

NEW WAYS TO ENSURE FINANCIAL DEVELOPMENT OF CONSUMER CO-OPERATIVES

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Abstract

In terms of strengthening the market relations in the Republic of Moldova, financial strategy research of consumer cooperatives development, scientifically based, is transferred to the rank of priority economic problems. It is impossible to maintain consumer cooperative as a unique and complex system without ensuring necessary financial resources, which growth should be based on strengthening the economic potential. During the study general scientific methods were used, as well as specific methods of knowledge: systemic analysis, logical-historical, structural-functional, time analysis (dynamic, scientific abstraction, induction, deduction, statistical, etc.

Systemic approach for elaborating the concept and model of financial stability of enterprises and organizations from consumer cooperatives system consists in establishing the interdependence between economic and financial potential, between mechanism of organization and legal regulation and methods for financial support of the field.

The complex approach in researching the problems of financial support consists in the identification of particularities of the financial relations development in different historical periods, due to the legal regulation of the form of cooperative ownership.

This paper aims to promote the field of consumer co-operatives in the Republic of Moldova, to analyze its role within social economy and give directions for its financial stability.

Keywords: consumer co-operation, financial resources, performance, financial strategy.

JEL classification: G320

1. Introduction

Consumer co-operatives are at the boundary between economic and social spheres, being marginalized by economic approaches because of the fact that the main principles of microeconomics – presence of individual interest and maximizing profits – have a limited applicability.

Defined as “a form of work organization in which several persons work together and with their own means of production, in the same process or in different processes, but economically linked between them, depending on each other to achieve finite material goods necessary to the society” [2], consumer co-operative was and is still subjected to a long process of change both in terms of organizational structures, and, especially, of the results achieved.

The activity of enterprises from consumer co-operative system is subject to intensified impact of a number of factors, where a primary role is played by permanent changes in legislation, competition, technological development, computer information processing, interest rate and

exchange rate fluctuations on the background of continuous maintaining of inflation. Because of the fact that these enterprises lost their monopoly in the countryside, trade and other fields of activity, including acquisitions, which hold a special place, managers face a number of issues relating to strategy and tactics of their operation, organization of timely activity and efficiency of resource management.

This article is mainly aimed at analyzing the main tendencies of consumer cooperatives registered in the Republic of Moldova. It is an exploratory study and also an explanation of the co-operative phenomenon in the country and of its positioning within the system of national economic relations.

2. Evaluation of consumer co-operatives efficiency

Viability and development of an enterprise depend on financial stability which is influenced by many internal and external factors like: manufacture and sale of competitive goods on the market, the high level of infrastructure and the implementation of modern technologies, secure economic agreements with partners; rhythmicity of resource rotation, the efficiency of economic and financial transactions, the low level of risk in the production process and financial activity etc.

The mission of consumer co-operatives today lies on expanding participation of the system in the saturation of consumer market with goods and services, creating a well-developed social infrastructure in rural areas, increasing employment, enhancing food security.

Attraction of additional financial resources by rural co-operative entities is limited by the lack of funds from local budgets and low purchasing power of the population. The lack of financial resources leads to difficulties in expanding the range of goods in retail trade. The prices for basic necessities are steadily increasing; the operating costs are increasing too because of the long-term storage of the main food groups.

The main directions that consumer co-operatives should follow are those estimated in forecasts of economic-financial indicators together with their own development programs within the system, and not at least in the Strategy for the consumer co-operatives development.

To achieve strategic objectives, the consumer co-operatives have some economic and financial potential: the Central Union of Consumer Co-operatives includes 112 enterprises and co-operative organizations, the operational result of activity in 2012 was 5.6 million lei (registering a slight decrease of about 12 percentage points compared to the previous year). Co-operative organizations have their own current assets of about 15 million lei. The volume of retail sales last year totaled about 776 million lei, or 127.6% compared to the previous year.

However, partnership and collaboration were intensified with regard to external relations: training of different specialists was organized, based on the exchange of experience between local and foreign experts, assistance was given to economic agents from the system for obtaining and compiling economic information, marketing research and analysis on foreign markets were made; competitiveness was increased, competitive power and system's international image was improved, participations in different projects were recorded, different steps to optimize the organizational structure of consumer co-operatives were taken, etc.

