

Session 5.3 Co-operation

Key learning points



- What is a producer group?
- Types of producer group
- The role of groups in assurance and in national policies
- Developing producer groups
- Managing groups
- Basics of successful producer groups

Main objectives of the session

By the end of this session participants will be better able to:



- Understand the different forms of producer cooperation
- Understand the fundamental differences and similarities between producers groups and other types of business
- Understand the strengths and weaknesses of producer groups
- Understand possibilities for group development when marketing produce, providing supplies of inputs and providing services and information to growers
- Understand EU legislation and policies towards producer groups
- Conduct a feasibility study and prepare a group development plan
- Prepare byelaws, membership agreements and register groups
- Train producer members in group management techniques
- Understand the basic principles of effective group development

5.3.1 What is a producer group?

In the European Union, co-operatives have over a number of years gained recognition as an economic and social force. More than 50% of inputs supplied to growers and production marketed from farms are sold through organisations that growers jointly own. They have developed from modest beginnings and over more than 50 years many have developed into large-scale, professionally managed businesses, in full competition with other commercial firms. The special nature of agricultural cooperatives is even recognised within the Treaty of Rome¹.

Even so throughout Europe there still often remains confusion over the interpretation of the words (and concepts) of producer groups, organisations, co-operatives, collectives or associations. Producer groups and private co-operatives have a distinct structures and forms and should not be confused with Ministry intervention, state marketing boards, investor led businesses, trade or political representational bodies.

This session should aim to assist participants to understand the principles of commercial producer groups and their relevant usefulness in improving the efficiency and effectiveness of horticultural production, management and marketing.

A producer group is an enterprise voluntarily owned and controlled by the people that use it - individual producers. The benefits to a producer member are most clearly measured by the increased financial rewards obtained through joining a group, either from a reduction in costs from larger purchases, the more efficient use of resources or the increased prices received from being able to access higher value markets.

Producer marketing groups are expected to work in a competitive environment and are vulnerable to the same kinds of market and economic forces that face all businesses and so they can expect to compete with other producer groups and companies. Like all good businesses they require proper planning and market analysis, good buyer and supplier relationships, proper financing as well as well-trained, motivated and visionary management.

However, in important ways, producer groups are different to other business forms. The most important being their ownership structure. The primary users of a group (growers) are also the business owners. This influences the way in which a group is managed. The main objective of a producer group is to provide the maximum benefit to its members, in proportion to, their use of the group and not on the basis of investment. Without a strong base of like-minded producer members working to ensure its success and willing to commit produce of defined qualities, or to use its services, it is likely to fail. Management control needs to be in the hands of committed producer members.

Producer groups also conform to a number of other basic criteria. Essentially they commit agricultural produce as the main form of capital at agreed specifications and standards or they use the services of a group in line with a signed membership agreement. Groups are normally managed democratically and in most cases any strategic decisions are taken on the basis of one grower member – one vote. However sometimes voting is allowed in relation to individual members use of the groups services.

¹ The founding treaty of the European Community (now the European Union).

Producer groups are voluntary membership organisations. Producers are not forced to join and can withdraw their membership at any time. New applications for membership are normally assessed on the basis of the rules designed by the group members themselves. Applicants not willing, or able, to meet these rules and standards will be rejected for membership. Grower members normally elect a small representative group in order to ensure it is directed effectively. Larger groups may also employ a manager to be responsible for day-to-day activities and for reporting to the directors and members.

Producer groups often have to compete for members with other groups as well as to compete against them for markets. As such they need develop their activities by constantly updating and improving their products and services.

5.3.2 Types of producer group

Even in years with good climatic conditions growers cannot be entirely certain that they will manage to sell their produce or receive timely payment. Growers also have other concerns including access to affordable credits, chemicals, seeds, fertilisers, machinery and other inputs. Crop production is also subject to natural disasters, such as droughts or floods, and where an effective insurance system is lacking there remains a potential risk to farm incomes.

