats than possibilities for rural cooperatives. Indeed, the greatest threat is the fact that the evolution leads actually to the disappearance of peasants and farmers as the main actors in rural cooperatives.

Rural Cooperatives within the Pluri-activity of Rural Regions

A major factor in Polish agricultural and rural development has recently been pluri-activity, i.e. a multi-functional use of productive agricultural resources. The basic factor determining the multi-functions of the rural population is constituted by the addition to traditional agricultural activities of other productive, non-agricultural income-generating activities and services.

The basic processes of multi-functions may be described as follows:

- appearance and increased mobility, within the field of farm management, of production factors for direct agricultural activities and non-agricultural activities, the so-called expansion of the patterns of traditional economic activity;
- appearance and accumulation, within local communities, of allocation processes, localization of projects, economic intensification of rural activities.

This is a large-scale phenomenon in Poland (Table 5), characterized by dynamic growth, particularly recently when a sharp polarization of groups of farmers can be observed.

Table 5
Source and Division of Private Farm Income

Source of income	Total	Farm area				
		< 3 ha	3-7 ha	7-10 ha	10-15 ha	>15 ha
Farm income as % of total income	71,1	43,4	68,2	83,6	87,9	90,80
Non-farm income for family consumption in %	39,9	66,6	41,6	24,1	19,2	15,8
Non-farm income for farm accumulation in %	147,2	569,0	98,4	66,7	43,8	31,0

Source: Farms doing accountancy. Statistical Year-Book 1986, GUS, p. 286.

It seems to be without any doubt that the spreading of multi-functional activities in local communities result in a new quality of rural development. This can be seen in the intensification and "condensation" of economic activities and ties between people, in new cultural patterns, etc.. As a result of multi-functional activities, the community becomes increasingly affected by external factors. This process is taking different ways. One is the settlement of urban people ("ex-urbies") in rural areas, because of the attractive natural and social environment. The development of mass transport and telecommunications enables them to do both manual and white collar jobs. Consequently, local infrastructures are developed and expanded on a much larger scale than needed for purely agricultural purposes or to satisfy the living conditions of rural communities.

Dynamic pluri-activity in agricultural regions provide great opportunities for the expansion of rural cooperatives, either by expanding the range of or by diversifying their activities in the economic and socio-cultural sector.

However, as regards strategy options for the Polish cooperative sector, a more detailed analysis is required of their explanatory and normative character and application.

Cooperatives and the Openness of Polish Agriculture to Exports and Imports

Exports to international markets are a natural way of expansion under conditions of limited or declining domestic demand. In the past, exports of agricultural products from Poland fell into two categories. Firstly, excess supply of some products, such as potatoes, apples, powdered milk, and casein, was exported to various countries, very often at prices below production cost level. Secondly, Poland has traditionally exported selected, high quality food items, such as ham, bacon, some processed vegetables, to developed countries. In this specific area, most of domestic production was exported and, as a rule, at fairly good profit (for instance, in 1989, exports accounted for 85% of canned hams and shoulders, 70% of horse meat, 63% of slaughter lambs, 72% of frozen fruits and vegetables, 32% of bacon). But in general, agricultural exports have been regarded as a "residual" variable rather than as a goal in itself, and therefore no consistent policy of agricultural export promotion has been pursued, as major support was always given to the industrial sector.

The share of agricultural and food exports to developed countries in the 1980s varied from 18 to 20 percent of total convertible currency exports, and amounted to roughly US\$ 1 billion per year. These countries accounted for some 70-75 percent of Polish agricultural exports and their share may further increase, as in the first half of 1990, agricultural exports to the CMEA area declined slightly. The EEC countries were the most important single market, buying more than 50 percent of Polish export products.

But exports as a share of the total output of the agricultural and food-processing sector in Poland is still negligible, varying from 5 to 6 percent in the 1980s. Only in 1990, because of the drop in domestic demand, the proportion of exports increased to 7.1-7.2 percent. These relatively low figures indicate that there is ample potential to expand agricultural exports; but, on the other hand, the volume of potential exports may be very sensitive to even minor changes in domestic demand.

