FACTORS HINDERING THE DEVELOPMENT OF AGRICULTURAL COOPERATIVES IN GEORGIA

Introduction. The lack of an appropriate methodological basis for creating agricultural cooperative system prevents the process of organizing formation of new agricultural cooperatives, which leads to an objective need to develop the organizational and economic basis for the formation and operation of agricultural cooperatives. In this regard, the research and study of theoretical aspects, analysis of objective conditions for the formation and operation of agricultural cooperatives, development of methodological provisions and practical recommendations to substantiate their organizational and economic mechanism, including matters of management, profit, price, credit, formation and distribution are topical to the issue and most of the components listed above are of great practical importance.

Aim and tasks. The aim of the research is to develop scientific, organizational and economic basis for the establishment and operation of agricultural cooperatives in a multistructural economy. The objectives of the research are: identifying the essence of the cooperative, adding several principles to the formation and classification of agricultural cooperatives, determining the conditions and factors necessary for their creation.

Results. Theoretical and regulatory aspects of formation and development of agricultural cooperatives were specified taking into account the introduction of new principles for their operation: mandatory creation of indivisible funds for innovative activities, agricultural producers’ interest and expediency for their participation in the associations; and classification of cooperatives in the production and service industries.

Conclusions. Based on consideration of the integrated approach to the formation of cooperatives and farmers’ organizations, necessary documentation and calculation of economic efficiency, the methodological provisions developed in the process of the research on the establishment and operation of agricultural cooperatives will allow agricultural producers to approach the formation of necessary cooperatives skillfully, easily determine the absolute and specific tax burden of agricultural cooperatives.

Keywords: agricultural cooperative, developmental barriers, impact-urgency-priority matrix.
Вступ. Відсутність відповідної методологічної основи для створення системи сільськогосподарського кооперативу перешкоджає процесу організації утворення нових сільськогосподарських кооперативів, що призводить до об'єктивної необхідності розробки організаційно-економічних засад формування та діяльності сільськогосподарських кооперативів. У зв'язку з цим проводиться дослідження та вивчення теоретичних аспектів, аналіз об'єктивних умов формування та діяльності сільськогосподарських кооперативів, розробка методологічних положень та практичних рекомендацій для обґрунтування їх організаційно-економічного механізму, включаючи питання управління, привату, ціни, кредиту, формування та розповсюдження того - є актуальними для цього питання, і більшість із зазначених вище компонентів мають істотне практичне значення.

Мета і завдання. Метою дослідження є розробка наукових, організаційних та економічних основ для створення та функціонування сільськогосподарських кооперативів у багатоструктурній економіці. Завданнями дослідження є: виявлення сутності кооперативу, додавання кількох принципів до формування та класифікації сільськогосподарських кооперативів, визначення умов та факторів, необхідних для їх створення.

Результати. Теоретичні та нормативні аспекти формування та розвитку сільськогосподарських кооперативів були конкретизовані з урахуванням впровадження нових принципів їх діяльності: обов'язкове створення неподільних фондів для інноваційної діяльності, зацікавленість сільськогосподарських виробників та доцільність їх участі в асоціаціях; та класифікація кооперативів у галузях виробництва та обслуговування.

Висновки. Виходячи з врахування комплексного підходу до створення кооперативів та організацій фермерів, необхідної документації та розрахунку економічної ефективності, методологічних положень, розроблені в процесі дослідження щодо створення та діяльності сільськогосподарських кооперативів, дозволяє сільськогосподарським товариствам звернутись до формування необхідних кооперативів вміло, легко визначати абсолютне та конкретне податкове навантаження сільськогосподарських кооперативів.

Ключові слова: сільськогосподарський кооператив, бар’єри розвитку, матриця пріоритету впливу терміновості.
Introduction. Georgian farmers today know little about the potential benefits brought by cooperatives. Worldwide famous cooperatives are enterprises that set up branches all over the country: Valio in Finland, Amul in India. The Ministry of Agriculture of Georgia will eventually initiate the creation of tools and ways to support cooperatives and to start preparing and discussing relevant laws in this regard.

Forms of state-owned agricultural enterprises such as state farms were well developed in the Soviet Union, uniting different producers, but over time they were disbanded or disintegrated on their own. The process was facilitated by many factors. Today, there are only a few dairy farms in Georgia and geographically they are far away from each other complicating communication between them and the ability to work together [3]. In addition, there is a low level of awareness. It is very difficult to convey all the benefits brought by the cooperative to the local population. Farmers are simply unaware of the economic benefits of unification. There is no single record of the introductory informative training conducted for them at any level, neither at the local, regional or state.