Therefore for most producers, joining a group is a simple commercial choice. It has to be an effective mechanism for reducing their own costs, increasing their total income or for minimising risk. In horticulture producer groups can be broadly grouped into five types:

- ❑ *Production groups* are group of producers that agree to coordinate their production in order to ensure a particular supply of a specific crop or variety. Although few such groups are registered in the European Union, it is common for producer marketing groups (see below) to agree with their members the varieties of crops to be grown and quantities prior to the production season and assured through a signed agreement between the producer members and the group.

It is also common for some buyers to agree contractual agreements with a group of producers to grow specific crops on their behalf. The buyer in return guarantees a purchase and may also provide seeds, advanced credit, technical advice, training or other support services to the group or individual growers.

A different type of production group is common in many of the EU accession countries of Central and Eastern Europe. As former collectivised farming structures have been dismantled many small and diverse agricultural plots have resulted. In this situation a production cooperative aims to establish an agreement on production between neighbouring farms and so enabling better use of machinery, improved coordination of chemical, fertiliser and other input applications and improved crop rotations and agricultural practices. Few of these groups organise effective or exclusive marketing agreements with buyers.

- ❑ *Input supply groups* are normally established in order to reduce overall farming costs. This may be through producers sharing resources, such as machinery or by jointly purchasing inputs, such as chemicals, fertilisers or seeds.

Shared use of resources provides benefits for producers primarily through the more effective use of equipment. It is unlikely that every producer is able to purchase and maintain all the agricultural machinery they may require for effective farm management. In many cases equipment is only needed for short periods, such as for spraying, harvesting or cultivation. Shared use of resources can be by individual members leasing machinery that is owned jointly by the group and for which an individual charge is made or it can be by charging for the use of equipment that already owned by individual members and promoted for lease through the group.

Producer groups are also able to reduce their input costs by using their increased negotiating strength. Larger quantity purchases enable reduced prices to be obtained from fertiliser, chemical, seed or other input suppliers and the larger the group the larger is their negotiating strength. Input supply groups may be highly diversified in terms of the crops grown by the group members.

- ❑ *Service groups* are mainly established to enable producers to better access affordable credit, finance or insurance or to get better returns on their investments. Shared access to these areas provides a number of benefits for producers as well as finance and risk management institutions.

Producers may wish to pool their finance through loans to a group and in order to develop their own fund. Producers may obtain a financial return on this investment but also it allows them to manage a fund for on-lending or for equipment purchases.

Finance, insurance or venture capital institutions often prefer to deal directly with groups as they are able to jointly secure loans and to reduce administration costs. Joint liability for debt provides a more secure guarantee to the lender, particularly where individual producers are unable to provide sufficient collateral to cover the loan. A single loan also reduces paperwork and enables group members to disburse the finance and collect interest payments

- ❑ *Special interest groups* such as breeding clubs, political lobbying organisations, social clubs or young growers clubs. Primarily these groups support interests related to farming or rural development but are not necessarily commercial in their orientation.
- ❑ *Marketing groups* primarily aim to obtain better prices from jointly marketing the production of their members and by focusing on good quality and fresh produce of defined specifications and approved varieties, supported by regular and reliable deliveries.

As consumers show increasing interest in wider ranges and better qualities of packed, graded and cleaned produce many marketing groups aim to add value to the product for a buyer and to reward quality production. Adding value to a product might include joint cleaning, drying or grading of the product or even processing, packaging and transport. Marketing groups often specialise in a single commodity and target clearly defined and expanding markets. As result growers might be members of a number of groups that market specific crops or varieties.

The benefits of a marketing group to a producer member are most clearly measured according to the increased financial rewards obtained through being able to:

- ❑ Work with buyers prepared to pay higher prices for agreed standards of produce quality, quantity and delivery reliability beyond the capabilities of individual producers
- ❑ Provide the opportunity to spread the costs of major investments that will add value, or reduce losses, to the product, such as through storage, grading, cleaning or packaging or by product branding and promotion.

