Support for Farmers' Cooperatives

Case Study Report

Organisational mechanisms to solve collective action challenges in vegetables marketing

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Preface and acknowledgements

In order to foster the competitiveness of the food supply chain, the European Commission is committed to promote and facilitate the restructuring and consolidation of the agricultural sector by encouraging the creation of voluntary agricultural producer organisations. To support the policy making process DG Agriculture and Rural Development has launched a large study, "Support for Farmers' Cooperatives (SFC)", in order to provide insights on successful cooperatives and producer organisations as well as on effective support measures for these organisations. These insights can be used by farmers themselves, in setting up and strengthening their collective organisation, by the European Commission, and by national and regional authorities in their effort to encourage and support the creation of agricultural producer organisations in the EU.

This case study report on the organisational mechanisms to solve collective action challenges in vegetable marketing cooperatives has been written within the framework of the SFC project.

Data collection for this report has been done in the spring of 2012.

In addition to this report, the SFC project has delivered 32 other case study reports, 27 country reports, 8 sector reports, 6 EU synthesis and comparative analysis reports, a report on cluster analysis, a report on the development of agricultural cooperatives in other OECD countries, and a final report.

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List of abbreviations

APO	Association of Producer Organisations
CAP	Common Agricultural Policy
CMO	Common Market Organisation
PO	(recognized) Producer Organisation
OP	Operational Programme
ZON	ZON Fruit & Vegetables
F&V	Fruit and Vegetables
REO	Roeselare En Omstreken Veiling

1. Introduction

1.1 Objective and research questions

The case study has the objective to explore the importance of the institutional environment for the performance of cooperatives, and illustrate the impact of specific policy regulations in defining the 'room of manoeuvre' of cooperatives to cope with the common challenges in collective action in F&V-markets. This study focuses on the reasons and dynamics why cooperatives develop different internal organisational mechanisms ('organisational intelligence') to face similar challenges. The study consists of a triangulated comparison between three cooperatives with similar logistic and marketing services to members.

Building on the descriptive analysis of the three case studies, we conclude with reference to aspects that are relevant for EU-policy-making, especially the economic incentives, fiscal incentives or disincentives and public support, and the history of changing policies and institutional arrangements that shape the internal organisation of cooperatives and the relationship between cooperatives and other actors of the food chain.

1.2 Analytical framework

Most EU Member States do not have specific policies for cooperatives in the F&V sector. While some countries have no specific policies on cooperatives at all, other have rather extensive policies that support agricultural cooperatives in general. For instance, in Spain all of the autonomous communities have their own policies on cooperatives, often including state support for modernization, innovation, and investments and for strengthening the marketing of quality products. Also Rumania and Hungary have national policies that are supplementary to the EU policies in supporting cooperatives and POs, both in F&V and other sectors (Bijman, 2012)

Most attention in cooperative studies is on the implications of the peculiar legal form of cooperatives, comparing this with other organisations of business. This highlights some of the managerial challenges, especially the reconciliation of the position of members as suppliers to and owners of the enterprise. However, there is a huge diversity within cooperatives as a group, with important differences in their internal organisation that has raised far less attention.

Organizing the cooperative to efficiently perform its logistic and service role, as a specific structuration of collective action, is not easy. Multiple internal and external organisational challenges will have to be overcome: multiple agency dilemmas will have to be contained by working rules and trust-enhancing mechanisms that can be considered as organisational social capital (Leana and Buren 1999; Ahn and Ostrom 2008). All cooperatives will be affected by several of these inherent tensions, though they will not necessarily feel all of them as problematic. Typically, a producer organisation will become aware of them when facing situations of change or crisis, when decisions have to be made to resolve problems. to prevent damage, to mediate conflicts, or alike, that forces to re-define internal regulations.