Theoretic framework. The theoretical and methodological basis of the research was accumulated from the provisions of the economic theory related to the topic, the works of local and foreign economics scientists on the problems of agricultural cooperatives, the use of state normative and legislative acts on the economic activities of agricultural cooperatives. The database used Geostat materials, data and primary accounting records from the annual records of individual agricultural producers, reference materials, results of experiments and questionnaires conducted with the participation of the applicant [12].

The relevance of the problem in the formation of cooperative system and the insufficient methodological advancement, as well as its practical significance are the determining factor in the choice of the topic and the range of issues we addressed in it. The document uses materials from National Statistics Office of Georgia, data and primary accounting records from the annual records of individual agricultural producers, reference materials, results of experiments and questionnaires conducted with the participation of the applicant.

The patterns and trends identified in the study can be used to build cooperative organizations at different levels. The practical implementation of the developed proposals allows to create an effective self-governing structure for the production, processing, delivery and marketing of agricultural products.

Results. State aid plays a significant role in the development of cooperatives. As an example, in Finland, all state aid is provided only to the cooperative segment. That is why today Valio includes up to 10 thousand dairy farms and holds one of the leading positions in the dairy and dairy products market in Europe and the world. The situation is similar in other Western countries - Germany, the Netherlands, Norway, etc.

Clearly, in order to stimulate farmers' participation in cooperatives, it is essential to create favorable conditions for them. Georgia has yet to get there. It is promising that the Ministry of Agriculture has decided to promote the development of cooperatives, but it is unfortunate that this decision has not yet been put into effect [8].

It is hard to realize how many opportunities have been missed, how useful this form of union is for both the major players who buy milk and the economy. It is a well-known fact that the probability of falsification in cooperatives is minimal, that the animals are fed properly, the farm always has highly skilled veterinarians and special attention is paid to the quality of milk.

In general, the creation of large cooperatives leads to improved quality of raw materials. Unlike private farmers, these are already large associations that control their reputation, and are responsible for their work. As a result, they are trusted by the public.

Agricultural cooperatives are by no means small organizations that have a rural office with a design from the previous century. Modern cooperatives are international producers and processing companies. World-renowned cooperatives include Finnish Valio, Fonterra from New Zealand, German DMK, American dairy farmers in the US and the Dutch Friesland Campina. All of them are in the top 20 of the largest dairy companies in the world, and the cooperative form of business organization has not hindered their development in any way [6].
When it comes to the dairy industry, cooperatives can turn into successful producers and certainly, it is because they are not focused on making a profit for the organization itself. For example, Valio's main goal is to profit the members of the cooperative, which means that the company is trying to maintain attractive prices for raw milk. Fonterra from New Zealand, which has gradually lost its monopoly, is also forced to fight for raw materials. The high price of milk does not prevent it from competing and often promotes modernization and innovation. In addition, the members of the cooperatives themselves know that without successful processing they will not be able to maintain the demand for raw milk [10].

The cooperative movement in Georgia is developing slowly and consumer agricultural cooperatives are currently only non-commercial. But even in this form, consumer cooperatives provided considerable support to the agriculture in the late 1980s: in 1990, consumer cooperatives provided services to the population of the country, accounting for 40% of retail turnover, 50% of potato and vegetable production, formation of about 30% of bread and other bakery businesses. During the same period, 30,000 rural dwellers were members of the cooperative. But the importance of cooperatives in agriculture has declined rapidly since the 1990s.

Agricultural cooperatives are divided into two basic types: consumer and producer cooperatives. Agricultural production cooperatives are considered to be commercial organizations and they can make a profit. If a cooperative is a non-profit organization, it cannot distribute profits among its members.

In addition, employment in the agricultural consumer cooperatives is possible only for its members. For producer cooperatives, there is much more opportunity in this regard - they can hire workers, but at the same time, the ratio between the members of the cooperative and the hired workers should not be violated: the cooperative staff should have a majority [11]. Therefore, the question may arise: if the members of agricultural consumer cooperatives do not receive material benefits, what is the need for this type of cooperative? The answer is simple: Most often, non-profit cooperatives are created for the joint purchase of fertilizers and pesticides, the sale of products, the processing of large quantities of raw materials or other activities. That is, there is a benefit, although it does not have an instant cash form [11].

