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# Support for Farmers' Co- operatives

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*Case Study Report*  
**Performance and  
sustainability of  
new emerging co-  
operatives in  
Hungary**

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Gábor G. Szabó

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Support for Farmers' Cooperatives

*Case Study Report*

***Performance and sustainability of new emerging cooperatives in Hungary***

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November 2012

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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.

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

In addition to this report, the SFC project has delivered 33 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.

The author is especially indebted to István Barta (Hungarian Ministry of Rural Development) for the many interviewees but especially for his colourful help regarding the regulation of producer groups and his constant willingness to co-operate. The author is very grateful to Márton Bitsánszky, Zoltán Mikó, András Sótonyi (all from Hungarian Ministry of Rural Development), Sándor Farkas and Vilmos Patay (Members of Hungarian Parliament) and to those managing directors, presidents and members of boards as well as members of cooperatives who were visited and interviewed. Without their help present report could not have been submitted. The author especially thanks to the presidents of Dél-alföldi Kertészek Zöldség-Gyümölcs Termelő Értékesítő Szövetkezete - Ferenc Ledó and Csabai Raktárszövetkezet - László Adamcsik. The help of Pál Hódi, József Rácz and Roland Huszta (all from Mórakert Cooperative), as well as Anikó Juhász (AKI, Budapest), Béla Mártonffy, Zoltán Fodor, Attila Jasper, (all three FruitVeb), Béla Szeremley and Zoltán Szabó (both Hangya Cooperative Association), Endre Naszvadi (experts on practical issues of co-operation), Gábor Szabó (Prof. Emeritus, University of Debrecen), Boda Miklósné - Noémi Szabó (Követel Bt., Pécs) and Szabó Gáborné - Margit Guttyán (retired assistant professor of University of Pécs) was also very valuable.

## Table of Contents

Executive summary.....	6
1. Introduction.....	7
1.1 Background, objective, research question(s) and hypotheses.....	7
1.2 Analytical framework.....	8
1.3 Methods of data collection and the structure of the report .....	9
1.4 The background situation of cooperatives (POs/PGs) in Hungary.....	10
1.5. A brief review of literature .....	11
2. Description of the first case: DélKerTÉSZ.....	12
2.1. Facts and figures of the Cooperative.....	12
2.2. Relevant support measures affecting structure and strategy .....	16
Table 2: Support schemes for Hungary (2008-2010).....	16
Table 3: Details of payment DélKerTÉSZ Cooperative received from the European Union (2008-2010).....	17
2.3. Strategy of the cooperative with regard to the study topic.....	18
3. Description of the second case: Csabai Raktárszövetkezet .....	20
3.1. Facts and figures on the cooperative .....	20
3.2. Relevant support measures affecting structure and strategy .....	21
3.3 Strategy of the cooperative with regard to the study topic.....	23
4. Description of the third case: Mórakert Cooperative.....	24
4.1. Facts and figures on the Mórakert Cooperative ex-post.....	24
5. Analysis by comparison.....	29
5.1. Similarities.....	29
5.2. Differences.....	29
6. Discussion.....	31
7. Conclusions.....	33
Bibliography and references .....	35
Appendices .....	47

## **Executive summary**

The research topic of the Case Study is to examine performance and sustainability of new emerging cooperatives in Hungary. Besides transformed successors of the former socialist cooperatives, new cooperatives were established in the New Member States (NMS). As both success and failure of such cooperatives can be observed, the question about their sustainability arises. Additionally, the establishment of new cooperatives in the NMS has been supported by EU and national policies. What is the impact of these policies? What problems do the new emerging cooperatives face and how can they be solved?

Among the micro-economic and management problems of cooperatives (POs and PGs) is the shortage of revolving funds (current assets) in the operational business. Furthermore, the black and grey economy plays an important role, especially for fresh products which have a market share of more than 40%.

Two successful cooperatives and one which failed were analysed: DélKerTÉSZ and Csabai Raktárszövetkezet. DélKerTÉSZ is the largest Producer Group (PO) in the Hungarian fruit and vegetable sector, Csabai Raktárszövetkezet, the second cooperative, operates in the cereal sector. It is a smaller classical cooperative, but very important for the development of its region. The third cooperative under study was Mórakert Cooperative that - after many years of successful development in the fruit and vegetable sector - is currently under bankruptcy.

The success stories of DélKerTÉSZ and (for many years) of Mórakert provide good examples for developing vertical integration based on the horizontal coordination of farmers as initiators. Csabai Raktárszövetkezet is a genuine and democratic ("bottom-up") horizontal cooperative organisation in the cereal sector showing a slow but targeted development and promises to face a very safe and solid future.

With the view on performance and sustainability, it is of utmost importance for the cooperatives to get EU and national support. This is especially relevant for newly established organisations. Most of them would have never been able to start without support. However, it is also obvious that collective action problems of farmers and coordination issues in food chains cannot be solved simply by EU and/or government support.

The other most important factor is related to the „human factor” of cooperation. Willingness to cooperate and trust should need to improve and major psychological obstacles have to be removed in order to facilitate cooperation among the farmers. Regarding the society as a whole, the impact of developing and strengthening trust and social capital has primary importance.

## 1. Introduction

### 1.1 Background, objective, research question(s) and hypotheses

#### 1.1.1. The background situation of cooperatives (POs/PGs) in Hungary

The background situation of Cooperatives, both Producer Organisations (POs) and Producer Groups (PGs), in Hungary can be summarised as follows:

- Significant uncertainty in Hungarian agriculture of transition economies due to deficiency of market institutions – black market and shadow economy
- Fragmented productions structure (esp. in fruit & vegetable production) and atomistic ownership structure of land
- Very low level of trust and willingness to co-operate
- Lack of financial resources
- Multinationals and other large companies can co-ordinate up to a certain level, but it is not sufficient
- Cooperatives and other producers' owned organisations can solve the market vulnerability of producers and increase their income.

The black or grey trade is also a very important problem for the co-ops who do everything legally. In some sectors like in fruit and vegetable and cereals the combined share of black and grey markets is about 40%. From that point the decrease of VAT from 27% would be an important step, but there is not much chance for a change in financial policy due to the current financial crisis. Starting point of our analysis is that independent privately owned farm organisations cannot countervail the market power of their business partners. Therefore (closer) coordination seems an appropriate solution to solve one of the most crucial problems in Hungarian agricultural development.

Two main types of coordination do exist in market economy:

- 1) By the state (EU):
  - a. Regulations, administrative rules, etc.,
  - b. Support measures and co-op „incentive schemes”,
  - c. Taxation etc.
- 2) By private institutions:
  - a. Established by the processors/retailers (by contracts),
  - b. Producer owned organisations: cooperatives, producers' organisations and producers' group

The common setting is state (EU) support for private organisations, like cooperatives, which is exactly the topic of our research: “Support for Farmers' Cooperatives (SFC)”.

#### 1.1.2. Objective and research question(s)

The research topic of the study is to examine performance and sustainability of new emerging cooperatives in Hungary.

Besides the transformed successors of the former socialist cooperatives, new cooperatives have been established in the NMS. As both success and failure of such cooperatives can be observed, the question arises as to what can make them sustainable. In addition, the establishment of new cooperatives in the NMS has been supported by EU and national policies. What has been the impact of these policies? What problems have the new emerging cooperatives been facing and how can they be solved?

### **1.1.3. Hypotheses**

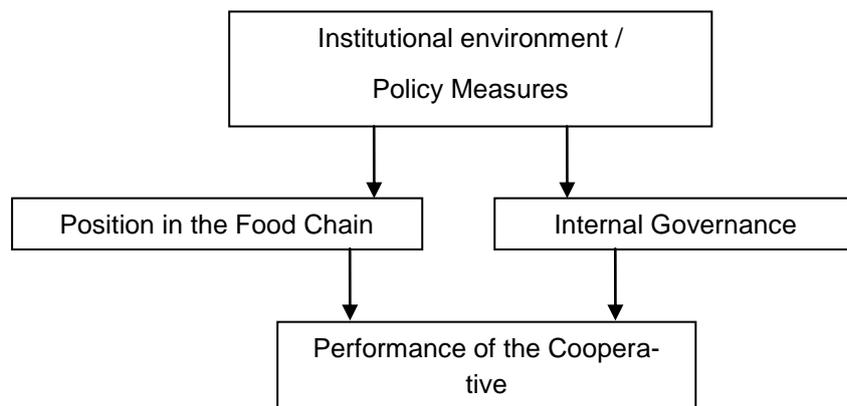
Based on the above research questions the following hypotheses may be relevant for the analysis:

- Regarding emerging marketing cooperatives in New Member States, resilience and robustness depending on appropriate internal governance and supportive external institutional context are primarily relevant for their sustainability.
- Inappropriateness of transplants and blueprints, elite capture, leadership problems and unfair international competitors are among the main reasons for failure of emerging marketing cooperatives in New Member States.
- State interference can be positive and negative in the process of developing self-organization in the cooperatives, that requires clearly facilitating policies e.g. in advisory services and capacity building.
- Leaders of new cooperatives face problems with commitment and trust among the members and between the members and the cooperative management. Policies for encouraging farmers to set up new cooperative organizations that are able to compete with other market organizations have to account for the socialist legacy.

## **1.2 Analytical framework**

There are at least three main factors that determine the success of cooperatives in current food chains. These factors relate to (a) position in the food supply chain, (b) internal governance, and (c) the institutional environment. The position of the cooperative in the food supply chain refers to the competitiveness of the cooperative vis-à-vis its customers, such as processors, wholesalers and retailers. The internal governance refers to its decision-making processes, the role of the different governing bodies, and the allocation of control rights to the management (and the agency problems which are associated with the delegation of decision rights). The institutional environment refers to the social, cultural, political and legal context in which the cooperative is operating, and which may have a supporting or constraining effect on the performance of the cooperative. Those three factors constitute the three building blocks of the analytical framework applied in this study (Figure 1).

Figure 1. The core concepts of the study and their interrelatedness



### 1.3 Methods of data collection and the structure of the report

In order to carry out the case study analysis multiple sources of information have been used, such as databases, interviews, corporate documents, academic and trade journal articles. Apart from a review of the literature on co-ops (POs) in Hungary, websites as well as primary and secondary data have been analysed<sup>1</sup>; in addition, interviews based on a semi-structured list of questions were carefully prepared and have been conducted during the spring of 2012. Three different sets of questions have been used in order to be able to capture the essence of the views from persons in different positions (see Appendices 8-10). Interviews have been conducted with the following persons/positions:

(1) Interviews related to the coops of the case study:

- Chairman (president or leader) and board members of the case study cooperatives,
- Executive manager(s) of the case study cooperatives,
- Co-op members of the case study cooperatives.

In the case of the ceased **Mórákert Co-op** the interviewed persons included the 2 former managing directors of the co-op and a former co-op member. We have used some interviews made prior to the Coop Project.

(2) Interviews related to the sector and professional bodies:

- Sector expert and
- Managing director and president of an interbranch organization (FruitVeb).
- President and executive secretary of Hangya (Association of Hungarian Producer's Sale and Service Organisations and Cooperatives).
- Representative of the national association of producer groups (PGs) in the cereals sector (during the first phase of the project).

(3) Interviews with officers of the Ministry of Agriculture and politicians with regard to the relevant policy measures and their outcomes as illustrated by the chosen cooperatives:

- Member(s) of parliament,
- Officers of Ministry of Agriculture.

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<sup>1</sup> The average HUF/EUR rate published by December 31 each year by the Hungarian National Bank was used to exchange HUF financial data into EUROS.

#### **1.4 The background situation of cooperatives (POs/PGs) in Hungary**

*Brief introduction to the Hungarian cereal sector:* After the EU accession, stakeholders (producers, processors, wholesalers, bankers, governmental institutions etc.) in the sector found it difficult to find its role in the new system of intervention. They had expected more revenues from intervention; however they would have needed more storage and also sufficient revolving funds because of delayed payment of the EU intervention mechanism. One of the conclusions of the EU accession for the sector is that Hungary was not prepared in terms of availability of long-term storage capacity for implementing intervention measures effectively. After the initial uncertainty, the intervention mechanism caused 10% higher prices for producers in 2004-2006. This also means that producers gained from the EU accession. The quality of cereals is up to the requirements of the EU standards.

*Brief introduction to the Hungarian fruit and vegetables sector:* The share of private farmers is relatively high in Hungary's fruit and vegetable production, however, most of them are small farmers, sometimes having only a household plot. The majority of farmers face significant market uncertainties without reasonable risk-sharing techniques, and their output fluctuates considerably. To improve competitiveness it is important to increase the level of production and to decrease costs. Furthermore, it would be essential to improve quality by means of changing of species and technology of production.

It must be mentioned that "...both the production and trading practices of the producers are not well organised. Cooperation of producers has to be strengthened to synchronize and support production and trade. Inside cooperatives, the building of vertical chains has to be promoted. Stronger and larger cooperatives would also have a better bargaining position when dealing with retail trade chains and processing industries. The level of concentration of POs is very weak because they have less than 20% of the market which is far from the 40% which is considered as good basis for negotiation with the chains. The government has to support cooperatives by creating better rules, reducing administrative obligations, lowering taxes and labour costs, and providing more extension services" (Burger, 2010: p. 8).

Burger also states that "Membership fees and contributions often do not cover the costs of administration, management and investment in spite of EU support. POs are non-profit institutions and thus net incomes are distributed among members. This is why POs are unable to accumulate sufficient financial means for further development. They need credits for investment, but in most cases they cannot pay these back without government support. Furthermore, POs have to pay taxes and have many administrative obligations. At the same time, individual farmers do not pay income taxes if they stay below certain income limits. Most of the individual farmers do not declare their incomes to exceed that threshold and thus can completely avoid income tax. If POs sell to the retail chains, they get the payment for their products only after some weeks. If individuals sell in the market - and they often do this without invoices - they get their money at once. In addition, retail chains require fairly high contributions to their selling costs from the delivering producers. All these facts hold back cooperation" (Burger, 2010: p. 7).

Regarding the fruit and vegetable sector there are some measures for their support in Hungary which are in accordance with EU agricultural policy. There are some new measures to support some secondary organisations as well; however, empirical evidence is lacking to make judgements on their viability and effectiveness.

## 1.5. A brief review of literature

Szabó G. G. (2011a) is a general book on the theory and the (mainly Danish and Dutch) practice of agricultural co-operation with some regard to the development of agricultural cooperatives in Hungary after the change of the social-economic system in 1990. Szabó Z. (2011b) gives a brief overview on the obstacles, prerequisites and principles of the cooperative development connected sustainability in Hungary.

For the DélKerTÉSZ case, the paper of Juhász-Kozák (2009) was the most important source apart from the materials published/handed out by the Co-op itself (DélKerTész 2012a -g)<sup>2</sup>. In case of Csabai Raktárszövetkezet, the most important printed and media sources are the leaflets of the cooperative as well as an introductory video film in Hungarian: <http://www.youtube.com/watch?v=uwEQDnSapQA>. In case of Mórakert Cooperative, there is a great number of papers published. The most recent and in-depth work in English on the development and integration activity of Mórakert Cooperative is by Bakucs et al. (2007a), Fertő et al. (2007), Szabó et al. (2008) and Szabó (2011).

There are some recent publications in Hungarian literature which contains data regarding POs and their legislation [see, for example, in Felföldi (2005), Dudás (2009), Horváth (2010), Dorgai et al. 2010]]. Török and Hanf (2009) briefly examine some Hungarian cooperatives regarding their economic performance as well as the level of confidence of members revealing that, due to vertical integration and the huge number of small producers, forming horizontal cooperatives is crucial for transition countries.

Despite theoretical advantages of cooperation, there were only just a small number of new types of cooperatives established in agriculture recently. In general, the level of cooperation and willingness to cooperate is very low in Hungary (TÁRKI, 2005; EUROLAN 2005; Szabó and Bárdos, 2006; Bakucs et al., 2008a; Baranyai, 2010). The above problem is related to the low level of social capital and trust (see Baranyai et al. 2011; Bakucs et al., 2008b; Dudás, 2009a; Forgács, 2006a, Takács and Baranyai 2010) which, in turn, contributes to the other problems of rural development (Szabó et al., 2005). Szabó (2010) gives an overview of different approaches to trust with special emphasis on the agri-food economy and cooperative principles. He also examines the role of trust in agricultural marketing cooperatives by analysing selected empirical studies including references to Hungary.

