
Toward an economics of the rural third sector

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Abstract: Third sector organisations play a prominent role in rural development. Yet, such organisations have been largely neglected by existing economic research. This paper examines the potential role of standard theories of the third sector and collective action in explaining the motivations to form such organisations in rural settings. In doing so the paper outlines a research program on the economic theory of the rural third sector. It is argued that some rural third sector organisations emerge for reasons emanating from unique aspects of agriculture and rurality. Some of these reasons are related to rural areas' characteristics that reduce the return on for-profit firms' investment. Other reasons emerge from the need to overcome the organisational disadvantages of small-scale family farms, and the call for maintaining the balanced multifunctional character of agriculture. Illustrative examples from three European countries provide preliminary support to our arguments.

Keywords: rurality; agriculture; governance; third sector; rural development.

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1 Introduction

In many countries of the world, the development of rural areas is actively supported by third sector organisations (TSOs) in the broad sense of the term, i.e., organisations representing neither for-profit firms nor governmental agencies. The key examples of these organisations include local community organisations, mutual self-help groups, rural and agricultural cooperatives, rural partnerships, and nongovernmental organisations (NGOs). TSOs affect the development of rural areas and agrifood chains in a variety of ways, e.g. by enhancing farmers' market power (Hueth and Marcoul, 2003), articulating the political interests of rural populations (OECD, 2006), promoting the development of rural diversification (Renting et al., 2003; van der Ploeg et al., 2000), and delivering various rural services on a mutual self-help basis (Uphoff, 1993). In developed countries, the role of rural TSOs has been enhanced by the shift 'from government to governance' involving the increasing transfer of responsibilities from the state to the private for-profit and third sectors (Goodwin, 1998). In developing countries, the importance of the rural third sector has been appreciated primarily as a result of the relatively low effectiveness of both state-led and market-led policies of agricultural and rural development (Kydd and Dorward, 2004).

However, in spite of the generally recognised importance of the third sector in rural development (OECD, 2006; Uphoff, 1993), economists have not yet examined whether rurality can represent a distinct theoretical reason for the existence of rural TSOs. The standard economic theories emphasise the role of the third sector in public goods provision (Weisbrod, 1991), gaining consumers' trust (Hansmann, 1987), ensuring better consumer control (Ben-Ner, 1986), and serving as an outlet for ideological entrepreneurship (Rose-Ackerman, 1996). Even though these standard theories have been basically disinterested in rural development, they can potentially yield important insights about the operation of the rural third sector. Therefore, this paper's objective is to call attention to the need for expanding our understanding of the rural third sector by re-examining the general economic theories of this institutional arrangement. The paper achieves this objective by developing the basic elements of a research program on the economic theory of the rural third sector.

The proposed research program fully shares the bottom-line implication of the standard economic theories of the third sector that the operation of for-profit firms is subject to limitations creating a niche for TSOs. In line with this inference, this paper explores the relevance of rurality as a possible distinct theoretical rationale for the third sector by asking whether rurality implies any limitations on the operation of for-profit firms in such a way as to give rise to TSOs. It is argued that the organisation of agricultural production and unique characteristics of rural areas are causally responsible for the emergence of at least some forms of rural TSOs. Illustrative examples from three countries support this main hypothesis. Thus, the paper contributes to the third sector

literature by identifying industry-specific rationales for TSOs, and to the rural development literature by highlighting the significance of rural TSOs for the development of rural areas.

The paper is structured as follows. The next section proposes a number of hypothetical conjectural reasons why agriculture and rural development may be associated with sector-specific rationales for TSOs. Section 3 presents illustrative examples of rural TSOs from the UK, the Netherlands, and Greece. Section 4 examines the available preliminary empirical evidence from the perspective of standard economic theories of the third sector. The last section concludes the paper and summarises the proposed research program on the rural third sector.

2 Sector-specific rationales of TSOs in agriculture and rural development

This section proposes three broad conjectural, sector-specific rationales for rural TSOs. Following the traditional division of economic theories of the third sector into demand-side and supply-side, the proposed rationales are discussed from demand-side and supply-side perspectives. While the former perspective explains the stakeholders' motivation to consume TSOs' outputs, the latter is concerned with the motivation to form respective TSOs.