We focus this case-study on challenges that are common in cooperatives that have as their prime function to link vegetable producers to (dynamic) markets. For a producer organisation it is a continuous challenge to find ways to provide proper incentives that lower the transaction costs implied in motivating member support and reducing these risks of opportunistic behaviour, while, at the same time, they need to stay competitive as a business in a dynamic market. The

organisational 'intelligence' to find these solutions is largely fruit of the group itself, though obviously informed by the learning from similar experiences of their peers. In spite of all the inherent problems of collective action, people in real-world collective action situations have managed to cope with them (Bachmann 2003; Ostrom and Ahn 2008): economic producer organisations that realize their activities at some scale will necessarily have developed procedures and incentive structures, such as for pricing, payments, and quantity or quality requirements, that 'work' for individual members, the group, and their value chain partners.

This study illustrates the diversity in ways to handle these tensions, and indicates the role of supportive policies and institutions in determining the role of manoeuvre for cooperatives in resolving or containing them. We focus the case study on three of these tensions; fair pricing, coping with workin capital constraints, and anticipating free-riding (Table 1). These tensions are part of a broader framework used to study organisational efficiency in small collective marketing groups (Ton 2010; Ton and Vellema 2011)

Table 1. Three areas where disintegrative tendencies in marketing cooperatives are typically located

Fair Pricing	The members expect that a fair price is negotiated on behalf of them by their organisation. This creates the need for a transparent price determination mechanism and trust in members that the outcome of that mechanism is beneficial to them.
Coping with Working Capital Constraints	Many farmers tend to face cash constraints and ask for fast payment, while the organisation needs time to finish transactions with the ultimate buyer. Serving both increases the financial costs for the cooperative.
Preventing Free-Riding	The organisation might provide services and do investments to enable production or develop markets. Members are supporting to or charged for these services. However, there is a serious risk that farmers "side-sell" their product to competing traders or processors, to which they have no (re)payment obligation, or that offer other (short-term) benefits.

To facilitate this comparison, all three cooperatives are active in marketing of fruit and vegetables produced by their members. We focus this case-study on disintegrative tendencies that are common in cooperatives that have as their prime function to link vegetable producers to (dynamic) markets. These common challenges, are analysed in these cases using a historical perspective:

- *FAIR PRICING*: How does the cooperative set the prices in a way that both growers and buyers are satisfied? What have been the changes in these organisational mechanisms? Has this been a response to outside factors, or related with the institutional and policy environment?
- *PREVENTING FREE-RIDING*: Does the cooperative have competing companies that tend to capture part of the members production? Does the cooperative procure fruit & vegetables from non-members? Have there been changes in internal regulations that require (or not) members to exclusively supply to the cooperative? Has this been a response to outside factors, or related with the institutional and policy environment?
- *COPING WITH WORKING CAPITAL CONSTRAINTS*: How does the cooperative get resources to pay to its member suppliers while it can wait for the final payment by buyers? What have been the changes in these organisational mechanisms? Has this been a response to outside factors, or related with the institutional and policy environment?

1.3 Method of data collection

The case study is based primarily on the information in reports generated in the frame of the "Support to Farmers' Cooperatives" project. Additionally, academic literature, media reports and grey literature related with the internal governance of the cases have been explored. To gather publicly available literature and information, we used the names of the cooperatives as search terms in Google, Google Scholar and LexisNexis Academic, and reviewed the cooperatives' communications on their websites.

1.4 Structure of the report

Chapter 2 of this report describes the major dynamics within the three cooperatives related with the three common challenges in collective marketing of vegetables in modern markets. These dynamics reflect the inherent tensions between the grower and the group, called agency dilemmas in the social science literature. These three cooperatives will then be compared in chapter 3. Finally, in chapter 4 conclusions are drawn on the link with the policy area that proved to be key for defining the room of manoeuvre of the cooperatives to find solutions to these three challenges.

2. Triangle comparison of three cooperatives in the F&V sector

2.1 Three cooperatives

Based on the available information from the background studies, we selected the following three cooperatives that showed differences in the internal organisation of their logistic and marketing functions in selling fruit and vegetables to the wholesale and retail.