For a large part of agricultural producer cooperatives nothing will change. They will not be able to obtain the right to freely dispose of income. Just like in the former collective farms, those who work harder in fields, gardens and farms will earn more, and not those who invest more money.

Historically, there were three main types of agricultural cooperatives in Georgia, only one of which is preserved today:

1. Agricultural artel (Collective Farm) - association of agricultural producers with the compulsory personal labor participation in the industrial, marketing or processing activities of the cooperative. Moreover, the land of the participants also participates in the overall production. Each member contributes to the common cause in the form of land or other property for common use.

2. Fishery artel (collective farm) - association of fish farms with the same conditions as the agricultural artel.

3. Cooperative farm - an association established for the cultivation of land or the production of livestock products. It differs from artel in that the plots do not fall into a common land fund.

In all cases, even today, the cooperative should have at least five members, and the number of employees in the cooperative should not exceed the number of its members. In this way, the mandatory personal labor participation of the members is guaranteed.

Consumer cooperatives can take many other forms:

1. Processing - any production, including meat and dairy products;
2. Sale (trade) is not only the sale of a product, but also its packaging and storage;
3. Service personnel - everything related to repairs, land cultivation, protection of plants and even legal activities. In other words, any service;
4. Supply - was created for the joint purchase of food, fertilizers and other goods, in order to save money;
5. Horticultural and livestock cooperatives are established to provide services to these industries - from marketing to processing;
6. Other, less common types of agricultural consumer cooperatives may also exist. Let’s clarify the differences between cooperatives and agricultural enterprises:

- The cooperative itself is considered a legal entity, so it can buy equipment, lease land, take loans and enter into contracts – so it can operate almost like an enterprise. It is registered in the same way as an ordinary legal entity.

- Major differences can be attributed to decision making and revenue use. Decisions are made by ballot - each member has one vote. Unlike ordinary farming, where the owner mostly makes small profits, in case of producer cooperatives, 70% of the net profit is spent on the development. The remaining 30% is distributed not in proportion to the share of the cooperators, but according to the amount of labor invested by each individual member during the year [12]. If there is a loss in the cooperative, it is covered by the reserve fund, and if the reserve funds are not enough, the members of the cooperative register additional contributions and recalculate the shares.

To determine the amount of added value, priorities and actions that support (or do not support) such efforts should be identified and measured. Prioritizing any of the factors is vital to the business: it reveals the relative importance of a case or category, so it becomes clear how much it is needed and how urgently it needs to be addressed [8].

The most common model of prioritization involves understanding the impact and urgency. How a business responds to any customer request or problem depends on what both parties think about the impact of the factor (event, category) and the urgency.

While it is possible to reduce these components to simple mathematical equations, experts do not recommend doing so, since considering impact, urgency, and priority is much more than just deciding on the importance and context of a factor. These are the elements that can only be outlined by each and particular company.

Let’s analyze each of these factors and see how context and relativity contribute to each one of them:

- The impact of an incident, problem or change on business processes. This effect can be positive: return on investment or customer satisfaction, new product features or improvements; Conversely, it can be drastically negative, depending on the degree of damage or costs, such as: loss of revenue, working hours or customers, shutdown of IT services or poor productivity, and more [3]. Typically, impact is not expressed in absolute terms, but in range or quality, depending on the interpretation of the company context. This range may include:
  - Number of affected customers / users;
  - The amount of lost income or expenses incurred;

The number of elements, using different terms, will help us determine the impact or consequences of the factor. It can be:

- High, medium, low;
- Of Enterprise-level, wide / widespread;
- Moderate (for multiple users, individual (for single users) ;
- Critical, important, insignificant.

We must remember that it is crucial to agree on the terms from the very beginning. That is, the participants should attribute the same meaning to this or that term. This is necessary in order not to confuse the rating (weight). A clear and shared understanding of the term "Impact" is the first step towards objective prioritization.

Urgency is not so much an effect as time. The temporal or urgency function depends on how quickly the business or client expects the desired results. This can be restoring the normal functioning of the service, developing a new or updated service or product, placing, delivering and much more.

The longer a company wants to wait or the longer it can postpone something, the lower the importance of urgency. Anything that has a significant impact on a business from an operational, regulatory or financial point of view is more relevant than anything else. For example, a VIP request needs a shorter response time and resolution because it is the most urgent (or priority) issue [11].