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<sup>2</sup> Since they are very well summarized, we have used and cited some parts of the above materials word by word with permission in order to save pages and time.

## **2. Description of the first case: DélKerTÉSZ**

### **2.1. Facts and figures of the Cooperative**

#### **2.1.1. The development of the Cooperative**

Dél-alföldi Kertészek Zöldség-Gyümölcs Termelő Értékesítő Szövetkezete (short name: DélkerTÉSZ) is at present the largest producer organisation (PO) in Hungary with members mainly producing vegetables in intensive glasshouse and plastic tunnels systems (Juhász-Kozák, 2009: p. 9). Apart from selling the members' products, the cooperative offers preferential credit for inputs, extension (expert advisory) service, quality assurance systems (GlobalGap, HACCP) and other services to the members.

The headquarters of DélkerTÉSZ are in Szentés, a town in the southern great plain region, Csongrád County. The area is a traditional vegetable growing region, where glasshouse and foliage production emerged in the 1960ties, heated by thermal water from forty wells (DélkerTÉSZ 2012g: pp. 1-2).

The PO was founded in 2002 in response to ever-increasing input prices and requirements of retailers, the bad experiences with semi-illegal wholesalers, and the uncertainty of the coming EU accession. However, the major incentive were the new favourable subsidies for POs (Juhász-Kozák, 2009: pp. 9-10).

DélkerTÉSZ started with 230 members, currently it has 495 members. Since 2004, it is a recognised PO producing mainly paprika varieties (65%), tomatos (20%), cabbage varieties (5%), melon (5%), and others (5%). Although the cooperative involves many members, it has tried to specialise on a few products to be efficient (DélkerTÉSZ 2012f). Because of the problems of Mórakert cooperatives (see Chapter 4 on Mórakert), DélkerTÉSZ has become the largest PO in Hungary in 2012.

DélkerTÉsz coordinates production of glasshouse vegetables, having special and strict technology requirements. Involving a large number of small-scale growers as members, there is a real need for an expert advisory system. Fluctuation in the membership is quite low, although the general problem of ageing in the sector is present. Mainly part-time growers stop production, but their place is always filled by larger family farms, because the younger generation is only motivated to take over production in case of more successful businesses. These medium-scale producers then have different needs for governance, they require less production advice but more post-harvest support. Raising the quality of production does not always generate a price premium but makes it possible to become preferred suppliers of the major Hungarian and even export market retail chains. And it does provide the possibility of premium product innovation (Juhász-Kozák, 2009: 11).

A total of 95% of the plants and their sites have got GlobalGap quality assurance certification. At the end of each year, after deducting all the cost, the cooperative pays a quality premium to the members. The premium had varied in the previous years between 3 and 9% it was 7% in 2011. The basis of the premium is the net value of the products paid to the member (50%) and the other half (from 2009) is connected to quality production by the means of biological pest control (50%). To be eligible for the latter half of the premium, a number of requirements must be met, like 100% of the production should be delivered to the cooperative, obligatory participation in the extension service (e.g. regularly getting professional advice from the experts employed by the cooperative), using the inputs and pesticides recommended by the co-op and some more technological issues. Thanks to the above incentive scheme the share of products produced by biological pest control raised from 16% (2003) to 87% (2012). Reimbursement of the surplus is

very rare in the Hungarian POs, but for getting loans and credits from the banks the co-op has to show profit (positive taxed result) of their operation.

In 2007, the bar-coding tracing system was introduced ensuring traceability of products from the land to the shelves of the shops. DélKerTÉSZ established a very strict and efficient chain management which is an integral part of its success. The cooperative has a very developed technical and infrastructural background including a site of 4.5 ha, 4,000m<sup>2</sup> cold stores, 2,500m<sup>2</sup> air-conditioned packaging area, modern sorter and packing machines and devices, offices, a fully fledged informatics system, etc.

Members of the cooperative can buy input materials on preferential loans terms (for example with a delay of 100 days of paying for the small producers) in the PO's department store. The PO uses contracts in their trade with both the members and the buyers. One third of the cost of the cooperative is connected with trade.

The main customers of the cooperative are the retail chains (TESCO, Spar, Auchan, Csemege) which, in 2012, buy 90% of the products sold in domestic markets. Usually, 25-30% of the products are exported. The most important countries are Germany, the Czech Republic, Austria, Slovakia, Scandinavian countries and, recently, Spain and Romania. The turnover of DélKerTÉSZ increased significantly from HUF 2.868 billion in 2003 to HUF 3.859 billion in 2011.

Upon initiative of DélKerTÉSZ, a secondary PO, Hortico-Régió 2009 Kft. (Ltd.) was set up in July 2009 including 4 recognised POs. "The main goal of the foundation is to harmonize the production and sales over its four members. In 2010, the sales value of 70 thousand tonnes of vegetables and fruit has reached HUF 7.5 billion. Combining the source of its four members, the Hortico-Régió 2009 Kft. has one thousand producers, possesses a 20,000 m<sup>2</sup> surface packing room and a 6000m<sup>2</sup> cold storage room" (Hortico-Régió 2009 Kft., 2011?: p. 1).

DélKerTÉSZ sells the majority of the products of its members through Hortico-Régió 2009 Kft. The cooperative is present at national and foreign fairs and exhibitions (Berlin Fruit Logistica, farmer Expo Debrecen, etc.) to improve their connection and markets. In 2006, the PO established a secondary organisation together with Mórakert Cooperative - *DALZA Kft.* - with a share of 50% (HUF 5 million) for mainly export activities, but due to the deteriorating situation of Mórakert it practically does not work. DélKerTÉSZ plans to buy a share of Mórakert but, due to its liquidation process, it is a very slow process.

In 2008, the cooperative became member and co-owner (its share is prox. 14% - HUF 400,000) of TÉSZ-ÉSZ Nonprofit Kft. (Ltd.) which organizes courses for the experts involved in extensions services (advisory system). It carries out experiments together with input suppliers and organizes exhibitions to show the results.

The cooperative finances its domestic activities by OTP (the largest commercial bank in Hungary) and export by Raiffeisen-Bank. Their shares in the short-term financing of the co-op are 75% and 25%, respectively. DélKerTÉSZ is very proud that banks have not lowered their appropriation (level of credit) over the last years, which has been a very unique "event" among POs and PGs in Hungary. Additionally, the co-op uses short-term credits for covering current assets provided by a credit cooperative.

### **2.1.2. Members and structure of the cooperative**

There are about 5-6 thousands families growing vegetable in the area. Most of the members of DélKerTÉSZ are individual/family farms and only a few of them produce fruit (melon, apple).

Table 1 shows the number of members of DélKerTÉSZ as categorised by net values paid to them in 2011. It is very clear that most members are relatively small producers; most of them sold products worth less than HUF 1 million through the cooperative. That is one of the reasons why it is not really realistic to increase the value of the cooperative shares from HUF 50,000 although it would have great benefit for financing the co-op, especially the ever expanding revolving funds.

Table 1: Classification of DélKerTÉSZ Cooperative members by net values paid to them in 2011 (in HUF and in EURO)

<u>Amount in HUF</u>	<u>in EURO</u>	<u>Heads</u>
> 200 million	> 642,818	2
100 – 200 million	321,409 - 642,818	1
50 – 100 million	160,705 - 321,409	1
20 – 50 million	64,282 - 160,705	2
8 – 20 million	25,713 - 64,282	19
4 – 8 million	12,856 - 25,713	59
1 – 4 million t	3,214 - 12,856 -	226
< 1 million	< 3,214	134
Number of non-producing members		51
<b>Total:</b>		<b>495</b>

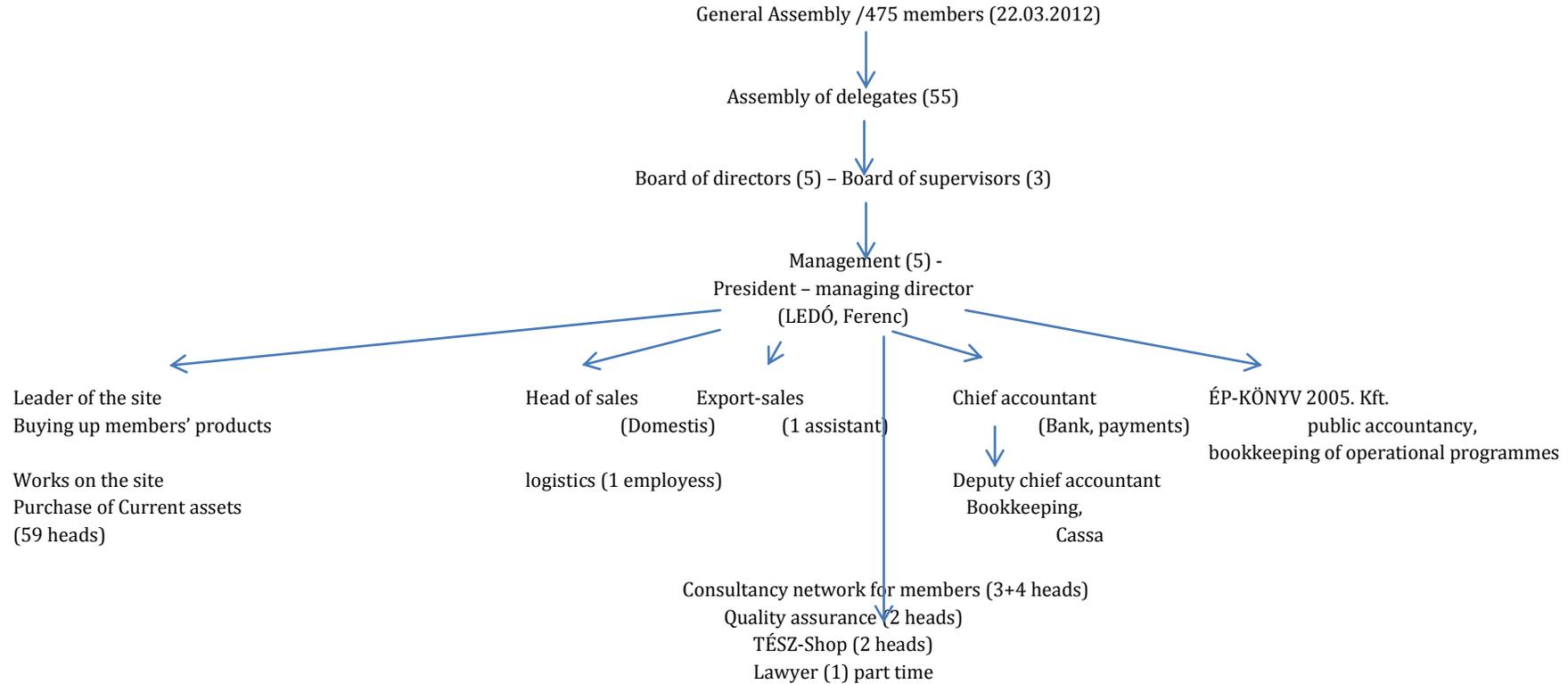
Source: DélKerTÉSZ Cooperative (2012f)

From the non-producing members 1 died, 11 have been excluded and 21 exited from the co-op. The ones who do not supply have to pay HUF 20,000 as contribution to the operational costs. Half of the turnover (50-55%) is done by the two biggest members: Árpád-Agrár Zrt. and Primőr Profit Kft. In quantity, the share is only 40%, since the two largest members produce products with higher added value. This gives financial stability and also a good and planned use of capacity of the co-op. However, it is very important to note that even the four largest members with more than HUF 100 million have only 1 vote. Hence, the democratic control of the cooperative on behalf of all members is fully implemented.

In Figure 2, the organizational structure of DélkerTÉSZ is presented. Day-to-day business is managed by the president-executive manager and the management consisting from 5 persons. Potential members (applicants) have to deliver for a test period of one year, i.e. they deliver to the cooperative during this period of time but do not enjoy the benefits of membership.

The number of employees was 76 in 2012 and the co-op has a part-time lawyer as well. Twenty employees have a university degree and 30 have secondary school education. It should be mentioned that it is very hard to find and keep leaders for higher management positions who have an academic degree, practical experience and language skills, especially because non-agricultural firms can offer a better package to them.

Figure 2 Organisational structure of the DélkerTÉSZ Cooperative



Notes:

- 1) Total number of employees is: 76 heads + 1 head part time (lawyer)
- 2) Accounting is outsourced to ÉP-KÖNYV 2005. Kft. (Ltd.) 5 employees (for Hortico as well)
- 3) Safety (work, fire, etc.) education is made by an outsider entrepreneur
- 4) Export sales is done partly by: Kálmán, András (La Quinta)

Source: translated and abridged version of the Figure in DélkerTÉSZ Cooperative (2012a)

## 2.2. Relevant support measures affecting structure and strategy

Table 2 gives an overview of the EU support measures for Hungary's agricultural sector.

Table 2: Support schemes for Hungary (2008-2010)

<b>Direct payments under European Agricultural Guarantee Fund (EAGF)</b>	<b>€2,685,745,744</b>
<b>European Agricultural Fund for Rural Development (EAFRD)</b>	<b>€1,067,367,848</b>
Other payments under European Agricultural Guarantee Fund	€28,546,980

Source: <http://farmsubsidy.org/HU/scheme/>, Downloaded on 12.05.2012

There are additional national supplementary support schemes as well as co-funded support measures, e.g. different support measures for technological development and quality assurance from the Hungarian Ministry of Agriculture and Rural Development (national source) and the **Agriculture and Rural Development Operational Programme (ARDOP)** mainly co-financed by the EU from the Guidance section of EAGGF.

National support for fruit and vegetable producers is rendered upon various decrees of the Ministry of Agriculture and Rural Development:

**Decree 24/2010. (III. 19.) on support of producer groups in fruit and vegetable sector** contains the increased (possible) rate up to 25% of a national contribution to certain investment support measures for investments taking place in 2011.

**Decree 105/2011. (XI.10) on national supplementary support of fruit and vegetable producer organisations.** The measure greatly improves cooperatives' position and their market share in the fruit and vegetable chain. There are 11 secondary POs in Hungary in 2012.

**The New Hungarian Producer Organisation Current Assets Credit Programme** especially helps to solve the crucial liquidity problem of cooperatives in the season by facilitating short-term loans from banks and credit cooperatives.

It is important to mention that the DélKerTÉSZ cooperative is financed from different sources. Apart from subsidies they got the amount coming from the cooperative shares subscribed by the members, members have to contribute to operational funds and it makes use of different short-term and investment credits as well. The co-op also tries to sell products with higher added value and to extend production using biological control to improve its market position and, thus, to increase its turnover. According to an expert assessment the co-op could raise 40% of the supports they got until 2012 without being a PO or cooperative, however, 60% come due to support measures for POs.

From 2004, DélKerTÉSZ as PO could get direct payments under the European Agricultural Guarantee Fund. It also got some payments from the European Agricultural Fund for Rural Development for the modernization of the horticultural sector (non-PO specific).

Table 3 details the EU payments to the cooperative for the period 2008-2010.

**Table 3: Details of payment DélKerTÉSZ Cooperative received from the European Union (2008-2010)**

Year	Scheme	Total
2010	Direct payments under European Agricultural Guarantee Fund	€657,942
2009	Direct payments under European Agricultural Guarantee Fund	€940,861
2009	European Agricultural Fund for Rural Development	€89,579
2008	Direct payments under European Agricultural Guarantee Fund	€442,558
	<b>Total:</b>	<b>€2,130,940</b>

Source: <http://farmsubsidy.org/HU/recipient/HU40309/delalfoldi-kerteszek-zoldseg-gyumlcs-termeloi-es-ertesito-szovetkezet/>), Downloaded on 12.05.2012

There are 3 main types of support in case of DélKerTÉSZ Cooperative:

1. Support measures for establishing and recognising the PO
2. Support measures for the operational programme of the PO
3. Support measures not directly connected to the operational programme of the PO, including credit programmes

Altogether, DélKerTÉSZ got HUF 2.168 billion (EU and national) support for the period 2003 – 18. 04.2012. An amount of HUF 88.767 million is still pending. Since 2004, support is mainly connected to financing the cooperative's operational programme.

