

An Innovative Measure for Financing Association in Agriculture: Facilitation and Individualized Support

Proposal for
RDP 2014-2020



Authors:

Alexandra Toderita
Cristian Ghinea
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The Research Premises of the Proposal

I. In Romania there are very few associative forms in agriculture and until now, state policies have not stimulated the creation of new cooperatives / associations / producer groups.

For 15 years, from 1989 until the Agricultural Cooperatives Law (no. 566/2004) came out, there was virtually no legal framework governing association in the modern sense (in line with democratic principles and participatory internal governance rules).

Thus, at the end of 2013, in terms of figures, agricultural association presents itself as following:

- 150 preliminarily recognized producer groups, out of which only half are estimated to be actually operational;
- Approximately 500 agricultural cooperatives registered at the National Trade Register Office, according to one of the latest quantitative research on this sector¹. Out of the 284 cooperatives contacted for the study, only 30% had actual economic activity (recorded turnover). Extrapolating, there are only about 160 functional cooperatives in total.
- More than 1,500 agricultural associations, which, however, only partially carry out economic activities;

II. Measure 142 (Establishing producer groups) of the current National Rural Development Program did not work.

The results, according to the latest MADR reports², talk for themselves: only nine million Euros has been contracted, of which only about 120 000 were actually paid to producer groups, while contracts worth 1.5 million euros have already been canceled. Therefore, less than **0.5% of the allocated amount for this measure has been spent de facto.**

The main reasons for the failure of measure 142 identified by CRPE following field research and consultations:

III. Measure 142 was designed and can operate only in case of mature groups, which can adapt to the recognition and existence conditions regarding sales (at least 75% of the

¹ PhD thesis "Research on perfecting agricultural co-ops activity in Romania", USAMV, Florentin Bercu, 2012

² PNDR monitoring, July 2013

members' production must be sold through the group, the minimum value of the production sold through the group being 10 000 Euros).

These conditions are difficult to achieve on a medium and long term. There are strong counter - incentives that cancel the attraction of measure 142 (explained in the previous CRPE reports), stemming from both market failures (information asymmetry, unfair competition of un-taxed imports), deficient state policies (lack of tax incentives for association that would counteract the relative advantage of the economic actors that are still operating on the black market, the lack of adequate rural logistics infrastructure), but mostly from the social area:

- low level of trust among farmers (low social capital);
- lack of business skills that would enable farmers to manage the transition from an individual household to the management of an associative form. These deficiencies are often heavy obstacles in the way of the survival of the organization.

IV. In order to build viable associations, community facilitation and business assistance are in order.

Any associative approach begins with a lengthy and thorough process, named community facilitation, which consists of bringing together economically active farmers to the same table and create the framework in which they can discuss the possibility of developing a joint business, organizing activities leading to the actual formal establishment of the group (trainings on agricultural, accounting or financial issues, study visits to successful associations in the country etc.)

It took over eight months for the expert organizations in rural development from the "Rural Development through Entrepreneurship and Association" program to organize dozens of such meetings with farmers across several municipalities in the counties of Cluj, Iași, Dâmbovița, Teleorman; to set up training sessions on farm management and farming techniques, study visits to various fruit and vegetables processing units in the country, which resulted in the establishment at the beginning of 2013 of the "Lunca Someșului Mic" Cooperative and the "Vidra Vegetables " Cooperative.

Legal registration was only a first step. Furthermore, the support-organizations put in intensive work with the new associations / cooperatives, focused on defining a set of organizational goals, putting together a business plan and afterwards in sales - finding the most suitable channel (eg. direct sales in Vidra's case, contracts with hypermarket chains in the case of the Apahida Cooperative, etc.). This stage of support for implementation of the business plan is the

most resource-intensive in terms of individualized assistance, but is also the defining stage for strengthening the association.

Figures show that providing consultancy on particular aspects of the process, without an integrated approach, had no effects - **measure 143** *"Providing advice and consultancy to farmers" has not been accessed by association forms.*

Farmers do not access these funds as a group, if they are not helped to establish themselves as a group, if they are not supported along the entire process of building a sustainable association, viable on the market.

What Do We Propose?

We believe that this vision on the establishment of viable associative forms in agriculture should be included in the future Rural Development Program 2014-2020, such that this model of intervention would be extended.

An integrated approach is necessary, consisting of:

- a) A phase preceding operation (setting up the initiative group, establishing and strengthening the cooperation), which will require social capital development activities - community facilitation and training (business plan / feasibility study, legal registration). We will call this stage Phase I. This phase involves the establishment or reorganization of the associative forms (in the case of existing ones, lacking practice / consistency, currently used only for obtaining certificates useful in other measures PNDR applications);
- b) Integrated, personalized assistance in the first operation years (Phase II), to accompany granting financing for investment projects (currently covered by Measure 142).