ZON Fruit & Vegetables – Netherlands

ZON Fruit and Vegetables was set up as the Cooperative Auction Association in 1915. Eighty-seven years later, midway through 2002, after various mergers and structural changes ZON has developed into one of the largest fresh produce cooperatives in Europe. Until 2001 the growers were members of local sales cooperatives that in turn were members of ZON. A major growth step was made with the incorporation of the various business activities in a number of operating companies that are controlled by ZON Holding B.V. The cooperative has about 400 members. Recently, ZON has entered a partnership with the Spanish cooperative UNICA to facilitate year-round deliveries to its retail clients. ZON also manages a 130 ha industrial zone "Fresh park" with more than hundred private companies involved in fresh food and vegetables.

REO Veiling REO – Belgium

REO Veiling was established in 1942, in order to address the burgeoning fruit and vegetable culture, which was steadily developing into a unique phenomenon in Mid-West Flanders. The present supply hall and auction room, which have been in operation since 1 April 1991, are located on the "De Klauwaertbeek" industrial estate in Roeselare, and cover an ara of 20 ha. The packaging department and buyers' depots are taking up more than 9 ha. REO Veiling is number five in the ranking of largest farmers' cooperatives in the food chain in Belgium. The cooperative as approximately 1,400 members.

Mórakert Purchasing and Service Cooperative – Hungary

The Mórakert Purchasing and Service Cooperative, in Mórahalom in Csongrád county, located in the southeast of Hungary, is active in the fruit and vegetable sector. In 2005 it had 730 members and procured also from around 2000 non-members. The cooperative has a site equipped with a full infrastructure. A handling, sorting and packaging line for vegetables and fruit was put into operation in 1999, and in 2003 a so-called "agri-logistic center" was set up by the cooperative, which covered 4,000 m2 including a cold storage depot which was one-fourth of the total area. In June 2006 the cooperative was occupying 15,000 m2 and a further six hectares, reflecting a rapid increase in activities. From 2008, the cooperative faced increasing financial costs and entered in bankruptcy in January 2011.

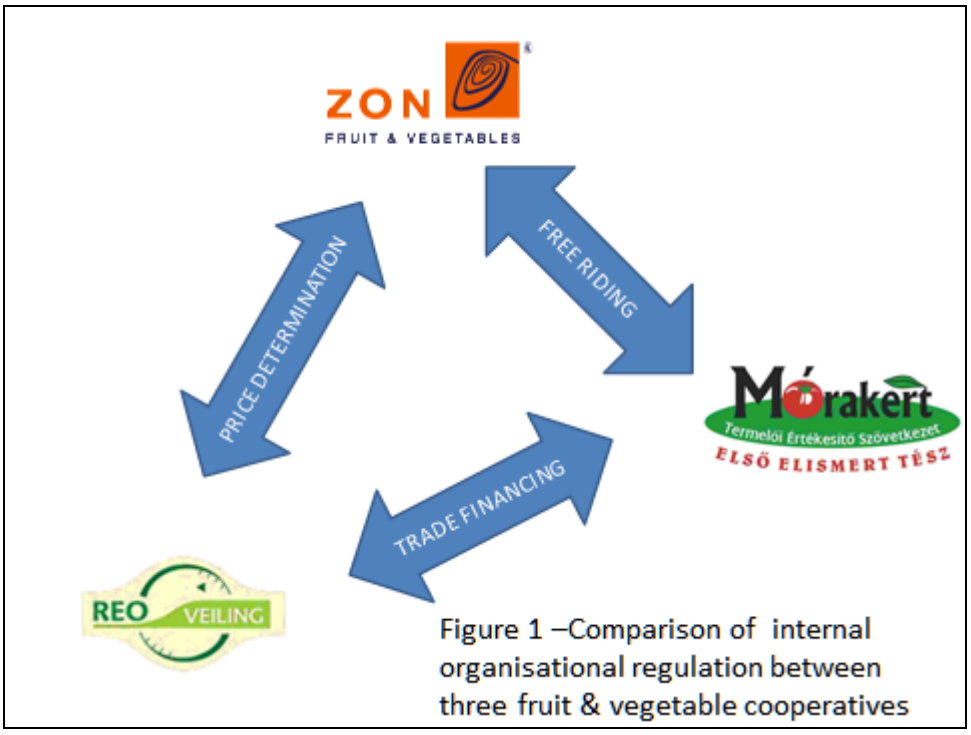

Figure 1 –Comparison of internal organisational regulation between three fruit & vegetable cooperatives

