

Perspective for sustainable development



Euroopa Maaelu Arengu
Põllumajandusfond:
Euroopa investeringud
maapiirkondadesse

Latvian Agricultural Cooperatives
Association



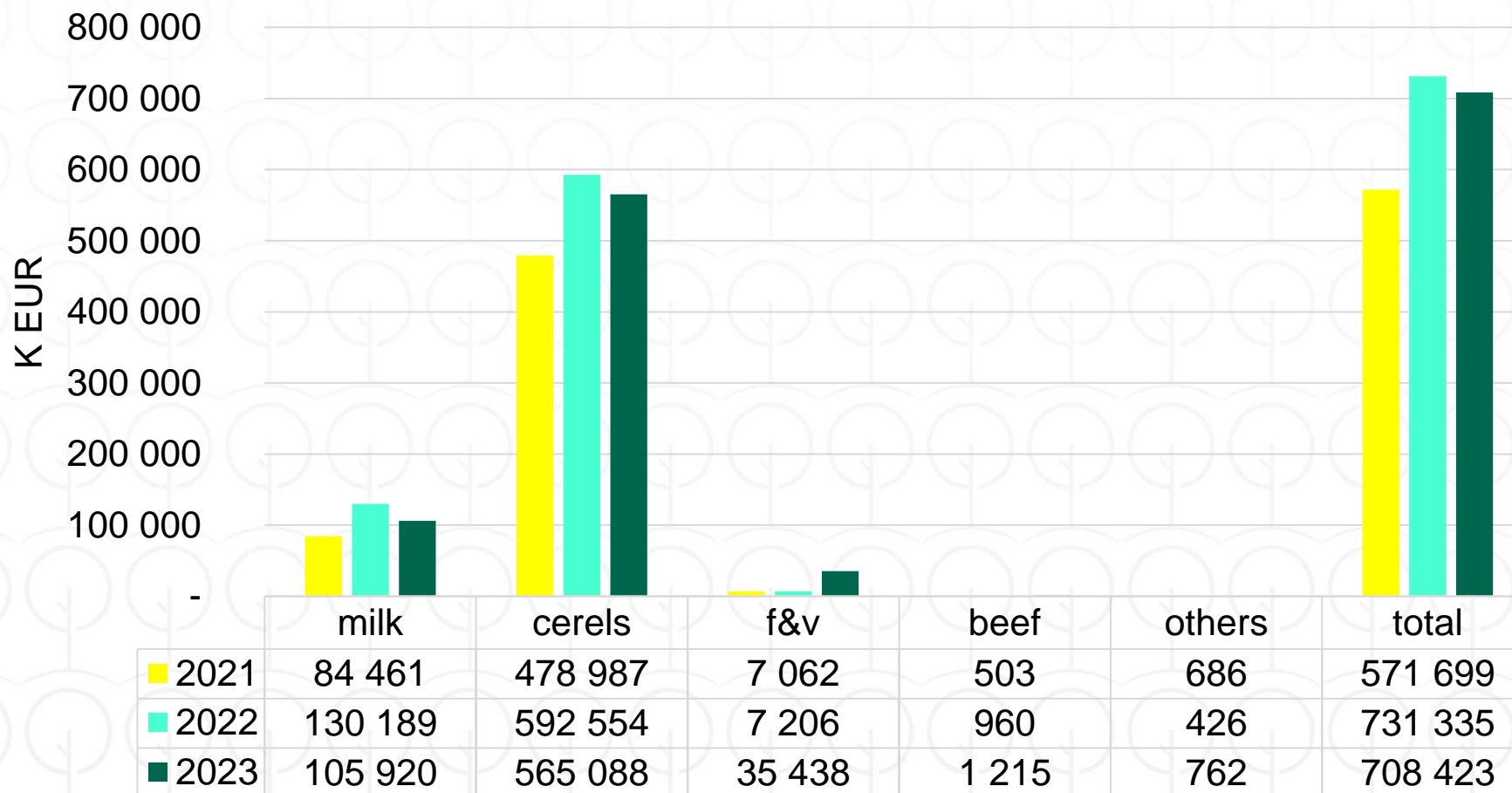