2.1 Characteristics of agriculture and rural areas

Rural development scholars generally recognise that rural areas in both developed and developing countries have a number of socio-economic characteristics that reduce the return on for-profit firms' investment. In developed countries, these attributes of rural areas most importantly include a relatively low population density and per-capita incomes, significant geographic dispersion of consumers and producers, and relatively poor infrastructure (Terluin, 2001; Baum and Weingarten, 2004). For developing countries, this list must be supplemented by the significant risk facing farmers that their contractual partners will breach their agreements. Consequently, farmers' ability to buy inputs and sell outputs in the marketplace is severely constrained (Kydd and Dorward, 2004). The lower return on investment weakens the incentives of for-profit firms to operate in rural areas. This means, in turn, that rural dwellers may be dissatisfied with the levels of consumption goods and services delivered to them by for-profit firms. In this situation, rural inhabitants will discover that the only way to respond to this mismatch between demand and supply is to organise TSOs delivering those goods and services that are not profitable enough to for-profit firms. Operating on a mutual self-help basis, these TSOs may engage in transportation, social services, education, community development, and other activities. Given the mutual self-help nature of these TSOs, it is natural to expect that the demand for this organisational form will more or less automatically generate its supply (Valentinov, 2009).

Apart from TSOs delivering various types of rural services, agricultural producers in many parts of the world operate agricultural cooperatives engaging in joint input procurement, product marketing, and provision of business-related services such as lobbying. While cooperatives are known to exist in many non-agricultural sectors as well, it stands to reason that the rationale for agricultural cooperatives is interrelated with

sector-specific characteristics of agriculture. In this line, Valentinov (2007) develops a sector-specific rationale for agricultural cooperatives based on an account of the sector-specific difficulties of hierarchical organisation of agricultural production. While these difficulties are traditionally believed to constitute the rationale for family farms, Valentinov (*ibid*) argues that family farms have organisational disadvantages related to their limited size. Since the size of family farms is constrained by the size of the family, they find it difficult to realise external economies of scale and to develop market power comparable to that of their up- and downstream trading partners. These disadvantages represent the major motives for the creation of agricultural cooperatives.

Notably, this explanation of agricultural cooperatives is sector-specific since it does not apply to sectors other than agriculture, as compared with other explanations pointing out the general ability of cooperatives to economise on transaction costs and to develop 'countervailing power'. While the latter justifications reveal the general institutional advantage of cooperative organisation, the account of sectoral specificity clarifies why this advantage is of particular relevance for agriculture. Again, the mutual self-help nature of agricultural cooperatives implies a certain harmony in the demand for this organisational form and its supply: cooperatives are (almost by definition) created by those individuals who exercise demand for their services.

2.2 Multifunctionality of agriculture

Multifunctionality is another characteristic of agriculture that provides a sector-specific rationale for the formation of rural TSOs. Both agricultural scholars and the broader public recognise the multifunctional character of agriculture, that is, the joint production of commodity and non-commodity outputs, the latter of which often possess public goods attributes (OECD, 2003; Hagedorn, 2007). Another concern of multifunctional agriculture is the elimination of negative externalities associated with agricultural production. Stimulating the production of valuable agricultural non-commodity outputs and eliminating negative externalities have long become major issues in the development of agricultural policies, particularly in European countries. As the active governmental role in solving these issues has been problematic due to crowding-out effects and transaction costs, there has been a growing interest in nongovernmental approaches to ensuring multifunctionality. Given the difficulties of valuing non-commodity outputs in the market, these nongovernmental approaches imply an important role for TSOs that may be operated either by farmers or consumers concerned with multifunctionality.

A recent OECD (2005) study reports several cases that highlight the role of multifunctionality. Some of these example cases are the National Trust in the UK, which collects funds from its supporters and invests them to conserve the resources in countryside, including its owned farmlands where the tenants implement conservation work; an NGO that pays landowners for their undertaking of agricultural conservation in the USA; and a Japanese consumer association which promotes the consumption of locally produced foods and conserving local agriculture.

