

CASE STUDY **Lunca Somesului Mic Agricultural Cooperative**



Executive Summary

This case illustrates the start-up of a small vegetable marketing cooperative by the farmers in a village in the centre of Romania. The start-up was facilitated by a team of out-side facilitators/consultants paid by the Civitas Foundation, which assisted the group formation, consensus and leadership building and with business strategy development. Also the consultants provided the small financial support necessary to pay a sales manager for the first year of the cooperative operation. The cooperative is an intermediary between the farmers and some hypermarket chains. The group specialises in cabbage, and to some extent, potatoes. In their 3 years of activity the turnover of the cooperative doubled and the production increased by 30%.

The delivery activity has a 6-7 months cycle, starting in May and ending in December – January. The peak is reached in October (more than 25% every year).

Their goal for 2015 is to decrease the contribution of the subsidy and to increase the contribution made via membership fees (attracting new members) and sales commission (selling more via the Cooperative).

In addition, as transversal objectives for the future, the cooperative will work to gather more members until around 60 members, will consolidate the internal management and distribution practices and will identify and start working with new clients.

Section 1: Description of the case

1.1. Context and history

The Civitas Foundation, active in the field of social economy and rural development, received funding from the Romanian American Foundation to start an agricultural cooperative in Cluj County, so they got in contact with several local authorities in the north-west of the county asking for support in entering the communities with this idea. Thus, the foundation was directed to the agricultural responsible of each community which provided a list of all the farmers in their area. The representatives of Civitas called and met with almost 60 producers and small farmers, knowing that the Somesul Mic Area was a prolific agricultural environment, being in advantage from its vicinity with the Somes river and a big market, Cluj-Napoca city.

The first meetings in Apahida (Cluj County) with the soon-to-be cooperative members began in the summer of 2012, when Civitas Foundation, which acted as a facilitator, presented its intentions to a preliminary group of producers. Those meetings came after quite a long time in which there were several initiatives in the community to start a cooperative, either supported by the municipality of Apahida or by the county's Agricultural Committee, initiatives that had no finality.

At first, almost 50 farmers took part at the discussion, and in time the group stabilised at around 20 interested individuals from the communes Apahida and Jucu (at about 20+ km away from Cluj Napoca city). Around 65-70% of the interested farmers produce cabbage and the others produce cauliflower, eggplants, beet, potatoes etc. The cabbage is some kind of well-known product of the area and also the product most demanded by the clients of the cooperative.

Since the idea of a cooperative was of interest in the community, the initial meetings lead by Civitas Foundation focused on establishing a set of rules of procedure, a business plan and to see which of the producers are interested in formalising the organisation. All the participants easily understood that the first step is towards establishing some organising lines, a General Managers, a Council of Administration and to set up a General Assembly.

The second step was listing and hierarchizing the producers' biggest problems, the first one being the methods and channels of sales that were available for the new cooperative. They decided that the business plan will include alternative marketing activities which will complement the current sales procedures that the farmers had, alternatives that would be needed only in times when the production is very high (August to November) and the regular channels would not be able to support the selling of their whole production.

The second problem that was identified was how the products would be deposited. The initiative group had several "false-starts", either by not obtaining a terrain that the local authorities had offered (due to the lack of funds or the municipality's capacity to cease the land officially), or by starting the discussions to arrange a building in Apahida which turned out not to be proper for a deposit. Lastly, they were able to rent a 30sm space in the Agro Transilvania Centre in Apahida. All these issues were dealt with in the same time with establishing the business plan and the hiring of a Sales Manager.

Also, an important point was deciding if the best organisational form was an association or a cooperative. They chose the cooperative primarily due to the fact that the National Programme for Rural Development only gives funds to cooperatives, and such funding was of real importance in the development of the organisation. Secondly, the aim of the cooperative is to facilitate sales, marketing activities and processing of

the products, so having the organisational form of an association would have made it difficult in regard to the sharing of the profits.

The whole process took almost 1 year (9 months) and the cooperative was formally authorised in March 2013.