In the following, we use the comparison between ZON and REO to highlight differences and similarities in defining their internal systems of price determination. We use the comparison between ZON and Mórakert to highlight the differences in organization related to the management of trade finance. And we reflect on side-selling comparing REO and Mórakert (see Figure 1).

2.2 ZON Fruit &Vegetables, The Netherlands

Fair Pricing

ZON Fruit & Vegetables uses a mix of three different price-determination mechanisms. The auction clock, historically the main mechanism, became increasingly less important. Still, some 40% of all member products are sold using the auction clock. A second function performed by ZON is as a broker, negotiating prices with buyers. The third mechanism is the use of long-term contracts. Most of the supply, from 85% of the members, comes from the region round the cooperative, Venlo, and a small but increasing part of the supply is imported from Spain. The cooperative provides logistic services to its members. They manage a fleet of (subcontracted) trucks that take the product from the place of production to the auction or, when sold through the other two mechanisms, directly to the buyer. Buyers are generally wholesalers and to a lesser extent supermarkets in the Netherlands. In 2010, ZON has re-engineered its commercial division to expand the volume of direct sales to the retail. In 2011, ZON started a pilot to supply directly to US supermarkets.

In general, in the Netherlands, the growers' associations and trading houses have succeeded in concluding long-term agreements with the supermarket chains to only a limited extent: the auction clocks have been largely abolished in most marketing cooperatives, even though a sort of spot market has remained. The negotiations have retained their short-term character since the contracts relate to at most a couple of weeks. With the short-term character of the delivery and price agreements the market remains, in essence, a spot market. Solely the rules governing

the spot market have changed: firstly, the transparency of the market has decreased since the market's equilibrium price is known only approximately. Secondly, scope for renegotiations has been created. Transactions carried out using the auction clock were confirmed by pressing a button, but bilateral agreements offer scope for renegotiation of agreements. The combination of these developments has not been beneficial to mutual trust between the market players in the greenhouse vegetable chain. More than in the past, trust now needs to be acquired and maintained (Bunte 2009).

Anticipating Free-riding

ZON Fruit & Vegetables offers a choice to its members and the use (and benefits) of the clock auction system differs among sectors. From 2010 onward, the tomato growers have increased the volume that they market through the clock auction, while the pepper producers had a contrary stance towards the auction clock. The growers of pepper like to negotiate directly with retailers and prevent low prices in a context of high volumes and low prices. They complain about 'desperate' growers that accept low prices, and the atomisation of supply over several marketing cooperatives as the major weakness of price determination. They want to reduce the amount sold through the auction clock to the minimum. Until 2007, the ZON pepper producers (responsible for a quarter of total turnover) have been coordinating prices with other cooperatives, specifically with FresQ. This was, however, not allowed under competition rules. Interestingly, a merger of activities of the marketing cooperatives, instead of this informal price coordination, to get alignments in prices would have been acceptable under competition regulation.

These tensions between pepper producers' demand for more bargaining power and the requirement of ZON to keep the supply through ZON cooperative evolved towards a situation that half of the produce of the pepper produer group being negotiated through FresQ and half through ZON.