DélKerTÉSZ Co-op gets support from national resources (according to the yearly announced decree<sup>3</sup>) due to its turnover (activity) through **Hortico-Régó 2009 Kft.** as well. The co-op is eligible for 2% (of the turnover of the co-op from members' products in the reference - previous year) support and for a supplementary amount of 3% of the turnover which is made by the secondary organisation selling the products of the co-op in the reference (previous) year.

Additionally, apart from the main type of support which is connected to the development of the operational programme, the co-op used some other funds as well.

In 2003-2004, the co-op got a HUF 20.075 million support for technological development of its site from the Hungarian Ministry of Agriculture and Rural Development. The support financed 50% of its investment. The cooperative bought the site in December 2003.

In 2004, DélKerTÉSZ got HUF 0.4 million from the Hungarian Ministry of Agriculture and Rural Development for the development of traceability and quality assurance. The support financed 50% of the investment, the total amount was HUF 0.8 million. Both of the above measures were important to secure the co-op's position in the market.

The co-op has used twice the support from ARDOP (Agriculture and Rural Development Operational Programme). First in 2005-2006, it got HUF 20.160 million support which covered 80% of its investment for information technology (e.g. development of the computer system including the usage of the bar-code system).

<sup>3</sup> At present (May 2012) Decree of Ministry of Rural Development 105/2011. (XI.10) on national supplementary support of fruit and vegetable producer organizations is in force.

In 2009, DélKerTÉSZ used an ARDOP investment credit for extending its packaging area. The total amount of the investment was HUF 125 million from which the co-op had to provide half of the money. The support was financed from the European Agricultural Fund for Rural Development.

DélKerTÉSZ got a New Hungary Producer Organisation Current Assets Credit of HUF 250 million (that was the maximum amount to be gained in April 2009). With a grace period of 1.5 years, it has to pay back the whole amount until March 2014. The co-op used mortgage subscribed to its site instead of state collateral. Although it has paid back half of the original credit, the co-op is interested to refill the amount of credit by the programme since it is a very good and easy means to finance their current assets need.

### **2.3. Strategy of the cooperative with regard to the study topic**

“DélKerTÉSZ ...is active in adding value through marketing and product development, being a larger market player. DélKerTÉSZ is a frequent exhibitor in a broad range of domestic and foreign agricultural and food fairs, usually winning quality excellence awards. The co-op developed a detailed IPM production system which is now accepted by export market retailers. With this strict production technology and constant monitoring it created a market segment where the market access of other producers became more difficult. It also joined a premium product initiative of a modern retailer called “Taste and Tradition” where it has to provide vegetables, mainly paprika, with exact and constant organoleptic characteristics. It also launched an initiative to supply some local varieties but the demand by the retailer did not reach the volume needed for the profitability of such production. Local varieties have much higher production risks, e.g. shorter shelf life, sensitivity to pests, difficulty to produce standard forms” (Juhász-Kozák, 2009: pp. 12-13).

In case of DélKerTÉSZ, the first obstacle regarding sustainability is the strong presence of semi-illegal “tax minimizing” domestic and export buyers. On average, they have a share of about 20% in the fresh fruit and vegetable market, but in its production region, it jumps up to 60-70% at certain times and for certain products. It is hard to compete with these buyers for the benefit of its producers, because avoiding VAT means a price difference of 20% or even 27% since 2012, so the PO has to fight for getting the highest possible retailer price premium. The cooperative tries to achieve this with the value adding services of grading, packaging and special IPM quality (Juhász-Kozák, 2009: p. 10).

“The second and even more threatening issue is the legislative obstacles of thermal energy use. By defining it as a renewable energy source pumping of the water back into the thermal sources was made compulsory. This technology implies high costs for both implementing and maintaining, especially where already existing old wells have provided cheap thermal water so far. According to the PO, the possibility to apply for subsidy in case of developing the new, legislatively compatible technology is not a real solution, because the cost of the new system makes the whole production method unprofitable and uncompetitive. The tolerance period for the old thermal water technology expired in 2011, and there is no real solution of the problem so far” (Juhász-Kozák, 2009: p. 14).

Further aims of the cooperative include extending the funds for the operational programme, full extension of integrated pest control, giving professional advice and further improving the quality assurance process, extending the number of costumers in Hungary and abroad, improving logistics, extending the amount of packed products (with higher added value), and improving the technical requirements of the above processes (DélKerTÉSZ, 2012g).

However, lack of financial resources is the most serious obstacle against further development of the co-op: it cannot finance more trade because of the lack of current assets (revolving funds). Since EU support is post-financed and the administration is very complex, the co-op is in constant need of (preferential) credits to be able to pay their members. According to experts and apart from the measures mentioned in the report (e.g. New Hungary Producer Organisation Current Assets Credit Programme), factoring maybe with a state warrant could be a solution for that problem.

### 3. Description of the second case: Csabai Raktárszövetkezet

#### 3.1. Facts and figures on the cooperative

Csabai Raktárszövetkezet is a recognised and EU supported producer group which is active in the cereal sector in a legal form of cooperative with regional impact on prices in cases of some products. The cooperative is located in Békéscsaba in south-eastern part of Hungary, close to the border of Romania. It is traditionally a very important region of producing cereals. The cooperative was founded in 1997 with the aim of promoting the agricultural producers who are members or collaborators of cooperatives.

Csabai Raktárszövetkezet “provides the following services:

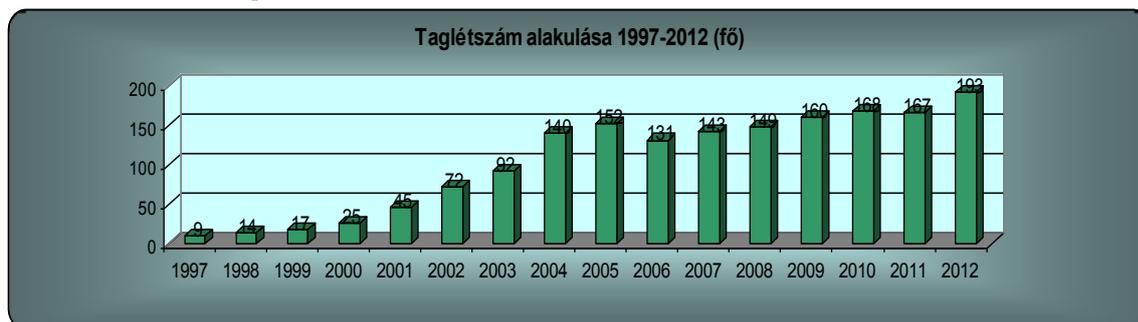
- Storing
- Services related to warehousing (drying, cleansing, housing, exhousing, rotation, gasification, sifting if needed)
- Buying up
- Selling
- Taking samples, quality-testing,
- Intermediate wholesale-trading,
- Integrated plan-cultivation.”

The cooperative cultivates of the following crops: fodder wheat, milling wheat, fodder maize, fodder barley, sunflower, fodder broomcorn, tirciale, and oats. It currently operates in 14 settlements. It coordinates the production, fertilisation, land protection as well as collection, storing and selling of the products. (Csabai Raktárszövetkezet, 2007?: p.3)

Csabai Raktárszövetkezet determines its commercial and different types of storing activities mainly with taking into account the amount of cereals produced by its members but there is also a relatively significant share of non-member trade. The cooperative could store and trade approx. 25,000 tonnes per year through four channels: 1) domestic wholesaling, 2) domestic trading towards final users (animal breeders, fodder mixers, etc.), 3) foreign and export trade, and 4) selling for EU intervention (if needed).

In April, Csabai Raktárszövetkezet had 165 members, but their number will increase to 193 still by 2012 as the cooperative is obliged to meet the requirements of the so-termed “certified recognition”. Chart 1 shows the membership numbers of the cooperative.

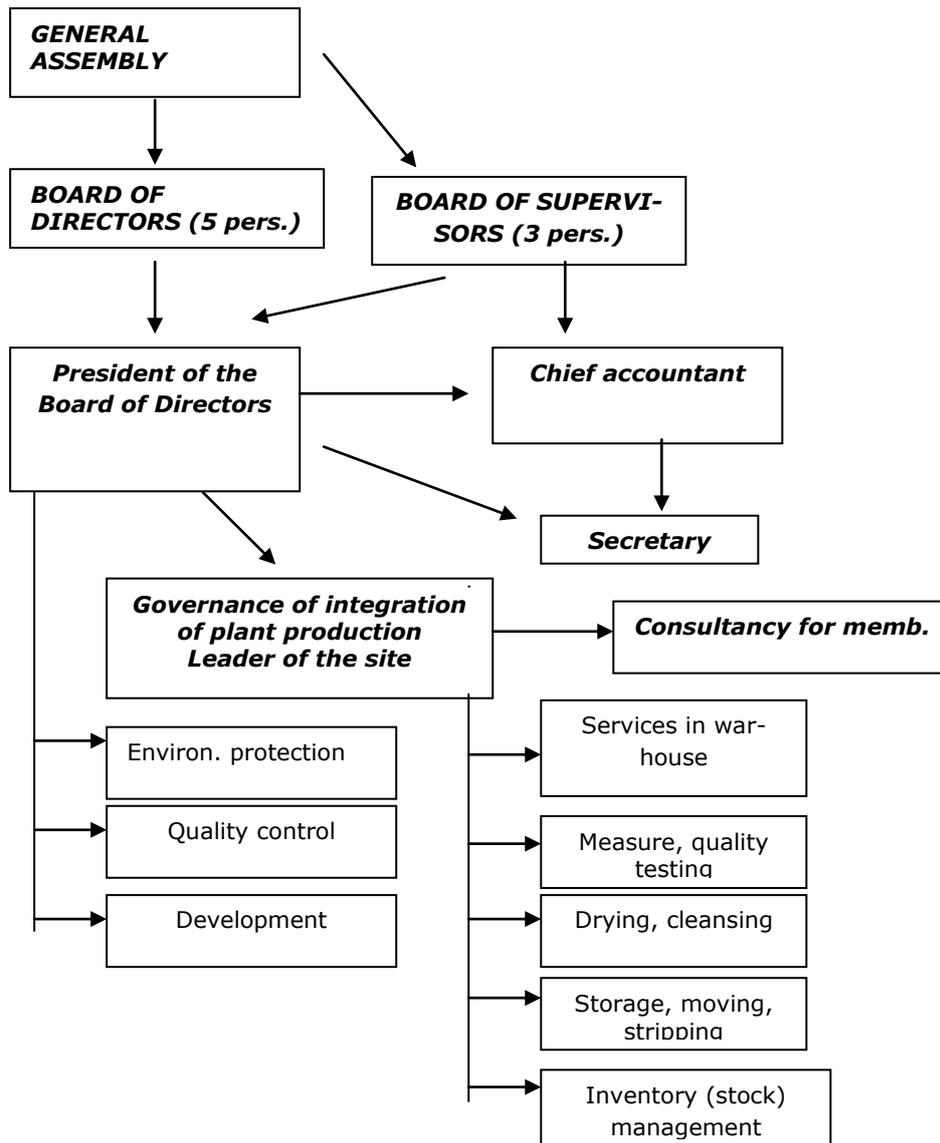
Chart 1: Membership numbers between 1997 and 2010



Source: Csabai Raktárszövetkezet (2012c)

The cooperative has 15 employees. The principle of 1 member – 1 vote and democratic control are applied in the cooperative. The organisation structure of the cooperative is shown in the Figure below.

Figure 3: Simplified organisational structure of Csabai Raktárszövetkezet



Source: Own construction and translation of Csabai Raktárszövetkezet, 2012d.

### 3.2. Relevant support measures affecting structure and strategy

The cooperative has made use of different support measures for technological development and insurance of agricultural production from the Hungarian Ministry of Agriculture and Rural Development (national source), e.g.:

**Government decree (30/2000: III. 10.)** on the unfolding credit construction for agricultural producers as well on the farm credit programme. The cooperative got a preferential credit for 10 years (2001-2011) amounting to HUF 90 million. Eighty percent of the total amount was covered by state warranty. It could use the credit for investment and for financing its current assets, so it bought a storage unit and also some drying and cleaning equipment (HUF 50-60 million). The cooperative could also finance its current assets, which made it easier for them to buy members' products and purchase inputs (HUF 40-50 million).

**Decree (102/2001: XII. 16.)** on the support for agricultural economics aims from national budget of 2002 (FVM, 2001). Csabai Raktárszövetkezet got HUF 333,000 support funds for reducing the cost related to agricultural production in 2002 (FVM, 2001).

**Decree (3/2003: I.24.)** on the support for agricultural economics and rural development aims from national budget of 2003 (FVM, 2003). The cooperative received HUF 231,000 for insuring its agricultural production. It also got HUF 707,000 for plant production based on area payment scheme.

#### **Agriculture and Rural Development Operational Programme (ARDOP)**

Although not a PO-specific measure, one of the relevant support measures in case of Csabai Raktárszövetkezet is part of the ARDOP III.3.2. Measure: Development and Improvement of Infrastructure Connected with Agriculture (2004-2006). It supports construction, rehabilitation, modernisation and extension of local markets and buying-up facilities thus providing better conditions for direct marketing in rural areas and do not allow price rises due to intermediate traders (ARDOP, 2006: p. 114). The co-op used the financial support of HUF 8.5 million from ARDOP in 2004, among others, for investment in another garner (892m<sup>2</sup>).

**New Hungary Rural Development Programme (2007-2013)** is a joint (EU-Hungary) support measure facilitating the set-up of new agricultural cooperatives (as Producers Groups other than fruit and vegetable sector) in Hungary. The legislative background is: **Decree 59/2007. (VII.10.)** on the establishment of detailed rules of support for setting up and operating producer groups. This measure has greatly improved the position of cooperatives in the food chain by establishing new groups. The total public expenditure is EUR 72,634,336 from which the European Agricultural Fund for Rural Development (**EAFRD**) contributed EUR 51,651,644 which is the biggest support for PGs in Hungary. It supports PGs in a number of sectors excluding fruit and vegetables.

Although Csabai Raktárszövetkezet was recognised as PG on 23 May 2007 its support for covering part of the operation cost was paid only from 2008 and it is jointly financed with EU according to the New Hungary Rural Development Programme (2007-2013). As other Hungarian PGs Csabai Raktárszövetkezet gains support mainly from one main European source: European Agricultural Fund for Rural Development. Since 2008 Csabai Raktár Szövetkezet has received €161,582 in payments from the European Union (see Table 4).

Table 4: Details of payments Csabai Raktárszövetkezet has received from the European Union (2008-2010)

<b>Year</b>	<b>Scheme</b>	<b>Total</b>
<b>2010</b>	European Agricultural Fund for Rural Development	€31,209
<b>2009</b>	European Agricultural Fund for Rural Development	€44,012
<b>2008</b>	European Agricultural Fund for Rural Development	€86,361
	<b>Total:</b>	<b>€161,582</b>

Source:<http://farmsubsidy.org/HU/recipient/HU30093/csabai-raktar-szovetkezet/>, Downloaded on 12.05.2012

The co-op got support available for recognised PGs for 5 years from 2007-2011 and used it mainly to cover its operation.

Apart from using many support funds, the cooperative annually puts its taxed income into a reserve funds in order to be able to finance long-term projects.

Table 5: Net turnover coming from members' trade and support gained by Csabai Raktárszövetkezet as a PG from EU (in HUF)

Year	Net turnover with members	Amount of support
2007	476,596	11,211
2008	459,065	17,750
2009	508,113	14,514
2010	536,242	11,572
2011	789,000*	9,339

Source: Kesjár (2011: p.41), Csabai Raktárszövetkezet (2012b,c)

\*Total net turnover of the co-op including non-member' trade.

Members pay contribution to the operational programme which is 0.002‰ of their turnover with the cooperative. Although the total net turnover rose significantly in the last year, the taxed income of the co-op was only HUF 18.712 since the surplus was distributed to the members. This indicates that the organisation works as a real cooperative!