The outputs of multifunctionality-focused TSOs may be demanded by diverse stakeholders, such as the broader public, consumers, and farmers sharing environmental and related concerns. It is these societal groups, consumers, and farmers that are likely to create (supply) such TSOs. Following the terminology of Rose-Ackerman (1996), the supply-side motivation of these stakeholders may be designated as ideological in the sense that it reflects their beliefs on how agriculture should ideally operate. It is from

these ideologies that non-commodity outputs derive their social value. Since markets fail to fully incorporate the ideological motivation of these stakeholders, the latter create ideologically-driven TSOs which generate non-commodity outputs according to their ideological value, rather than market value. Multifunctionality-focused TSOs are thus explainable in terms of both demand-side and supply-side considerations.

2.3 *Government-third sector relations*

It has been long recognised that the development of the third sector in any country is importantly affected by the dominant type of government-third sector relations that may be complementary, supplementary, or adversarial (Young, 2006). The contemporary European rural development is arguably marked by complementary government-third sector relations particularly in view of the ‘new rural paradigm’ involving the transfer of responsibilities from government to the private for-profit and third sectors (OECD, 2006). The ‘new rural paradigm’ highlights the ongoing trend in the European rural development policy toward increasing reliance on partnerships beyond the formal structures of government. Having been a major instrument of the LEADER program, these partnerships clearly represent third sector organisations.

Due to the wide-ranging political powers of governments, governmental policy toward the third sector arguably combines the demand-side and supply-side considerations. To the extent that the governmental officials believe that they need the TSOs’ outputs, they may take policy actions aimed at creating the needed TSOs. This may be a double-edged sword to TSOs themselves, particularly taking into account the suppression of TSOs’ by former communist governments of Central and East European countries. Yet, in the context of the contemporary European rural development, the governmental role appears to be sufficiently important to warrant consideration as a distinct sector-specific rationale for the rural third sector.

The sector-specific rationales for TSOs in agriculture and rural development may be summarised in the following table:

Table 1 Sector-specific rationales for agricultural and rural TSOs

<i>Sector-specific rationales</i>	<i>Demand-side Theories</i>	<i>Supply-side Theories</i>
Characteristics of rurality	Rural dwellers need TSOs to provide themselves with goods and services not sufficiently profitable to for-profit firms.	Rural dwellers needing TSOs are creating and operating them on the mutual self-help basis.
... related to low profitability of business activities in rural areas		
... related to limitations of hierarchical organisation of agricultural production	Family farmers need agricultural cooperatives to compensate for the limited size of family farms.	As mutual self-help organisations, agricultural cooperatives are created by farmers who need them.

Table 1 Sector-specific rationales for agricultural and rural TSOs (continued)

<i>Sector-specific rationales</i>	<i>Demand-side theories</i>	<i>Supply-side theories</i>
Multifunctionality of agriculture	Production of non-commodity outputs of multifunctional agriculture requires TSOs as these outputs are not properly valued by for-profit firms.	Multifunctionality-focused TSOs are created by consumers, environmentally conscious farmers, and other societal groups sharing ideological concerns for multifunctionality.
Public policy	Governments may be interested in delegating responsibilities to TSOs (e.g., rural partnerships).	Governments provide incentives for the creation of TSOs (e.g., funds to support rural partnerships).

3 Illustrative examples

The preceding arguments suggest that, in addition to rationales common to urban and rural TSOs, there exist rurality-specific reasons behind the formation of rural TSOs. This section summarises case study and other empirical evidence on the reasons for the formation of rural third sector organisations in the UK, the Netherlands, and Greece. The extant literature repeatedly reports that such organisational phenomena are observed in most European countries (Pestoff, 2008). While this literature review is not exhaustive it nevertheless provides support to the arguments advanced in the preceding sections.

3.1 UK

The importance of TSOs in the UK is well documented (e.g., DEFRA, 2008). Traditional cooperatives, mutuals, social cooperatives, various types of voluntary organisations, community businesses, social firms, housing organisations, and sheltered workshops for disabled people all belong to the British third sector. In 2005, there were 15,000 such organisations in the UK (Atkinson et al., 2006). They had a total turnover of € 22.3 billion, and a workforce of 775,000 people (Defourny and Nyssens, 2008).