2.3 REO Veiling, Belgium

Fair Pricing

REO Veiling has maintained the auction clock as its core mechanism of price determination. The growers have trust in the capabilities to the cooperative to generate fair prices. The change to bilateral transactions and future contracts was considered to be a threat to transparency and could generate problems in the membership when the price for their products as settled by REO in these direct transactions were lower than the prices paid to other producers in similar auctions. Director Rita Demaré summarizes the major challenge that auction cooperatives face:

> *"The auction has the task to get the best out of the market. We make decisions in the interest of our members, but that is not immediately clear for all. We definitely can improve our communication to our farmers. As auction we need to watch that there is sufficient market for our products." (Van Bavel 2012)*

To adjust the cooperative to the tendency of buyers demanding more diversified, high quality and packaged vegetables, REO Veiling decided for a major internal reorganisation. In 2008, they added a commercial service to their core activity and employed their former crop advisors to market and product managers. This shift was accompanied with a series of necessary training to their staff and an increase in the margins that members pay to the auction as a percentage of the turn-over (1,2%). (REO Actueel #59, February 2008).

"The REO Veiling has consciously – after a thorough reflection with you, colleague-producers – chosen to keep the auction clock. The sales of the commercial entity has been activated but is supportive for the auction sales. This is not the easiest way, but a way that must keep your trust in your sales organisation." (Rita Demaré in REO Actueel #69, October 2009)

The commercial entity of REO Veiling negotiates future contracts directly with buyers. Contracts can vary between one week and one year. This addition of future contracts was not a decision taken solely by REO. This is has been the strategy in most Belgium auction cooperatives, united in the association of producer organisations LAVA.

"I do not see future contracting as an end in itself, as it was considered in the Netherlands, but as an extra service to the client, attractive to clients at moments when the auction system does not run smoothly enough for them. The facility covered in 2007 on average around 10-15% of total turnover of all Belgium auction cooperatives, with some products at a quarter of the volume" (Maarten De Moor interviewed by Vlaams Infocentrum Land- en Tuinbouw, 29-04-2007)

Anticipating Free-riding

To reduce the fluctuations in supply and resulting price volatility in the auction system, and to guarantee threshold supply to invest in value adding activities, like packaging for the retail, REO Veiling introduced a system of binding supply agreements. Producers have to state the amount of produce that they are going to deliver and are being controlled on deviations.

"When there are unexplainable differences between the outlook and the supply, the producer will have to cost part of the costs. (Rik Decadt interviewed in Boerderij Vandaag, March 15, 2006).

To further bind the members to the cooperative, in spite of these stricter requirement, additional services have been introduced. An important service is the collection of the vegetables directly from the member's farm. REO Veiling together with a private company established a special transport firm for this, Rejo Fresh.

2.4 Mórakert Purchasing and Service Cooperative, Hungary

The Common Agricultural and Entrepreneurial Society, Mórahalom was established in January 1994 with the aim of organizing small-holders within a loose network. It was a non-profit organization. The number of founding members of the Society was 35. The main activity, in addition to organizing joint projects, was the organizing of collective purchasing activities. It worked as a coordination mechanism with farmers that were engaged in direct sales of their vegetables to larger buyers. The society had only limited common funds, the membership fees. This common fund proved far insufficient to finance purchases. In practice, each individual member generated amongst themselves the sums required for the quantities to be purchased. Members were informed of delivery dates, and they transported the supply by means of their own vehicles and stored them on their sites (Bakucs et al., 2007).

However, the main problem was still the need to coordinate the marketing of the smallholders' produce. Therefore, the next step was to set up the Mórakert Purchasing and Service Cooperative in April 1995. The cooperative extended its membership and circle of suppliers. The cooperative grew very fast and managed a large infrastructure. In June 2006 the cooperative

was occupying 15,000 m2 and a further six hectares in Mórahalom, which is a significant increase from the initial area. The facilities are fitted with modern sorting and packaging lines, qualifying 20 per cent of the cooperative's products for export. A computer supported information system helped the work in the new headquarters. Mórakert Cooperative started to supply Plus, Penny Market and Profi stores, and later they delivered to almost all retail chains in Hungary.