The following design resulted from the consultation process organized by the Romanian Center for European Policies and the Romanian-American Foundation with PACT, CIVITAS, FDSC, CMSC and CEED - organizations that have developed cooperative pilot projects in the areas: Vidra – Ilfov, Apahida-Cluj, Prisacani - Iași, Suhaia-Teleorman. Estimates and proposals come as a result of the work experience with these cooperatives.

Design of the Innovative Measure for Financing Agricultural Association: Facilitation and Individualized Support

PHASE I - establishment or reorganization

Period: 6 to 12 months

Estimated budget: 40.000 - 50.000 Euros.

Eligible applicants:

Option 1: To the extent that the EC Regulation allows it, the most appropriate formula for the application is a partnership between a support-organization and a formal/ informal group of farmers. The partnership will be required to include:

1. A support - organization: an NGO with proven experience in training, community building, organizational and business development, associativity in agriculture;
2. Farmers representatives: initiative groups (minimum membership - 5 people), associations, agricultural associations, agricultural societies, cooperatives, companies recognized as producer groups;

Option 2: If the first option is not possible, we propose as eligible applicant the support-organization - NGO with experience in community building, organizational and agri business development.

Grants are to be granted to these organizations in order to establish partnerships with formal or informal groups of farmers (maximum 3 groups per organization) within a community or several communities. The Ministry of Agriculture can propose to beneficiaries of, or to applicants for other PNDR measures the inclusion in this incubation program as a possibility or a prerequisite.

Eligible expenditure / Activities: Community Facilitation (regular meetings among potential members, in which operating rules are agreed upon), development of community intervention models, providing individualized expertise / consulting for each community, business plans, communications, office equipment, study visits, training, technical-chemical laboratory tests, expenses with registering the new juridical entities;

The deliverable which will be evaluated at the end of this phase: business plan / project application for a PNDR measure;

Important: In order to encourage only the projects where members of the associative form show genuine interest for the association, the initial capital must NOT be eligible, such that it constitutes the mandatory contribution of farmers.

Phase II - Consolidation and functioning

Period of time: 3 years

Budget estimates: 50.000 - 80.000 euro / year + investment expenditure

Eligible applicant categories: The already established associations, preference being given to partnerships with organizations that have developed in Phase I.

Eligible expenditure / Activities: investment in assets, marketing consultancy, sales, training, human resources (management, sales and marketing, censors /audit), desk operation, developing a maintenance plan, developing a plan to attract new members.

During this phase, the group of farmers will be assisted in the implementation of the business plan developed in Phase 1 (Phase 1 would be the output indicator, with a margin of error of 15-20 % and the possibility of revising the plan after 1 year).

The expenditures structure can vary depending on each particular case. For example, some associative forms in the pilot-program have hired a manager, others only a sales representative. Some budgetary thresholds should be introduced in the measure design, as a minimum or a maximum: for example, wage costs should not exceed more than X % of the budget, the rest representing investments, as before, on measure 142 .

Important: agricultural associative forms supported by public funds should be established on the principle of open membership (allowing the access of any farmer from the community who meets certain conditions) and should be required to return to the community a part of the profit (in a form approved by members, which may be: public works, scholarships, cultural and artistic activities etc.).

The Correlation of the Proposal with the European Legislative Matrix

The European Commission documents on programming the EU rural development funds clearly indicate that each Member State has the opportunity to build its RDP 2014-2020 measures in correlation with the particular objectives of each country.³

Thus, among the overall priorities of the EU rural development policy 2014-2020 correlated with the Common Strategic Framework, the proposal of this integrated measure stimulating association meets Priority 3 - "Promoting the organization of the agro-food chain and risk management in agriculture."

Priority 3: Promotion of agro-food chain organization	
(a) A better integration of farmers in the agro-food chain through quality schemes, promotion in local markets and short supply chains, producer groups and inter-professional organizations.	3. Increasing the competitiveness of SMEs in agriculture, fishery and aquaculture.

For each of these priorities, the Commission is proposing a set of possible measures. Note that the "setting up of producer groups" can be coupled with a series of support measures, of which the most relevant one that could be used in the context of the present proposal is the cooperation measure - Article 36, and Articles 15 and 16 of the Rural Development Toolkit 2014-2020 - training and counseling.

We emphasize that these measures act on all five priorities of the RDP 2014-2020. Thus, the creation of an integrated package would facilitate the creation of mature groups, able to respond to Priority 3: Promoting the organization of the food chain, but also to Priority 2: Increasing the competitiveness of all types of agriculture and enhancing farm viability, and Priority 6: Promoting social inclusion, poverty reduction and supporting economic development in rural areas, included in the Romanian SWOT analysis of the RDP 2014-2020.

Article 36⁴ of the regulation proposal defines the extent of cooperation, providing support for operational groups consisting of at least two entities, which can work together to achieve the objectives and priorities for future rural development policy.