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Background of the idea

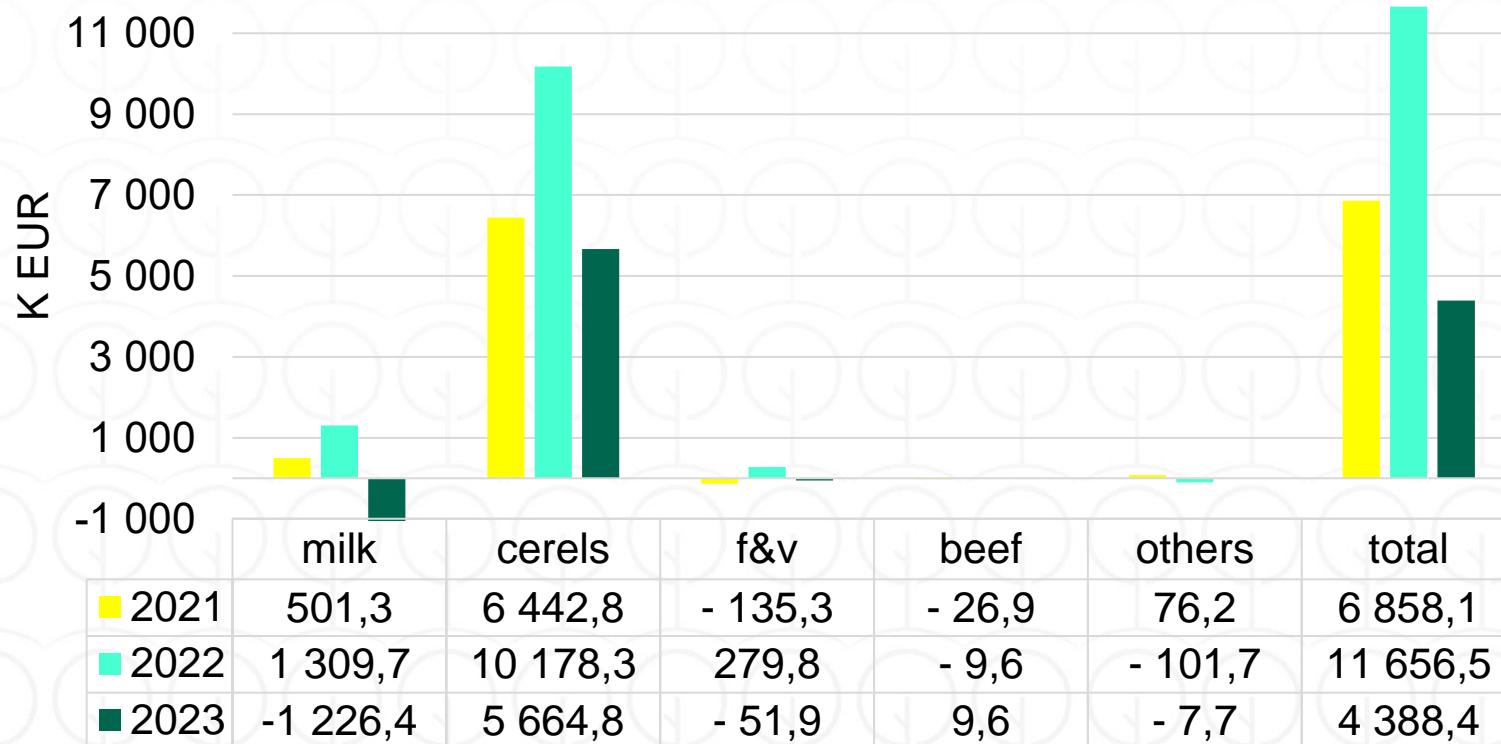


Net sales for 2021 – 2023 KEUR



<https://www.lursoft.lv/lv/uznemumu-datu-bazes>

Profit for 2021 - 2023 KEUR

