

## **CASE STUDY** **“Vegetables of Vidra” Agricultural Cooperative**



### **Executive Summary**

The “Vegetables of Vidra” Agricultural Cooperative was established in January 2013, benefitting from the support of two Foundations in Romania: the Romanian American Foundation - that offered funding - and the Civil Society Development Foundation - that offered consultancy and operational support. In the 3 years of existence, the cooperative experienced constant growth, both in regard to the number of members registered (from 11 to 21 members) and the sales and incomes obtained (100% raise, from 2014 to 2015).

This case study serves as a good example of a start-up supported with external funding and know-how. From convincing the farmers about the benefits of association, to developing a self-sustainable cooperative on a growing performance path, The “Vegetables of Vidra” Agricultural Cooperative’s story can be seen as one full of lessons to be learned and good practices to be adopted.

## Section 1: Description of the case

### 1.1. Context and history

The “Vegetables of Vidra” Agricultural Cooperative is located in Vidra commune, Ilfov County, very close to Romania’s capital city, Bucharest. Being an area with a very favourable position – by the side of river, the main occupation of Vidra’s inhabitants is growing vegetables, mainly in greenhouses. In addition an old agriculture research institute – currently in decline – was operating for many years in the village.

The process of establishing the Vidra Cooperative started in 2012, at the initiative of the Institute of Social Economy (IES), part of the Civil Society Development Foundation (CSDF) within the project “The association, a chance for farmers”. The project funded by the Romanian American Foundation (which founded similar initiative across the country) in the framework of the programme “Rural Development through entrepreneurship and association”.

The first step was to conduct an investigation (survey) among the farmers to see if they would be interested in the creation of an association. Initially, 57% of the ones questioned were positive towards the idea, but had a series of concerns regarding the opening to the market, associated risks and costs.

The negotiations and discussions with the farmers lasted about 6 months, during which CSDF’s facilitators provided extensive assistance to help them outline their common goals and identify their most important challenges and needs regarding the production process, marketing and selling the products. During this period, the farmers passed through a stage of understanding what “association” means and how the concept is put into practice, what are the advantages and the disadvantages of working and selling together for the economic benefit of all.

At the end of this preparation stage only 11 farmers decided to sign the constitutive act and be part of the new cooperative. The “Vegetables of Vidra” Agricultural Cooperative was legally established in 2013. The cooperative members produce mainly tomatoes, lettuce, celery, cauliflower, kale, cabbage, eggplant and greens.

### 1.2. Life cycle

As stated before, “Vegetables of Vidra” cooperative was legally established in 2013 with assistance from the Civil Society Development Foundation that received in this purpose 100.000\$ funding for 3 years, from the Romanian American Foundation.

For the 3 years, CSDF’s experts worked closely with the cooperative’s members to help them develop the organisation, both in terms of management and business. A business consultant was hired by CSDF, which helped in the process of creation and implementation of a business plan.

At the beginning of CSDF’s intervention, the idea was the establishment of an associative structure of the farmers in Vidra. In Romania, the legislation allows for two different associative forms: farmers’ association or cooperative, each governed by different laws. The founding members of the cooperative in Vidra were presented with the two types, their characteristics, advantages and disadvantages, and they all agreed that a cooperative would suit best their needs and desires.

The constitutive act of the cooperative foresees that the organisation is a sales and acquisitions cooperative, which manages both the purchases of inputs and other agricultural materials and the vegetables’ sales and marketing activities. These being the most important needs of the founding members, a cooperative offered them the best framework for the activities, compared to an association.

In the first year, 2013, Vidra cooperative started small, with a few members, an executive director hired for the first 6 month of activity (which was also a member)

and with a system of selling their products online. The executive director managed the online sales and used his own car for deliveries. The main customers (embassies, banks, offices etc.) had quite high requirements in terms of quality and promptness, so this type of distribution was challenging for the cooperative. Although the requirements were met and the customers were pleased, the low diversification of products led to smaller sales than expected and provisioned in the business plan.

Year 2014 brought even more challenges, along with the first important contract of the cooperative, with a big supermarket chain in Bucharest (Mega Image SRL), which had a special purchase programme from local farmers. The contract was obtained after several discussion and negotiations with this main retailer in the city. Also, the cooperative bought in 2014 its first asset, a car with a refrigerated cabin, on a personal loan for 2 years, from one of its members.