Anticipating free-riding

Already in 2007, when the cooperative was considered as being extremely successful and innovative, some 'cracks in the surface', some disintegrative tendencies, became visible:

> *"However, in order to establish such countervailing power and reduce transaction costs, the cooperative is becoming more and more dependent on non-member trade, which lead to 'free-rider' problems. Although the cooperative can resolve some such problems, if it is going to grow this is an issue that will have to be dealt with more fully." (Bakucs et al., 2007)*

This high incidence of services to non-members even threatened their eligibility for EU-CMO support to producer organisations. Indeed, this triggered the need to develop a new organizational model. A limited company was set-up to which members and other suppliers could sell their products. The cooperative who is owner of this limited company, called Mórakert TÉSZ KFt, together with the local authority of Mórahalom (8%). In this construction the limited company is still a producer-owned organization, while the cooperative provides only services to members as required for eligibility of CMO-support (Bakucs et al., 2007).

Non-member trade was very important for the cooperative because of the growing turnover, however these products are only accepted when members' fruit and vegetables have already been purchased. Non-members will not get any reimbursements or price supplements and they have no voting rights; therefore the 'free rider' problem had been contained a long time. The cooperative provided a pre-financing service by covering some of the productions costs for contracted members if they fulfil certain criteria. Over a year members must have delivered at least 80 per cent of the quantity stated in their contract. However, these measures had been implemented because the contracting discipline has proved to be so weak (Bakucs et al., 2007).

Coping with working capital constraints

The co-operative had to invest significantly in order to keep its growth. The coop reinvested most of the annual profits/surplus in the cooperative upscaling. The value of the so-called cooperative share, which represents the ownership increased from HUF 25,000 (around €100) in 1995 to HUF 190,000 (around €750) in 2009. This contribution was only partly enough for providing financial support needed for the development described above. New members had to pay an additional amount of HUF 330,000 (around €1,300) as a single payment contribution. Apart from the self-financing with member contributions and cooperative revenues, the cooperative organization had access to some state support from the Ministry of Agriculture, the Ministry of Economy and the Ministry of Employment, and managed to get European Union support through successful tenders. The coop got 150 million (around €600,000) from the budget of European Union, since it met the requirement regarding POs in the fruit and vegetable sector. They used also bank credits and loans, including a revolving charge account. In 2005, the share of own equity of the coop was 42 per cent.

Some products are sold on a contractual basis according to weekly prices to the retail. The co-operative is more or less satisfied with the contracts and connections already established, but it

should be noted that it is extremely difficult to fulfil the exacting requirements with respect to quality, quantity and range, as well as the other terms of trade and payment stipulated by the retail chains (Szabó, 2011). Mórakert suffered from the constraints in getting access to working capital. The need for prompt payment in the absence of patrimony or significant reserve funds, created a liquidity problem that had to be resolved through four different sources (Szabo, 2012), when after the 2008 banking crisis, the access to bank credit became more and more constrained. The combination of prompt payment to farmers and delays in payments by the contracted buyers resulted in high costs of working capital. The tension is especially manifest as the cooperatives faces competition with other potential marketing service providers, e.g. traders in the black and grey trade on spot markets, and a dependency on trade with non-members without binding obligations to supply to the cooperative.

Szabo (2011) points to two different type of liabilities that strangled the cooperative: 1) Huge delays in payments to members for the their products (2 billion HUF), and 2) Loans to third parties, mainly for investments and development (1 billion HUF). In 2011, the Court of Csongrad County (SE Hungary) has ordered farm cooperative Mórakert under liquidation. Mórakert's accumulated debts reached HUF 3.6bn in 2010 (around 12 million Euro), a third owed to its suppliers. About half of the money owed to suppliers was paid with the cooperation of the Hungarian Development Bank (MFB), state-owned Datesz cPLc and a factoring company, and the rest will depend on what can be realised from the liquidation. Mórakert continued to operate more or less during the liquidation procedure, and probably a kind of integration of horticultural producers will be established on their industrial site, with full equipment, possibly with partial state ownership thereafter. (Regional daily Delmagyarorszag, Budapest, January 26, 2011)

4. Comparative analysis

The room of manoeuvre for cooperatives to resolve the basic tensions in collective marketing is partially shaped by national and EU-policy. Changes in these policies may open up or reduce this room. In Table 2, we summarize and compare the findings on the three cases, and we indicate the major EU policy area that constraints this room of manoeuvre. Three main policy areas emerge form this comparative analysis.