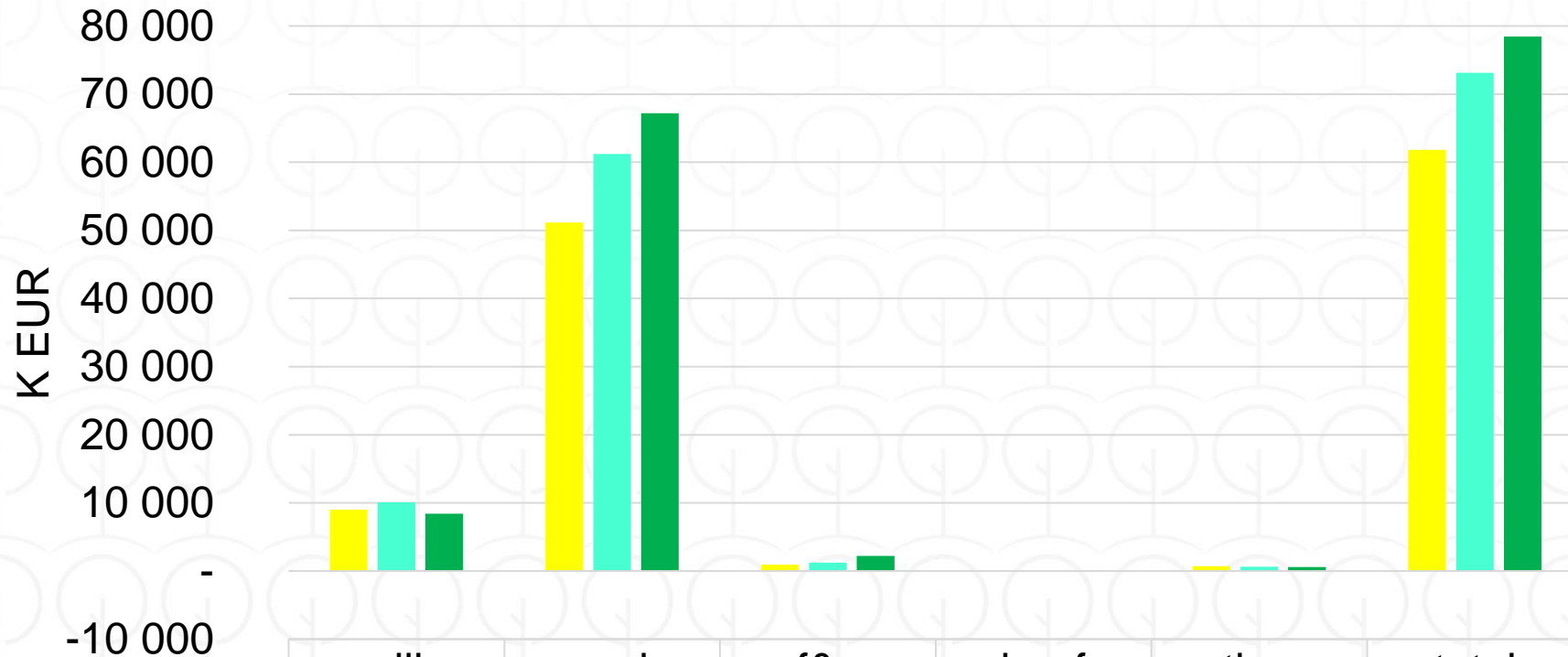


| Cooperatives facing loss | | | | | | |
|--------------------------|----|---|---|---|---|----|
| 2021 | 10 | 3 | 1 | 2 | 1 | 17 |
| 2022 | 4 | 3 | 0 | 1 | 2 | 10 |
| 2023 | 13 | 5 | 4 | 0 | 3 | 25 |