Even though a great development opportunity, the contract with Mega Image SRL was accepted only by 7 of the members, which had to make an effort to successfully fulfil the quantities and standards set up by the supermarket. On the bright side, it was a great opportunity for the farmers to realise that selling together is of great advantage, both economically (profits vs. costs) and in terms of time management.

In 2015, the number of cooperative members grew to 21 and the contract with Mega Image SRL was renewed, this time with 17 farmers that delivered their products to the supermarket.

### 1.3. Core business model

The core business model of Vidra cooperative is the intermediation of sales from its members to the Mega Image SRL supermarkets chain in Bucharest. For this service, the cooperative gains 6% of the total sales. The relation between the cooperative and the supermarket is managed by an Executive Director, payed at a fixed rate.

The percentage from sales together with the annual contribution of the members (200 RON, approx. 50 Euro) and the registration fee of the new members (1000 RON, approx. 250 Euro) cover the day to day operating expenses of the cooperative, including the Director's salary and the monthly reimbursement of the debt made with buying the car.

Mega Image SRL is currently the only customer of the cooperative, after the online sales system was dropped. As mentioned before, the collaboration started in 2014 and has gone smoothly ever since. The core principles of the contract are to provide free inputs and consultancy to a core group of farmers, in order for them to deliver for a specific period of time fresh vegetables at a fixed price stipulated in the contract.



Photo of a storage box in Mega Image, March 2014.

The added value comes firstly from an economic point of view, for the 17 cooperative members that deliver their products to Mega Image SRL and thus are able to obtain a monthly fixed price, disregarding the market evolution. Moreover, having a contract

with a big retailer, which involves set dates and places for delivery, instead of selling in an open market for days in a row, brings the farmers the opportunity to gain valuable time that they can use for the development of their crops.

Thirdly, a great added value comes from some of the contract's characteristics, which include:

- an analysis of the farmers' land to ensure its quality, made by a laboratory in Bulgaria;
- free consultancy, offered by an agronomist hired by Mega Image SRL, that implies the development of a monthly crop plan for every farmer and constant supervision and adaptation of the crop to ensure its fulfilment;
- receiving same quality inputs (seeds, fertilizing products) for the type of crops decided for each farmer, according to the agronomist's suggestion and the possibility to reimburse the supermarket after harvest;
- advertising and promotion of the "Vegetables of Vidra" brand, sold under the registered trademark "Romanian Tastes", which is promoted and given a very high visibility by Mega Image SRL;

The biggest difference 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, and subsequently to Mega Image SRL. This situation generates however some discussion, regarding the 4 members that refuse to be part of the Mega Image SRL contract – because they seem to be getting a better price by selling in the open market or at wholesale markets, and thus their involvement in the cooperative's business is almost null.

The cooperative registered profits both in 2014 and 2015, but the amount was not distributed among members, but it was decided to be used for investments and reimbursing a higher amount of the debt.

For the moment, the most important strategic partners of Vidra Cooperative are the Civil Society Development Foundation - that is still involved in assisting the development of the organisation, and the Romanian American Foundation – that offered the founding needed for start-up until February 2016.

An action that could fall under the social activities, but also brought some profit for the cooperative, is the organisation's involvement in offering advisory notices<sup>1</sup> to the farmers in Vidra that needed to be certified as growers.

The cooperative doesn't have an updated website or other stable communication tools, but the organisation took part at a series of events and activities that raised awareness on its existence: Rural Net conference in June 2015, meetings with the Ministry of Agriculture in May – July 2015, PACT Local Initiatives Gala in October 2015, and discussions with fairs organizers.

#### **1.4. Institutional/governance structure**

"Vegetables of Vidra" Agricultural Cooperative is governed by the General Assembly (consisting of all registered members) and a Board of Directors, in the period between two General Assemblies. Also, the operational management of the cooperative is ensured by an Executive Director, the only paid full-time position of the organisation.

