

The Role of Agricultural Cooperatives in Rural Development of Hungary

Zsuzsanna Deák*, Árpád Ferencz

John von Neumann University, 6000-Kecskemét, Izsáki út 10, Hungary

Abstract

In our work we look at the development possibilities of Hungarian agricultural cooperatives known as agricultural cooperatives from the countryside. According to our hypothesis, even 30 years after the regime change there are still many possibilities left in the focused development of these ventures. Since the change of regime, no solution has been found to solve the problems of the increasingly isolated, lagging rural settlements. The primary purpose of our research is to examine how and by which means these co-operatives could become the engines of development in rural areas as they had been in Hungary for decades before the regime change. We also sought to find a way to implement a complex development program positively affecting a significant part of the community. What obstacles should be removed to initiate the rural development process and what measures are needed so the already launched rural development initiatives could reach their aim? What radical change is needed in order for a cooperative to become a major determinant of development for a given area? In our research, we examined the current possibilities of cooperatives and their activities that could be utilized for rural development.

Keywords: agricultural cooperatives, rural development, co-operative engagement.

1. Introduction

Co-operatives in Hungary have a history that goes back about a 140 years. The first law on cooperation was published in 1875 [1]. The formation of cooperatives in the modern sense began in the socialist reorganization of agriculture in 1949 and lasted until 1961[2]. Organizational and economic strengthening of co-operatives was brought about by the end of the 1950's, mainly due to the collaboration of membership and heavy state support [3].

The organization of peasantry into cooperative farms was the most intense in 1959 [4]. As a result, in 1961 58% of the country's arable land belonged to 4204 co-operatives [5]. Act III. of 1967 introduced a coherent framework for the operation of agricultural cooperatives [6]. It stated that the Cooperative is a "socialist agricultural

large-scale establishment created through the voluntary personal and financial association of its members", which aims to "increase production, productivity and profitability of farming through the use of science and technology and contribute to meeting the needs of society [7].

After the change of regime, cooperatives lost their key role in a very short time [2]. The hard work of many decades was almost immediately eradicated as if co-operatives were responsible for all the mistakes of the previous system [8]. The privatization and systematic dismembering of cooperatives started almost immediately. The number of settlements that decided to keep the co-operative form was minimal. The survivors suffered significant losses in size and economic weight and also in market position [9].

The remaining co-operatives have been forced to adapt to the ever-changing regulatory environment over the past decades. In 2006, the law of 1992 was replaced by a new law on co-operatives, the concept of co-operative was redefined as "an organization with legal personality based on the

* Corresponding author: Zsuzsanna Deák,
deak.zsuzsanna@kvk.uni-neumann.hu

principles of open membership and changing capital, whose purpose is meeting the economic and other social (cultural, educational, community, health) needs of its members" [10]. The last major legal change affecting co-operatives was in 2013, with the new civil law of 2013 as its background [11]. Legislators have raised the rules on cooperatives into the business law section of the Civil Code. In the CCLII Act of 2013 collective organization operating in agriculture are now known as "*agricultural cooperatives*" [11]. According to the newly introduced concept, "cooperatives in agriculture, forestry and in the food industry are engaged as their main activity in providing services to their members, organizing joint purchasing of the materials and equipment needed for production, joint selling, storing or processing of crops, providing machine-related services related to production or processing, utilizing agricultural or forestry farms of its members or agricultural or forestry fields of others for agricultural production" [12]. Nowadays, agricultural cooperatives are primarily profit-oriented, but they also play a significant role in society [13].

2. Materials and methods

Investigated cooperatives. Our investigation was carried in the agricultural cooperatives operating within the Sand Dunes area of Bács-Kiskun county in Hungary [14]. The reason being that farmers in this area face most difficult situations as their small size, the unfavorable conditions (bad soil, adverse weather conditions, fragmented land structure, underdeveloped irrigation systems) make them economically especially vulnerable. They require more help for farming, presumably even closer ties to the cooperatives in their area. We have visited ten cooperatives, each of which operates in different settlements. Representativeness of the study has been strengthened by the fact that the analysis has included co-operatives with different activities, organizational structure, size (in terms of area,

membership numbers and employee headcount) and location.

Test method. We made in-depth interviews with the leaders of the co-operatives. Another criterion for the selection was to include co-operatives that were already in operation before the regime change. The questions of the in-depth interview can be divided into three groups. In the first group, we asked quantitative data such as the year of establishment, the highest number of members since inception, the largest area under cultivation or the biggest sales revenue achieved by the co-operative. The questions of the second group examined the changes in the activities of the co-operatives, their market situation in the past and the present, their social and community activities as well as changes in the attitude towards the co-operative organizational form itself. In the third section, we asked questions about the future to find out what plans the co-operative has and what goals it intends to achieve in the future.