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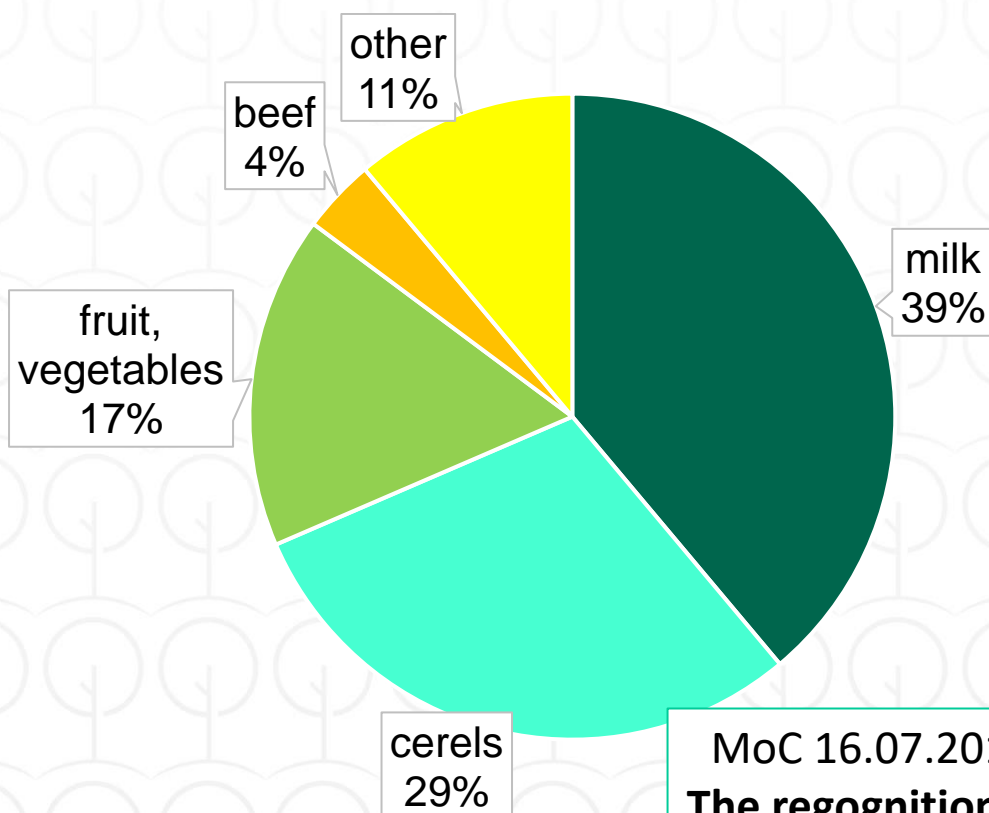
Total equity for 2021-2023, KEUR



| | milk | cerels | f&v | beef | others | total |
|------|--------|--------|-------|------|--------|--------|
| 2021 | 9 008 | 51 148 | 939 | 4 | 708 | 61 808 |
| 2022 | 10 069 | 61 205 | 1 250 | - 5 | 609 | 73 128 |
| 2023 | 8 420 | 67 210 | 2 225 | 6 | 604 | 78 464 |

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Short overview of cooperatives by industry - 2023



| Industry | Sum | Members of the asoc. | Recognized |
|--------------|----------------|----------------------|----------------|
| milk | 21 (-1) | 17 (-1) | 21 (-1) |
| cerels | 16 | 17 (+1) | 16 (+1, -1) |
| f&v | 9 (+3) | 8 (+2) | 8 (+2) |
| beef | 2 | 2 | 2 |
| other | 6 (+1) | 6 (+1) | 1 (-3) |
| Total | 54 (+3) | 50 (+3) | 48 (-3) |

MoC 16.07.2019. rule Nr. 357

The recognition rules

- No tax debts,
- Not insolvent,
- Min. turnover among the mebers 20K eEUR,
- 25% of profit committed to development

Size of cooperatives by turnover



Eiropas Lauksaimniecības attīstības un lauku tīrīšanas programmas
Pārraudzības un kontroles iestāde
Latvijas Lauksaimniecības kooperatīvu asociācija

| Size | milk | cerels | Fruit, vegetable | beef | other | sum |
|--------------|-----------|-----------|------------------|----------|----------|-----------|
| micro | 9 | 5 | 6 | 2 | 6 | 28 |
| small | 10 | 7 | 2 | - | - | 19 |
| average | 2 | 2 | 1 | - | - | 5 |
| large | - | 2 | - | - | - | 2 |
| total | 21 | 16 | 9 | 2 | 6 | 54 |