When compared to other types of producer groups marketing groups are by far the most difficult to establish and maintain, primarily because they aim to obtain better prices and therefore need to deal with buyers rather than sellers.

The successful establishment of a marketing group will depend upon a market opportunity. To be successful most groups need to have some unique selling point or particularly exclusive production based around a local or regional variety and brand. Many processors, wholesalers, retailers or exporters prefer to deal with a producer marketing group primarily because it reduces their own costs, provides a continuity of supply and/or ensures product quality to a known standard.

In cases where a group of producers do not have the necessary sales and marketing expertise or resources, they will sometimes delegate all marketing activities to an independent marketing agent and agree a contract of supply with that agent. This mechanism allows growers to focus on preparing a quality crop to agreed specifications.

In order to offer an improved service to members some producer groups may also be *multipurpose* and provide input supply and marketing services as well as supporting producers with technical advice and training.

5.3.3 The role of groups in Government and non-Government agricultural strategies

Market prices within the European Union are maintained through a system, which compensates growers for withdrawal of product from the market. This system is operated by the intervention agencies in individual member states and in many cases through producer groups registered for this purpose. Marketable quantities of some products, such as apples and pears may be surrendered to the intervention agency during withdrawal periods in exchange for compensation. The aim is to provide safety net for producers by not letting prices fall too low in times of over supply.

Measures in recent years have aimed at strengthening producer groups in planning production, undertaking market promotion projects, developing environmentally friendly production practices etc. These schemes are funded through a fifty-fifty levy on the products traded by an organisation and EU funding. Groups are also regularly encouraged to act as lobbying organisations on research bodies or in parliamentary groups or industry partnerships. Such grant aided interventions and policy support responsibilities have clearly further stimulated their growth, but also sometimes clouded their commercial judgements.

In other cases processors, traders, input suppliers and other non-Government organisations similarly aim to encourage group development and primarily in order to encourage more efficiency and coordination of supply. Retailers in particular are

anxious to establish marketing relationships and formal grower alliances that shorten the marketing channel and ensure traceability. Many retailers are also keen to supply locally sourced and farm processed products, provided these can be integrated into their sophisticated distribution systems without compromising their own cost objectives or their ability to comply with rigorous food hygiene requirements.

Producer groups have special encouragement on independent quality assurance programmes such as the EUREPGAP scheme whereby the group is given special recognition as the management agent with ultimate responsibility for verifying the production and controls of individual members.

5.3.4 Developing producer groups

The catalyst for establishing a new producer group is a shared recognition that a group approach is the best means of meeting mutual needs. Groups should not be seen as a panacea for solving all agricultural and rural development issues. If no clear benefit is likely to result from establishing a producer group there is no need to register one. Initial registration of prospective producer groups should not even be considered, and unnecessary costs incurred, until the group has established specific objectives and demonstrable benefits to members as well as clear market, buyer and supplier opportunities. The group should begin with a shared mission. It should be clear, prior to registration, what additional benefits a group will have in, reducing individual producer costs, increasing the prices they receive or reducing risk.

Group development need not be over stimulated by advisers and policy makers and it should be led by producers. Producers need to take positive measures to develop their own initiatives. Advisers have an important role to play in encouraging group development by providing a facilitatory, training and information role rather than simply helping to prepare statutes and registering groups.

Advisers should aim to assist producer group members to carry out a situation analysis on their own terms, trace their own path and generate their own innovations. The process of innovation starts when the producers themselves begin to assess the importance of a problem and whether it can be solved. Advisers can play a useful role in facilitating (but not dictating) planning meetings for group directors and can encourage cross fertilisation of ideas between groups. Advisers may help producers to reflect on long standing problems and consider their group strengths, weaknesses, opportunities and threats, key short and longer term objectives, activities, membership agreements and operational procedures.