While data for the portion of the above organisations which, partially or exclusively, serve rural areas are very difficult to find, several cases of such TSOs are recorded. For example, almost 600 agricultural cooperatives are active in rural UK (Daniele et al., 2008). Over the years, these enterprises have successfully helped their farmer-members to correct various types of market failures. They performed this task by either redistributing existing income in the farmers' favour or by increasing the efficiency of the economic system and thus creating new income. The aforementioned market failures are inherent in the industrial organisation of the agricultural sector and thus provide reasons for the formation of rural TSOs, such as agricultural cooperatives, that are not found in urban settings (Staatz, 1987).

Other types of TSOs are also prominent in rural UK. Community-based social entrepreneurship initiatives have provided the means to addressing rural development issues by engaging local communities living on the Isle of Wight (Clark et al., 2007). The persistence of the challenges associated with rural development efforts, even in agriculturally advanced countries, indicates both their uniqueness and the major difficulties they cause. While urban development also poses significant challenges, the

structural and socio-economic characteristics of rural areas give rise to problems not observed in cities (e.g., Green et al., 2009).

Another important constraint facing rural communities is the transport problem which is intensified by lower densities of population, workplaces, and services. Due to these characteristics of rural areas, for-profit firms have no incentive to provide transport services. On the other hand, governments tend to respond to the median voter and thus may avoid serving some rural minorities. TSOs have provided a solution to the transport problems of rural England, albeit their initiatives tend to not cover the poorest households which need their services the most (Williams and White, 2001).

The Action with Communities in Rural England (ACRE) provides another illustrative example of a rural TSO in the UK. It is the national umbrella organisation representing and serving the Rural Community Action Network (RCAN) which comprises 38 rural community councils. Its mission centres on four goals:

- 1 to actively promote sustainable communities and encourage local action to address climate change and resource depletion
- 2 to support and promote the contribution that RCAN and its grass roots membership can make to improving health and wellbeing and achieving social inclusion
- 3 to be a national centre of expertise, to influence policy makers and support RCANs sustainability
- 4 to be enterprising in delivering their services, and foster an enterprise culture within their organisation, their RCAN member organisations and the communities they serve (ACRE, 2008).

The abovementioned mission statement along with past and current actions, and projects of the ACRE network suggest that they were formed in order to provide missing services, to harness non-commodity outputs produced by people in rural areas, and influence policies and services so that they achieve equity for rural communities. Rural households and businesses felt that they were neither served adequately by public and for-profit organisations nor represented sufficiently in the public policy arena. Again, it was the unique characteristics of rural areas that acted as handicaps for local people and businesses. Consequently, the reasons for forming ACRE and its member-organisations are clearly related to rurality and could not have been observed in urban areas. Furthermore, policy makers support the network because it provides them with an easy and flexible way to access rural people and implement rural development projects successfully.

In a thorough study of the third sector in the rural East Midlands six types of organisations were identified as the most prominent (Lyon et al., 2002):

- community businesses
- community transport
- agricultural cooperatives
- intermediate labour markets
- heritage/environment trusts
- housing cooperatives/associations.

Table 2 Contributions of the most important rural third sector organisations in rural Midlands, UK

	Creating jobs	Providing training and improve skills	Providing goods/services where state/market will not	Providing finance and investment	Generating surplus for community benefit	Providing physical assets	Conserving the environment/heritage	Involving the community/combating exclusion
Community business	✓	✓	✓		✓	✓	✓	✓
Community transport	✓	✓	✓				✓	✓
Agricultural cooperatives	✓	✓	✓					
Intermediate labour market	✓	✓						✓
Heritage/environment trust			✓			✓	✓	
Housing coops/associations			✓		✓	✓		✓

The findings of this research suggest that the formation and growth of TSOs is dependent on the role of the public sector in supporting development of the sector. Table 2 summarises the contributions of the abovementioned types of rural TSOs and thus provides insights into the reasons behind their formation. These contributions accord with the conjectural reasons proposed in this paper. At least the first five of these TSO types have been formed to address problems that emanate from the unique characteristics of agriculture and/or rurality. For example, community-owned businesses serve rural areas that, due to low population densities, are underserved by for-profit firms.