3. Results and discussion

Among the many results of our research we would like to emphasize only the most important ones.

Establishment of the surveyed agricultural cooperatives

The surveyed cooperatives were founded between 1956 and 1992, which is 36 years between the "youngest" and "oldest" organization. The longest-established cooperative has been in existence for more than 63 years, but even newest establishment has been operating for a quarter of a century. Based on Fig. 1, co-operatives have an average of 43 years of management history, through which they played a significant role in the life of the region. Generations have been in contact with these organizations providing insights into the lives of local farmers providing the backbone for the foundation and upkeep of the essential network of relationships needed for rural development.

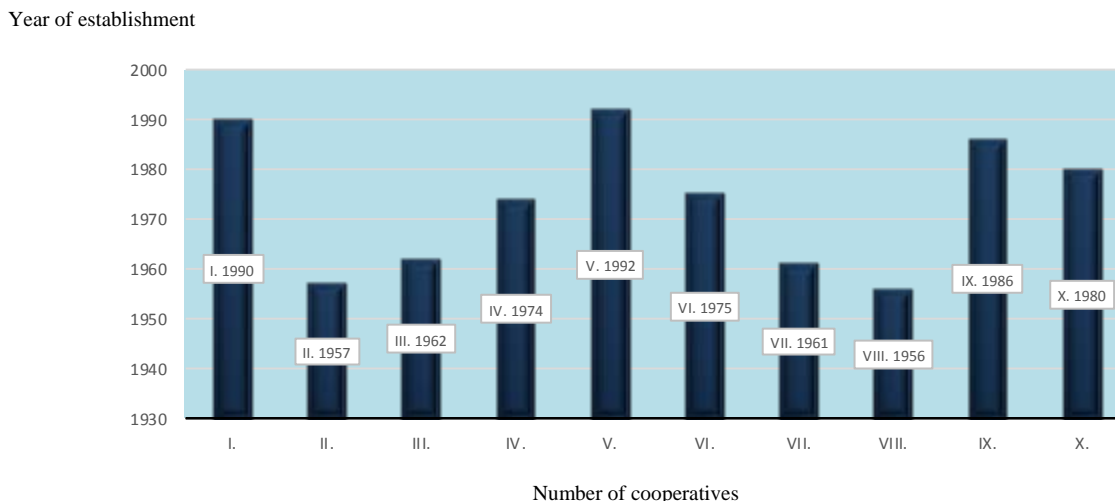


Figure 1. Time of formation of the cooperatives investigated

Membership numbers of the agricultural cooperatives surveyed

It can be seen from the data in Table 1. that the ten cooperatives currently have 1006 members, which is the tenth of what it was the 1980s. The average number of members is 7.1% of the pre-change membership corresponding to a 92.7% decrease. This kind of development in membership numbers has a

fundamental effect on the role of a co-operative in a particular settlement. Co-operatives usually lease the farms necessary for production thus providing income to them. The co-operative also contributes to the livelihoods of members through dividends paid on their financial contribution. The resources used locally ensure the development of the settlement.

Table 1. Change in the number of members in the cooperatives surveyed (%)

# number	Maximum membership in 1980 (heads)	Current members (heads)	As a % of previous data (%)	Change (%)
I.	292	38	13.0	-87.0
II.	1600	8	0.5	-99.5
III.	1200	93	7.8	-92.3
IV.	589	57	9.7	-90.3
V.	200	7	3.5	-96.5
VI.	600	38	6.3	-93.7
VII.	3500	560	16.0	-84.0
VIII.	500	7	1.4	-98.6
IX.	2300	146	6.3	-93.7
X.	820	52	6.3	-93.7
Total:	11601	1006	8.7	-91.3

Development of employment

In most cases, the cooperatives surveyed are the largest employers in the given rural settlement. With the exception of basic businesses (grocery stores, pharmacy, postal and local government),

agriculture is the only permanent income provider to those living in the area. Employment was studied in two time frames, with pre-transition and current data. Figures 2-3. illustrate the changes in the past 30 to 35 years.