Like impact, the scale of an emergency also depends on the business context, needs, and risks. The overall scale used to define urgency is critical, large, medium, and insignificant.

Priority is the intersection of impact and urgency. Given the impact and urgency, the company understands more clearly what is more important at this particular stage (Fig. 1).
Fig. 1. Impact-Urgency-Priority Matrix

Source: According to the [13].

Priority is relative: it determines what actions are necessary in a given situation, but is never considered a constant, as it may change according to the context [11].

An impact-emergency map can be designed in a simple matrix that can be encrypted at the discretion of the company. This is necessary to make it easier to evaluate the level of service and to track the performance indicators and actions for various incidents, problems, requests or changes.

The scale of priority is defined as:
- Critical;
- High;
- Medium;
- Low.

Obviously, none of the matrices represent a universal structure. In order to determine urgency, impact, and priority, definitions of terms should be defined alongside with key stakeholders and then continuously revisited and revised as one encounters various scenarios. What is a high priority for the business may be much less important to a third party, therefore, compliance with all agreements and contracts is critical.

It should be noted that when we were analyzing the topic of our research, the issue of setting priorities caused a kind of confusion. During selection of priority levels, the opinions of the members of the cooperative and the customers were divided. Even for day-to-day matters, consumers set the highest level of priority, and – conversely, the members of the cooperative went to the lower levels because they were not eager to limit themselves to a shorter period of time [8].

To address this issue, a certain level of “diplomacy” is required to clearly define what each scale represents. And this is true for each particular case. Once priorities are set, of course, attention should be drawn to specific components, situations, and requirements that are critical to consumers.

Despite everything mentioned above, in the end, the priorities were arranged as follows:

**High. Organizational and economic mechanism.** The organizational and economic mechanism of cooperatives represents the basis for the entrepreneurial and economic relations of participants.

Improving the economic relations between the members of the cooperative for the production, processing and sale of products is ensured by multiple principles aimed at the organizational, managerial, technological and economic unity of its members and achieving final results.
Medium. Creation of agricultural service cooperatives. This factor is facilitated by rural credit cooperatives, with members which are mainly from peasant (farmer) households. If they intend to process and sell their own products, supply various resources and provide services, then the members of the cooperative can form credit, marketing, processing and supply cooperatives. Most rural small businesses have need of product purchasing, processing and sales, lending, insurance, and agricultural service enterprises (including cooperatives) [12]. Large numbers of agricultural organizations are unable to solve this problem and, as a result, go bankrupt. Thus, we consider the urgency ranking of this factor to be average.

Low. Improving the existing legislative framework. The existing legal framework allows horizontal and vertical cooperation of agricultural producers in all forms of farming and at different levels, both with each other and with other agribusinesses. Namely:

A) Internal economic cooperation includes the cooperation of production units that participate in technologically related operations for the production of a specific agricultural product.

B) Local self-government cooperation is carried out in stages:
- Granting partial economic independence to cooperative production sub-units;
- Transfer of these for lease agreements;
- Linking the profits of lease collectives to the outcomes of economic activities;

C) Cooperation at the regional level in Georgia. It is important to organize local (primary) service cooperatives: specialized in one product (milk, meat, potatoes) or multi-product, which can buy several types of products (milk, meat, potatoes). Rural administration can be the associated member of service cooperative. The main goals of these cooperatives are: purchase of agricultural products on the territory of the municipality from private, peasants (farmers) farms, agricultural organizations. Also they can operate in the areas of processing, sale, material and technical supply of cooperative members, provision of machine-tractor and transport services, services and provision of services and / or cooperation with other regions [8].

But in order to do this, certain provisions of the existing legal framework require improvement. Also, since the legal framework is more or less effective and still regulates the situation in the field, we believe that the rating of urgency of this factor is lower compared to others.

Impact:

High. Increase in production efficiency. The functioning of a cooperative is unfeasible without economic interaction with the external environment, and increase in the production efficiency is impossible without creating an optimal mechanism of interaction with all market participants. Since the efficiency of an agricultural cooperative is a collective result of the efficiency of each participant and their joint activities, the increase in the efficiency of such cooperatives happens for a number of reasons: production, processing and sale of products by ensuring reduction of transaction costs, smoothness of supplies and guaranteed delivery of products for each participant, decreasing the need for working capital, creation of favorable investment climate and introducing scientific and technological progress. The social aspect of the essence of cooperation lies in the ability to solve the social problems of its members [14-17]. We believe that the impact rating of this factor is high.