The distribution of the various TSO types in the five counties of the study reveals the important role played by key individuals or 'social entrepreneurs' who can mobilise financial and human resources. The more deprived rural areas seem to have less people willing or able to engage in forming and running TSOs. The balance of rural TSOs in each of the five counties is also shaped by their particular structural, geographical, and socioeconomic characteristics. For example, agricultural cooperatives represent the most dominant form of TSOs in Lincolnshire while no such firms were active in Northamptonshire.

3.2 The Netherlands

Rural TSOs play a significant role in serving the interests of their stakeholders. Even though only 44 agricultural cooperatives were active in 2005, these organisations represent the most important form of rural TSOs in the Netherlands, primarily in terms of turnover, number of members, and other related parameters (Table 3).

Table 3 Selected characteristics of Dutch agricultural cooperatives (2002)

Number of cooperatives	44
Number of members ('000)	143.1
Employees ('000)	59.6
Total turnover (million €)	45,160
Turnover/cooperative (million €)	1,026.4
Members/cooperative	3,253
Turnover/member (thousand €)	315.5

Source: Gouveia (2007)

Several of these cooperatives are among the top-30 agricultural EU cooperatives, in terms of turnover (e.g., FrieslandCampina, Flora Holland, Bloomenveiling, The Greenery, and Cosun-Breda), and also among the top-50 agricultural cooperatives in the world (ICA, 2008). Dutch agricultural cooperatives were initially formed in order to provide their members with countervailing power and help them combat various types of market failures. Agricultural product characteristics (e.g., perishability, low value to quantity ratios) and asymmetric information problems intensified by infrequent communication between farmers created the initial need for agricultural cooperatives. Over time, however, the most successful among them have become increasingly offensive in not only protecting their members' farm income but also creating additional value for them through investments in other parts of the food supply chains.

Another widespread form of rural TSOs in the Netherlands is the environmental cooperative (EC) which delivers across-farm environmental and rural policy objectives (Franks and McGloin, 2007). The first of these organisations was formed in 1992 while today more than 125 such cooperatives with 10,000 members are active in the Netherlands. ECs are “local organizations of farmers and often non-farmers who work in close collaboration with each other and with local, regional and national agencies to integrate nature management into farming practices by adopting a pro-active approach based on a regional perspective” [Franks and McGloin, (2007), p.473].

Three reasons stand out as the most important for the formation of ECs. First, through these cooperatives farmers and, in several cases, non-farmer residents of rural areas designed regionally based, customised solutions to agro-environmental problems. Second, ECs allow a significant minority of farmers who care for the adoption of environmentally-friendly practices to voice “their own particular interpretation on what it means to renew the countryside” [Graveland et al., (2004), p.25]. Finally, ECs represent very efficient vehicles for the implementation of various governmental and EU rural development initiatives. Recognising this contribution, the Dutch Government has constantly provided support to these groups (Renting and van der Ploeg, 2001).

3.3 *Greece*

Four types of rural TSOs are currently active in Greece. Agricultural cooperatives represent the main form of rural TSOs. More than 6,000 farmer-owned cooperatives serve 746,812 members and provide jobs to almost 10,000 individuals (Chaves and Monzon, 2008). The majority of these organisations were formed in the early 20th century in order to address various types of market failures, predominantly in the form of hold-ups and asymmetric information-induced mismatches of bargaining power between farmers and downstream processors or upstream input providers. The structural characteristics of agricultural holdings along with the socio-economic characteristics of rural populations during that era provided the input and processing industries with considerable bargaining power over farmers. Collective action through agricultural cooperatives was farmers’ response. However, government intervention in the form of top-down initiatives and numerous amendments of the cooperative law has stripped these cooperatives of their ability to play the role initially envisaged by their founding members (Iliopoulos, 2000).

Women’s cooperatives represent another form of rural cooperatives. In essence these are worker-owned production cooperatives through which women of rural areas produce and sell various types of local foods, desserts and spirits. Also, they provide tourism-related services such as accommodation in renovated village houses of unique architecture, etc. More than 100 women cooperatives with 1,792 members were active in 2005 (Chaves and Monzon, 2008). These organisations were formed as a means of combating social exclusion, providing additional family income, and addressing local development challenges. The EU and state-initiated rural development programs have been instrumental to the formation of women cooperatives.