Figure 2. Number of employees before the regime change (heads)

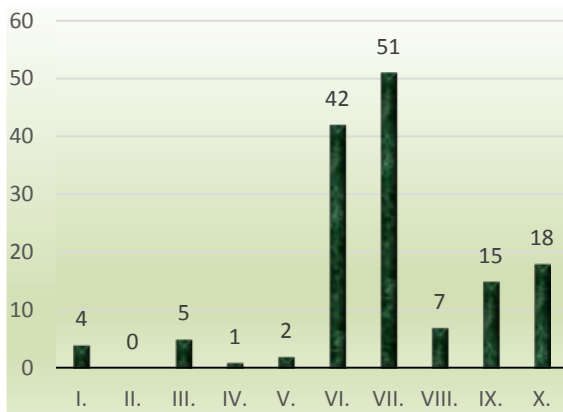


Figure 3. Current staff number of co-operatives (heads)

Employment fell to a fraction of the pre-transition level, currently about 2.6% of the highest number of employees. It is no coincidence, therefore, that unemployment in rural settlements is such a big problem. There are co-operatives that currently do not employ a single worker. The required work is performed by members for a minimum fee. In some sectors, they face labor shortages, especially in the horticultural and livestock sectors. It is not only difficult to find skilled workforce, it has also become a problem to find workers that could be trained. The younger generation has moved away from farming. Newly emerging service industries where higher incomes can be achieved have been sucking away a significant portion of the labor force from agriculture. Moving abroad for employment has become more prevalent, agriculture cannot compete with wages in Western countries. It is an additional problem that the current social support system does not encourage

the unemployed to seek permanent employment positions.

The size of land used by cooperatives

Previously, the cooperatives surveyed used an average area of 3900 ha (Figure 4). The agricultural land used by cooperatives has been greatly reduced (Figure 5), currently 3 643 hectares are used by the surveyed agricultural cooperatives.

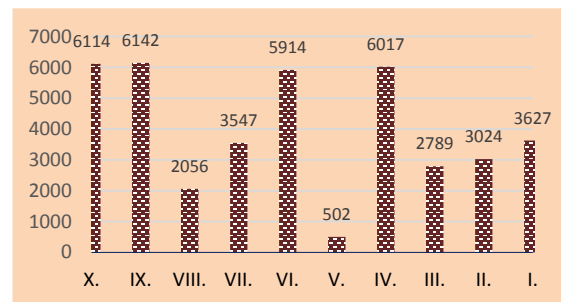


Figure 4. The maximum amount of land used by cooperatives over the past 50 years (ha)

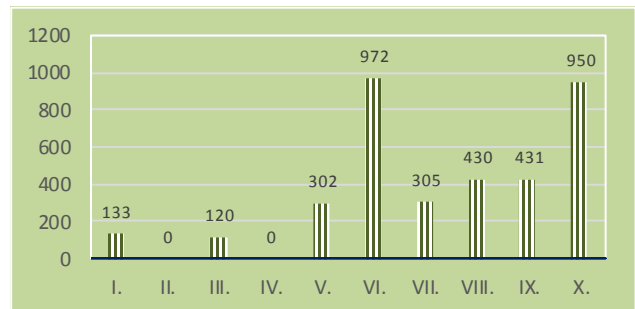


Figure 5. Current agricultural land used by cooperatives (ha)

The 39,732 original hectares fell by more than 90%, mainly due to reparations made after the regime change. During this process, a significant portion of the areas used by the cooperatives were re-allocated to the private individuals concerned. Two cooperatives are no longer using agricultural land at all as they have lost all of it in the last decades. Nonetheless, many activities related to agriculture are still carried out, irrespective of the fact that they are no longer engaged in plant cultivation or animal husbandry. More than half of all agricultural land used by the cooperatives surveyed is held by two companies, while over 75% of the land is owned by four cooperatives. This area of about 364 hectares approximates the

amount of agricultural land that can be held by any individual in Hungary.

The number of employees per hectare of agricultural land is shown in Table 2. The number

of employees per hectare varies between 6-151 hectares per person, averaging 38 hectares per person.

Table 2. Number of employees per hectare of agricultural land (ha/head)

# number	Area utilized (ha)	Employees (heads)	Agricultural land per capita (ha/head)
1.	133	4	33.3
2.	0	0	0.0
3.	120	5	24.0
4.	0	1	0.0
5.	302	2	151.0
6.	972	42	23.1
7.	305	51	6.0
8.	430	7	61.4
9.	431	15	28.7
10.	950	18	52.8

The vision of co-operatives, determinants of their future role

We asked interviewees what radical changes are needed to avoid, eliminate and solve external and internal problems. The answer to this question was: changing the legal environment, involving the stakeholders, raising the level of education, introducing practice-oriented training, uniting to achieve a better market position, support to reach foreign markets, and abolishing unreasonable management standards.