### 3.3 Strategy of the cooperative with regard to the study topic

The cooperative got two main types of support: 1) support from the Farm Credit Programme (2001-2011) and 2) the five-year EU-national jointly financed support as a recognised PG (2007-2011).

The cooperative uses its financial means (including credits and the above detailed types of supports) to develop the PO and its site step by step, not taking too much financial risk which was a very wise decision during the crisis. However, it was able to continuously increase its membership and also its own equity.

The latter is obligatory to get certified recognition upon which the cooperative would be entitled to get additional support for another five years period as a producer group (PG) having finished its first operational programme (See Decree of Ministry of Agriculture and Rural Development 65/2009: VI.4). The recognition is in process and it would help the cooperative to cover some of its operational expenses and also to strengthen its position on the market.

The cooperative secures a solid and stable market for the members' products and gives a very high standard of stability for members as they know exactly when they get their payments for the cereals they had already delivered to the coop.

It should also be noted that human resources are excellent in the co-op and trust towards the managing director-president is at a very high level. The latter fact is one of the causes of its continuous success.

## 4. Description of the third case: Mórakert Cooperative

### 4.1. Facts and figures on the Mórakert Cooperative ex-post

#### 4.1.1. The development of the Mórakert Cooperative<sup>4</sup>

Mórakert Purchasing and Service Cooperative (Mórakert PO) was established in 1995 and has been active in the fruit and vegetable sector. It was the first officially recognised PO in Hungary being certified in 2002<sup>5</sup>.

The cooperative was set up in Mórahalom, a small town in county Csongrád in the south-eastern part of Hungary. This city is the centre of the Homokhát Region. The area is a typical agricultural area, with approximately 75 per cent of the population of Mórahalom being involved in agriculture. The average area cultivated by the small-holders varied between 3 and 5 hectares. The producers faced oligopolistic and monopolistic players on the market, so there was a real and huge need to build up countervailing power for the small-holder economic units.

By support of the Department of Agriculture received in 1993, the Common Agricultural and Entrepreneurial Society of Mórahalom was established in 1994 as a loose network to strengthen agricultural producers. It was very similar to the Danish tradition. But as the main problem was to coordinate the marketing of the smallholders' produce (paprika, tomato, onion, potato, cabbage, apple, etc.), it was the next step to found the Mórakert PO in 1995.

Table 6 shows the main data of Mórakert PO for the period 1998-2005.

Table 6: Main data on the Mórakert cooperative concerning years 1998-2005

Year	Agricultural net revenue (in 1,000 HUF)	Total net revenue (in 1,000 HUF)	Share of agricultural and total net revenues per cent	Number of members	Equity share capital (in 1,000 HUF)	Number of business partners	Share of own and foreign equity	Turnover (t)
1998	250837	251410	99.77	59	1300	400	74.37	
1999	566775	567810	99.81	131	1300	500	53.91	
2000	1248737	1250464	99.86	189	1300	600	45.53	12500
2001	1584329	1586604	99.86	288	11275	1000	52.69	14961
2002	2281186	2282966	99.92	289	11275	1500	69.86	22620
2003	3639094	3777771	96.33	476	11275	2000	78.62	30359
2004	4078642	4641618	93.94	630	80920	2500	53.05	38541
2005	5166380	5839921	88.47	699	118830	3000	42,11	37294

Source: Mórakert Cooperative, 2006 cited in Szabó et al. (2008: 116) and Szabó, (2011: 343)

The increase in both membership and the turnover of the cooperative demonstrated that the co-op was operating efficiently and it was the largest and best known PO during that period. The

<sup>4</sup> This section is mainly based on Szabó et al. (2008) and Szabó (2011b).

<sup>5</sup> See "Chronology of dates and causes of innovation in case of Mórakert Co-op" in Appendix 6.

total net revenue of Mórakert PO reached 8.222 billion HUF in 2006 (32,590,000 EUR), a very significant result for the sector. Their turnover decreased in 2007 to 5.162 billion HUF (20,375,000 EUR), still a very impressive figure. However, 2008 and 2009 were not as successful as the previous years, for example the turnover of the co-op was HUF 4.712 billion (EUR 17,795,000) in 2008 and in 2009 it was about HUF 2 billion (EUR 7,384,000, see HVG, 2011: p.86). The turnover of last year one can get information about is 2010 with a very low number of HUF 565,689 million (EUR 2,029,000). The number of members also declined in 2009, the Co-op had 776 owner-members in July 2009 and 670 in November 2009. (See some more data on the development of Mórakert Co-op in the Appendix).

Table 7 summarises the volume and value of the main products sold by the Mórakert cooperative in the years 2003-2005. Potato had got the highest market share of the products sold by Mórakert. But as by definition potato is no vegetable and would not count as PO crop, Mórakert reduced its growing and hence follows its purchase share in order to get acknowledgement as PO. It is also worthwhile mentioning the diversification of assortment in 2005 to other products.

Table 7: The volume and value of the main products sold by the Mórakert cooperative in the years 2003-2005

Product	2003		2004		2005	
	Volume (t)	Value (HUF)	Volume (t)	Value (HUF)	Volume (t)	Value (HUF)
<b>Tomato</b>	3 151	399 629	4 120	809 871	4 210	1 031 226
<b>Paprika</b>	7 864	811 699	10 245	1 240 410	3 929	766 334
<b>Lettuce</b>	828	163 987	933	193 033	1 391	283 966
<b>Carrot</b>	2 772	167 229	3 972	235 751	3 299	305 225
<b>Potato</b>	10 114	813 089	13 722	817 222	8 424	455 398
<b>Parsley</b>	1 442	331 275	1 326	196 366	646	167 845
<b>Others:</b>	4 188	952 186	4 223	585 989	15 395	2 156 386
<b>Total</b>	30,359	3,639,094	38,541	4,078,642	37,288	5,166,380

Source: Mórakert Cooperative, 2006 cited in Szabó et al. (2008: p. 116)

#### 4.1.2. Marketing, organisational and logistics issues in the Mórakert Cooperative

Mórakert Co-op supplied all the major retail chains; a significant share of its turnover was exported. The co-op used various marketing channels, from individual shopkeepers through wholesale markets to retail chain networks, and it sold a wide variety of fruit and vegetables. The importance and share of supplying the retail chain networks has increased year by year. It was very difficult to set a foothold in one of the chains, but such a step is a secure position if the cooperative is able deliver the entire range of produce to the network, also guaranteeing top quality and a high degree of flexibility. During the first few years of its existence, Mórakert sold about 5-10% of total sales to the retail chains. This share has been gradually rising since 1997-1999 rising to up to 90% (Rácz, 2006). The retail chains that are delivered on the domestic market are Tesco Global, Auchan Hungary, Csemege-Match, SPAR Hungary, PROFI Hungary, CORA, CBA, etc.

Some products were sold on a contractual basis according to weekly prices. The cooperative was quite satisfied with the contracts but it was a great challenge to fulfill exactly requirements with respect to quality, quantity, range and the other terms of trade as well as payment stipulated by

the retail chains. However, it provided a secure market and stability for the farming activity of the members. The question of monitoring has become crucial in the context above. The cooperative used the HACCP, EUREPGAP and BRC quality assurance systems to meet the legal and market-driven requirements.

The cooperative sold 80% of its produce on the domestic market, 20% was exported (Austria, Estonia, Germany, Latvia, Lithuania, Czech Republic, Romania, Russia, Scandinavia, Serbia, Slovakia, Slovenia, later also to Switzerland and Poland).

The cooperative has a site equipped with a full infrastructure which still has a great value. A handling, sorting and packaging line for vegetables and fruits was put into operation in September 1999. In 2002, a so-called "agri-logistics centrum" was set up by the cooperative, which covered 4,000m<sup>2</sup> including a cold store of 1,000m<sup>2</sup>. These investments were made to meet the food safety standards as well as the environmental and hygiene requirements of the European Union. The third phase of development was enlarging the "agri-logistics centrum" with a 6,000 m<sup>2</sup> storage facility. In June 2006, the co-op used 15,000 m<sup>2</sup> and 6 hectares in Mórahalom handling all operations from one place, such as purchasing, handling, sorting and packaging of products coming from members and other suppliers as well as the storage and transportation activities. A computer-supported information system helped the work in the new headquarters.

The co-op also tried to sell products with higher added value. One of the main steps for the cooperative was to improve the competitiveness of segmented markets is to differentiate its products from those of other producers (e.g. branding). Generally, apart from lowering transaction costs, Mórakert was able to provide almost all of the major advantages of cooperatives in vertical integration. It could build up countervailing power and secure markets, increase technological and market efficiencies and carry out activities with higher added value. Furthermore, the Mórakert Cooperative could lower uncertainties and decrease information costs for the members; however due to the crisis and other liquidity problems, the co-op went into serious problems after 2007.

#### **4.1.3. Methods of financing the cooperative: capital requirements for members and supports**

Suppliers of Mórakert co-op were organized small-scale farmers of primary products and at the same time the members of the organisation were owners of a segment of the fruit and vegetable supply chain. The by-law of the cooperative which was in accordance with laws and other legal regulations concerning POs and cooperatives in the EU and Hungary contained the rules, rights and obligations of the members.

To fulfil the above-mentioned aims and to be able to reduce transaction costs, the cooperative members and the cooperative had to invest significantly in order to increase the value added of the products sold. The value of the so-termed cooperative share, which represents the ownership increased from HUF 25,000 (1995) to HUF 190,000 (2009). The above-mentioned contribution is only partly big enough for providing the financial support needed for the development described above. New members had to pay an additional amount of HUF 330,000 as a single payment for investment contribution. For small-scale producers it was almost impossible to make such payment, in other words it was not really worthwhile to become a member.

There was also an amount of 4.6 % of the turnover which had to be paid or was retained as a contribution to the operating costs of the PO's operational programme in order to get the same amount of subsidies from the EU (Hódi, 2009).

As other Hungarian recognised POs Mórakert Co-op got EU support mainly as direct payments under the European Agricultural Guarantee Fund.

Table 8: Details of payments Mórakert Cooperative has received from the European Union (2008-2010)

Year	Scheme	Total
2010	Direct payments under European Agricultural Guarantee Fund	€680,726
2009	Direct payments under European Agricultural Guarantee Fund	€544,071
2008	Direct payments under European Agricultural Guarantee Fund	€406,557
	<b>Total:</b>	<b>€1,631,354</b>

Source:<http://farmsubsidy.org/HU/recipient/HU145557/morakert-zoldseg-gyumolcs-termeloi-ertesiteso-szovetkezet/>, Downloaded on 12.05.2012

#### 4.1.4. Liquidity problems from 2008

Despite the “success story” of the co-op (in terms of increasing turnover and membership between 1995 and 2007, Mórakert Co-op had been facing some liquidity problems from the second half of 2008 onwards. Additionally, the turnover of the cooperative decreased while its liabilities went up to about HUF 3 billion in July 2009. Despite state intervention (HUF 600 million in total) and restructuring of the cooperative into a profit organisation, Mórakert had accumulated a debt of HUF 3.6 million at the end of 2010, from which HUF 1.1 billion was towards its member-producers who had supplied fruit and vegetables to the co-op. The cooperative is under bankruptcy since 2010 and is very close to cease to exist as a co-op.

#### 4.2. Main reasons and explanations for failures

The Mórakert case is an interesting example of a once successful marketing cooperative which has failed. After having been successful for many years, it went under bankruptcy at the end of 2010. Summarising the causes which led to the very hard situation today we can divide them into two main groups:

##### Macroeconomic and external issues:

1. Financial and economic crisis resulting in less domestic demand for fruit and vegetables.
2. Higher share of import of fruit and vegetables in the Hungarian market.
3. Producers’ organisations and cooperatives are not competitive because of the black and grey trade in spot markets. (The black market, estimated up to 40% in fruit-vegetable and cereals sectors, pays in cash and promptly to the members.)
4. Declining willingness of banks to finance current assets (revolving funds).
5. Post-financing nature and late pay-off of the supports (EU funds).
6. Delayed payments (60-70 days after delivery) from the retail chains.
7. High financial burden due to “non-price character financial parameters” (e.g., listing and the so-called “shelf” fee, various donations and bonuses etc.) set up by the majority of retail chains<sup>6</sup>.

<sup>6</sup> The latter problem is still valid for many co-ops and POs.

**Microeconomic and internal problems:**

1. There were no reserve funds due to non-profit character of the cooperative.
2. Too rapid development and growth.
3. Structural problems of the Mórakert Group
4. There were no reserve (revolving) funds due to the non-profit character of the cooperative.
5. Because of the above character (in the last years they bought up all (sometimes lesser quality) products from the members as well (it was a "social question" to buy up all products of the members and not rational economic decision).
6. Efficiency problems regarding delivery, the right quality and quantity to the market (retail chains). It was not enough good quality product delivered by the members.
7. Management and personnel problems.

**Human factor related problems:**

1. Heterogeneity of members, e.g. big and specialised farmers who do like and be able to invest versus small farmers who do not like and/or are not able to invest.
2. Trust among members and towards the leadership as well as towards to the management decreased significantly from 2008. The initial high level of high trust was also one of the causes why the problems of the (miss)management and financing the cooperatives had not been detected earlier.
3. Decreasing commitment due to the business problems of the co-op. When it became less effective they by-passed the co-op even more frequently than before. Since contrary of earlier years, contract enforcement was very weak, possible causes for exclusion of members were very rare.
4. Regarding the staff and the management, the development was too fast since both were under pressure and there was no human resource manager. Fluctuating workforce became also a problem, although employees/management commitment to the managing director had been very high for a long time. Generally speaking the management was dedicated and innovative, but after a certain size of turnover a real need for professional management occurred.

## **5. Analysis by comparison**

### **5.1. Similarities**

The three cooperatives studied were POs and PGs by legal form and are active in the collecting/marketing of agricultural raw materials produced by the members. However, their market shares and, hence follows, their countervailing power is very low as the number of other cooperatives and degree of concentration is not really strong in the analysed sectors. There are only a few secondary co-ops, mostly in the fruit and vegetable sector and their performance is not effective either. A higher degree of co-operation among producers is important from the point of view of better coordination of the whole chain and it can enhance (consumer) welfare as well.

Both DélKerTÉSZ Co-op which is the largest PO in Hungary and Mórakert Co-op have proven that by co-operation there is an opportunity to significantly improve countervailing power and to establish ownership for farmers in the upper part of the food chain if they can secure strict quality requirements, solid financing, loyalty and trust in their organisations.

The two co-ops mentioned above had similar marketing strategies, since they both tried to sell products with higher added value and also implemented product differentiation and branding. Both cooperatives increased the capacity of cold storage and tried to increase the share of exports.

Mórakert Co-op and DélKerTÉSZ Co-op similarly aimed and established further integration by the means of secondary or regional type of cooperative to be able to exploit countervailing power and to reduce transaction costs. They had even been collaborated with each other from the end of 2006 (DALZA CPlc) but it was not really successful.

All the cooperatives secured and significantly increased their own sites with full and modern equipment and different types of support that help them purchase. All of them offer storage for members' products.

Last but not least, all examined cooperatives made a significant contribution to rural employment and development. Apart from the very important fact that they help farmers to run their business efficiently and therefore enable them to earn their and their families living from agriculture, they also "provide considerable full-time and seasonal employment opportunities in rural areas where industry is not dominant, and alternative options are rare" (Juhász –Kozák, 2009: p.8).

### **5.2. Differences**

The cooperatives differ largely in terms of size as Csabai Raktárszövetkezet operating in the cereal sector is much smaller than the other two operating in the fruit and vegetables sector.

Csabai Raktárszövetkezet mainly trades the products of the members without processing and/or giving higher value added although it helps to measure and save quality of cereals.

All three co-ops are active on horizontal level with collecting agricultural raw material/products from members and selling them to retailers or wholesalers, while the two POs in fruit and vegetable sector are (were) also good examples for the vertical integration based on the horizontal coordination of farmers as initiators.