Prior to establishing a group, producers and advisers should ask:

- *Is there is a clear producer commitment to the group?*

This commitment may be outlined in a legally binding members agreement identifying how much produce the members will purchase from, or market through, their group of a defined specification and standard.

- *Is there is a clear market or business opportunity?*

Has the group already identified and discussed possibilities with buyers or suppliers and prepared a reasonable and clear plan of activities?

- ❑ *Is there is a leading grower or small visionary working group capable of driving the group forward and able to communicate effectively with producers, buyers or suppliers?*
- ❑ *Is there is a clear (financial) benefit to producers from forming a group?*

A number of steps will need to be considered prior to registering a group and beginning activities, specifically:

1. Researching and identifying a business opportunity for reducing costs, improving prices received or reducing risks
2. Undertaking a feasibility study and presenting a basic business proposition that clearly outlines how a group can exploit a business opportunity better than individual producers

The feasibility study should help in determining opportunities and potential volumes of business, potential membership as well as the facilities needed, operating costs and capital required (see table). It will also form the basis for discussions related to the future possible establishment of a group.

TABLE: Conducting a feasibility study

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| <p>A) <u>Define the group purpose.</u></p> <ul style="list-style-type: none"> ❑ Identify common needs amongst potential grower members ❑ Determine the services that the group will provide ❑ Define the kinds of products the group will supply or market <p>B) <u>Assess the business potential.</u></p> <ul style="list-style-type: none"> ❑ Determine the potential market for the products or interest in the supplies or services to be provided ❑ Survey potential members to determine probable membership size and group turnover Outline transport needs (and likely costs) involved in getting the product to customers or members ❑ Identify the competition the group is likely to face <p>C) <u>Outline how operations are likely to work.</u></p> <ul style="list-style-type: none"> ❑ Determine the rules by which members will be required to purchase products, use services or maintain supplies of produce to agreed specifications ❑ Outline the operational structure and likely management of the group <p>D) <u>Financial costs</u></p> <ul style="list-style-type: none"> ❑ Estimate the likely start up and running costs ❑ Identify and provisionally estimate the likely capital and fixed costs, such as the necessary equipment, facilities and staff <p>E) <u>Sources of finance</u></p> <ul style="list-style-type: none"> ❑ Determine possible financial options and their related costs ❑ Make an estimation of the initial funding that will be required from grower members and other sources |
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3. Organising a core group of interested producers and agree main objectives and an action plan

4. Drafting the rules of a group

Many countries have no separate legislation for producer groups/cooperatives (or they legislate in a very broad way). Group rules that are designed by the founding grower members are subsequently reviewed and revised as the group develops and this ensures the group operates effectively. More detailed operational activities are then outlined in a membership agreement.

5. Preparing a detailed business plan

Starting a group will involve thorough and careful planning. Business plans should be practical and realistic. The basic features of a business plan are shown under the management module and are summarised in the following table:

TABLE: The basics of a producer group plan

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| <p><i>A) An introduction and summary</i></p> <ul style="list-style-type: none"> ❑ Name, address and phone number for the group ❑ Names and phone numbers of grower directors ❑ A summary of the main business plan objectives and activities <p style="text-align: center;"><i>B) Business description.</i></p> <ul style="list-style-type: none"> ❑ A statement of the purpose of the group, types of members, summary of legal form goods and/or services to be offered by the group ❑ An industry overview, including; current prospects and status of the industry, new products and developments and trends influencing the industry ❑ A product description. How the product or service is unique or different to others and the current status of development ❑ The strategies to be applied by the group in order to ensure a consistent supply of product <p style="text-align: center;"><i>C) Market research and plan.</i></p> <ul style="list-style-type: none"> ❑ Potential customers, market size and trends, including; an analysis of the competition, estimated sales and projected market share ❑ Strategies to be adopted in the areas of; quality control, pricing, sales tactics, customer service policies, advertising and promotion <p style="text-align: center;"><i>D) Management plan</i></p> <ul style="list-style-type: none"> ❑ Ownership and management, roles of grower directors, organisational chart and job responsibilities, training needs, the need for professional support services and costs <p style="text-align: center;"><i>E) Technical and operational plan</i></p> <ul style="list-style-type: none"> ❑ Required levels of sales to breakeven ❑ Location of activities and facilities ❑ Equipment needs ❑ Analysis of potential risks <p style="text-align: center;"><i>F) Financial plan.</i></p> <ul style="list-style-type: none"> ❑ Projections of profit and loss, cash flow, financing sources with justifications for these projections ❑ Presentation of the best, worst and expected results over the short and long term |
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6. Arranging a wider meeting of producers to explain the business proposition and rules and securing commitment
7. Finalising membership agreements