The key issue is to determine the policy objectives and rules of agricultural exports in the long term. The policy should be based on the principle of comparative advantage, taking into account also prospective profitability. It may be assumed that technical modernization of and institutional support for food processing industries would greatly improve the competitiveness of Polish agricultural exports on West European markets.

In the Polish agricultural strategy during the reform process, it is imperative that this sector opens up to international markets. It has been calculated that, for optimal development of Polish agriculture, approximately 30 percent of agricultural output should be subject to exports or imports. There is a possibility that Poland may become a food producer acknowledged in the whole world, particularly in two areas:

- "boutique" agriculture, which includes so-called organic food, oriented towards exports to highly developed countries, mainly the EEC;
- food exports to the ex-socialist countries of Europe, mostly the USSR.

The scenario presented above, is the Polish viewpoint, but its feasibility depends on the West European approach to the changes under way in Poland and other East European countries.

The following are two alternatives which can be outlined with regard to this issue:

- Western European countries could consider Poland, and Polish agriculture, to be in competition with them and therefore take a defensive, separatist stand. This situation has dominated so far;

- Western European countries could consider Poland, and Polish agriculture, as a partner for cooperation, creating the conditions for incorporating Poland in the West European market and economic organization.

Cooperatives may play an essential role in promoting Polish agricultural exports:

- in the past, some sectors of rural cooperatives performed the role of important exporters of food and agricultural products, e.g. the Hortex cooperative;
- in looking for new foreign markets, cooperative organizations may revert to cooperative solidarity, search for common inter-cooperative economic solutions at global level.

8. Assessment of Cooperative Training Institutions and Future Training and Education Requirements

Until 1990, Polish cooperatives possessed extensive institutions and technical infrastructures to fulfil their needs in the field of education and training of cooperative personnel. In the reform and restructuring process of cooperatives this infrastructure was completely liquidated. At present, training is conducted in residual form, despite the essential needs. The cause of this is the lack of training infrastructure and unfinished legislative work on cooperative legislation, which makes it impossible to include in the training some fields of activities of the cooperatives, such as the internal cooperative structure, the principles of cooperative self-government, the role of cooperative organizations and unions, etc..

If it is accepted that the essence and basic conditions of structural change are ownership changes, the restoration of suitable proportions of the shares of cooperative members in the total cooperative property, and the identification of the real owners of this property. In order to cope with the free market conditions, these new owners need to be trained in market analysis, calculating costs and expected effects, and in the subject of capital turnover.

Today, cooperative members are exploited by companies of doubtful origin conducting training, often at embarrassingly low didactic levels and at high costs.

The present needs for training and education in Polish cooperatives can be formulated in the following four groups:

- member empowerment;
- economic analysis;
- improvement of basic operations;
- expansion.

Member empowerment

The active participation of members is possible under the following circumstances, which could be considered as training subjects:

- democratic structure of members' organization;
- individual delegation in the cooperative area;
- elections with the exclusive right of members to propose candidates in their respective cooperative area;
- regular communication among members of the advisory council;
- regular information meetings for all members;
- qualified member counselling by agricultural advisers;
- realization of the corporate identity.

Adequate organizational structures and use of the instruments listed above will guarantee to members their participation in decision-making even in large cooperatives, and justify the continuation of the cooperative system.

Cooperative institutional analysis

In the conditions of transition to a market economy, the dissemination through training of professional analytical tools is the main condition for the success of each strategy. The result is a list of issues and problems of technical constraints and weaknesses which together become a cooperative agenda.

Improvement of the basic operations

Professional tools, such as cost control analysis and market analysis, should create possibilities for evaluating and improving cooperative functioning.

Development of business activities

The answers to the questions "How to expand the existing business?" or "How to create new business activities?" seem to be the key factors for cooperative survival in the transformation process and for the future place of cooperatives in the new economic order brought by the market-oriented economy.

