

Extended abstract for Contributed Paper session

Macro- and micro-level factors of successful agricultural co-operation in a transition country: the case of Hungary

Contributed Paper abstract prepared for presentation at the 91st Annual Conference of the Agricultural Economics Society, Royal Dublin Society in Dublin, Ireland
24 - 26 April 2016

Abstract

The main research questions of present study are to examine the most important reasons and explanations for failure or success of new, emerging co-operatives and to analyse the main macro- and micro-economic conditions for successful collective action (e.g. marketing) done by producer-owned organisations (formal co-operation, e.g. co-operatives, producer organisations etc.) or by collaboration of agricultural producers without a legal form or written agreement (informal co-operation) in a NMS like Hungary. We use literature review and secondary data collection as well, but our main focus is on empirical level. In collaboration with Hungarian Chamber of Agriculture we gained information from 7728 of its agricultural producer members on their co-operation activity through an on-line based empirical survey in Summer 2015. According to the findings of the above national survey more than 51% of the respondents do not cooperate at all in any forms of cooperation. The biggest obstacle to co-operation is in the attitude of the farmers: they do not like to depend on anybody else and/or they do not like to commit themselves. Huge lack of information is also a big barrier. We conclude with listing the micro- and macro-level factors economic conditions for successful collective action.

Keywords

Trust, Co-operation, Hungary, Agriculture, Transition country

JEL Code

Q13, Q12

Introduction

According to a recent (2011-2012) European Research Project (“Support for Farmers’ Cooperatives” – hereafter SFC) **agricultural co-operation is underdeveloped in most of the 27 member countries** (Bijman et al., 2012). The latter statement is especially true in case of the Eastern and Central Europe hence in Hungary as well (see reports regarding Hungary: Szabó, 2012a,b; Ton and Szabó, 2012). Despite the many economic non-economic advantages of co-operatives and other producer owned organisations in co-ordination of agricultural producers, hence the apparent importance of the topic, there is still limited theoretical and empirical research on the emerging agricultural co-operatives in the New Member States (NMSs).

There are **fundamental problems in Hungary** concerning the emerging new agricultural co-operative system, like the share of the production-type co-operatives continuously decreases, the concentration of the emerging marketing co-operatives is limited especially because low level of secondary co-operation, heterogeneity of members, lack of transparency of the economy (black and grey markets) also makes

negative impact on formal co-operation, low level of capital endowment in case of co-operatives and it is hard to get access to capital for most of them, lack of willingness to co-operate and low level of trust.

The **main research questions of present study** are to examine the most important reasons and explanations for failure or success of new, emerging co-operatives and **to analyse the main macro- and micro-economic conditions for successful collective action** (e.g. marketing) done by producer-owned organisations (formal co-operation, e.g. co-operatives, producer organisations etc.) or by collaboration of agricultural producers without a legal form or written agreement (informal co-operation) in a NMS like Hungary.

Methodology

The two **most important background researches** behind the paper are the above mentioned SFC (see the general report by Bijman et al., 2012) and an on-going Hungarian project. The general aim of our current research (OTKA Nr. K105730) is to examine the economic, sociological and psychological prerequisites and constrains in the agri-food economy in Hungary including the role of trust in co-operation.

Regarding **methods** we use **literature review** and **secondary data collection** as well, but our **main focus is on empirical level**. In collaboration with Hungarian Chamber of Agriculture we gained information from 7728 of its agricultural producer members on their co-operation activity through an **on-line based empirical survey** in Summer 2015. After data clearing we got 6573 farms in our sample. We also conducted 33 **semi-structured deep interviews** in the Hungarian cereal, sugar beet, pig, dairy, fruit and vegetable, wine and sheep sectors in 2011-2012. In 2015, supplementing the above survey, we have made 32 more interviews with producers and also 25 more with integrating organisations in different sectors on co-operation issues.

Results

According to the **findings of the above national survey** more than 51% of the respondents do not cooperate at all in any forms of cooperation. The biggest obstacle to co-operation is in the attitude of the farmers: they do not like to depend on anybody else and/or they do not like to commit themselves. Huge lack of information is also a big barrier: farmers do not know their possibilities and have not got enough information on the different forms of cooperation. Producers also choose “the lack of cooperation nearby I could join to” reason and some of them referred bad experiences in the past as a main problem. Most of the producers who do co-operate at all choose formal co-operation more likely and by far the most popular forms are producer owned organisations (like fruit and vegetable Producer Organisations) among them. A lot of producers take up opportunities offered by informal co-operation, the most popular forms being of lending to each others technical resources (e.g. machines), joint selling, machinery/physical work based on reciprocity as well as machinery services for money. Examination of issues regarding co-operation on regional level shows different picture from the national experiences reported above.

We can **summarise of the empirical findings of the above mentioned interviews** by listing the conditions for successful collective action (marketing) **done by producer-owned organisations (on micro-level)** as follows:

1. real economic necessity,
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 (total traceability),
5. consistent adherence to delivery obligations regarding both quantity and quality (standardisation of commodities),
6. appropriate logistics, branding, product differentiation,
7. ensuring balanced (liquid) financing both short- and long-term,
8. to get a qualified, skilled and trustworthy manager (either outsider or an active member but professional),
9. efficient and multi-way communication (between members and management),
10. trust between members and management, as well as between members and leadership of the co-operative.

Discussion and Conclusion

We conclude that EU and/or governmental supports can not solve all of the problems of agricultural co-operation in Hungary; hence further policy actions influencing macro-level factors are needed in order to demolish mental barriers (e.g. by education) and in order to distribute more information on the different ways and models of collaboration among producers and consumers. Although there are some recent developments going on, solving the problems of the black market and short-term financing of producer owned organisations are still important issues as well. Representatives of the interviewed organisations also emphasis the stabile and reliable legal environment as a prerequisite for more development in formal co-operation. Trust (as an input and also as an output of co-operation activity) problems were also key issues thus we will pay special attention to it in our future researches and analyses.

Main references

- Bijman, J., Iliopoulos, C., Poppe, K.J., Gijssels, C., Hagedorn, K., Hanisch, M., Hendrikse, G.W.J., Kühn, R., Ollila, P., Pykkönen, P. and van der Sangen, G. (2012):** Support for Farmer's Cooperatives – Final Report, Wageningen: Wageningen UR, November 2012, 127 p.
- Szabó, G. G. (2012a):** Support for Farmer's Cooperatives in Hungary; Country Report Hungary. Wageningen: Wageningen UR, November 2012, 86 p.
- Szabó, G. G. (2012b):** Support for Farmers' Cooperatives; Case Study Report: Performance and sustainability of new emerging cooperatives in Hungary, Wageningen: Wageningen UR, November 2012, 71 p.
- Ton, G. and Szabó, G. G. (2012):** Support for Farmer's Cooperatives. Case Study Report: Organisational mechanisms to solve collective action challenges in vegetables marketing. Wageningen: Wageningen UR, November 2012, 19 p.