Membership agreements are additional to the rules established during registration of a group. These are effectively contracts between the members and the group and are often signed and updated at the beginning of each crop year.

8. Registering the group under national law
9. Electing directors and holding the first directors meeting to select the chairperson
10. Begin operations, implementing, reviewing and updating the business plan

Training of producers on the commercial aspects of producer group development is often best received through short, regular, practical and participative and include exchange and study visits, or regional and international meetings, between groups and between groups and buyers.

Examples of successfully functioning producer marketing groups are often well received and these need to be identified, disseminated and popularised. Further promotion of the group concept without working models is often not an effective use of resources. Buyers and suppliers can be encouraged to contribute to the training, exchange ideas and provide advice.

Training needs for managers, directors and members of producer groups are likely to include aspects of, leadership, presentation and meetings skills, marketing and market information, sales and negotiation skills, product pricing, quality assurance, sampling and testing techniques and procedures, producer group legislation, group registration procedures, taxation and accounting regulations and procedures, buyer and member contracts and contract types, membership agreements, financing producer marketing groups, financial planning and documentation, economics, design, construction and management of post harvest facilities, particularly, stores, handling, drying, cleaning and grading technologies and pack-houses, standards and directives for production and post harvest technologies and credit applications.

It may also be useful for advisers to occasionally attend director meetings as no-voting observers and to record minutes and the decisions taken. Specific advice is also often required when introducing administrative systems that monitor and control the sales of pooled produce or supplies between members.

5.3.5 Managing groups

The management of a producer group is extremely different in both form and approach when compared to managing an individual farm. Activities may become complex and far removed from the growers realm of experience. Business strategy is an important factor in determining whether conflicts of interest occur between members and so all producer group members need to be fully aware of the plan in its entirety.

Each group needs to readjust and adapt its structure and operations in line with its long-term objectives and often in response to external circumstances, problems and opportunities. Groups leaders will have to identify these problems and opportunities,

assess their importance, and see whether they can be solved within existing resources and external conditions. This process of constant re-adjustment will require change and innovation.

Various aspects of the plan will also need to be closely monitored, updated and amended as required. Meetings will have to be conducted professionally, decisions recorded and a monthly report prepared on financial progress in relation to objectives. Successful groups will require work tasks to be divided and delegated as centralised structures can implicitly undermine skills and creativity of leaders and members. Groups will also have to develop effective communications system for keeping their members informed.

Precise inventories of production quantities available, yields and varieties of all group members (in marketing groups) or likely supplies or services required by members (in input supply and service groups) will also have to be carried out. This will help in the planning of purchases, production, sales and marketing and in implementing more strategic cultivation and harvesting practices. Members should be required to commit agreed levels of production for sale through the group (preferably 100%) and at agreed specifications. In supply or service groups they will need to agree to purchase minimum quantities of supplies or to use services to an agreed minimum level. Production can then be further unified and technologies and standards improved.

The lack of a strong produce commitment will create a potential risk of competition between the group and its members and so will undermine the negotiating position of the group. It will be difficult to convince any buyer or supplier to agree sign a contract with a group when the producers within the group do not sign agreement between themselves or ensure that it is enforced.