³ "Flexible programming of measures should be achieved in correlation with the goals of the RDP intervention", EC Working Paper "Elements of strategic programming for the period 2014-2020", December 2012

These operational groups can consist of farmers, NGOs, consultants active in agri-business, who can initiate and conduct pilot projects, may develop work processes, horizontal and vertical cooperation activities, short supply chains and consolidate community - supported agriculture .

Regarding the eligible costs, all items included in the CRPE proposal are to be found in the following eligible activities list for this measure:

- Conducting regional studies , feasibility studies , business plans ;
- Animating communities, training activities, strengthening producer groups;
- Operating costs of cooperation ;
- Direct costs of implementing the business plan;

⁴ See Annex 2

ANNEX 2

Article 36

Co-operation

1. Support under this measure shall **be granted in order to** promote forms of co-operation involving **at least two entities** and in particular:
 - (a) co-operation approaches among **different actors in the Union agriculture sector, and food chain and forestry sector and among other actors** that contribute to achieving the objectives and priorities of rural development policy, **including producer groups, cooperatives and inter-branch organisations;**
 - (b) the creation of clusters and networks;
 - (c) the establishment and operation of operational groups of the EIP for agricultural productivity and sustainability as referred to in Article 62.

Article 62

Operational groups

1. EIP operational groups shall form part of the EIP for agricultural productivity and sustainability. They shall be set up by interested actors such as **farmers, researchers, advisors and businesses** involved in the agriculture and food sector, **who are relevant for achieving the objectives of the EIP.**

2. Co-operation under paragraph 1 shall relate, in particular, to the following:
 - (a) pilot projects;
 - (b) the development of new products, practices, processes and technologies in the agriculture, food and forestry sectors;
 - (c) **co-operation among small operators in organising joint work processes; and sharing facilities and resources and for the development and/or marketing of tourism services relating to rural tourism;**
 - d) horizontal and vertical co-operation among supply chain actors for the establishment **and development** of **~~logistic platforms to promote~~** short supply chains and local markets;

 - (e) **promotion activities in a local context relating to the development of short supply chains and local markets;**

 - (f) joint action undertaken with a view to mitigating or adapting to climate change;

 - (g) **joint** approaches to environmental projects and ongoing environmental practices, **including efficient water management, the use of renewable energy and the preservation of agricultural landscapes;**

(h) horizontal and vertical co-operation among supply chain actors in the sustainable provision of biomass for use in food and energy production and industrial processes;

(i) implementation, in particular by groups of public-~~and~~ private partnerships other than those defined in Article 28(1)(b) of Regulation (EU) No [CSF/2012], of local development strategies other than those defined in Article 2(16) of Regulation (EU) No [CPR] addressing one or more of the Union priorities for rural development;

(j) drawing up of forest management plans or equivalent instruments.

(ja) diversification of farming activities into activities concerning health care, social integration, **community-supported agriculture** and education about the environment and food.

3. Support under **point (b) of** paragraph 1~~(b)~~ shall be granted only to newly formed clusters and networks and those commencing an activity that is new to them.

Support for operations under **points (a) and (b) of** paragraph 2~~(b)~~ may be granted also to individual actors where this possibility is provided for in the rural development programme.

4. The results of pilot projects **under point (a) of paragraph 2** and operations **under point (b) of paragraph 2 carried out** by individual actors **as provided for in paragraph 3** shall be disseminated.

5. **The following costs, linked to the forms of co-operation referred to in paragraph 1 shall be eligible for support under this measure:**

- (a) **studies of the area concerned, feasibility studies, and costs for the drawing up of a business plan** or a forest management plan or equivalent or a local development strategy other than the one referred to in Article 29 of Regulation EU (No) [CSF/2012];

- (b) **animation of the area concerned in order to make feasible a collective territorial project or a project to be carried out by an operational group of the EIP for Agricultural Productivity and Sustainability as referred to in Article 62. In the case of clusters, animation may also concern the organisation of training, networking between members and the recruitment of new members;**

- (c) **running costs of the co-operation;**

(d) **direct costs of specific projects linked to the implementation of a business plan an environmental plan, a forest management plan or equivalent**, a local development strategy other than the one referred to in Article 29 of Regulation (EU) No [CSF/2012] or ~~an~~ **other actions** targeted towards innovation, **including testing**;

(e) ~~costs of~~ promotion activities.

6. Where a business plan **or an environmental plan** or a forest management plan or equivalent or a development strategy is implemented, Member States may grant the aid either as a global amount covering the costs of co-operation and the costs of the projects implemented or cover only the costs of the co- operation and use funds from other measures or other Union Funds for project implementation.

Where support is paid as a global amount and the project implemented is of a type covered under another measure of this regulation, the relevant maximum amount or rate of support shall apply.

7. Co-operation among actors located in different regions or Member States shall also be eligible for support.
8. Support shall be limited to a maximum period of seven years except for collective environmental action in duly justified cases.