Co-operation could be achieved along the lines of integration so that farmers can benefit from the economic benefits of innovative technologies, new varieties and new solutions. In addition to joint selling, joint procurement of inputs, pre-financing, joint work organization, continuous consultancy and official administration could create an interest that could encourage farmers in the long term. According to the cooperatives, not only in the case of companies is there a great deal of uncertainty in agricultural production, so there would be a basic need for farmers to come together and help. However, in order to launch organization, a common will and appropriate support background are needed.

4. Conclusions, recommendations

Based on the information obtained from in-depth interviews, it can be stated that agro-business cooperatives are able to implement the European

Union principles: ensuring employment, increasing productivity, and enhancing social cohesion. It can be stated that primarily community-based business organizations are the ones paying attention to the interests of their members, employees, and people living and working in the nearby settlements. Co-operatives reach a large number of farmers in their area of operation and have extensive economic links that further strengthen social cohesion. Agrarian co-operatives can be an excellent basis for a managed development that starts from the bottom-up, but is also supported from the top-down. The network of contacts is already there, they have the necessary infrastructure and the technical and professional background. Even though they meet the challenges of the present era and are open to and available to local farmers, local governments and non-governmental organizations, their economic potential is left unexploited. As for nearly thirty years, ever since the change of regime, they were in the crossfire of economic policy.

Agricultural policy and society do not judge the operation of cooperatives on the basis of rational considerations. Legislation is not conducive to their operation, very slowly, they become economically unfeasible, family and individual enterprises are taking over their places, building their businesses along very different interests. In most places, there is no concrete need yet for co-operation. Persisting uncertainty, vulnerability, and fear of diminishing subsidies will however

unintentionally bring people in rural areas together. Co-operatives are ready to respond to these emerging needs.

Through the cooperatives, for the sake of the development of the countryside, it is necessary to restore the integrity of agriculture and strengthen the linkage of rural people to agriculture. Co-operation needs to be promoted, because through them, farmers receive technical and social help. Increasing the interest of cooperatives in an even higher level of social involvement is necessary.

Acknowledgements

This research is supported by EFOP-3.6.1-16-2016-00006 "The development and enhancement of the research potential at Pallas Athena University" project. The Project is supported by the Hungarian Government and co-financed by the European Social Fund.

References

1. 1875. évi XXXVII. törvénycikk kereskedelmi törvény, 2017, <https://1000ev.hu/index.php?a=3¶m=5692www.1000ev.hu>
2. 1992. évi I. törvény a szövetkezetekről, 2017, <https://mkogy.jogtar.hu/?page=show&docid=99200001.TVwww.mkogy.jogtar.hu> (2017)
3. Romány P. (1987): Szakszövetkezetek Bács-Kiskun megyében, Kiskunsági Mezőgazdasági Szövetkezetek Területi Szövetsége, Kecskemét

4. Dobosné Papp A., 2012, A termőföld hasznosítás, -használat változásai, hatásai a gazdálkodás eredményességére, Kunszentmiklós
5. Németi L., Az értelmiség szerepe a mezőgazdasági termelészövetkezetekben Termelészövetkezetek Országos Tanácsa
6. 1967. évi III. törvény a mezőgazdasági termelészövetkezetekről, 2017, http://net.jogtar.hu/jr/gen/hjegy_doc.cgi?docid=96700003.TV&xtreferer=99200002.TVwww.net.jogtar.hu
7. Hegyi A., 1985, Agrárgazdaság, Agrártársadalom, Agrárpolitika Szegedi Tudományegyetem, Szeged
8. AKI, 2017, Agrárpiaci jelentések gabona és ipari növények, vol. XX. No. 1. Agrárgazdasági Kutató Intézet
9. Hrabovszky M., 1998, A változó magyar mezőgazdaság évtizedei. Szerzői Kiadás, Budapest
10. 2006. évi X. törvény a szövetkezetekről, 2017, https://net.jogtar.hu/jr/gen/hjegy_doc.cgi?docid=A0600010.TVwww.net.jogtar.hu
11. 2013. évi CCLII. törvény egyes törvényeknek az új Polgári Törvénykönyv hatálybalépésével összefüggő módosításáról
12. 2017. évi I. törvény · 2017. évi XC. törvény · 2017. évi CLIII. törvény
13. Benedek, A., 2015, Az európai és hazai szakképzési rendszer fejlődésének tendenciái, BME Tanárképző Központ
14. KSH, 2017, A működő agrárgazdasági szövetkezetek száma Bács- Kiskun megyében (db) <http://statinfo.ksh.hu/Statinfo/haViewer.jspwww.ksh.hu>