Failure to sign a membership agreement or meet agreed obligations should result in a fine or even prevent a producer obtaining or retaining membership. This ensures that all members are committed to using the facilities of the group and control is fully in the hands of committed members. It also gives other producer members greater confidence in the group activities.

Membership agreements set out the responsibilities of both parties to each other and are in addition to the rules of the group and are normally signed at the beginning of each crop year and they:

- ❑ Ensure that members are committed to using their group facilities or services for a minimum period
- ❑ Set out the quantity or percentage of members produce that will be committed to the group for marketing
- ❑ Ensure that investment and charges paid by members relate to both commitment and actual usage
- ❑ Set out how the operational activities of the group are to be administered
- ❑ Bind the group to the marketing of committed produce
- ❑ Ensure the stability of the group and give confidences to members, customers and bankers
- ❑ Ensure continuity of supplies to customers
- ❑ Ensure the protection of members in their relationship with the group and between each other

The members marketing agreement requires considerable thought and discussion if its objectives are to be fulfilled. A model agreement suitable for all situations is not possible, but these key areas do need to be clarified.

Sometimes groups prefer to maintain loose agreements between themselves and not to officially register their group or set up a bank account. It is possible to manage a group in this way and in some cases producers are even strongly opposed to formal registration and are reluctant to be totally transparent in their operations. However in reality this is a short-term option and few serious buyers are willing (or able) to enter into proper commercial negotiations or contracts with such loose groupings. These groups most often act as an information provider or adviser rather than a commercial trader.

Some groups also tend to allow a high percentage of non-member trade (or even have non producers as members). There may be circumstances under which it is necessary to trade with non-members², but if the benefits of membership, producer commitment and quality assurance are to be maintained, it is important that the amount of trade with non-members is very small. It should only be used as an interim measure supporting the overall marketing or supply operation. In the long term insufficient supplies or purchases will require recruiting additional members.

Buyers and suppliers and their approaches vary considerably. But very few are able to cope with the wide range of product specifications or are able to deliver or offer lower prices for small quantities. Systems need to be developed for member payments that are based on quality and quantity differences, rather than on average prices. Financial benefits need to be clearly related to produce committed by individual growers³⁴ and higher payments need to be made for production based on agreed quality standards or purchase levels. The group should consider collecting payments from buyers or producers and taking off the agreed percentage before the final payment to members.

Assurance of quality produce and supplies significantly strengthens the negotiating position of producers, A focus on continuous quality improvements and the development of operational and quality control procedures, crop specifications and standards allows a group to develop a regional identity or brand that is underwritten by audited standards and inspections.

Site inspections and proper audits of member farms and production need to be considered and carried out. In marketing groups quality control tests could be made on produce from all member farms and consideration given to the possible use of independent advisers and laboratories for product testing and the development of quality programmes, particularly in relation to standards and programmes such as HACCP⁵. Produce that does not meet group standards is rejected and not sold through the group.

Producer groups need to be active in working with buyers and suppliers to develop secure and trusting relationships and integrated, traceable and scheduled systems of

² For example to provide a continuous supply of product to customers when members production is inadequate

³ All funds that are disbursed or kept in reserve. Reserves need to be allocated to individual members

⁴ Consideration may also be given to paying a higher premium for produce delivered from more remote members farms, if transport is included in the producer costs

⁵ Hazard Analysis Critical Control Points

supply and so link the producer group with a supplier, exporter, processor or retailer. This enables a continuity of production for both growers and buyers to be established. Specifying the production or supply parameters and the consequences for both sides in case of default enables longer-term contracts and extended credit under contract to be negotiated and reduces the range of price differences through the year. Alternative pricing systems might also be established and further developed during discussions with buyers and suppliers, particularly in relation to progressive pricing systems offering a base price, plus a premium price for agreed quality standards and quantities, rather than on average prices. Quality improvements can then be made.