1.2. Life cycle

For the establishment of the Lunca Somesului Mic Cooperative, Civitas Foundation used a previously tested model of cooperative start-up. In the first phase, the foundation made an analysis of the resources of the community, to see if it met the conditions for success for such an organisation: constant agricultural activity, dedicated farmers, proper distribution channels, proper demographic conditions (young farmers, people that intend to stay in the community etc.), previous associative initiatives, support of the local authorities, etc. The second step was getting in touch with the farmers in Apahida and organising several short trainings for the farmers interested in joining a cooperative, for them to understand the "theoretical" parts of this type of organisation. Each working session on a part of the business plan was preceded by a short training on the topic.

The third step was choosing the organisational form best suited to the needs and desires of the future members. As mentioned shortly above, the cooperative was chosen as an associative form both due the funding opportunities and the members' main objective, to sell their products through the cooperative (contrary to an association, which would have as main objective representation, not an economic activity).

In regard to the governance and organisational structure, from the beginning, there was a given a great importance to the involvement of all members, from which the President and Vice-President to be chosen. After the short training about the organisational structure, members became interested in being part of the Administration Council or to undertake other positions in the cooperative and became aware of the importance of their involvement. The young members that were just starting their farm were the ones more involved in the whole process.

Employing a fulltime Sales Manager came as a consequence of a careful evaluation of the possibilities and needs that the cooperative had in making performance in the distribution of products. The members decided that they need an outsider, a trained sales professional that can be both impartial and experienced in marketing and management.

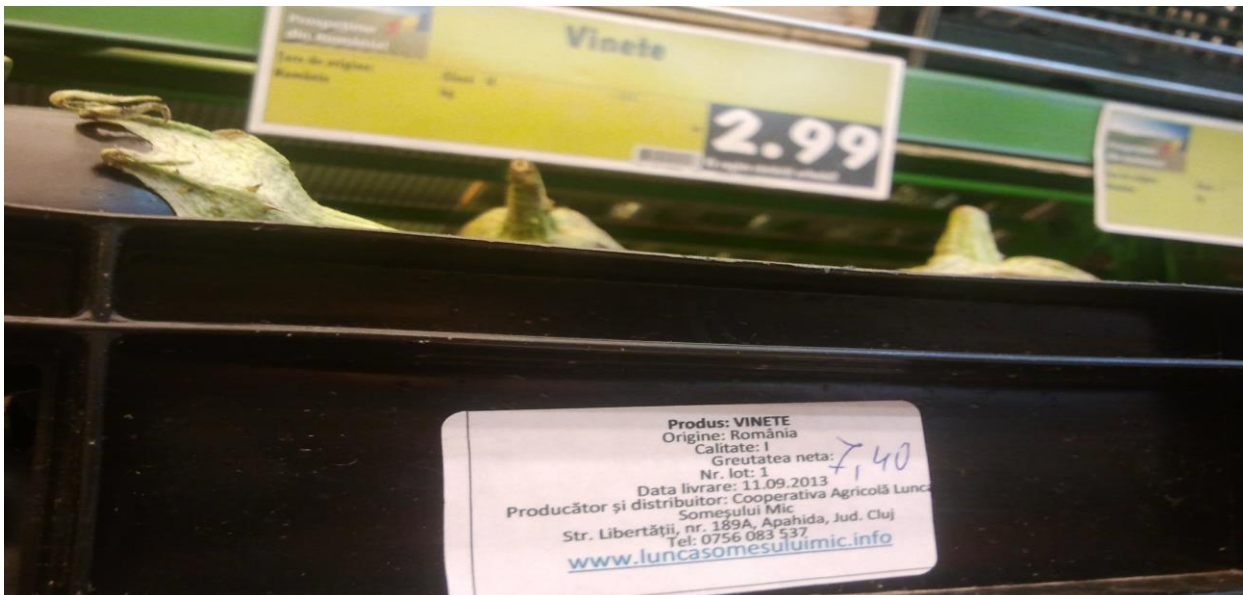
The first employed person had a major contribution in the development of the cooperative, by introducing the collaboration with the supermarkets (only 4 months after the formal registration of the organisation), after he realised that selling only to wholesale markets was not to the advantage of the cooperative. Wholesale markets were a bit reluctant in both offering financial documents and in buying the limited variety of products that the cooperative had, requesting both fruits and vegetables.