Table 2 – Summary of differences in internal organisation of the three cooperatives and link to EU and national policies

Agency dilemma	ZON	REO	Mórakert	Key Policy Area
Fair Pricing	Uses three ways to define prices: auction clock, price offers, future contracts. The auction clock has become less important in most products, especially for pepper producers and proves still relevant for tomato producers. Growers are interested in higher prices but not necessarily transparency in price determination. An intend to increase bargaining power was observed under the anti-monopoly regulations. Further mergers between ZON and other cooperatives have been explored.	The auction clock has remained the dominant way to define prices, though direct contracting is increasing. Growers still prefer and value the transparency of the auction clock. REO build a specialized marketing organisation to negotiate with the processing industry.	The cooperative sells on contract to supermarkets. The prices were initially negotiated by the cooperative in close coordination with its founding members. But, by procuring most from a large number of non-members, the decision making on pricing became increasingly concentrated in the cooperative management. To coordinate marketing activities with other coops, the higher level DATESZ was founded	Competition policies constrain the possibilities to negotiate prices with the retail between different cooperatives or producer associations. The atomization of supply versus the concentration in the retail tends to low price-levels. Value-adding processing is considered the way out, while cartels are possible but forbidden. To cope with anti-monopoly regulations, further fusions of coops are to be expected
Free-riding	The cooperative offers additional services (transport) to members. Members are allowed to negotiate market opportunities partly outside the cooperative.	The cooperative introduced binding supply contracts and offers additional services (transport) to members. Members need to supply close to their planning.	To cope with side-selling, the cooperative introduced contracts binding members to supply at least 80% of their produce. However, the dependency on non-members constraints this instrument.	Member specific benefits and additional services are developed with GMO support. The require-ments for GMO support tend to direct the coop-erative to members only. Relations between members and cooperative are increasingly based on an agreed-upon planning, not on supply obligations, reflecting a stronger bargaining power of (groups of) members.
Working capital	The cooperative had generated patrimony that is used as collateral for loans. Credit is relatively cheap in the Netherlands.	The cooperative has generated patrimony that is used as collateral for loans. Credit is relatively cheap in Belgium.	Credit became relatively expensive after 2007. The expansion of the cooperative was to a significant extent based on external support by the government and EU, not by investments of member contributions or cooperative surplus. Growers got prompt payment, leaving the financial cost to the cooperative. The government provided subsidized credit to resolve trade finance constraints.	Preferential credit lines, like the one in Hungary, are accepted as a way facilitate the development of trade relations with (slow-paying) retail and whole-sale, as they reduce the need to develop 'trust-depended' systems of initial prices and end-of-the year mark-ups, or profit distribution to members.

Firstly, the experiences with ZON with competition policy show the constraints on their strategies to get a good price for their members, a price negotiated by the cooperative that can be considered as fair from the point of view of the members. The Dutch NMa fined the cooperative in 2011 for setting artificial high prices between competing cooperatives that supplied to the retail in peppers, and for setting maximum production levels in onion production. The REO Veiling in Belgium was induced to start INGRO to cope with the concentration of demand in the processing industry, and Mórakert established the second tier DAKESZ to coordinate price negotiations with the retail sector.

Secondly, the growers, members of the cooperative, as a result of the increase in scale of production, in the Netherlands and Belgium tend to get bargaining power on their own, and look for other ways to market next to the cooperative they are member of. The obligation to deliver that traditionally existed in many of the cooperatives has changed towards modalities that the member is allowed to sell to others but where he has to commit himself with a planning for supplies to the cooperative. The GMO subsidy regulations induces to constrain activities to members only, which is an incentive for cooperatives where the link with and identification of members with their cooperative is low, to better define their role compared to private companies. Infrastructural investment in processing capacity that cannot be filled by member supply pose a threat to the viability of the cooperative structure; investments need to be accompanied by activities to strengthen the organisations.