Buyers and suppliers tend to focus on reliable groups and are often willing to assist producers to improve standards of production and supply by offering and advising on growing programmes, procedures and measurement techniques. Some companies (such as feed or fertiliser suppliers) also provide specialist technical advice, including extended credit in order to stimulate producer group formation.

Producers often have difficulties in accessing markets or obtaining supplies simply because they lack information on where, or to whom, they should market their produce. Producers regularly discuss market and supply opportunities between themselves, but they also require regular and well-informed sources of information on prices, buyers, supplies, contracts and new technologies.

Exchange of information between producer groups, including availability of information on what is happening in neighbouring countries is also useful for stimulating change and innovation. Associations of producer groups are often able to provide regular, impartial and reliable information on particular crops, buyers, market, prices, or provide gross margin comparisons and these have been linked increasingly through electronic information exchange systems.

Some groups also regularly lobby Government and maintain and disseminate basic reference material on major buyers of agricultural produce and suppliers of inputs, as well as preparing statistical data of market trends and regular information bulletins. Possibilities also exist for linking these associations to Internet based trading systems and in the longer term, associations should also be able to develop independent services for product grading, inspections, export testing or promotion and possibly as jointly funded industry and Government partnerships.

Producer groups are also well placed to play an active role in exposing members to new technologies and in disseminating experience from trials and research. Close links with appropriate research institutions and universities and feedback from buyers and suppliers on modern production technologies and plant breeds is therefore useful.

The establishment of buyer/producer clubs or trade chambers also helps in strengthening relations between producers and buyers. Not only can they provide market and research information but they can help in organising meetings and seminars, in providing macro-scale policy advice and in arbitrating in the case of conflict.

Basics of commercially successful producer groups

The most *commercially* successful groups seem to conform to a number of criteria and in particular:

- They are formed with a clear business objective and undertake commercial and not producer representation activity. A clear market opportunity is established and trusting, ongoing and long-term relationships with buyers or suppliers are developed.

Producer organisations are effective channels for reaching and servicing growers and bringing growers concerns to the government, but commercial producer groups must be focused overwhelmingly on the economic benefit, that may be obtained, by selling or buying through such a group or sharing services. The economic benefit must be predictable and with a significant degree of accuracy from the outset.

- They are owned and controlled by producer members and managed for the benefit of those members. Any financial surpluses, from activities are returned to members (either annually or on cessation of membership) in proportion to the trade by the member through the group and not according to their shareholding.

The capital commitment in a producer group is in effect the amount of product delivered of a defined standard, or the amount of inputs purchased through the group, but not the financial shareholding. Control and benefits need to reflect this.

- Produce is sold, or inputs purchased, on behalf of producer members and the full sales price is returned to, or paid by, members, but less the agreed charges for the services provided. This approach provides full transparency of all transactions through the group. In many cases the group may never actually buy the product from the members.
- The voting system is based upon one person-one vote or according to the usage of the groups services or facilities by individual members. This may be measured according to the amount of produce sold or purchased through the group by individual members⁶. Even so, it is preferable that the maximum share of any total vote by a single member is less than 10%, and the total sales/purchases through the group of individual members less than 50%. Otherwise an inequitable, irrelevant and inefficient group system is likely to develop.

The distribution of votes must be laid down in the statute, but regardless of the legal status the main principle to be followed by any group is that control is not governed by investment. Whatever method is used it must be workable and clear to all members.

- A condition of membership is a signed and legally enforceable members agreement. This agreement is signed for a defined period and sets out the obligations and commitment of both the group to the members and members to the group.

⁶ The formula can be based on the committed volumes shown in the membership agreement but it is preferable that the figures used are based on actual throughput, calculated on a historical basis.

A membership agreement is important because it specifies which types, qualities and quantities of produce will be marketed or bought through the group. In particular the agreement clarifies what produce will be accepted on delivery and what will not. It is the responsibility of the producer members to ensure that it is enforced. Failure by a member to sign this agreement (and renewable every year) excludes the producer from membership and so enables committed members to maintain control of the group.

