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## Italian vs Croatian cooperative system

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### Abstract

The aim of this paper is to research legislation, taxes and subvention system of Italian and Croatian cooperatives as well as to compare economic efficiency through individual and aggregate importance of cooperatives. In this paper secondary data source were used, scientific and expert references, policy documents of relevant institutions, laws and strategies. Croatian and Italian cooperative system have different effect on the economy which is identified through basic indicators of cooperative development in both countries. Italy is having more favorable economic indicators in cooperative share in GDP (8,5 vs 0,5), cooperative employees in the total labor force (10,9 vs 0,16), cooperative member in the total population (16,2 vs 1,15), average cooperative employees per cooperative (6,5 vs 2,36), average members per cooperative (230 vs 16) etc. Agricultural cooperatives dominate in the Croatian cooperative sector (40,7), but in comparison with other EU member cooperatives they achieved marginal business results in the production, sale and turnover of agricultural products and compared with Italy (6,3% of agricultural cooperative in total cooperative number) the most significant in recent years are the social cooperatives what is especially important in crisis. In order to achieve better economic affect through cooperative system Croatia should adopt changes in law regulation, better organization of support center and development of cooperative banking association.

**Key words:** cooperatives, development, employment, laws, Italy, Croatia

### Introduction

Today cooperatives have a special role and importance in all sectors of the global economy because they are not only implement in production like business owners or workers who are also consumers as well (*Sudarić, Zmaić, Tolić, 2017*). What distinguishes them from other companies are the cooperative principles (voluntary and open membership, democratic member control, member's economy participation, autonomy and independence, education, training and information, cooperative among cooperatives, concern for community) and the fact that they emphasize not only the profit role but also the social dimension of well-being.

### Materials and methods

The aim of this paper is to compare development and effect of cooperative system in Croatia and Italy by analyzing database of the State Statistics Institute, the Ministry of Agriculture, the Agency for payment in agriculture, Croatian Agricultural Chamber and give new perspectives in cooperatives via basic indicators: total number of cooperative, number of cooperative members, number of employees, average members per cooperative, average of

cooperative employees per cooperative, cooperative member share in the total population, share of cooperative employees in the total labour force, share of cooperative employees in the total employed, share of cooperatives in GDP etc.

## Results and discussion

Croatian cooperative tradition of 160 years has passed different periods and turbulent development. The last law regulations (2014) require a minimum of 7 members of the cooperative (as well as a membership stake of 140 euro). The Croatian Center for Cooperative Entrepreneurship (HCZP) is a public institution that represents and coordinates the interests of cooperatives, monitors and analyzes data in the field of cooperatives, proposes measures for its improvement, provides expert assistance to cooperatives and cooperative alliances, organizes and conducts training and consulting in the field of cooperatives regulated by the Law on Cooperatives (Official Gazette No. 34/11, 125/13 and 76/14) and the Statute of the Center (Official Gazette 133/14).

Table 1. Basic indicators of cooperative development in Croatia, Italy and EU (2015)

| Cooperatives   | Croatia | Italy      | EU          |
|--|---------|------------|-------------|
| Total number of cooperative                                  | 1.302   | 79.487     | 250 000     |
| Agricultural cooperatives                                    | 531     | 5.000      | 35 million  |
| Total number of cooperative members                          | 21.462  | 12 million | 163 million |
| Number of employees  | 2.744   | 1.257.213  | 5,4 million |
| Average members per cooperative                              | 16      | 230        | 652         |
| Average of cooperative employees per cooperative             | 2,36    | 6,5        | 21,6        |
| Cooperative member share in the total population (%)         | 1,15    | 16,2       | 32,4        |
| Share of cooperative employees in the total labour force (%) | 0,16    | 10,9       | 2,2         |
| Share of cooperative employees in the total employed (%)     | 0,20    | 5          | 2,5         |
| Share of cooperatives in GDP                                 | 0,5     | 8.5        | -           |

Source: work of an author according to the Croatian Centre for Cooperative Entrepreneurship (Annual report of the cooperative enterprise, 2016); FINA (2012), EUROSTAT data (2015), EURICSE data (2015), INPS data (2015).

By combining the various available sources, it is possible to estimate the number of active cooperatives in Italy. In 2015 there were 79.487 cooperatives, 376 cooperative banks and 1.904 consortia generated a production value of 90.7 billion euro per year (*Borzaga, Carini and Zandonai, 2015*). The cooperative value is higher than any Italian, public or private company, almost three times for example than the largest Italian private company Fiat. The cooperatives in Italy have 8.5% of gross domestic product.

Overall, the contribution of cooperation employment in Italy according to Census data is 10.9% of the total number of work positions and 6,5% is average employees per cooperative. But in Croatia, 58% of the total number of cooperatives does not have any employees, while 42% of cooperatives have one or more employees and generate 95% of the total income of all cooperatives (*Stanojević, 2015*). It is very important for Croatia to increase employment through cooperatives that is very low (2,36) in order to increase professionalism and economic success of the cooperatives, as well as economy in the whole.