A few urban worker cooperatives have been formed in the 1980s and 1990s. However, the adoption of this organisational form is a predominantly rural phenomenon. While in cities unemployed women have access to a well-developed labour market, their rural counterparts have only one option; to start their own business. Clearly, it is the

unique structural characteristics and socio-demographics of rural areas that create the need for women's cooperatives.

Environmental, non-governmental organisations (NGOs) represent yet another type of rural TSOs active in Greece. They are voluntary associations of various legal forms whose goals include the promotion of environmental sustainability and the protection of other non-commodity outputs produced in rural areas. In a 2007 survey, 259 such organisations were identified (EKKE, 2007). The vast majority of these NGOs focus their actions in rural areas where the negative externalities imposed on the environment by an increasingly industrialised agriculture are more discernible.

Development agencies (DAs) are semi-private firms owned by municipalities, local governments, cooperatives and chambers of commerce. They were initially formed in the early 1990s in order to administer EU local development programs (e.g., LEADER) but currently some of them have extended their focus to other initiatives as well. DAs share some of the ownership characteristics of other, more traditional, forms of TSOs. Around 40 such agencies are currently active around Greece, some more successful than the others.

Public policy implementation was the primary motivation for forming DAs. The role of public entrepreneurship in organising public and private institutions has received relatively little scholarly attention (Klein et al., 2009). Whether public entrepreneurs, and under what conditions, are successful in initiating and implementing rural development programs is an equally less studied issue. Nevertheless, the failure of several rural development initiatives over the years has been partially attributed to the low participation rates of rural populations. In turn, this phenomenon is explained by, among other things, long distances, low educational levels, lack of access to credit, and the adoption of top-down approaches that failed to take into account the needs of local people (e.g., Pezzini, 2001). On the other hand, private firms did not have an interest in providing rural development services primarily because, due to low population densities, they could not earn enough profits. In an attempt to address the abovementioned issues, the European Union agencies and national governments have provided incentives to local public and private organisations for forming DAs themselves.

Besides the four aforementioned organisational types, various city-based foundations provide scholarships to poor students from a particular village or region who have excelled.

4 Rural third sector and the current third sector economics

The empirical examples provided above testify to the fact that, in many parts of the world, there exist numerous third sector organisations whose rationale is interrelated with various aspects of agriculture and rurality. Admittedly, these organisations make a substantial contribution to realising the interests of their members and enhancing the wellbeing of rural communities. The real-world relevance of rural third sector organisations warrants scientific investigations of agriculture and rurality as broad, yet distinct, rationales for the existence of the third sector. These investigations would belong to the purview of the economic theory of the third sector, as this theory is centrally concerned with the question of why third sector organisations exist in a market economy (Steinberg, 2006; Hansmann, 1987). Thus there arises the need to examine the

relationship between the agriculture- and rurality-specific rationales for the third sector and the current literature on third sector economics.

The most obvious characteristic of this relationship is that the standard economic theories of the third sector do not mention agriculture and rurality (Jegers, 2008; Steinberg, 2006). Hence, there are grounds to suspect that these theories' potential contribution to explaining the rural third sector has remained largely unexplored. This research gap has been further enhanced by the fact that the empirical work on third sector economics has mainly followed the course of empirical verification of the existing theories. It is therefore much more difficult to identify research efforts aimed at determining the share of the real-world third sector that is explained by the theories being tested. Indeed, a recent authoritative overview of the state-of-the-art in third sector economics (Steinberg, 2006), while finding each major theory to be more or less empirically supportable, is silent on the question of how much of the real-world third sector these theories actually explain. Thus, the empirical correctness of existing theories provides no guarantee that no major part of the real-world third sector (such as the rural third sector) has been overlooked by this literature. The first step to filling this gap can be made by examining the possible conceptual intersections between the agriculture- and rurality-specific rationales for the third sector and standard economic theories (Table 4).