In formulating the future needs in the field of training in cooperatives, the importance of the capability to improve human resources management, emphasizing such issues as management styles, quality circles, supervisory skills, motivation strategies, should be emphasized.

In summary, it should be noted that training and education in Polish cooperatives should be conducted not only to train leaders and managers in cooperative management, but also to "unteach" old customs and a new understanding and interpretation of the cooperative principles.

9. Identification of Technical Assistance Needs

In identifying the basic needs for technical assistance, it should be noted that Poland does not have a programme for cooperative development. In this situation, concrete projects for technical assistance are difficult to formulate and should be left to be agreed upon directly between the interested parties. We will try to point out the fields of interest. Three areas of technical assistance seem to be of priority:

- intellectual assistance reforming the cooperative structure in Poland;
- set of technical assistance projects;
- bilateral cooperation between Polish and western cooperative societies.

These expectations are in line with the FAO's general programme for assistance to countries of Central and Eastern Europe and are reflected in FAO's Summary Programme of Work and Budget for 1992-93¹³.

¹³ Summary Programme of Work and Budget 1992-93. CL 99/3, FAO Council, Rome, 1991.

Intellectual Assistance

In the process of reorienting the cooperative structure in Poland, there is a lack of original concepts regarding the field of activities of cooperatives, the internal organization of the cooperative society, as well as the regional and central structures of the organizations of the cooperative movement. Hence, there is an urgent need to organize a workshop or seminar for a restricted group of people engaged in the conceptualization of the new model for the cooperative movement in Poland. This is important at present since, within the framework of the credit line negotiated with the World Bank and EEC with the participation of the Chief Cooperative Council, the Ministry of Finance and the Ministry of Agriculture, a Central Institution has been created together with several regional training-cum-consulting units, including in their operations all the fields of activities from structural change to marketing and financial consulting. The technical assistance under the project is funded by the World Bank and the EEC.

Due to the different needs, training should be provided in the field of self- government, production organization, and finance, particularly taking into consideration the activities of agricultural cooperatives in the conditions of a free market, and the implementation of modern production and processing technologies.

Technical Assistance Projects

Based on the guide "Planning of Programme and Projects for the Promotion of Cooperatives and Rural Groups Based on the AMSAC Concept"¹⁴, a programme could perhaps be organized in the form of pilot projects in each sub-sector of agricultural cooperatives, e.g.:

¹⁴ Hans H. Miinkner, Planning of Programmes and Projects for the Promotion of Cooperatives and Rural Groups Based on the AMSAC Concept. FAO, Rome, 1991.

- Peasant Self-Help Cooperatives: the key issue is their reorganization in view of the liquidation of their regional and national unions and the greatly increased competition of the private sector.
- Dairy Cooperatives: the key issue is to analyze and stabilize the market for dairy products to the benefit of both milk producers and consumers.
- Horticultural Cooperatives: the key issue is the restructuring and diversification of the final product and its processing in order to increase their viability and growth prospects.
- Agricultural Circles: the key issue is to transfer and adopt the German concept of agricultural machinery circles to Polish conditions.
- Agricultural Production Cooperatives: the key issue is to conceptualize the decollectivization of the cooperative unit.

Bilateral Cooperation between Polish and Western Cooperative Societies

There is a widely felt need for direct connections between primary level cooperatives and particular cooperative sub-sectors with their equivalents in Western Europe for the exchange of employees, experiences and common activities. Perhaps FAO could play the role of catalyst in such a project.

To facilitate the exchange of experiences among European countries in transition in reorienting their cooperative structures, FAO commissioned a series of country case-studies. No. 3 in the series deals with developments in Poland. The report reviews the situation of agricultural cooperative in the country during the initial stages of transition from a centrally planned to a market-oriented economy, looking at production and marketing structures and the cooperative supporting system. It analyses the recent experiences gained in promoting the creation of genuine cooperatives and makes proposals for the restructuring of the cooperative movement. It also identifies the training and technical assistance needs for the new cooperative structure.