Laws in Croatia does not recognize the cooperative that combines economic and social interests of its members whose aim is to realize the benefit of the local community in which

the cooperative operates. According to Stanojević (2015), the establishment of a cooperatives and its business must be an expression of the common interests of its members. Otherwise, it is precisely the situation that Croatian cooperative have large number of cooperatives that have no economic activity and cooperatives that are not involved in the work of the cooperative.

Although cooperative laws and subventions systems increasingly recognize cooperatives, this is not enough on the incentive basis and the appropriate organization, namely:

- cooperatives in Croatia have a reinvestment obligation of 20%, which is also not recognized as tax allowance under the applicable Income Tax Act (Official Gazette 177/04, 90/05, 57/06, 146/08, 80/10, 22/12, 148/13 and 143/14), while the companies on the reinvested profit are free of this tax (Cooperative Act, NN 34/11, 125/13 and 76/14).
- during bankruptcy or liquidation proceedings, all cooperative assets can not be distributed to cooperatives but remain in the hands of local self-government units that take over this property and transfer it to an existing or newly established cooperative planned to deal with the same or similar activity (Cooperative Law, NN 34 / 2011, Article 47).
- the banking sector has absolutely no understanding of the cooperative sector, so it is often the case that the guarantees for the business loans of the bank cooperatives require the guarantees of individual cooperatives on their private property.
- the Act on Employment Mediation and Unemployment Rights (OG 80/08, 94/09, 121/10, 25/12, 118/12, 12/13 and 153/13) provides that the Employment Service hold a person employed in the records like a member of a cooperative, which makes it difficult. It actually disables the establishment of consumer cooperatives in which cooperatives do not work, but only use cooperative services.
- there is no Local office for cooperatives that has direct responsibility for issues of social economy and cooperatives under Government.

Agricultural cooperatives dominate in the Croatian cooperative sector (*Sudarić, Zmaić, Sinković, 2011*), but in comparison with other EU member cooperatives they achieved marginal business results in the production, sale and turnover of agricultural products. Although Croatian cooperative legislation is regulated by EU standards, fiscal and institutional support is unsuitable for the qualitative promotion of agricultural cooperatives development. It is necessary to establish a cooperative audit for controlling the accuracy of the joint business activity by applying cooperative principles and, accordingly, encourage cooperative entrepreneurship through various tax reliefs. Resolving the policy of double taxation for cooperative members would be supportive for the overall development of Croatian agricultural and cooperative movement to the original cooperative physiognomy which is presented in most developed world countries. Stronger development of agricultural cooperatives would positively influence the development of agriculture, rural areas and the overall Croatian economy (*Nedanov, Žutinić, Mihić, 2015*).

A large percentage of cooperatives in Croatia (28%) did not submit an obligated annual report (GFI). Furthermore, cooperative total income shows that only 15% of cooperatives (180 cooperatives) have revenues of 140 000 euro and participate in the amount of 92% of total revenue of cooperative sector (HCZP).

According to Census data, between 2001 and 2011, active cooperatives in Italy grew up by 15%, against 8.5% increase in total businesses. During the same period, number of employees in cooperative enterprises increased by 22.7% vs 4.3% in total companies. In

other words, the 750.849 more employees registered in private companies between 2001 and 2011, 222.367 - so almost the third (29.6%) - had found work in a cooperative. The contribution of co-operation to the employment is even more important if it is considered that in the same period investors in public institutions have even declined. Overall employment has risen in the decade of only 539,262 units (*Legacoop Research Center, 2013*).

Social co-operation in Italy, at least until the end of 2013, has helped the crisis and helped prevent the reduction of public resources allocated to social services. But it has also diversified its activities, working more and more in the fields of education, cultural and sports activities, in non-socio-sanitary services in general and in activities other than those with predominant public funding.

The Italy also introduce important reforming measures for the Italian credit cooperative banks – Bank Cooperative Credit (BCC), with the aim of eliminating structural weaknesses in the cooperative banking system. Interest rate in BCC is much lower and more favorable than commercial banks especially for introduced innovation loans.

## Conclusion

Cooperatives are resistant to a variety of socio-political organization and they adjust easier to market changes in Croatia and Italy as well. The development of cooperatives is also significant in the international context and partnership between Italian and Croatian cooperative (and many other countries) and their business can contribute to the local but also to the national economy.

The Italian cooperative system has reached the economic and employment significance after more than twenty years of continuous growth and even the economy crisis in 2008 did not interrupt this.

Croatian cooperatives are very uncertain and unstable because it is very difficult to survive without adequate internal and external infrastructure and incentives (*Sudarić, Zmaić, Lončarić, 2013*). Croatia is not in the same situation as Italy but mutually appropriate project co-operation could benefit to the both countries.

The following steps in Croatian cooperative could primarily be reflected on:

- the development of a Local cooperative center - which could affect on the recognizability of Croatian cooperative productions and distribution,
- the development of a cooperative banking association – helping cooperatives in financing in order to make their product competitive in national and international frameworks, and what is prone as well,
- to do formal and informal methods how to affect on law regulation changes in the Croatian cooperative society.

Namely, the analysis of the financial management of the cooperative system and the trends in the number of members and employees in Croatia indicates that it is necessary to continue to work intensively on the modernization of the existing legislation and to develop education of all participants in this process in order to launch the cooperative entrepreneurship and to be accepted as a socially and economically viable model.

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