Straupe,
Piena
loģistika

| criteria | Micro | small | Midle size |
|-----------------------------|---|---------|------------|
| | Corresponds to status if 2 satisfies two of three criterias | | |
| Sum of BS, EUR | 50 000 | 350 000 | 4 000 000 |
| Turnover, EUR | 100 000 | 700 000 | 8 000 000 |
| Average number of employees | 5 | 10 | 50 |

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Key historical drivers for a setting up a cooperatives in Latvia



- Getting bargaining power to cope with the owners of the domestic processing companies (privatized by “red directors”) in early nineties
 - Downward auctions for grain by processing company
- Crisis in 2008: milk industry looks for other customers to keep production / supply
 - small milk producers are abandoned by domestic processing companies
- Profitability – honey cooperative (professional club)
- Financial support – forest management companies

Cooperatives under the umbrella of Association



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- 54 members of the Association in 2024
- Number increases for 1-3 per annum, but some are excluded due to insolvency or due to merger with other one.
- Reasons for insolvency mostly attributed as lack of managerial competences
- Insolvent managers are good industry experts, they are good people for society, but lack financial discipline skills, HR management (tasks and control), skills necessary to deal with debtors and creditors, understanding of corporate governance process for involving the stakeholders (members)



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The project

The project



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- Initiated 2022
- Motivation: to support with monetary and competence capital
- Estimated completion – within 3 years
- The role model – Germany
- Challenges fo completion:
 - Financial source (bonds, equity)
 - Employees including project manager

Financial analysis using DRV methodology



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- Deutscher Raiffeisenverband (DRV) Cooperative Support Fund in Germany (70 years).
- In 2022, it brought together 1,693 cooperatives with a total turnover of €85.6 billion.
- The DRV is supported by members' contributions and aims to provide financial support to cooperatives in times of economic crisis.
- Depending on the nature and extent of the economic difficulties, the resources of the SWG can be used to provide loans and grants, as well as guarantees and commitments.
- The SWG funds are also available for preventive measures, training and advice to ensure the viability of members and avoid threats to their existence.
- The DRV has established a preventive case analysis system which includes definitions and thresholds for various financial indicators.

DRV preventive case analysis system



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| Indicator group | Indicator | Assessment | |
|---------------------|-------------------------|---|------------|
| | | Yellow signal | Red signal |
| Asset value | Movement of receivables | > 60 days | no |
| Financial situation | Equity ratio | < 20% or equity > 40% down on the previous year | < 10% |
| Liquidity | Covered liquidity | < 50% | no |
| Profitability | Return on equity | < -10% or gross profit down > 40% compared to the previous year | < -20% |
| | Staff cost intensity | > 70% | no |
| | Interest cost intensity | > 70% | no |
| Qualitative factors | Management operations | Management weaknesses | no |
| | Accounting policy | weaknesses in accounting policies to hide negative performance | no |

Conclusions (1)



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1. In terms of net turnover, assets, equity and other financial indicators, the largest and financially strongest cooperatives in **Latvia are in the grain sector, followed by the dairy sector**, and in recent years the fruit and vegetable sector has also developed well, with weaker results in the meat and other agricultural sectors, but in all sectors the range of performance and results of individual cooperatives is very wide. **Most of the Co-operatives meet the criteria of micro (28) or small (19) enterprises.**
2. The DRV methodology can be used to assess the performance of cooperatives, but to be fully operational it **requires data on personnel costs**, which can be provided by the profit and loss account, which is classified by type of expenditure, or by the presentation of personnel costs in a note to the annual accounts of the cooperative.
3. The DRV methodology also requires the assessment of **two qualitative indicators: the management performance of the cooperative and the accounting policy.** The accounting policy can be partly assessed from the annex to the annual report, which is not required to be prepared for small CIs and therefore cannot be assessed from the annual report. Management performance can be assessed by a survey of the cooperative's management.