Medium. Specialization. The main factors that determine the organizational structure, shape, size and relationship of cooperatives are: seasonality of production, intensity of production of final products, transportation of raw materials, distance to markets, availability of resources – or in other words everything that determines the specialization [3].

Horizontal collaboration involves the isolation of individual technological operations from the technological production of agricultural products or intermediate agricultural products and reflects territorial connections. Collaborate on the processes that benefit the most from its expansion. Cooperatives are an organizational form of horizontal cooperation that provides a variety of services (agrochemical, transport, young cattle breeder, feed producer, etc.) (Figure 2).
Fig. 2. Impact-Emergency-Priority Matrix Analysis of Cooperatives in Kvemo Kartli Region.

Source: built by the authors based on the data [7].

**Low. Vertical collaboration.** With the help of vertical cooperation and organization of cooperative unions at different levels, agricultural producers can access and deal with other organizations, to process agricultural products through related industries, which includes the entire process, starting from the production of agricultural products, their processing and final delivery to the customer.

The interaction of horizontal and vertical cooperation brings the following benefits:
- Higher degree of socialization in the agricultural production and processing;
- Favorable conditions for the introduction of scientific achievements and progressive technologies;
- Complex solutions to social problems in the areas where cooperative formations are located.

Thus, through matrix analysis of the research results, we obtained the following results:

1. At the intersection of high urgency and low impact, the high priority of organizational and economic mechanism and low priority of vertical cooperation are opposed.

As a result, we conclude that in the presence of an effective organizational-economic mechanism, the cooperative is viable even in the conditions of low activity from the state support;

2. At the intersection of medium urgency and low impact, the medium priority for the establishment of agricultural service cooperatives and the low priority of vertical cooperation are opposed. As a result, we conclude that in the circumstances of poorly developed agricultural service cooperatives, without support from the state, the vital qualities cooperatives are barely preserved;

3. At the intersection of low urgency and low impact, low priorities for improving the existing legislative framework and vertical cooperation are at odds. As a result, we conclude that the low level of state support is manifested in the inflexible and imperfect normative framework;

4. At the intersection of high urgency and medium impact, high priority of the organizational and economic mechanism and high priority for increasing production efficiency are opposed. As a result, we conclude
that for developed organizations the production efficiency is increasing;

5. At the intersection of average urgency and average impact, the average priorities for the creation of agricultural cooperatives and the average priorities for increasing production efficiency are opposed. As a result, we conclude that even in the case of an average growth rate of cooperatives, it is necessary to take care of increasing production efficiency;

6. At the intersection of low urgency and medium impact, the improvement of the existing legislative framework and the medium priorities for increasing production efficiency are opposed to each other. As a result, we conclude that an increase in production efficiency cannot be achieved in the presence of an imperfect and underdeveloped regulatory framework;

7. At the intersection of high urgency and high impact, high priorities of organizational and economic mechanism and specialization are in a disagreement with each other. As a result, we conclude that the higher the priority of specialization, the more perfect the economic and organizational mechanisms are;

8. At the intersection of medium urgency and high impact, the medium priority for the establishment of agricultural service cooperatives and high priorities for the specialization are opposed. As a result, we conclude that in the conditions of high specialization of cooperatives, agricultural service cooperatives are highly diversified;

9. At the intersection of low urgency and high specialization, the low priorities of improving the existing legislative framework and the high priorities of specialization are opposed to each other.

State aid and subsidies alone are not sufficient to bring about positive changes, as today 70% of Georgian cooperatives are starving for large investments and this is the main reason why Georgia does not have its own Valio or Campina [6].

Conclusions. Based on consideration of the integrated approach to the formation of cooperatives and farmers’ organizations, necessary documentation and calculation of economic efficiency, the methodological provisions developed in the process of the research on the establishment and operation of agricultural cooperatives will allow agricultural producers to approach the formation of necessary cooperatives skillfully, easily determine the absolute and specific tax burden of agricultural cooperatives.

An agricultural consumer cooperative actually works for its members and performs certain tasks for them. In addition, at least 50% of the production or service volume for this type of cooperative must be provided to its members.

The changes will hardly change the status quo of consumer cooperatives, they will simply create a possibility for them to distribute profits and revenues among members. To do this, an amendment should be made to the Civil Code of Georgia, which separately defines such a possibility.
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