Thus, the first Sales Manager initiated the communication with the Kaufland supermarket in Turda (a city near Cluj Napoca). At the beginning, the cooperative overestimated the level of exigence in delivering the products, but with time, the relationship started to stabilize in the benefit of both the producers and the supermarket. After this, the cooperative began the collaboration with other companies, such as Profi. The direct selling to the supermarkets also brought a boost of confidence in the cooperative that the members had a short time after the start-up, which enabled them to trust the process even more.

One turning point in the life of the cooperative was at the very beginning, when a promised funding from the Romanian American Foundation for the construction of a deposit was withdrawn. At that point some of the members were disappointed in the foundation's intervention but things were soon revived and no member decided to resign. In the long term, this proved to be in the advantage of the cooperative.

Another crisis that the cooperative had to overcome is closely linked to the Sales Manager, which has been changed after the first year, due to a small conflict between him and the President of the organisation. After some tensions in the cooperative, the crisis passed and now a new Sales Manager is employed.

1.3. Core business model



The cooperative buys the products (vegetables) from the members, and then further sells them with a slightly higher price to the different supermarkets. The process functions in this manner: the cooperative sells members' products to supermarkets with a price, from which it deducts the operating expenses (5% for full members or 8% for the affiliated members) and then distributes the remaining between the members, according to the amount delivered. The farmers are paid by the cooperative at the end of each month (on the 25th for the preceding month), and the supermarkets pay the cooperative at 15 or 25 days after delivery.

The business model of the cooperative focuses on the development of the individual members. Thus, the annual contribution of the members (1500 RON, approx. 350 Euro) and the 5% (or 8% for the affiliated members) percentage from sales are enough for the running expenses of the cooperative. The Sales Manager receives a commission of 1.5% of the sales to the old clients (the ones that were already contracted when he was hired), but can go up to 2% for the new clients he contracts.

The added value is firstly the members' economical advantage, because they collect a higher price for each product, compared to the one they would collect from wholesale deposits. Secondly, the members save the time used for typical selling (in an open market, or by wholesale) and can use this time for better care of their farm. Thirdly, a great added value comes from their access to information and collaboration, which enables the development of the cooperative (by access to funding) and their own farm (by access to discount rates on inputs, and the possibility to pay for these after the harvest).

One of the biggest differences between the cooperative and an investor owned company is that the cooperative is fully centred on the members' benefit, there is no one that earns more or takes the majority of the profit, but each of the members receives its part according to the products given to the cooperative.

If there is a profit, or a surplus, the members wish that it be invested further in machinery or other developments.

In regard to the strategic partnerships, one of the most important is the membership in the Agro Transilvania Cluster, formed by several relevant entities in the agricultural sector, like inputs providers, processors, agricultural shops etc. Other strategic partnerships are: with the Agro Transilvania centre, where the headquarters of the cooperative operates, with the Civitas Foundation that facilitated the start-up and with the local authorities in Apahida commune. Also, the cooperative has sound partnerships with the supermarkets that are their clients. All the communication matters are managed by the Sales Manager, as part of his job responsibilities.

The members do voluntary work in the benefit of the cooperative every time there is a need, and they also have a statutory requirement to have 30 hours per year of voluntary work in the benefit of the organisation.

1.4. Institutional/governance structure

The legal form chosen for the start-up is the cooperative, being run by the General Assembly, a President, a Council of Administration and a paid Sales Manager.

At the moment the cooperative has 15 full members and 6 affiliated members that are expected to obtain full membership in 2016. To join the cooperative, each new interested farmer has a period of 1 year during which he has to prove his/her involvement and seriousness. During this trial year, the affiliated member has the right to sell his/her production through the cooperative, but has a higher commission (8%) than full members.

The community is not involved in the decision-making process in other ways besides the involvement of the members. The patronage rights are fully at the members, and they decide about every governance aspect that comes in discussion: who the clients are, what new client should be contacted, what new rules or procedures should be implemented etc. Also, each new member is rapidly informed about what the acceptance conditions are, which makes a difference in the group's cohesion.

The governance structure can be described as fully participatory; the members have the means and opportunity to decide about each of the instances of the cooperative's life. Besides the annual General Assembly, meetings are organised with almost all the members every 3 weeks (on average), an advantage being the small number of farmers.