There were differences between the product marketing strategies of the two fruit and vegetable co-ops since Mórakert tried to provide the whole assortment for retail chains buying the

necessary products even from abroad when its own members could not deliver, whereas DélKerTÉSZ Co-op tried to specialise. In 2012, it sells only 4 main products in order to be more effective.

There is a huge difference in the pace of the development of the case study co-ops. Mórakert showed a very fast one using all the possible types of national and EU support creating too a large pressure on the financing the co-op. Especially the ever increasing need of current assets to be able to finance investments was a very big issue.

Mórakert Co-op developed its site with a huge green-field investment while the other two mainly bought used operation plants.

Mórakert exhibited also a great heterogeneity of members and other human-factor related problems In contrast, DélKerTész developed more gradually and tried to specialise on fewer products in order to be effective and profitable.

Csabai Raktárszövetkezet is genuine and democratic (bottom-up) horizontal cooperative organisation in the cereals sector with slow but deliberate development with very safe and solid future.

## 6. Discussion

According to the review of literature and to the result of the interviews, the advantages of co-ops (POs/PGs) for their members are listed. It was interesting that stakeholders of different co-ops sometimes emphasized different advantages. However, they more or less agreed on the relevance of the advantages given in Table 9. The most important ones are bolded and the ones *in italic* are theoretically very important advantages but in Hungary they cannot be taken as guaranteed.

“To gain higher prices” may not always be an advantage, e.g. in case of Csabai Raktárszövetkezet they may disturb the market which in long-term would not benefit the co-op since it has got stable trading connections to partners. Market disturbance could run companies into problems which affects the business with the co-op.

Table 9: The list of advantages of belonging to COOP (POs/PGs) for members

<b>Advantages for members</b>
<i>To gain higher prices</i>
To obtain higher profits for farmers
To gain more bargaining power
<b>To obtain secured and long-term access to markets</b>
To obtain higher market share
To exclude middlemen
To enable investments
Within the group we can offer each other services
To get access to services provided by the co-op at business at cost principle
To buy inputs (means) of production at cheaper prices
To reduce costs of output distribution
To build a stable network of purchases
To negotiate long-term contracts with buyers
To decrease transaction costs (per member and per transaction)
To obtain easier and cheaper market information
<b>To save time on supply and sales operations</b>
To get extension services/education
To reach higher efficiency in agricultural production
To avoid competition with one another
<b>Members can get their payment through co-op more safely</b>
<i>Members can get their payment through co-op quicker</i>
To obtain EU support for Production organisations/groups
To obtain national support for Production organisations/groups
<b>Membership in POs/PGs is an advantage in tenders (policy measures)</b>
To guarantee the profitability of production via obtaining subsidies
To reduce market risk
To reduce technological risk
To ease the access to credits and loans
Experts, sometimes with market connections can govern the organisation
Adjust quantity and quality of production to demand
Help to make production more environmentally friendly
Help to save local heritage of production culture
Provide technological background for preparation, storage and sales of marketed products

All interviewed people emphasised the *stability* (secured market for long-term), *safety* (the members will get their money for sure) and *time saving* nature (they do not waste time on travelling to and selling on wholesale markets hence they can concentrate on the development of their own farm) of trading with cooperative.

Although the ability “To obtain national support for POs/PGs” and “To obtain national support for POs/PGs” were regarded very high among the interviewed persons, they are more important for the cooperative than for its members. For members, advantage in tenders (policy measures) was of greater importance. It is, however, peculiar that cooperatives won’t have an advantage from tenders, e.g. for machinery investment support, while their single members have.

Generally, cooperatives and other producer-owned organisations have additional, often non-economic advantages, e.g., contributing to rural development and multifunctional agriculture, rural tourism, and employment. These are very important tasks especially in less favoured areas. They also help to protect the environment as well as the cultural heritage. At the macro-economic level, cooperatives contribute to a more transparent economy which may lead to an increase in tax revenues.

The crucial issue for the future of agricultural cooperatives is the loyalty of farmers to their co-op and the leaders of the cooperative, especially under uncertainties dominating in transition agriculture, like in Hungary (Szabó, 2008b).

Among economic problems, short-term financing of the revolving funds of the cooperatives/POs is most crucial. Cooperatives usually have not got enough cash to finance their main activity (trade), especially in the season when they even try to buy some products from non-members, therefore short-term loans from banks and credit cooperatives are needed to solve the ever present liquidity problem.

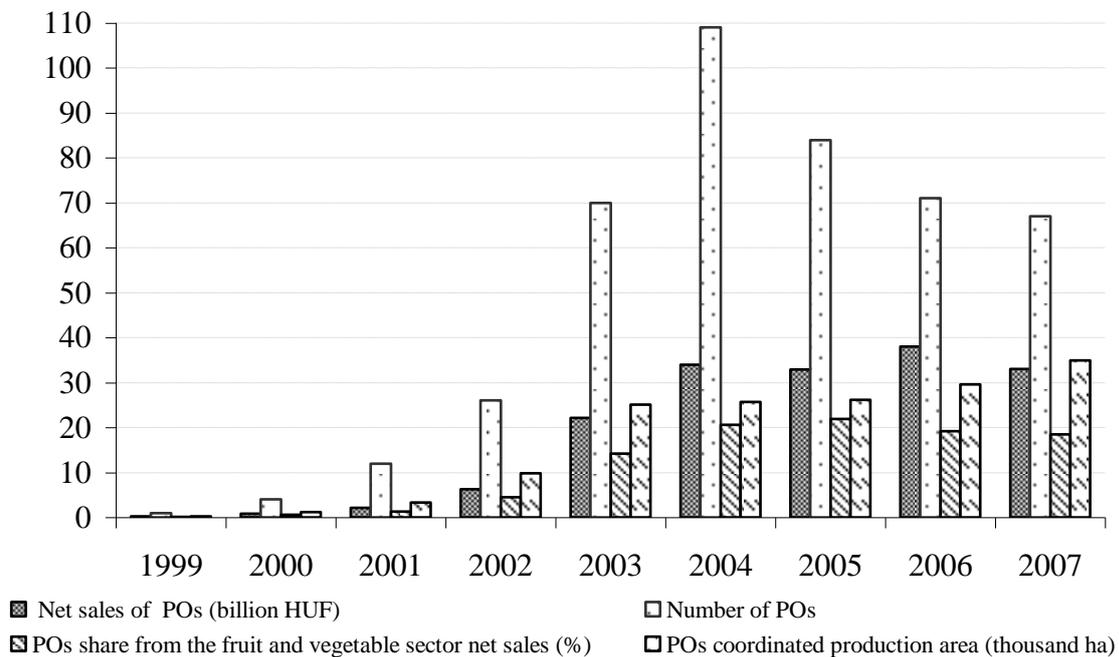
The New Hungarian Producer Organisation Current Assets Credit Programme (Government Decree 1040/2012: II.12) can render help to POs which have severe financial problems. The objective of the above policy measure is a correction of market failure and it is specific to agriculture and to POs in the fruit and vegetable sector. It has an effect on the development of cooperatives, since it gives the possibility for current assets credits exclusively for (Hungarian) POs. The measure improved their position in the fruit and vegetable chain with securing revolving funds for them to be able to handle and finance the delay in payments from their customers (e.g. retailing chains, processing industry, etc.). It is a very effective support measure for solvent POs, but not all POs can participate. It is also said by some experts that at present the programme is at a halt, new contracts cannot be made and the already fixed gracing periods cannot be changed.

Apart from support measures, the supportive approach of the local authorities is one of the key elements in the success of POs, especially in the initial phase of their development. In case of DélKerTÉSZ, the personal relation with the municipality was extremely good helping each other on a partnership basis (Juhász –Kozák, 2009: p. 13). In case of Mórakert Cooperative, it was a very strong connection with the mayor of Mórahalom who was the founder of the organisation.

## 7. Conclusions

The formation of POs started slowly, until 2003-2004 only the very brave and strong-minded formed POs (see Figure below). “Before the EU accession, dynamic development actions had to be taken because POs had market regulation functions much needed under the EU conditions. The favourable changes in the subsidy scheme proved to be successful resulting in a peak number of POs right before the accession. Until today, the number of POs decreased considerably whereas the sales value increased slowly. The operation of POs did not result in the expected concentration still not being a generally expected form of cooperation among the Hungarian fruit and vegetable growers” (Juhász –Kozák, 2009: p. 8).

Chart 2: Fruit and vegetable Producer Organizations (PO) in Hungary (1999-2007)



Source: Own figure by Juhász –Kozák (2009: p. 8) from data provided in Dudás (2009b)

There is a psychological reason as well why co-operation is not as popular as it could be: “Apart from the above mentioned problem of semi-illegal trade, the communist legacy of forced cooperation has still been an obstacle. After the change of the political system, the vertical relationship between the levels of the supply chain disintegrated. This situation was equally unfavourable for the producers, processors and retailers, but general distrust and unstable markets were maintained over quite a long time because of certain specific benefits from it” (Juhász –Kozák, 2009: p. 8).

Regarding opportunism, there were few cases that a PG was established with purpose to get investment support and then with a change of its legal form into a (for example) Ltd. to “privatise” the warehouse from the PG after it had been built. Earlier this was not a problem since the national support for PGs was only 5% (making 55% with EU support measures); until 2011 it was not worth asking for it. But since the national support for investments by PGs was raised to 25%, the danger increases likewise that some managers might try to jeopardise the sustainable and long-term development of the PG.

As a brand new measure, it has to be mentioned that in the frame of Darányi Ignác Plan – a framework for implementation of the National Rural Strategy (2012-2020) producer groups in the fruit and vegetable sector will get access to HUF 1.4 billion support in Hungary for setting up and operation (see NVS, 2012-2020).

Lack of trust and opportunism are important obstacles of further (vertical) integration (secondary co-operation) despite the fact that apart from the economic advantages some national supports can be gained by joining to a secondary PO (e.g. Hortico-Régió 2009 Kft. in case of DélKerTÉSZ Co-op, DATÉSZ Rt. in case of Mórakert Co-op etc.). Trust issues are very important. The most serious problems are members' loyalty and commitment (Ledó, 2011). Bypassing the cooperative route is not without example and contracting discipline is relatively weak, despite the fact that there is a strict chain management. Again black and grey markets, as well as the high percentage of VAT (27% in 2012) increase the possibility that members will sell on the spot without any documents/invoices.

With the view to performance and sustainability, it is of utmost importance for the cooperatives to get EU and national support. According to some Hungarian cooperative leaders and managers POs and PGs will only exist until some support is available. It is especially true in cases of the new organisations which are planned to be established: most of them would not be able to set-up without supports.

Regarding the length of support, it is also a point of consideration that the usual 5 years of support period is not sufficient. The instrument of Certified Recognition of PGs in other than fruit and vegetables sectors gives PGs the possibility to get support for another five-year period after having finished their first operational programme.

With the booming agricultural business particularly evident in the cereal sector due to the huge demand for cereals on the world market over the last years, export activities are more and more gainful for the PGs and will contribute to their sustainability also together with support measures.

The following statements can summarise the policy actions needed to help the development of POs and cooperatives in Hungary:

1. Problems of farmers and co-ordination of chains cannot be solved simply by EU and/or government support – but it helps a lot as it does in the cases of most of Hungarian co-ops.
2. Policy actions needed in Hungary in order to help cooperative development:
  - a. Changing morals/attitude of farmers and demolishing psychological barriers,
  - b. Solving the problem of the black market with (for example) decreasing high VAT (27% at present in Hungary),
  - c. Giving EU and national support for co-ops and POs/PGs, as well some other policy actions (e.g. preferential short term credits for current assets to be able to finance at least their trade with members).

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## Appendices

### Appendix 1

#### List of all interviews made in the course of Second (Case Study) Phase of the project

Apart from the ones which had been done during the first phase of the project, 25 interviews have been made to be able to complete the Case Study Report. Here is the list of the most important ones regarding the Second (Case Study) Phase of the project:

- Adamcsik, L. (2011). Interview (President and Managing director of the Csabai raktárszövetkezet), 16.06.2011 (in Hungarian)
- Adamcsik, L. (2012a). Interview (President and Managing director of the Csabai raktárszövetkezet), 21.03.2012 (in Hungarian)
- Adamcsik, L. (2012b). Interview (President and Managing director of the Csabai raktárszövetkezet), 05.04.2012 (in Hungarian)
- Adamcsik, L. (2012c). Interview (President and Managing director of the Csabai raktárszövetkezet), 06.04.2012 (in Hungarian)
- Barta, I. (2011). Interview. (Chief Councilor, Ministry for Rural Development), Budapest, 08 July 2011. (in Hungarian)
- Barta, I. (2012a). Interview. (Chief Councilor, Ministry for Rural Development), Budapest, 07 February March 2012. (in Hungarian)
- Barta, I. (2012b). Interview. (Chief Councilor, Ministry for Rural Development), Budapest, 08 March 2012. (in Hungarian)
- Barta, I. (2012c). Interview. (Chief Councilor, Ministry for Rural Development), Budapest, 26 March 2012. (in Hungarian)
- Becsey, Z. (2012): Interview (former Member of the Mórakert Cooperative), 30.03.2012 (in Hungarian)
- Bitsánszky, M. (2012). Interview (Head of Unit, Ministry for Rural Development), Budapest, 12 April 2012 (in Hungarian)
- Farkas, S. (2012): Interview. (Member of Hungarian Parliament, President of Horticultural Subcommittee of Agricultural Committee of Hungarian Parliament), 23. 04. 2012 (in Hungarian)
- Fodor, Z. (2012): Interview (Managing Director, FruitVeb), Budapest, 26 March 2012 (in Hungarian)
- Husza, R. (2012): Interview (former Managing director of the Mórakert Cooperative), 24.05.2011 (in Hungarian)
- Husza, R. (2012): Interview (former Managing director of the Mórakert Cooperative), 30.03.2012 (in Hungarian)
- Juhász, A. (2012): Interview (Head of Department, Market and Trade Studies Department, Agricultural Research Institute – AKI), 27. 03. 2012 (in Hungarian)
- László, I. (2012): Interview. (Member of the DélKerTÉSZ Cooperative), 23.03.2012 (in Hungarian)
- Ledó, F. (2011): Interview. (President and Managing director of the DélKerTÉSZ Cooperative), 02.06.2011 (in Hungarian)
- Ledó, F. (2012a): Interview. (President and Managing director of the DélKerTÉSZ Cooperative), 23.03.2012 (in Hungarian)
- Ledó, F. (2012b): Interview (President and Managing director of the DélKerTÉSZ Cooperative), 31.05.2012 (in Hungarian)
- Mártonffy, B.. (2012): Interview (President, FruitVeb), Budapest, 26 March 2012 (in Hungarian).
- Naszvadi, E. (2011): Interview. (Expert and Representative of National association of producer groups (PGs) in the cereals sector). Dombóvár, 29 June 2011. (in Hungarian)

Patay, V. (2012): Interview (Member of Parliament). 21. 03. 2012 (in Hungarian)  
Rácz, J. (2011): Interview (the first Managing director of the Mórakert Cooperative), 26.05.2011 (in Hungarian)  
Rácz, J. (2012): Interview (the first Managing director of the Mórakert Cooperative), 30.03.2012 (in Hungarian)  
Sarusi Kis, L. (2012): Interview. (Board Member of the DélKerTÉSZ Cooperative), 23.03.2012 (in Hungarian)  
Szabó, I. (2012). Interview (Board Member of the Csabai Raktárszövetkezet), 06.04.2012 (in Hungarian)  
Szabó, Z. (2012): Interview (Executive Secretary of Hangya). 28.03.2012 (in Hungarian)  
Szeremley, B. (2012): Interview (President of Hangya). 28.03.2012 (in Hungarian)  
Tóth, T. (2012). Interview (Member of the Csabai Raktárszövetkezet), 05.04.2012 (in Hungarian)  
Várkonyi, F. (2012). Interview (Member of the Csabai Raktárszövetkezet), 05.04.2012 (in Hungarian)