After the collapse of the Soviet Union consumer co-operatives experienced deterioration of relations between members of co-operatives and consumer co-operatives due to lower share of

funds in the total social capital of co-operatives, destruction of service networks and of materials, reduction of production activity, etc. Co-operative assets value at that time was over 1.5 billion lei. The share of consumer co-operatives from total republican trade declined from 45% to less than 5%. Phenomena occurring in the national economy during transition to market economy have deeply affected consumer co-operation. Termination of contracts as well as of business discounts, sales, rental and liquidation of facilities, co-operatives merging, unfair competition, emergence of supermarkets and of intermediaries “army”, de-capitalization following evaluation of goods under inflation, collapse of manufacturing- and procurement sectors services - all these led to massive erosion of fixed capital and circulating, i.e. de-capitalization of the entire co-operative system of the country. Multiple co-operative activities developed the necessary conditions for strengthening consumer and business values. The main causes of current situation in the system of consumer co-operatives are the consequences of the economic crisis of the 90s of the twentieth century, including:

- reduction of state financial aid;
- loss of relations between major suppliers and consumers of goods and services;
- preservation of organizational and functional structure outdated in terms of management and control;
- superficial evaluation of operational activity results, thus avoiding financial strategy-based development perspective;
- reduction of agricultural output;
- lack of competitive advantages compared to large companies producing goods and services.

Currently, the tendency toward reducing the growth of profits rate and overall profitability as well as highlighting the imbalance in the ratio of own and borrowed funds for current activity and reproduction lowers the chances of attracting external financing funds. Within consumer co-operative system of the Republic of Moldova over 50% of businesses and organizations are unprofitable. Therefore, one of the basic conditions for economic stabilization of entities from the system is creation of a coherent system of financial security.

The issue of financial support to consumer co-operatives is growing rapidly, especially for businesses in the South and rural areas. These entities face a significant lack of financial resources and their volume of activity is two to three times lower compared to other entities in the system.

In order to solve this problem it is necessary to create a scientifically-based financial mechanism for implementing the concept of co-operative enterprises and organizations based on increased share of total financing sources, economical and judicious use of loans from financial institutions and co-operatives' members, and attracting external financing sources by adopting specific programs of state financial support to co-operatives, also equalizing their rights with those of other entities. In this case, it requires assigning equal rights to participate in the development of government programs to obtain preferential investment credits, for the supply of agricultural products purchased from the public both for the public and local markets. Moreover, addressing financial stability of cooperative enterprises is hampered by lack of modern fundamental research that integrates knowledge gained from the development of financial relations and strengthening the foundations of co-operative ownership. The studying methodology consists of fundamental assumptions within economic theory: the theory of value, growth theory, the theory of competitive

competition, scientific work in the country and abroad regarding problems of interdependent relations of ownership and finance, economic, financial and investment analysis, financial management and legal and normative documents regulating financial relations within consumer co-operatives. In order to raise additional capital and stimulate the interest of rural residents to join consumer co-operation it is absolutely necessary to make payments toward consumer co-operatives, given the correlation between the growth rate and the share of own sources in terms of profit distribution net payments to co-operative members.

As evidence documenting the historical development of consumption co-operation trends, the organization of financial relations, in terms of analysis, is determined by the legal-organizational form, management, etc.

The implementation of this mission is impossible without active participation of co-operative consumers within national priority projects.

3. Financial development of consumer co-operatives

In the conditions of economic globalization it is necessary to assess the impact of cash flows on entrepreneurial structures, not only in terms of modern ownership relations and territorial management characteristics of the movement of funds, but also in terms of influence of the global financial market situation.

Resource rating of current assets efficiency for loan purposes is an advanced method that should be applied in the practice of co-operative entities for calculating the coefficients of return on equity and on debt. As a basis for these calculations cash flows- and financial statements indicators should be taken.

The technique of attracting alternative sources in consumer cooperatives, which involves expanding the types of activities, should be based on effective methods of public regulation of business activity and consumer co-operative system, in particular, of consumer market segments in districts where it is possible to develop the local market for goods and services. Optimal values of the coefficients of financial stability are obtained not only at the expense of forming a rational structure of funding sources, but also as a result of employing effective methods for the use of revenues, expenses, profits and borrowed capital.

Study of the methodology of financial relations within the co-operative consumer system, determined, as a whole, in terms of ownership forms development has shown that the most difficult part is the development of appropriate management principles for financial relations that are established between the subjects of co-operative consumer system and representatives of public power in localities.

Analysis of the management practice regarding financial relations within the co-operative consumer system reveals that there are no basic approaches to ensure the effectiveness of system's operation so far. Dynamic development of the co-operative consumer market is affected by the shortage of financial stability of enterprises and co-operative organizations. The main condition for ensuring financial stability lies in the development of financial strategy directed towards creating the financial potential, appropriate co-operative consumer needs within market relations, including assessment of possibilities for future growth.

The financial potential of enterprises from co-operative consumer system must be determined by own and borrowed sources sufficiency taking into account their optimization.

Assessment of economic and financial situation of co-operative consumer shows the decrease of activity, including in rural areas, of the number of people served as well as co-operative members giving up co-operative activity. At the same time, the study of co-operative consumer system infrastructure indicates its gradual reduction.

Regarding the documenting of sources of funds, we find that they are made up, especially, from own funds, including additional capital. At the same time, the trend of share capital reduction, as a result of continuous decline in the number of cooperative members, in the last ten years showed a double drop. In our opinion, for the substitution of the need for financial resources, consumer cooperatives must proceed to their own sources policy, the same applying to lent sources.