As shown in the table, the contribution of the supply-side theory is in pointing out the important supply-side counterparts of the proposed agriculture- and rurality-specific rationales. However, the significance of the demand-side theories is even more illuminating. An economic theory of the third sector that is most helpful in explaining the demand-side rationale for the rural third sector appears to be the customer control theory (Ben-Ner, 1986). This is not surprising given the fact that the most important type of rural third sector organisations in the countries under investigation is agricultural cooperatives operating in the political regime of complementary government-third sector relationships (Young, 2006). Agricultural cooperatives are created by their members, some of which often take more initiative than others, in order to fulfil those members' needs that cannot be satisfied by for-profit firms. At least some of the reasons why for-profit firms cannot satisfy these needs are interrelated with agriculture and rurality and are in this sense sector-specific.

Yet, in its present form, the customer theory confines the application of customer control to a limited set of stylised situations, such as those with for-profit firms having better information than consumers concerning product characteristics; with for-profit firms incorrectly supplying quality and other product characteristics; and with for-profit firms rationing high-demand consumers of excludable public goods by quantity rather than by price [Ben-Ner, (1986), p.95]. It is likely, however, that these stylised situations do not exhaust all possible for-profit firms' failures in satisfying important human needs. As third sector organisations, agricultural cooperatives embody an institutional form of customer control coming into existence because of agriculture- and rurality-specific limitations on the operation of for-profit firms. Accordingly, the further work on the economics of the rural third sector must explore the possibility for extending the customer control theory to take account of these limitations and must examine the role of local leadership in the supply of the cooperative organisational form.

Table 4 The relationship between standard economic theories of the third sector and conjectural explanations of the rural third sector

<i>Conjectural explanations of the rural third sector</i>	<i>Standard economic theories of the third sector</i>		
	<i>Public goods theory</i>	<i>Trustworthiness theory</i>	<i>Customer control theory</i>
Low profitability of business activities in rural areas	The public goods theory is basically unrelated to this argument.	The trustworthiness theory is basically unrelated to this argument.	The customer control theory supports the argument that the insufficient supply of goods and services by for-profit firms may cause the formation of customer-controlled TSOs filling this niche.
Limitations of hierarchical organisation in rural areas	The public goods theory is basically unrelated to this argument.	The public goods theory is basically unrelated to this argument.	Even though agricultural cooperatives arising from the limitations of hierarchical organisations are customer-controlled organisations, the customer control theory is not directly related to this argument.
Multifunctionality of agriculture	The public goods theory supports the multifunctionality argument insofar as some specific attributes of multifunctionality are embodied in public goods demanded by minorities.	The trustworthiness theory accentuates the need for ensuring the trustworthiness of TSOs concerned with multifunctionality (e.g., NGOs).	The supply-side theory accentuates the role of the ideological motivation of stakeholders of TSOs concerned with multifunctionality.
			The supply-side theory emphasises the importance of leadership in the formation of self-help groups arising in response to the insufficient supply of goods and services by for-profit firms.
			The supply-side theory, while not directly related to this argument, emphasises the importance of ideological and spiritual factors for the success of agricultural cooperatives.

Source: own presentation

As follows from Table 4, other standard demand-side theories, such as the public goods theory (Weisbrod, 1991) and the trustworthiness theory (Hansmann, 1987), have basically no intersections with several of the agriculture- and rurality-specific rationales, such as those related to low profitability of business activities and limitations of hierarchical organisation in rural areas. These theories' relationship to the multifunctionality of agriculture as another rationale for the rural third sector is also not more than tangential. At the same time, the public goods agenda appears to be highly relevant to rural development. At the local level, rural development often involves rural dwellers' self-provision with local public goods in the framework of local TSOs; at the supra-local and national levels, rural population represents a likely political minority whose requirements of public goods would not be fully met by a country-wide majoritarian decision-making, again creating a need for TSOs delivering the missing public goods to the rural people. The trustworthiness theory appears to have immediate implications for the issues of food safety, particularly when consumers face serious uncertainty about the quality of food products offered by for-profit firms. TSOs might have competitive advantages in the markets for such food products. Evidently, these potentially useful implications of the public goods theory and the trustworthiness theory still await their full elaboration and integration into the agriculture- and rurality-specific rationales of the rural third sector.