## Appendix 2 Legislation

### *General laws and information*

- COUNCIL REGULATION (2003). COUNCIL REGULATION (EC) No 1435/2003 of 22 July 2003 on the Statute for a European Cooperative Society (SCE).
- FVM (1999a): FVM 8/1999. rendelet az agrárgazdasági célok 1999. évi költségvetési támogatásáról (117-126. §, 247- 250. §, 259-261. §), Budapest, 1999. január 20. Magyar Közlöny 1999/4. szám. pp. 134-136, 155-156, 158-159
- FVM (1999b): FVM 25/1999. rendelet a zöldség-, gyümölcsstermelői, - értékesítő szervezetekről, Budapest, 1999. március 5. Magyar Közlöny 1999/18. szám, pp. 1222-1226.
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- FVM (2003). 3/2003. (I.24.) Decree of Ministry of Agriculture and Rural Development on the support for agricultural economics and rural development aims from national budget of 2003. (FVM rendelet az agrárgazdasági és vidékfejlesztési célok 2003. évi költségvetési támogatásáról). Magyar Közlöny, 2003/7.
- Government decree (124/2006. V.19.) on the disbursement from the cooperative's mutual fund.
- Government decree (141/2006. VI. 29.) on social cooperatives
- Government decree (30/2000. III. 10.) on the unfolding credit construction for agricultural producers as well on the farm credit programme (Korm. Rendelet a mezőgazdasági termelők kibontakozási hitelkonstrukciójáról és a gazdahitel programról)
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- MAGYAR KÖZLÖNY (1999). 25/1999. (III.5.) FVM rendelet a zöldség-, gyümölcsstermelői, - értékesítő szervezetekről. Magyar Közlöny, 1999/18.
- MAGYAR KÖZLÖNY (2000a): 2000. évi CXLIV. törvény a mezőgazdasági szövetkezeti üzletrészről. 2000/129, pp.8636 – 8687.
- MAGYAR KÖZLÖNY (2000b): 2000. évi CXLI. törvény az új szövetkezetekről (XII.23). 2000/129, pp.8671 – 8684.
- MAGYAR KÖZLÖNY (2001a): Az alkotmánybíróság 10/2001. (IV.12.) AB határozata. 43.sz. pp.2952-2966.
- MAGYAR KÖZLÖNY (2001b): 1049/2001. (V.18.) Kormány határozat: a mezőgazdasági szövetkezeti külső üzletrész-tulajdonosok helyzetének rendezéséről. 2001/57.
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- MAGYAR KÖZLÖNY (2001d). 100/2001. (XI.30.) FVM rendelet a zöldség-, gyümölcsstermelői, - értékesítő szervezetek kiegészítő támogatásáról. Magyar Közlöny, 2001/135.
- MAGYAR KÖZLÖNY (2001e): 1129/2001. (XII.10.) Kormány határozat: a mezőgazdasági szövetkezeti nyugdíjasok üzletrészeinek megvásárlásáról. 2001/139.
- MAGYAR KÖZLÖNY (2001f): A Kormány 326/2001. (XII.30.) Korm. rendelete: a családi gazdaságok létrehozásáról, nyilvántartásba vételéről, működtetéséről, valamint kiemelt támogatásáról. 2001/159, pp.12395-12404.
- MAGYAR KÖZLÖNY (2001g):: Az alkotmánybíróság 10/2001. (IV.12.) AB határozata. Magyar Közlöny, 2001/43, 2952-2966 (in Hungarian)

- MAGYAR KÖZLÖNY (2002a): 1025/2002. (III.21.) Kormány határozat: a csőd-, felszámolási vagy végelszámolási eljárás alatt álló szövetkezetek üzletrészeinek állami megvásárlásához kapcsolódó kormányzati készfizető kezességvállalásról. 2002/37.
- MAGYAR KÖZLÖNY (2002b): A Kormány 5/2002. (I.25.) Korm. rendelete: a szövetkezeti üzletrészek állami megvásárlásával kapcsolatos egyes kérdésekről 2002/10.
- MAGYAR KÖZLÖNY (2004a). 6/2004. (I.22.) FVM rendelet az Európa terv Agrárhitel programjáról. Magyar Közlöny, 2004/7.
- MAGYAR KÖZLÖNY (2004b). 25/2004. (III.3.) FVM rendelet a 2004. évi nemzeti hatáskörben nyújtott agrár- és vidékfejlesztési támogatások igénybevételének feltételeiről. Magyar Közlöny, 2004/24
- MAGYAR KÖZLÖNY (2006a). 2006. évi X. törvény a szövetkezetekről. Magyar Közlöny, 2006/1. szám, január 4., pp. 181-201.
- MAGYAR KÖZLÖNY (2006b). A gazdasági társaságokról szóló 2006. évi IV. törvény Magyar Közlöny, 2006/1. szám, január 4., pp. 24-98.
- MVH-FVM (2005): Nemzeti Vidékfejlesztési Terv – Tájékoztató a termelői csoportok létrehozásához és működtetéséhez támogatást igénylők részére (segédlet a 133/2004. (IX. 11.) FVM rendelet értelmezéséhez):  
[http://www.fvm.hu/doc/upload/200502/gazdatajekoztato\\_termcsop.pdf](http://www.fvm.hu/doc/upload/200502/gazdatajekoztato_termcsop.pdf)
- SCE (2006). Az európai szövetkezetekről szóló 2006. évi LXIX. Törvény (The Hungarian Law on the Statute for European Cooperative Society (SCE). In Magyar Közlöny: 2006/95, pp. 7792-7806.

*Producer Groups and POS in fruit and vegetable sector:*

**Regulation**

- 67/2009. (VI. 9.) FVM rendelet a zöldség-gyümölcs termelői csoportok és termelői szervezetek nemzeti szabályozásáról
- 126/2008. (IX. 23.) FVM rendelet (MK 137.sz.) A zöldség-gyümölcs termelői csoportok és termelői szervezetek nemzeti szabályozásáról szóló 19/2008. (II. 19.) FVM rendelet módosításáról
- 19/2008. (II. 19.) FVM rendelet a zöldség-, gyümölcs termelői csoportok és termelői szervezetek nemzeti szabályozásáról (+ melléklet: Nemzeti Stratégia)
- 120/2003. (XII.2.) FVM rendelet a zöldség-gyümölcs termelői értékesítő szervezeteket érintő nemzeti szabályozásáról
- 25/1999. (III.5.) FVM rendelet a zöldség-, gyümölcstermelői, -értékesítő szervezetekről. Magyar Közlöny, 1999/18.
- 47/2006.(VI. 22.) FVM sz. rendelet a termelői csoportok létrehozásához és működtetéséhez nyújtott támogatás részletes szabályairól szóló 133/2004.(IX. 11.) FVM sz. rendelet módosításáról

**Support**

- 28/2012. (III. 24.) VM rendelet** VM rendelete a zöldség-gyümölcs termelői csoportok támogatásáról szóló 24/2010. (III. 19.) FVM rendelet módosításáról
- 105/2011. (XI.10) VM Rendelet** A vidékfejlesztési miniszter 105/2011. (XI. 10.) VM rendelete a zöldség-gyümölcs termelői szervezetek kiegészítő nemzeti támogatásáról.
- 12/2011. (II. 18.) VM rendelet** a zöldség-gyümölcs termelői csoportok támogatásáról szóló 24/2010. (III. 19.) FVM rendelet, a zöldség-gyümölcs termelői szervezetek kiegészítő nemzeti támogatásáról szóló 9/2010. (VIII. 4.) VM rendelet, valamint a zöldség, gyümölcs és a dohány szerkezetátalakítási nemzeti program Európai Mezőgazdasági Garancia Alapból finanszírozott különleges támogatásának igénybevételéhez kapcsolódó feltételek megállapításáról szóló 29/2010. (III. 30.) FVM rendelet módosításáról
- 9/2010. (VIII.4) VM rendelet a zöldség-gyümölcs termelői szervezetek kiegészítő nemzeti támogatásáról

- 69/2009. (VI.18.) FVM rendelet a zöldség-gyümölcs termelői szervezetek kiegészítő nemzeti támogatásáról
- 60/2005. (VII. 1.) FVM sz. rendelet (a 83/2006. (XI. 30.) FVM rendelettel egységes szerkezetben) a zöldség-gyümölcs termelői értékesítő szervezetek nemzeti szabályozásáról;
- 24/2010. (III. 19.) FVM rendelet a zöldség-gyümölcs termelői csoportok támogatásáról
- 28/2009. (III. 20.) FVM rendelet a zöldség-gyümölcs termelői csoportok támogatásáról
- 28/2008. (III.18.) FVM rendelet a zöldség-gyümölcs termelői csoportok támogatásáról
- Government decree 1066/2008.** (XI. 3.) on New Hungary Producer Organisation Current Assets Credit Programme.
- Government decree 1040/2012** (II.12) on the New Hungary Producer Organisation Current Assets Credit Programme.

### ***Producer groups in other sectors:***

#### **Regulation**

- 65/2009. (VI. 4.) FVM rendelet a termelői csoportokról szóló 81/2004. (V. 4.) FVM rendelet módosításáról
- 20/2010. (X.1.) VM rendelet a termelői csoportokról szóló 81/2004. (V. 4.) FVM rendelet módosításáról
- 6/2005 (I.24.) FVM rendelet a termelői csoportokról szóló 81/2004. (V. 4.) FVM rendelet módosításáról
- 81/2004. (V. 4.) FVM rendelet a termelői csoportokról
- 85/2002.(IX. 18. ) FVM. sz. rendelet a termelői csoportokról

#### **Support**

- 59/2007. (VII.10.) a termelői csoportok létrehozásához és működtetéséhez nyújtott támogatások részletes feltételeiről
- 133/2004. (IX. 11.) FVM sz. rendelet... a termelői csoportok létrehozásához és működtetéséhez nyújtott támogatások részletes szabályairól

### ***Other legal issues (in order of the year of publication)***

1996. évi LVII. Törvény a tisztességtelen piaci magatartás és a versenykorlátozás tilalmáról.
- Law XVI/2003 on agricultural market organisation. 2003. évi XVI. Törvény az agrárpiacon rendtartásról
2005. évi CLXIV. Törvény A kereskedelemről (2005. december 13.)
- Act V/2006 on Company Transparency and Liquidation, Magyar Közlöny Nr: 2006/1. page: 00099-00161
- 24/2006. (V. 19.) sz. Kormányrendelet a szövetkezet által létrehozott közösségi alpból nyújtott támogatásokra vonatkozó részletes szabályokról
- 26/2008. számú MFB Közlemény az Új Magyarország TÉSZ Forgóeszköz Hitelprogram bevezetéséről.
- 1066/2008. (XI. 3.) Kormány határozat az Új Magyarország TÉSZ Forgóeszköz Hitelprogramról .
- 1187/2009. (XI. 10.) Kormány határozat Az Új Magyarország TÉSZ Forgóeszköz Hitelprogramról szóló 1066/2008. (XI. 3.) Korm. határozat módosításáról.
2009. évi LXXVII. törvény A közteherviselés rendszerének átalakítását célzó törvény módosításokról
- 52/2010. (IV. 30.) FVM rendelet a kistermelői élelmiszer-termelés, -előállítás és -értékesítés feltételeiről
- 39/2011. (V. 18.) VM rendelet az Agrár Széchenyi Kártya Konstruksiók keretében nyújtott de minimis támogatásokról. Magyar Közlöny, 2011. 52.sz, pp. 11802-11805. (mezőgazdasági vállalkozások likviditási problémáinak megoldása)

**Appendix 3**  
**List in English of the laws and regulations (legal background) of most important policy measures regarding cooperatives in Hungary (2000- May 2012)**

Law LVII/1996 on prohibition of unfair market behaviour and restriction of competition (Competition Law)
Law CLXIV/2005 on Trade
Law IV/2006 on Companies (business economic organisations law).
Law XVI/2003 on Agricultural market organisation
Decree of Ministry of Agriculture and Rural Development 52/2010. (IV. 30.) on the prerequisites of the production, processing and trade of food products by small producers
Law X/2006 on Cooperatives (General C-o-operative Act)
Law LXIX/2006): The Hungarian Law on the Statue for European Cooperative Society (SCE).
Decree of Ministry of Agriculture and Rural Development 67/2009. (VI. 9.) on national regulation of fruit and vegetable producer groups and producer organisations.
Decree of Ministry of Agriculture and Rural Development 19/2008. (II. 19.) on national regulation of fruit and vegetable producer groups and producer organisations.
Decree of Ministry of Agriculture and Rural Development 120/2003. (XII.2.) FVM on national regulation regarding fruit and vegetable producer marketing organisations
Decree of Ministry of Agriculture and Rural Development 25/1999 (III. 5.) on vegetable-, fruit-and –marketing organisations.
Decree of Ministry of Agriculture and Rural Development 65/2009. (VI. 4.) on the modification of Decree of Ministry of Agriculture and Rural Development 81/2004. (V. 4.) on producer groups.
Decree of Ministry of Agriculture and Rural Development 81/2004. (V. 4.) on producer groups.

Decree of Ministry of Agriculture and Rural Development 85/2002. (IX. 18.) on producer groups
Decree of Minister of Rural Development 39/2011. (V. 18.) on de minimis supports in the framework of Agrarian Széchenyi Card Constructions.
Government decree <b>1040/2012</b> (II.12) on the New Hungary Producer Organisation Current Assets Credit Programme.
Government decree 1066/2008. (XI. 3.) on New Hungary Producer Organisation Current Assets Credit Programme.
Decree of Ministry of Rural Development <b>105/2011. (XI.10)</b> on national supplementary support of fruit and vegetable producer organisations
Decree of Ministry of Rural Development 9/2010. (VIII.4) on national supplementary support of fruit and vegetable producer organisations.
Decree of Ministry of Agriculture and Rural Development 69/2009. (VI.18.) on national supplementary support of fruit and vegetable producer organisations.
Decree of Ministry of Rural Development <b>28/2012. (III. 24.)</b> on modification of Decree of Ministry of Rural Development 24/2010. (III. 19.) on support of producer groups in fruit and vegetable sector
Decree of Ministry of Rural Development <b>12/2011. (II. 18.)</b> on modification of Decree of Ministry of Rural Development 24/2010. (III. 19.) on support of producer groups in fruit and vegetable sector and Decree of Ministry of Rural Development 9/2010. (VIII. 4.) on national supplementary support of fruit and vegetable producer organisations, as well as modification of Decree of Ministry of Agriculture and Rural Development 29/2010. (III. 30.) on declaration of requirements of draining special supports from the national programme of restructuring of vegetables, fruit and tobacco financed by the European Agricultural Guarantee Fund
Decree of Ministry of Agriculture and Rural Development 24/2010. (III. 19.) on support of producer groups in fruit and vegetable sector.
Decree of Ministry of Agriculture and Rural Development 28/2009. (III. 20.) on support of producer groups in fruit and vegetable sector.
Decree of Ministry of Agriculture and Rural Development 59/2007. (VII.10.) on the establishment of detailed rules of supports for setting up and operation of producer groups.
Decree of Ministry of Agriculture and Rural Development 133/2004. (IX. 11.) on the establishment of detailed rules of supports for setting up and operation of producer groups.