- Producer members are contracted (within the membership agreement) to supply to the group 100% of a particular crop to a defined specification.

Groups that aim to sell a wide range of members produce, as well as to supply other services, such as machinery, chemicals or credit have considerable difficulty in ensuring a consistent quality of marketed produce or a clear brand image. It is not the role of a commercial producer marketing group to sell all the production of members or to supply all inputs and services regardless of quality, type or specification.

- The group is properly financed, managed and controlled.

Proper planning and effective communications with producer members is a vital part of producer group activity. Group members can expect to receive regular and timely information on market requirements as well as on prices, charges and payments.

Membership capital should always amount to at least one third of total capital requirements and the total costs of services provided by the group covered by levies on sales. This levy needs to be set at a realistic level in order to cover all costs. Producer members also need to be made aware of the possible need to provide funds for capital investments (if required) but always in proportion to their use of the facility.

- The group has an approved legal entity.

Informal groups are invariably short term. Long-term development requires proper legal registration and business structuring. The group can then develop its own byelaws and membership agreements and so provide greater confidence for both the buyer and the producer. An approved legal entity also ensures that any arrangements made with third parties are properly structured and documented.

CASE STUDY

The Federation of Agricultural Associations of Iraklion Prefecture

In August 2001 the Federation of Agricultural Associations of Iraklion Prefecture (FAAIP) reached an agreement with Forthnet, an Internet provider and IT company, covering the establishment of a group SMS system for their members. The group SMS system gives its users the ability to receive short text messages on their mobile telephones, which are sent through the Internet. Its most important characteristic is the possibility to send a message to multiple recipients in a very short space of time.

In the case of the FAAIP, its members are asked to fill out a very simple registration form in which they list a few personal details, their mobile telephone number, and they check one or more boxes specifying the sector they work in, such as olives, vines, vegetables, flowers etc.

A database is then compiled by Forthnet that comprises, amongst other items, the names and mobile telephone numbers of the growers who have registered, together with the sectors they have specified. FAAIP, on the other hand, are responsible for gathering all the information that is of interest to their grower-members. This information covers a range of subjects and including:

- ❑ Weather forecasts / storm warnings
- ❑ Agricultural subsidies
- ❑ Submission deadlines for subsidy or compensation applications
- ❑ Market prices
- ❑ Announcements of forthcoming events
- ❑ Announcements of training programmes

Each item of information is summarised in a message of not more than 180 characters. This message can then be sent, through the Internet, to the grower group it concerns (i.e. if the message is about olive oil subsidies, it will only be sent to the growers who have marked olives on their registration form. If it concerns a grower demonstration in Irakleion, it may be sent to all the growers registered. The Agro-messaging service is eventually expected to serve as many as 20,000 growers.

EXERCISES

Set a group question: What areas might cooperation assist producers to reduce their costs or increase the prices received from being able to access higher value markets? Write all ideas on a board. Then ask all group participants to vote for the 20% of ideas which they feel have the greatest potential. Then ask them develop an action plan of what they would need to do in order to progress this idea further.

Visit a number of producer groups in your region. Discuss with members and producers their existing group activities or development ideas and then make a judgement as to whether there is:

- ❑ A clear producer commitment to the group
- ❑ A clear market or business opportunity
- ❑ A leading grower or small visionary working group capable of driving the group forward and able to communicate effectively with producers, buyers or suppliers
- ❑ A clear (financial) benefit to producers from forming a group or developing the new project

For an imaginary group define its purpose and objectives, business potential, outline of operations and likely financial costs. Draw up a proposed membership agreement for guaranteeing supply of the product you need from producer members. Present your ideas to other group members and specific areas where you will have to get further information.

Get copies of the existing cooperative legislation in your own country and the forms required for registering a new group.

Identify what grant and subsidy schemes are available in your country or across the EU for the development of producer groups. Get a copy of relevant application forms and details of application procedures.