This cooperative model in Romania adopts innovative practices mostly in regard to marketing and distribution practices. After a careful analysis, the farmers decided that their best rate of success would be assured if they would use marketing practices and

procedures from the typical economic actors. Thus, the cooperative has utilised methods of presentation that are similar to the for-profit business sector, such as professional portfolios, presentation folders etc.

An innovation is also the annual organising of team building and study visits, that are highly appreciated by the members and that give them the chance to discuss, brainstorm and foresee the future of the cooperative in a more relaxed and involved manner.



1.5. External relations

From the very beginning, when the idea of starting a cooperative appeared in the community, the local authorities (both the County’s Council and the municipality) were actively involved and supported the initiators. At this moment, the support has the chance to become even more concrete since the County’s Council is interested in sustaining an eventual funded project of the cooperative by offering half of the necessary co-financing.

The relationship with the traditional business sector is limited to the provider-client relationships. Also, the cooperative has a good collaboration with some of the other cooperatives in the area, with which they constantly exchange information on crops, seeds, fiscal procedures etc.

1.6. Economic data

In the first three years of activity, the Cooperative had the following turnover and quantity:

Year	2013	2014	2015*
Turnover (Euro)	52.000	110.000	117.000
Quantity (tones)	350	640	420

*by 31.10.2015

The delivery activity has a 6-7 months cycle, starting in May and ending in December – January. The peak is reached in October (more than 25% every year).

The operational fixed expenses of the Cooperative (including human resources, rent, accountancy, utilities, etc.) are situated at around 16.000 Euros per year, being covered by membership fees (31,2%), sales commission (32,8%) and subsidy from the Romanian American Foundation financed project, implemented by the Civitas Foundation (36%) – Calculation made for 2014. The goal for 2015 is to decrease the

contribution of the subsidy and to increase the contribution made via membership fees (attracting new members) and sales commission (selling more via the Cooperative).

1.7. Policy environment

The legal form chosen is a cooperative. Co-operatives (cooperative societies) are established and organized according to Law no. 1 of 21/02/2005 on the organization and operation of cooperation – which is valid for all types of cooperatives with the exception of credit cooperatives. According to the law mentioned, the co-operative is an autonomous association of physical and / or legal persons, as appropriate, established on the basis of their expressed consent in order to promote the economic, social and cultural needs of cooperative members and is jointly owned and democratically controlled by its members in accordance with cooperative principles. Cooperative societies may be formed in two forms:

- Cooperative societies of 1st degree established by individuals;
- Grade 2 cooperative societies made up of cooperative societies of 1st degree, mostly, and other natural or legal persons.

The law foresees various types of cooperatives: handicraft cooperative society (worker cooperative), consumer cooperative, marketing cooperative societies, agricultural cooperative; housing, fishermen, and transport or forestry cooperative societies according to the common bond that ties their members.

Romania also has agricultural cooperatives governed by Law 566/2004. According to Law 566 an agricultural cooperative is an association of individuals aiming to jointly exploit the agricultural lands owned by cooperative members, to conduct joint mechanical services to members, using shared machines and systems and marketing of agricultural products. It is not clear which are the differences between the two parallel laws, since both regulate the same type of organisation.

Since 2015 with the adoption of Law 219/2015 on social economy we have a legal definition of the social enterprise as legal entity certified by regional labour office as fulfilling the following criteria:

- acting in a social and / or general interest of the community;
- allocating at least 90% of the profit for a social purpose and/or statutory reserve;
- undertaking to transfer the assets remaining after liquidation to one or more social enterprises;
- applying social equity principle among employees, ensuring fair wage levels, differences not exceeding a ratio of 1:8;

They can take the following legal forms: cooperative societies, credit cooperatives, associations and foundations, credit unions, agricultural societies, all other legal persons that according to their statutory documents respect the social economy principles stipulated in the recent Law.

Worth noting that under Romanian cooperative law, farmers are not required to sell a minimum amount or quota of their products through the cooperative.

Romania is the country with the highest number of farms in EU – over 3 million farms, many of which are subsistence or semi-subsistence farms. Under the National Rural Development Programme 2014-2020 cooperatives receive extra points in the evaluation scores in an attempt to promote association of farmers. Around 1% of the farmers in Romania are members of an agricultural association, society or cooperative (estimate made by the European Commission's report on the role of farmers' cooperatives in EU).