The major challenge in integrating the agriculture- and rurality-specific rationales for the third sector into the current literature on third sector economics is related to the sheer multiplicity of these rationales. Developing an agriculture- and rurality-specific theory of the third sector requires generalising these rationales and identifying their integrative bottom-line. Indeed, the empirical examples provided in the preceding section lend support to all of the conjectural agriculture- and rurality-specific rationales outlined above, while the public goods theory and the trustworthiness theory imply that these rationales must be additionally broadened. Although these tentative rationales themselves emerged as a result of inductive generalisation, they still present a rather heterogeneous set warranting further generalisation. At the same time, developing a comprehensive theoretical framework must do justice to the significant diversity of actually existing rural third sector organisations, ranging from global market-oriented agricultural cooperatives to local self-help groups, community businesses, and environmental NGOs. Importantly, explaining all these diverse organisations affects the very definition of the third sector by deemphasising the nondistribution constraint and taking a more positive view implied in the European notions of social enterprise and social economy (see e.g., Levi and Davis, 2008).

More generally, rural TSOs represent a form of collective action and therefore can be further considered from the broader perspective of collective action theory. From this perspective, rural TSOs constitute institutional devices for solving social dilemmas related to agricultural and rural development. Given its broad orientation, collective action theory enables scholars to examine both organisations operating under the nondistribution constraint and those that do not. A collective action perspective on rural TSOs involves the study of conditions that make social cooperation in the form of these organisations feasible. Evidently, rural TSOs would not exist if their stakeholders were atomistic, selfish, and fully rational, as assumed by early collective action theorists (Olson, 1965; Hardin, 1968). Later developments in collective action theory revealed a

variety of factors facilitating social cooperation (Lichbach, 1996). These include, among others, communication, trust, morality, reciprocity, networks, formal and informal rules (Ostrom and Ahn, 2003), and critical masses (Marwell and Oliver, 1993). Accordingly, examining rural TSOs from the collective action theory perspective requires revealing their cultural and institutional embeddedness, and analysing the extent to which this embeddedness is conditioned by the attributes of agriculture and rurality. Therefore, collective action research on rural TSOs is in fundamental agreement with the recently proclaimed 'paradigm shift in third sector theory and practice', i.e., a shift toward seeing the third sector as a 'social space within which caring, sharing, and communal action may be advanced' and away from defining it in terms of the nondistribution constraint (Van Til, 2009).

5 Conclusions and research implications

Even though recent years have witnessed a dramatic growth of the literature on third sector economics, this paper identified a major gap in the current state-of-the-art in this area. This gap is constituted by the largely missing theoretical work on rural third sector organisations. This paper has argued that rural third sector organisations play major roles in improving the well-being of rural people and communities, and that many of these organisations exist for reasons that are interrelated with various aspects of agriculture and rurality. Some of these reasons are related to rural areas' characteristics that reduce the return on for-profit firms' investment. Other reasons emerge from the need to overcome the organisational disadvantages of small-scale family farms and maintain the balanced multifunctional character of agriculture. Still further incentives are conditioned by public policies aimed at supporting agriculture and rural development. Since neither of these reasons has been explicitly considered by traditional third sector economics, this paper has called for an examination of the potential contribution of traditional third sector theories to explaining the rural third sector, with a view to establishing a new research program on developing and testing agriculture- and rurality-specific explanations of the rural third sector.

The contribution of this paper is in raising new questions rather than in attempting to answer them. Realising the proposed research program will require continuing the search for systematic agriculture- and rurality-specific reasons for the rural third sector and collecting empirical evidence specifically targeted at these reasons' verification. Most crucially, for regions under investigation, this evidence must indicate the share of the rural third sector in the total third sector as well as the share of the rural third sector that is explained by agriculture- and rurality-specific reasons. Identifying the distinct motivations for the formation of each type of rural third sector organisations will call, at least in the initial stages of this research, for a comparative case study approach. Thus methodology will enable scholars to evaluate the extent to which these reasons are specific to agriculture and rurality. After this necessary qualitative understanding of the rural third sector has been gained, greater role may accrue to more formal statistical and econometric techniques. Hopefully, this paper will stimulate the application of multiple methodological approaches to this new and exciting research area.

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