The General Assembly of the members has full decisional rights, and gathers whenever important issues are to be discussed and decided upon, even 5 or 6 times a

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<sup>1</sup> According to the law 45/2014, on the regulation of the agricultural products market, the grower's certificate is offered by the mayor, in 5 working days after request and having the advisory notice of an agricultural associative structure, organised at the local level and registered at the town hall.



year. All members have the right to vote on every issue, by the rule of one member – one vote.

The Board of Directors is not really functional yet, its 5 members do not decide on specific topics, but rather all members of the cooperative choose to convene the General Assembly so that everybody would be first-hand informed and given the opportunity to decide the course of action.

The Executive Director puts into practice the decisions of the General Assembly and is somewhat supervised / controlled by the Board of Directors. His main responsibility now is the management of the relationship with Mega Image SRL.

Currently, the cooperative has 21 members, from which 17 are involved in the unique delivery contract with Mega Image SRL. Each member has to pay an annual membership fee of 200 RON (approx. 50 Euro) and the new members also have to pay an entry fee of 1000 RON (approx. 200 Euro).

The members' capacity to manage the cooperative themselves was a priority of CSDF's assistance since the beginning, in 2012. Thus, in the first months, CSDF organised a series of short trainings and information sessions focused on the structure of a cooperative, its role and its members' position. In the coming months, the foundation has offered direct support to the President and the Executive Director, to ensure good management practices and to stimulate the members' involvement from the inside. In this moment, the whole governance structure can be seen as independent at 70%, and it still needs the involvement and consultancy offered by CSDF's representatives.

The governance structure is fully participatory and the local community (other than the members) is not involved at all in the decision-making processes.

An important innovation in the cooperative's governance structure is the setting up, in October 2014, of a Cooperative Development Fund (CDF) of \$22.000 - \$19.000 grant from RAF and \$3,000 zero interest, 2 year maturity loan from CSDF, whose main objective is to "encourage cooperatives' members to move from subsistence farmer to farmer able to deliver to supermarkets by investing in larger and better greenhouses, working technologies, depositing and conditioning facilities, transportation means and to get an education regarding borrowing money for business in the process".

The CDF will attain its objective by ensuring the members' access to goods (either inputs or machinery) acquired by the cooperative, through instalment sale or offering access to their use. There is no interest rate and the cooperative has no profit from this activity. Farmers can apply to the Fund if they are active and committed members of the cooperative. The first call for applications will be launched in February 2016.

## 1.5. External relations

The cooperative not only has scarce relationships with the local authorities, but also its members show a quite high resistance in being involved in any collaboration with the town hall or the local council. They avoid initiating any kind of request, either for an office space, or for farming out terrains. The reason for this situation is the members' fear of losing their credibility and the community's trust once they are seen in relation with these authorities.

A short technical collaboration with the authorities happened in May 2015, when the cooperative applied at the town hall to be recognized as an official agricultural advisor for the independent farmers that needed to obtain their grower's certificate.

In regard to the traditional business sector, the only connection of Vidra Cooperative is the one with the supermarkets chain Mega Image SRL, the cooperative's main client.

## 1.6. Economic data

| Year / Indicator | 2013                             | 2014                                 |
|------------------|----------------------------------|--------------------------------------|
| Turnover / Sales | 15 254.55 RON (approx. 4550 USD) | 416.211,74 RON (approx. 115.000 USD) |
| Net income       | 2579 USD                         | -                                    |

The economic data provided by the cooperative is relatively scarce. The numbers for 2015 are not yet available, and will be subsequently completed.

The main sources of income for "Vegetables of Vidra" Agricultural Cooperative are the sales to Mega Image SRL, the only customer of the organisation. Additionally, in 2015, the cooperative gained a small amount (approx. 3000 USD) from offering the advisory notices mentioned in section 1.3.

The income from sales together with the annual contribution of the members (200 RON, approx. 50 Euro) and the registration fee of the new members (1000 RON, approx. 250 Euro) cover the day to day operating expenses of the cooperative, including the Director's salary and the monthly reimbursement of the debt made with buying the car. After almost 3 years since establishment, the cooperative is self-sustainable.

The RAF funding covers a series of activities and expenses outside the operational costs of the cooperative. For example, these funds cover the cost of CSDF consultants and representatives, different registration fees or participations at different events, such as teambuilding, study visits etc.

There are no volunteers involved in the cooperative's activity.