Thirdly, the Mórakert cooperative was the growers main instrument (and bed) to prevent the collapse of vegetable supply to the Hungarian retail. The transition from spot market instant payment towards forward contracting and delayed payment creates a need for working capital. In a context of cheap credit, the financial costs are bearable. However, when credit rates rise the costs of delayed payment by supermarkets becomes a problem. With high member commitment and dominant member supply, creative mechanisms of delayed payment are possible but in a context of large –scale non-member supply the need for instant payment remains manifest. In countries where the cooperative sector is relatively new and without important patrimony, the government may well facilitate the access to subsidized trade finance. The post-financing (follow-up) nature of EU support measures is also a problem when this takes up a significant proportion of investment in the marketing organisation, as some of the payments (30-40%) they only get a year later, but they can access to 60-70% of the support only after almost 1.5 year. The Hungarian government used an active policy of preferential credit lines to resolve this tension between direct payment to growers and delays in payment form the retail. Unfortunately it could not help to Mórakert co-operative to survive but it is very useful to otherwise well-functioning POs (like DélKerTÉSZ Co-operative) to overcome short-term financing difficulties.

HUNGARIAN POLICY TO RESOLVE WORKING CAPITAL CONSTRAINTS THROUGH PREFERENTIAL CREDIT LINES

The New Hungary Producer Organisation Current Assets Credit Programme and its modification (Government decree 1040/2012 [II.12] on the New Hungary Producer Organisation Current Assets Credit Programme) intend to help to POs who have a solid financial situation. One of the original aims was that preferential credits (with a grace period, aprox. 5% lower interest rates based EURIBOR compared to normal credits, state collateral (warrant) if needed etc.) should be given to the recognised POs who have already got credits for investment and because of the crisis they cannot finance their current assets. The bottom line is that the POs have to be solvent to able to access it. The maximum support available for an organisation is HUF 250,000 (aprox. EUR 100,000) so it a "de minimis" type of measure. There are two ways to get the credit either through by Commercial Banks (who participated in the programme) or by Hungarian Development Bank cPLC (Magyar Fejlesztési Bank Zrt. - MFB).

In 2012, a new modification of the Government decree 1066/2008, on the New Hungary Producer Organisation Current Assets Credit Programme was introduced. It is called: Government decree 1040/2012 on the New Hungary Producer Organisation Current Assets Credit Programme (II.12). It changes some rules of the credit programme. According to the new regulation the maximum grace period is 4 years (2 years more then in the original programme) and the duration of the credit is 7 Years. It is possible to make contract until 31.12.2013. If an organisation is contracted by MFB then it is an obligation to pay a "warranty fee" for the state collateral.

5. Overall conclusions

Based on the comparative analysis, we can distill some conclusions that are relevant for current and future agricultural policy making.

Fair pricing

- Cooperatives continuously need to adapt their internal organisation to cope with market dynamics.
- The concentration of demand by retail and whole-sale has to be counterbalanced by cooperative efforts to reduce price competition between growers and/or grower regions.
- Competition policies shape the room of cooperatives to coordinate supply and influence price-determination.
- The auction clock is still an agile instrument for transparent price-determination but is gradually replaced by direct contracting arrangements.

Free-riding

- Targeted support measures like the GMO support by the EU to producer organisations need to be targeted to organisations that invest in member commitment, and prevent the creation of infrastructure that is dependent overtly on non-member supply.
- Cooperatives bind members by providing additional services, next to the marketing channel, especially transport and value-add processing.

Working capital

- North-Western cooperatives have access to relative cheap credit lines and are built on a history of member commitment and trust that facilitates systems of differential payment.
- Countries that face credit constraints with cooperatives that need to grow in membership without having much patrimony (equity capital) may need to open preferential credit lines to facilitate trade finance or to decrease time spans that retailers and wholesalers take to pay for their supplies.

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