Section 2: Analysis of the case

2.1. Impact analysis

The cooperative doesn't actually use specific social indicators or instruments to measure its impact among members or in the community. The highly used indicators are the economic ones. Civitas Foundation observed that the members are expanding their farms, which denotes their involvement, dedication and desire to keep working and developing the cooperative. Also, the members have a higher gain by selling their products through the cooperative, a fact that boosts the members' confidence in the organisation.

In regard to the social cohesion and local economic impact, Civitas Foundation noticed that many of the members that now sell their products through the cooperative used to sell those in wholesale markets, and now their place in wholesale markets is taken by smaller producers. Basically, the cooperative members made a step forward in their distribution channels, and gave others the opportunity to advance as well, from selling in the market to selling to wholesale.

The cooperative also plays quite an important role in encouraging beneficial changes in society's mind-set, by changing the view about how a business can be organised and the openness towards accessing funds and starting projects in collaboration. The cooperative succeeds to engage other actors in the community by some of its initiatives, like the participation in several projects on agricultural topics or individual projects of the members.

Also, the social capital started to rise in the community since the cooperative started. People began to talk on the subject, became interested in the coop's activity and even started considering joining the cooperative at some point in the next period. Now, the cooperative is a quite well known organisation in Apahida, highly appreciated by the community.

The democratic practices have a very important position in the cooperative's management, even if at the beginning there were some discussion on the fairness of having the one man – one vote decisional system. Initially, members didn't fully understand why this system is necessary, but they eventually came to realise that this would not influence the amount of profits that they will make, but it will ensure a fair input of ideas and a fair management.

2.2. Looking towards the future

One of the most important vulnerabilities that Lunca Somesului Mic Cooperative has is their position on the market. If the cooperative cannot find favourable sale avenues and good clients, then the sales are endangered, the organisation doesn't accumulate any commission and its existence is not supported anymore. It is important for the cooperative to always find better prices than the ones offered by the wholesale market.

Another pressure comes from the constant interaction between the members, who still need someone to mediate some of their encounters. This situation happens especially when a delivery goes wrong because of someone's fault and they tend to be incriminating, but need to be persuaded to be understanding and collaborative towards finding a solution so that the situation wouldn't happen again.

Another point of vulnerability would be the loyalty towards the group, involvement and pro-activity of the members. The farmers still have to be fully aware of their responsibilities and duties as members: participating in the meetings, the necessary voluntary work they need to do annually, getting involved in finding and

communicating with the new clients. If this involvement diminishes during time, the cooperative's existence can be endangered.

The cooperative model, besides its advantages for the farmers (selling at better prices, obtaining cheaper inputs etc.), can give more space to the occurrence of interpersonal tensions between members, tensions that are not present in a traditional company where the decision-making process is the responsibility of only few persons.

The strengths of the Cooperatives are represented by the experience on the market and the growing cohesion inside the group. Furthermore, complementary projects developed at the Agro Transylvania Centre such as the vegetable packing Center AMPLU –Association for the Marketing of Local Products are raising the chances of the Cooperative to develop and introduce on the market new products.

The short-term plans (1-3 year) have the following priorities: 1) attracting at least 5 new members per year, 2) Developing new products at least 3 per year 3) Strengthening its financial viability.

The medium term plans (3-7 years) are: 1) Developing a processing factory, 2) Developing short supply chains (at least 1 selling point in Cluj-Napoca. 3) Investing in distribution logistics (1 delivery truck).

The long term plans (7 – 12 years) are: 1) Developing complementary internal services (two internal services: technical and management consultancy for farmers) 2) Developing a long term storage facility 3) Developing a network of at least 5 small scale storage facilities (collecting points) in Cluj and surrounding counties.

In addition, as transversal objectives the Cooperative will work to gather more members until around 60 members, will consolidate the internal management and distribution practices and will identify and start working with new clients.



Additional material

- **Coop's website:** <http://www.luncasomesuluimic.info/>
- **Civitas Foundation website:** <http://www.civitas.ro/index.php/ro>

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