## **Appendix 4**

### **Databases and other internet sources**

[http://portal.ksh.hu/pls/ksh/docs/hun/xstadat/xstadat\\_eves/tab3\\_02\\_01ic.html](http://portal.ksh.hu/pls/ksh/docs/hun/xstadat/xstadat_eves/tab3_02_01ic.html)  
[http://www.mgszh.gov.hu/szakteruletek/szakteruletek/obi/kozerdeku\\_adatok/regisztralt\\_boraszati\\_uzemek](http://www.mgszh.gov.hu/szakteruletek/szakteruletek/obi/kozerdeku_adatok/regisztralt_boraszati_uzemek)  
[http://ec.europa.eu/enterprise/policies/sme/files/sce\\_final\\_study\\_part\\_i.pdf](http://ec.europa.eu/enterprise/policies/sme/files/sce_final_study_part_i.pdf)  
[http://ec.europa.eu/enterprise/policies/sme/files/sce\\_final\\_study\\_part\\_ii\\_national\\_reports.pdf](http://ec.europa.eu/enterprise/policies/sme/files/sce_final_study_part_ii_national_reports.pdf)  
<http://copa-cogeca.eu/Main.aspx?page=CogecaMembers&lang=en>  
<http://www.e-beszamolo.kim.gov.hu/kereses-Default.aspx>  
<http://www.frieslandcampina.com/english/about-us/worldwide-locations/europe/hungary.aspx>  
<http://www.mosz.agrar.hu/>  
<http://szegedma.hu/hir/szeged/2011/01/felszamoljak-a-morakert-szovetkezetet.html/print/>  
[http://www.pszaf.hu/bal\\_menu/jelentesek\\_statiztikak/statiztikak/bankszektor](http://www.pszaf.hu/bal_menu/jelentesek_statiztikak/statiztikak/bankszektor)  
<http://umvp.eu/?q=english/nhrdp>  
<http://umvp.eu/?q=english/nhrdp/briefing-axis-1-4>  
<http://farmsubsidy.org/HU/scheme/> Downloaded on 12.05.2012  
<http://farmsubsidy.org/HU/recipient/HU40309/delalfoldi-kerteszek-zoldseg-gyumolcs-termeloi-es-ertekesito-szovetkezet/>, Downloaded on 12.05.2012  
<http://farmsubsidy.org/HU/recipient/HU30093/csabai-raktar-szovetkezet/>, Downloaded on 12.05.2012  
<http://farmsubsidy.org/HU/recipient/HU145557/morakert-zoldseg-gyumolcs-termeloi-ertekesito-szovetkezet/>, Downloaded on 12.05.2012  
<http://e-beszamolo.kim.gov.hu/kereses-Default.aspx>

**Appendix 5**  
**The development timeline (innovation history) of Dél-Kertész PO**

Time	Development	Type	The supply chain motive	Type	Public support (Y/N)	Credit (Y/N)
End of 2002	Forming of PO	LC	EU accession and the favourable subsidy program	MD,SP	Y	N
End of 2003	Buying the distribution center of the PO	TR, ST, PQ	It was possible to use subsidies for it and renting of the center was not cost increasing	SP, PI	Y	Y(paid back)
2003-	Forming and maintaining vegetable consultant groups. Detailed technology manuscripts. From 2007 6 part-time advisor	PQ	Ever increasing quality requirements and cost decreasing possibility	PI, RR	N	N
2004	EUREPGAP certification	FS	Retailer requirement (export) it was essential for increasing the export potential	MP, RR	Y	N
2005	Enlargment of the ULO capacity	PV, ST	Production coordination of the PO outgrow the capacity of the former ULO storage	MP, SP	Y	Y(paid back)
2005-2009	Improvement of the grading and packaging technology	PQ, MA	To increase the share of ready to sell packed goods for the requirement of the retailers	MP, RR	Y	Y (paid back)
2005	Development of detailed IPM technologies and POs own consultants provide help in the adaptation period	PQ, FS, EP	Export market (especially German retailers) requirement, and a product differentiation option	MP, RR, PI	N	N
2006-2007	Complete automatization of the traceability system, using a barcode-based technology	FS, IT	Retailer and export market requirement, legal requirement from 2006	RR, PI, RC	Y	N
2008	Join the "Taste and Tradition" regional product line of a retailer	PQ	It is a rare possibility to have experience in a premium product category, the retailer would also demand local varieties, but the present sales volume is not enough for further production development	MP, PI	N	N

Notes. Development types: PQ=Product Quality, PV=Product Volume, TR=Transport, ST=Storage, MA= Marketing, FS=Food Safety, IT=Informatics, EP=Environment Protection, LC=Legal form change Motive types: MD=Market Difficulty; MP=Market Potential; SP=Subsidy Potential; RC=Regulation Changes; RR=Retail partner Requirements; PI=Profitability Improvement; PR=Personal Reason  
Source: Juhász-Kozák, 2009: p. 16. (with permission)

## Appendix 6

Table A-1 Chronology of most important dates and causes of innovation of Mórakert Co-op

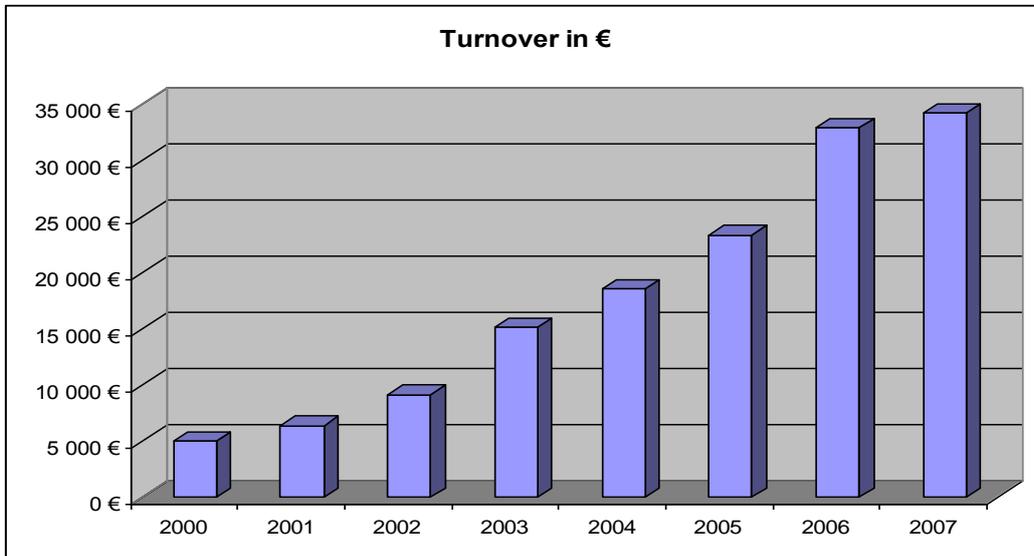
Date	Innovation event	Causes by changes in legal environment or in the supply chain
1960s	So-called specialized cooperative is established in Mórahalom bearing more of the characteristics of the western-type promotional cooperative	Need and possibility for cooperatives which are more suitable for individual farming, particularly in labour-intensive branches of agriculture such as vegetables and fruit.
1989-1990	A decline in the public life, and moral crisis and economic uncertainty emerged in Hungary	Social and economic cataclysm caused by the changes in the social and economic system (1989-1990).
1990-1992	A situation in the micro region of Mórahalom in which about 1500-1800 private (small-holder- varied between 3 and 5 hectares) economic units attempted to do business at their own risk.	Restructuring of agricultural ownership in Hungary via the so-termed compensation procedure.
1993	The specialized cooperative ceased its activity in accordance with the obligations incorporated into Laws I and II on Cooperatives; the cooperative became defunct without a legal successor.	Laws I and II on Cooperatives came into force in 1992.
1993	Department of Agriculture of the local authority was established in order to help small-holders submit forms for various applications/tenders.	Biased economic structure of the geographic area and the very low profitability of agricultural production.
January 1994	The Common Agricultural and Entrepreneurial Society was established in Mórahalom with 35 founding members. Main activity: organizing of collective purchasing activities saving 18-20%.	Producers have not enough information about the market and they have very limited negotiation power (caused mainly by the privatisation process).
April 1995	Mórakert Purchasing and Service Cooperative, Mórahalom was set up with 52 founding members.	Joint purchasing activities were extremely successful, as they could decrease transaction costs, e.g. information, negotiation and transportation costs. However, the main problem was rather to co-ordinate the marketing of the small-holders' produce. Additional need for capital emerged.
1998	Membership in Hangya Cooperation of Hungarian Acquisition, Merchandise and Service Associations/Cooperatives (the first president was the chairman of Mórakert co-op in 1998-2000)	The need for secondary organisation to able to represent of interests cooperatives/producer owned organisations.
March 1999	Possibility of establishing Producers' Organisation in Hungary. A significant advantage of the organisation, that the fruit and vegetable producers could afford the support of the EU solely through their POs.	25/1999 Decree of Ministry of Agriculture and Rural Development takes over the European Union's one [Regulation (EC) No 2200/96 on the common organisation of the market in fruit and vegetables] concerning POs.
1999	A handling, sorting and packaging line for vegetables and fruit was implemented. Developing own brand names in order to be able to carry out product differentia-	The cooperative endeavored to integrate, not only horizontally but also vertically, the members' farming activities, and also to develop activities with higher added value.

	tion.	
2000	Mórákert Co-op was provisionally acknowledged PO.	Provisional acknowledgement according to 25/1999 Decree of Ministry of Agriculture and Rural Development
2001	The co-op employs HACCP quality assurance system through its HACCP team.	Legal regulation comes into force.
2002	Mórákert Co-op was the first officially acknowledged PO in Hungary.	Officially acknowledged according to 25/1999 Decree of Ministry of Agriculture and Rural Development
2002	A so-called "agri-logistics centre" was set up by the cooperative, which covered 4,000m <sup>2</sup> including a cold storage depot which was 1/4 of the total area	Increasing competition, need for products with more added value and whole assortment to be able to deliver to retail chains..
2004	Introduction EUROPGAP	Requirement of the market development. (In 2006 127 producers are belonging to the EUROPGAP system).
2004	Establishment of and membership in a secondary organization (DATÉSZ Dél-Alföld Rt.) to increase the competitiveness of the collaborating firms which are themselves leading enterprises of the South-Danubian region.	Increasing competition in the sector.
2006	Agri-food Economy Quality Award.	Granted by the Minister for Agriculture and Rural Development of Hungary.
June 2006	The co-op uses 15,000 m <sup>2</sup> and 6 hectares in Móráhalom, which is a significant increase from the start. Plan for 2006: selling 20% on export – 80% on domestic (mainly retail chains) market compared 5/95% in 2004 and 15/85% in 2005)	Increasing import competition, development of marketing of the co-op and of the infrastructure of the agri-logistics centre of the cooperative. The facilities are fitted with modern sorting and packaging line, qualifying 20 per cent of the co-op' products for export.
2006	A new organizational model resulting in a kind of holding form. The members and other suppliers still sell their products to the cooperative which is the owner of an Ltd called Mórákert TЭСZ KFT. The owner of the Ltd is the Mórákert co-op (92 per cent) and the authority of Móráhalom (8 per cent), so this is still a producer-owned organization.	This system ensures that the co-op can get support from the budget of European Union, since fulfill all the criteria regarding POs in the fruit and vegetable sector, especially connected to the share of non-members trade.

Source: Bakucs, L. Z. – Fertő, I. – Szabó, G. G. (2007a): Innovative Practice Hungary: Morakert Cooperative - a successful case of linking small farmers to markets for horticultural produce in Hungary. (IP9\_HungaryMorakert.pdf) Budapest: IE HAS. Published on Regoverning Markets, pp. 25-26.

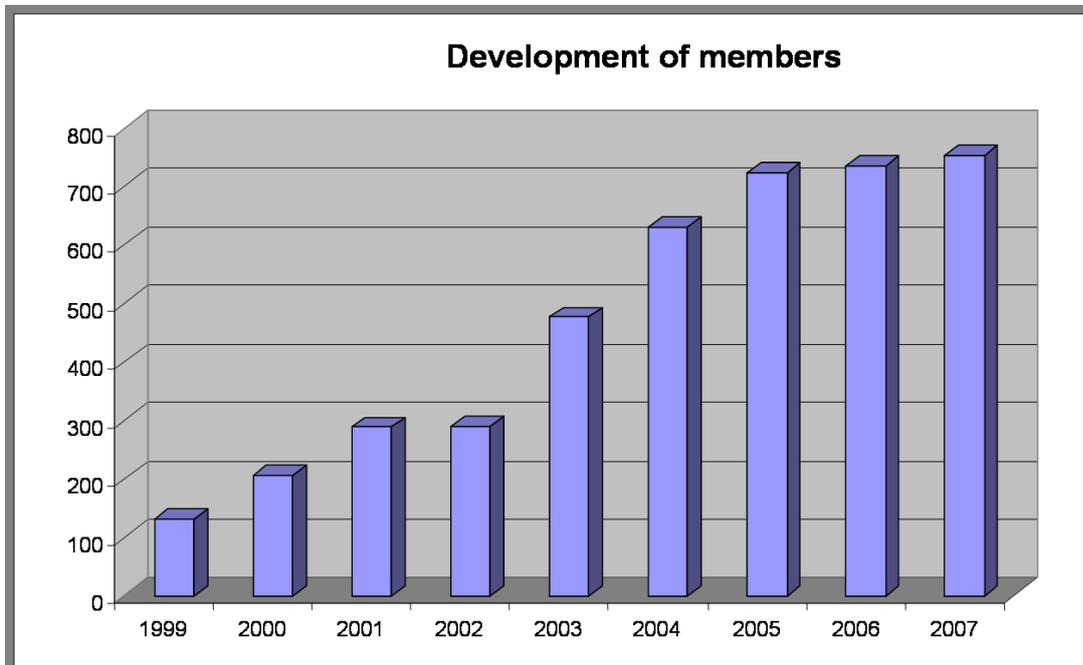
## Appendix 7 Some more data on Mórakert Cooperative

Chart A-1. The turnover of Mórakert Cooperative 2000-2007 in 1,000 EUR



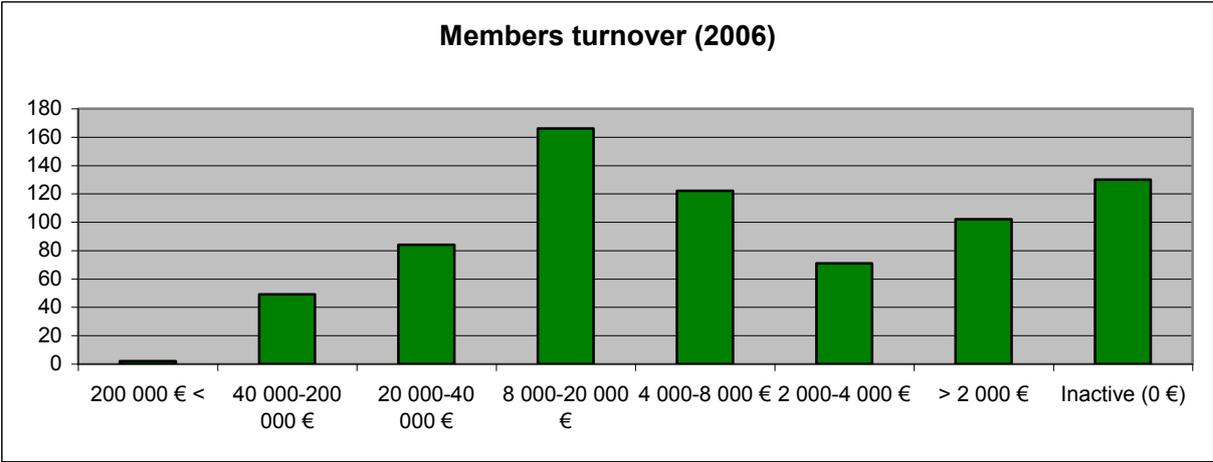
Source: Huszta, R. (2008): „Questions for ourselves”. Presentation at AIEA2 Conference on “The Role of the Cooperatives in the European Agro-food system” 28 - 30 May 2008, Bologna, Italy.

Chart A-2. The development in the number of members of Mórakert Cooperative 2000-2007



Source: Huszta, R. (2008): „Questions for ourselves”. Presentation at AIEA2 Conference on “The Role of the Cooperatives in the European Agro-food system” 28 - 30 May 2008, Bologna, Italy.