It was found that own sources are characterized by the following positive aspects:

1. Easy to attract, the decision to increase owner's equity is taken within the company without partners' agreement;
2. High rate of return in all spheres of activity due to the fact that their use is free;
3. Financial stability of the developing enterprise, long-time solvency, and as a result - reduction of bankruptcy risk.

However, own sources also have some shortcomings:

1. Limiting the amount of attraction and real opportunities to expand the business in good times for the market;
2. High cost compared to alternative sources of formation of current assets.

Another source of financial development of consumer co-operatives business is borrowed resources having the following positive aspects:

1. Ample opportunities for attraction, especially with high credit rates;
2. Lower cost compared with own sources cost because of tax evasion;
3. Possibility to increase own capital rate of return.

At the same time, the use of borrowed resources has several disadvantages, namely:

1. Their use leads to risks for enterprise activity: the risk of losing financial stability, liquidity and solvency risk. The risk level of these categories increases together with the increase of using borrowed resources;
2. Current assets consisting of borrowed sources give a lower profit because of interest rates paid to use these sources;
3. Cost of borrowed sources depends on market conjuncture;
4. Guarantees needed to attract this kind of sources.

Effective financing of the planned volume of activity can be made using the bank loan as a borrowed resource. It has a wide range of destinations so it can be used for financing different types of assets. A bank loan represents money offered by the bank to its client to satisfy his necessities, given for a determined term and for a reward (interest and commissions).

Lending bank loans is a part of bank policy to attract resources, by setting conditions to attract, use and insurance. When using a bank loan we have to take into account that differentiation economic lever should be lower than zero:

$$DEL = Ra - r \quad (1)$$

DEL – differentiation economic lever,

Ra – assets return rate,

r – interest rate for bank loan.

Bank loans can improve enterprises' assets rate of return as well as the rate of return on their current assets, or to make it lower.

By increasing the proportion of borrowed capital in the formation of financing resources a more judicious and cost-effective management of the capital borrowed should be ensured, including for resources borrowed from the population on the basis of budget funds preparation, through application of advanced methods for the efficient use and effective debt management methods.

Another important element for ensuring financial development is the commercial credit, which is a way to delay payments for purchased merchandise. It is a part of additional attracted sources.

Commercial credit has several positive aspects:

- is adaptable in terms of financing the part of current assets with lower liquidity – stocks of merchandise and materials; it allows to increase the volume of commercial operations and to gain additional income,
- has a lower cost than all kinds of financial loans,
- decreases the duration of commercial cycle thus allowing to use fewer funds to finance current assets,
- it is easy to obtain compared with other credit categories employed by the company.

Commercial credit also has the following disadvantages:

- it can be used only to satisfy the needs in financing stocks of merchandise and materials,
- it is limited in time, the grand period is reduced to few months,
- has a high risk, because it is not insured.

All positive and negative aspects of commercial credit have to be taken into account by company during its activity.

Obvious impacts on the financial security of consumer co-operatives have natural factors and branches. The main features of branches which define specific financial relationships within consumer co-operatives are based on the nature of co-operative properties and on the organizational structure of the system.

Formation of higher costs and lower incomes has a negative reflection upon the financial results of the business and upon its financial situation. Lack of net profit in the last years or recording its insignificant quantities (for example, in 2013 it was about 2 million lei) makes difficult the constitution of consumer co-operative funds, handling financial resources and using financial management instruments for increasing them.

This fact needs performing a step-by-step costs management using different techniques and methods; application of contemporary models, management of stocks, application of effective methods to costs management and selection of accounting policies; development and implementation of specific programs to reduce costs and expenditure to the level of the co-operative entities taking into consideration the results of their activity. Improvement of

management policy in the field of costs, use of commercial activities and implementation of social services imply the need to use risk and budget management systems aimed towards optimization.

We strongly believe that consumer co-operatives designed in an economic manner and correlated with management as well as following a proper investment policy can revive, coming in a welcoming significant segment of consumer demand in terms of need for workers or producers adequate to their organizational forms.

4. Conclusions

Consumer co-operatives should solve one of the biggest problems – existing poverty in the villages – i.e. to create new workplaces, to deal unemployment, to offer rural population complex commercial services, also to be able to get through the International and CIS Co-operative systems into foreign markets. In our opinion, this entity is the only force that can help rural population with poverty reduction as well as with money generation for millions of peasants by enlarging agricultural production services and purchase of agricultural production, medicinal plants, forest plants, by developing popular crafts.

However, in order to increase the efficiency of co-operative enterprises and improve their financial situation the use of resources, both equity and borrowings, is welcome.

We conclude that consumer co-operatives will bring their contribution to the renewal of the economy as a whole, creating a competitive economy, promoting green economy, creating value based on growing economy, knowledge and social inclusion of citizens.

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