Conclusions (2)



4. In Latvia in 2023, the largest number of cooperatives in different sectors are **located in Vidzeme (19)**, and they face the fewest threats to their operations (2). In Zemgale, too, relatively few cooperatives face operational threats (2 out of 12). In the other regions, about half of the Co-operatives face operational threats: Latgale and Riga (3 out of 6 each), Kurzeme (5 out of 11).
5. Calculations according to the DRV methodology show that in 2023, **15 out of 54 analysed Coops face operational risks** (10 out of 51 in 2022), with all sectors of agricultural cooperatives facing operational risks. **The most frequent threats are the equity ratio (11 Coops)** and the return on equity (11 Coops). This can be improved by (1) increasing the share capital of the CF, (2) building up reserves from profits in more successful years or (3) increasing gross profit, i.e. increasing net turnover and reducing the cost of production of products sold or services provided.
6. When assessing the risk to cooperatives **by size, micro (9 out of 28) and small (5 out of 19)** cooperatives perform worse, medium and large cooperatives perform better.



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Other aspects

Social benefit vs profit orientation



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- Regional development – small regional companies can exist and compete with large market players under the cooperation roof
- SME is a key factor for adaptive economics, SME are more elastic to market turbulences
- SME are the ground for middle class (separate SME have to struggle more vs. cooperation roof)
- Special case farmers, small craft organizations in rural areas



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Reasons for struggling

Economical context

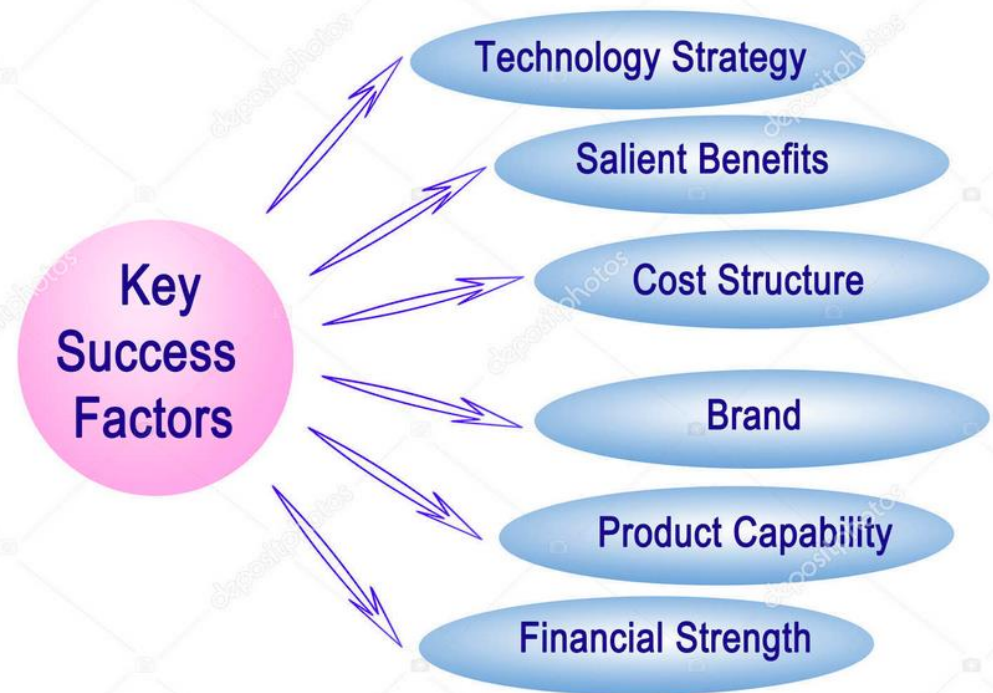


- Global markets: a part of supply chain (quoted products of grain, milk, honey-?)
- Cross border cooperation - ? (specialization, assets sharing)
- Change of peoples mindset
 - Regional development (security)
 - Life style (time preference)
 - Anti Corporations (democracy)



Key challenges for small ones

- Joint motivation at the very beginning
- Must be a LEADER although cooperation is about equal rights – democratic way of management
- Strategic plan for a year, two...five...ten
- **Cooperation is not sprint distance (not short term profiting philosophy)**
- **It is lifestyle.**



Most frequently faced challenges



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- Acquiring knowledge and skills (corporate career – hire; for cooperative leader – it is rather learning by doing)
- Working capital: small companies experience lack of equity (paid in capital)
- Reserves: reserve fund for surviving in case of failure
- Initial costs for development (business plan is a must)
- Joint mindset despite of democracy

Q & A session



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