Chart A.-3 Heterogenity of members in Mórekert Cooperative in 2006



Source: Huszta, R. (2008): „Questions for ourselves”. Presentation at AIEA2 Conference on “The Role of the Cooperatives in the European Agro-food system”28 - 30 May 2008,

## Appendix 8

### SUPPORT FOR FARMERS' COOPERATIVES PROJECT

#### I. Research questions for Co-op Officers and members

Based on Version 3 (20.03.2012)

#### 1. Managerial Board member – president

##### A) COOP STRUCTURE- leadership

1. What are the main indicators of success in case of a co-op?

- a) Increasing turnover of the co-op,
- b) Increasing market share,
- c) Increasing surplus (margin) of the co-op?
- d) Increasing number of members,
- e) Increasing number of employees,
- f) Increasing quality and number of services fro members,
- g) Other, please, specify:

2. What are the main requirements/conditions for a successful co-op (PO/PG)?

Requirements	Not important	Marginal importance	Very important
1. Real economic necessity (its rationale is not only to get EU/national support),			
2. Willingness to co-operate – demolition of mental/psychological barriers,			
3. Screening of potential members,			
4. Strict and exact quality and quantity requirements for products delivered to co-op/producers' groups,			
5. Consistent adherence to delivery obligations,			
6. Ensuring balanced (liquid) financing both short- and long-term,			
7. Trust among the members,			
8. Trust (loyalty) between members and President/Board,			
9. Trust (loyalty) between members and management,			
10. Homogeneity of members			
11. Assertive membership			
12. Good (professional) management			
13. Efficient and multi-way communication with members.			
14. Other, please specify			

3. Did most of the initial members know each other before?

4. Were all initial members involved in planning conditions for COOP?
5. How new members are recruited? Is the COOP open for new members?
6. Do you face problems with commitment and trust among the members and between the members and the cooperative management? Tell us your opinion about trust issues in the Hungarian agri-food industry!
7. Who are members of the management team?
  - a) Members, farmers - how many?
  - b) Professionals, full or part time - how many?
  - c) Other
8. Who takes the most important decisions? (Signing a long term contract, establishing a new processing unit, selling additional quantities of products.)
  - a) the leader (president or executive manager?)
  - b) assembly of management (majority voting or agreement)
  - c) assembly of all the members (majority voting or agreement)
9. How often are meetings of the management?
  - a) Regularly (if not once a year, please specify!)
  - b) When there is a necessity
  - c) No meetings
10. How often are meetings all members (general assembly)?
  - a) Regularly (if not once a year, please specify)
  - b) When there is a necessity
  - c) No meetings
11. What are the advantages of belonging to COOP (POs/PGs) for members?

<b>Advantages</b>	<b>Not important</b>	<b>Marginal importance</b>	<b>Very important</b>
To gain higher prices			
To obtain higher profits for farmers			
To gain more bargaining power			
To obtain secured and long-term access to markets			
To obtain higher market share			
To exclude middlemen			
To enable investments			
Within the group we can offer each other services			
To get access to services provided by the co-op at business at cost principle			
To buy inputs (means) of production cheaper			
To reduce costs of output distribution			
To build a stable network of purchases			

To negotiate long term contracts with buyers			
To decrease transaction costs (per member and per transaction)			
To obtain easier and cheaper info about the market			
To save time spent for suppliers and sales			
To get extension services/education			
To reach higher efficiency in agricultural production			
To avoid competitions with one another			
To obtain security for transactions via insurance			
Members can get their payment through co-op quicker and more sure			
To obtain EU support for Production groups			
To obtain national support for Production groups			
To get plus points due to membership in POs/PGs in some tenders (policy measures)			
To guarantee the profitability of production via obtaining subsidies			
To reduce market risk			
To reduce technological risk			
To easier access credits and loans			
Experts, sometimes with market connections can govern the organisation			
Adjust quantity and quality of production to demand			
Help more environmentally friendly production			
Help to save local heritage of production culture			
Provide technological background for preparation, storage and sales of marketed products			
Other, please specify			

12. What are the most important non-economic advantages of the co-op?
13. According to your opinion which of those advantages is the most important in your COOP?
14. What % of the members get higher price for their products compared to the ones not involved in the cooperative?
15. Does the co-op (group) have long term contract with the buyers?
16. Are the members satisfied with their situation?
17. Is it easy to find appropriate staff?

### **B) Leadership - problems**

1. Do you feel satisfied with your influence within the Board of Directors/COOP?
2. Can you recall any conflict concerning PO management, management and members, management an workers? Was it solved in a satisfactory way?

3. Can you recall problems during the existence of the CO– which of these were most difficult to overcome at the beginning of the COOP? (A – Major problem, B- minor problem, C- not a problem) – Which of these were most difficult to overcome?
  - a) to trust each other
  - b) to trust the leader
  - c) to trust advisors and public administration (of what?)
  - d) leadership
  - e) to find buyers for products
  - f) to find members
  - g) to agree upon a legal form
  - h) to agree what to produce
  - i) to finance some necessary investments
  - j) to find funds for some necessary expenditures
  - k) bookkeeping
  - l) other please specify
  
4. What do you see as biggest problem to overcome during running COOP? (A – Major problem, B- minor problem, C- not a problem)
  - a) Decision making,
  - b) Leadership problems,
  - c) Finding purchasers for the output
  - d) Following legal acts on PG's Cooperation with public institutions,
  - e) Bookkeeping,
  - f) Obtaining financial support from EU – other organizations,
  - g) Other, please specify:

### **C) Market relations – competition**

5. Do you face to problems of market relations of PO?
6. Who are the main competitors on the market? (a- main competitor, B- minor competitor, C- no competition)
  - a- International (foreign) companies
  - b- National companies
  - c- Individual farmers,
  - d- Other producer groups, cooperatives,
  - e- Other, please specify:
  
7. How do you feel the competition in the market?
  - a- Strong competition
  - b- Normal competition
  - c- Soft competition , rather friendly relationships
  - d- We are considering the creation of the PG's union of pur production to coordinate our activities
  - e- Other –
  
8. Do you feel like international competition on Hungarian market harms the interests of your PO?

**D) Legislative environment, local environment**

9. Do you feel Hungarian legislation is in favor of COOP development? Why?

10. What could be changed to have more success in COOP development?

11. How do you evaluate the local climate doing the business of your COOP?

Statements	Disagree	Partially agree	Fully agree
Easy to fulfill all administrative work required by the law			
Easy to cooperate with civil servants (officers of central and local governments, registration, taxation, the extension service) etc			
Easy to find trustworthy partners			
The law acts in favor of businessman entrepreneurs (In favor for any business activities, including coop activities as well			
Easy to obtain capital			
People are interested in doing business with any business activities			
The competition with big companies is too high			

12. What is the attitude of farmers from your local community towards COOP?

- a) Very positive, most of them to some extent cooperate with other farmers
- b) Very positive, they would like to follow or organize some cooperation in the future
- c) Positive but they do not want to cooperate themselves
- d) Neutral
- e) Cautious and watching
- f) Rather negative, they do not want to cooperate
- g) Negative, they think every cooperation will collapse sooner or later
- h) They do not like people who cooperate
- i) I do not know

13. Does the Cooperation give farmers any possibility to obtain support from EU, central or regional authorities, loans grants etc. If yes, what sort of support?

### 3. Managing director/ Leader

1. Do you agree with the following statements?

Statements	I don't agree	Partially agree	I agree
I personally knew most members of COOP before			
I had family relations with most of the CO-OP members			
I had business relationship with most COOP members before			
I had the biggest impact on how today CO-OP looks like			
I convinced most members to join the group			
I found most of the purchasers for the output			
Most decisions I take regarding the group			
I always ask other members for advice before taking the most important decisions			
I have a good understanding of local people and environment			
I grew up in this municipality (region)			
I personally know most of the local decision makers (members of local government, officials, priest)			
I often meet other PG leaders			
A good leader should always listen to people he or she is governing			
I often follow the advice of the others			
I am satisfied with my leadership			
I would like to lead this COOP as long as possible			

2. (The same as in 1.A.6.)

Do you face problems with commitment and trust among the members and between the members and the cooperative management? Tell us Your opinion about trust issues in the Hungarian/Polish agri-food industry!

**Appendix 9:**  
**SUPPORT FOR FARMERS' COOPERATIVES PROJECT**  
**I. Research questions for Co-op Officers and members**  
Based on Version 3 (20.03.2012)

**2. Coop member**

**A) Advantage of co-op (PO/PG)**

1. What are the advantages of belonging to co-op (PO/PG) for members?

<b>Advantages</b>	<b>Not important</b>	<b>Marginal importance</b>	<b>Very important</b>
To gain higher prices			
To obtain higher profits for farmers			
To gain more bargaining power			
To obtain secured and long-term access to markets			
To obtain higher market share			
To exclude middlemen			
To enable investments			
Within the group we can offer each other services			
To get access to services provided by the co-op at business at cost principle			
To buy inputs (means) of production cheaper			
To reduce costs of output distribution			
To build a stable network of purchases			
To negotiate long term contracts with buyers			
To decrease transaction costs (per member and per transaction)			
To obtain easier and cheaper info about the market			
To save time spent for suppliers and sales			
To get extension services/education			
To reach higher efficiency in agricultural production			
To avoid competitions with one another			
To obtain security for transactions via insurance			
Members can get their payment through co-op quicker and more sure			
To obtain EU support for Production groups			
To obtain national support for Production groups			
To get plus points due to membership in POs/PGs in some tenders (policy measures)			
To guarantee the profitability of production via obtaining subsidies			
To reduce market risk			
To reduce technological risk			
To easier access credits and loans			
Experts, sometimes with market connections can govern the organisation			
Adjust quantity and quality of production to demand			
Help more environmentally friendly production			
Help to save local heritage of production culture			

Provide technological background for preparation, storage and sales of marketed products			
Other, please specify			

**B) Leadership - problems**

2. Do you have a regular contact with the management of co-op (PO/PG)?
3. Are you satisfied with information that you have on the PO?
4. Do you feel satisfied with your influence within the COOP?
5. Can you recall any conflict concerning PO management, management and members, management and workers? Was it solved in a satisfactory way?
6. Can you recall problems during the existence of the CO- which of these were most difficult to overcome at the beginning of the COOP? (A – Major problem, B- minor problem, C- not a problem) – Which of these were most difficult to overcome?
  - a) to trust each other
  - b) to trust the leader
  - c) to trust advisors and administration
  - d) leadership
  - e) to find buyers for products
  - f) to find members
  - g) to agree upon a legal form
  - h) to agree what to produce
  - i) to finance some necessary investments
  - j) to find funds for some necessary expenditures
  - k) bookkeeping
  - l) other please specify
7. What do you see as biggest problem to overcome during running COOP? (A – Major problem, B- minor problem, C- not a problem)
  - a) Decision making,
  - b) Leadership problems,
  - c) Finding purchasers for the output
  - d) Following legal acts on PG's Cooperation with public institutions,
  - e) Bookkeeping,
  - f) Obtaining financial support from EU – other organizations,
  - g) Other, please specify ...

**C) Market relations - competition**

8. Do you face to problems of market relations of PO?
9. Who are the main competitors on the market? (a- main competitor, B- minor competitor, C- no competition)
  - a) International (foreign) companies
  - b) National companies
  - c) Individual farmers,
  - d) Other producer groups, cooperatives,
  - e) Other, please specify:
10. How do you feel the competition in the market?
  - a) Strong competition
  - b) Normal competition

- c) Soft competition , rather friendly relationships
- d) We are considering the creation of the PG's union of pur production to coordinate our activities
- e) Other -

11. Do you feel like international competition on Hungarian market harms the interests of your PO?

**D) Legislative environment, local environment**

12. Do you feel Hungarian legislation is in favor of COOP development? Why?

13. What could be changed to have more success in COOP development?

14. How do you evaluate the local climate doing the business of your COOP?

Statements	Disagree	Partially agree	Fully agree
Easy to fulfill all administrative work required by the law			
Easy to cooperate with civil servants (officers of central and local governments, registration, taxation, the extension service) etc			
Easy to find trustworthy partners			
The law acts in favor of businessman entrepreneurs (In favor for any business activities, including coop activities as well			
Easy to obtain capital			
People are interested in doing business with any business activities			
The competition with big companies is too high			

15. What is the attitude of farmers from your local community towards COOP?

- a) Very positive, most of them to some extent cooperate with other farmers
- b) Very positive, they would like to follow is or organize some cooperation in the future
- c) Positive but they do not want to cooperate themselves
- d) Neutral
- e) Cautious and watching
- f) Rather negative, they do not want to cooperate
- g) Negative, they think every cooperation will collapse sooner or later
- h) They do not like people who cooperate
- i) I do not know

16. Does the Cooperation give farmers any possibility to obtain support from EU, central or regional authorities, loans grants etc.. if yes, what sort of support?

## Appendix 10:

### SUPPORT FOR FARMERS' COOPERATIVES PROJECT

#### II. Questions for interviews with officers of Ministry of Agriculture, politicians and sector experts

(with regard to the relevant policy measures and their outcomes as illustrated by the chosen cooperatives)

**1) What do You consider as the most important macroeconomic advantages of co-ops (POs/PGs)?**

Macroeconomic advantages of co-ops (POs/PGs)	Disagree	Partially agree	Fully agree
1. Contribution to rural employment (including staff members, contracted layers, accountants etc.)			
2. Legal employment.			
3. Transparent economy (rolling back of the black economy)			
4. Contribution to economic stability.			
5. Increased tax revenues.			
6. Better tax moral.			
7. Higher level of trust in the society.			
8. Higher level of willingness to cooperate.			
9. Schools of democracy			
10. Other, please specify			

- 2) Do you think the process of recognition of POs (PGs) is appropriate in the Hungarian legislation? If not, please, specify all the problems (e.g. too bureaucratic and/or sophisticated application process, high minimum requirement of turnover, long period of evaluation of the applications etc.) which should be corrected in order of stronger development of POs/PGs!
- 3) What are the main areas of national support (policy measures) regarding cooperatives (POs/PGs)? If possible, please name the exact legal source (e.g. law, EC or governmental regulation etc.) which contains the named measure.

### Different forms of national supports (policy measures)

Type of support	Name(s) of National policy measures regarding POs (fruit and vegetable sector)	Name(s) of National policy measures regarding PGs (cereals sector)
For Administration/Operation of the co-op		
For investment		
Other, please specify		

- 4) Are they effective enough, if not why? Please, specify the reasons as much as You can!
- 5) What are the main forms of EU support (policy measures) regarding cooperatives (POs/PGs)? If possible, please name the exact legal source (e.g. law, EC or governmental regulation etc.) which contains the named measure.

### Different forms of EU support (policy measures)

Type of support	Name(s) of EU policy measures regarding POs (fruit and vegetable sector)	Name(s) of EU policy measures regarding PGs (cereals sector)
For Administration/Operation of the co-op		
For investment		
Other, please specify		

- 6) Are they effective enough, if not why? Please, specify the reasons as much as You can!
- 7) All in all what do You consider as the main problems of the current support system for POs/PGs in Hungary? Please, give us some details of the most important obstacles!

### Problems of the current support system for POs/PGs in Hungary

Problems of the current support system	Disagree	Partially agree	Fully agree
1. It is too sophisticated, hard to understand			
2. The period of the support is too short.			
3. The upper limit of support is too low.			
4. The minimum delivery requirements (turnover of the co-			

op) are too big.			
5. Too much administrative work required by the legislation			
6. The monitoring/control system is not appropriate/effective			
7. There is not enough support for revolving fund (majority of support is for the operation cost)			
8. There is not enough support for investment			
9. Legislation is not up to date or not specific enough			
10. Other, please specify			

- 8) Which is more appropriate legal form (e.g. co-op or Ltd.) for POs/PGs) in Hungary and why? What are the advantages to work in co-op form?
- 9) Do you feel Hungarian legislation is in favor of co-op development? Why?
- 10) What is your opinion about the effect of grey/black economy on the development of POs/PGs?
- 11) What measures can be taken to get more transparent economy (e.g. to decrease the VAT in the sector or between the members and the co-op etc.)
- 12) What could be changed to have more success in co-op development from the point of (sectorial) politics/policy measures?
- 13) Do you know about any new or planned legislation/support measures which could influence the co-op development in Hungary?
- 14) Do you agree that leaders of new cooperatives face problems with commitment and trust among the members and between the members and the cooperative management? Tell us your opinion about trust issues in the Hungarian/Polish agri-food industry!
- 15) Please, evaluate the positions of the case study cooperatives from national/EU support measures!

<b>Name of the co-op</b>	<b>National measures</b>	<b>EU measures</b>
1. Dél-alföldi Kertészek Zöldség-Gyümölcs Termelő Értékesítő Szövetkezete (Fruit and vegetable sector)		
2. Csabai Raktárszövetkezet (Cereal sector)		
3. Mórakert Cooperative (Fruit and vegetable sector)		

- 16) Please, let us know any other comments You have got on the development, functioning and other issues regarding the case study cooperatives!