## 1.7. Policy environment

In Romania, cooperatives (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 "Vegetables of Vidra" Agricultural Cooperative doesn't use specific tools for measuring its social and economic impact, other than the annual balance sheet. For internal management purposes, the Executive Director and the Board keep track of the sales using simple Excel sheets.

From an economic point of view, the cooperative has seen an ascending trend every year since its establishment. The biggest growth occurred from 2014 to 2015, when the vegetables quantities sold through the cooperative, by member, and the total vegetables quantity per cooperative have increased, sales being raised with almost 100%.

Being a newly established cooperative, and in a national environment not fully aware of the characteristics of such an organisation, Vidra Cooperative managed to raise its awareness both in and outside the community. Thus, there is a growth in request for membership from local producers in Vidra that observed the advantages of being part of an associative structure. Step by step, the existence of this cooperative will encourage other farmers or producers to come together, either by joining this cooperative or by establishing other associative structures, contributing to the social cohesion at the local level.

This increase in interest from the local community had as starting point on the one side the contract with Mega Image SRL - which made the cooperative members to be seen as good producers and on the other the cooperative's position as a recognized agricultural advisor for the farmers that needed the grower's certificate – which has a contribution in strengthening the social capital that is accumulated at the local level.

Furthermore, various stakeholders such as individual potential buyers, public fairs organisers, EU project promoters, other associative structures or simply Facebook visitors contact CSDF or directly the cooperative to launch invitations or just to express their interest in the organisation's activity.

The cooperative's members are aware that the external factors encouraging association, like the National Programme for Rural Development, public declarations of

politicians, the new law on producers' certificates will lead in the near future to the recognition of the cooperative as a reference model in the community.

## 2.2. Looking towards the future

In a medium or short term perspective, the cooperative has to settle some internal management aspects, regarding the rights and obligations of its members and the functioning of the decision making process, be it in regard to operational decision or strategic ones.

One of the strengths of the cooperative is that the group's cohesion has increased, especially for the 17 members that deliver their products for the Mega Image contract. On the down side, the other 4 members that refuse to sell to the supermarket are quite marginalised, and likely to be excluded from the cooperative in 2016, since their contribution is almost absent. In the future, current members explore the idea of establishing the condition/obligation for every member to sell part of his/her production through the cooperative. For the moment, the founding members of the cooperative decided that membership should be opened gradually, as the organisation's internal management capacity develops.

Moreover, in the last period of time, the members' sense of ownership increased continuously, thus the presence and their involvement in the discussions of the General Assembly also increased.

However, a decision making process based primarily on General Assemblies organised each time there is something to be decided upon can become ineffective over time, especially when the number of members increases and their gathering becomes very difficult. In the last time, the Board started to meet more often and the partnership Executive Director – President became more active and involved. Additionally, members became aware that the Board has to be empowered and trusted in making decisions, instead of convening the General Assembly for every matter. The Board also needs to be fully accountable and transparent, to gain the trust and to benefit the members' empowerment.

In regard to the business's development, one can identify as a threat the cooperative's reliance on one major client, Mega Image SRL. The supermarkets chain's demand grew rapidly over the two years of contract, along with its public declarations and actual expansion in Bucharest and in nearby cities, and thus somehow forced the cooperative to focus almost all of its efforts to meet the rising requests. In this situation, the cooperative became unable or unwilling to search and explore other channels of distribution or to revive the older ones (namely the online system that was in place in the first year of functioning).

On the other hand, the cooperative's members became increasingly interested in accessing external development funds, and started to be preoccupied in the National Program for Rural Development's measures, that can be a great opportunity for the production development at the producers' level, although the co-financing for a project in the framework of this program would require accessing a loan.

In a broader perspective, the cooperative members started discussing the idea of introducing a series of community activities, separate and in addition to the main economic activities of the cooperative. This idea was included in the application form to access the Cooperative Development Fund, but there is still a scarce understanding of the concept.

## Additional material – List of references

- "Rural Romania", no. 18, year II, February 2015, National Network for Rural Development - <http://madr.ro/docs/dezvoltare-rurala/rndr/RR18.pdf>



- [www.legumedevidra.ro](http://www.legumedevidra.ro)
- [www.fdsc.ro](http://www.fdsc.ro)

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