

# The Estonian model



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# Kevili cooperative



Kevili is the biggest crop producing cooperative in Estonia.

Kevili's main objective is to deliver profit to their members through various activities.

At present Kevili's 161 members account for 87,7 thousand hectares, which is about 13,5% of Estonia's total cropland.



# History

Kevilin history dates back to the end of Soviet Union, when Kemira started a cooperation with Estonian Ministry of Agriculture at the turn of 1980s and 1990s. The Finnish partner offered production technology and technical assistance for sugar beet production. Sugar beet was sold to the Salo factory in Finland in exchange for sugar.

Regional coops disappeared one after another when foreign companies established their subsidiaries in Estonia. Only one cooperative, Keski-Eesti Ölikulttuurid Ühistu (KÖÜ) survived in Jõgeva. It had 250 members at its peak years and up until 1997 it was the only organisation that united rapeseed producers in Estonia. Rapeseed was loaded to ships in Pärnu and Kunda harbours for exports to Finland.

KÖÜ's director Ülo Väljaots was a knowledgeable and influential person who drove changing the cooperative from an MTÜ non-profit form to a profit oriented cooperative. By law the old entity had to be ceased and a completely new one had to be established. The new cooperative was founded formally by 15 members, albeit with a network of about one-hundred farms having had long traditions and experience of cooperation. The new cooperative decided to expand its activities to the joint purchase of fertilisers and other chemicals straight from the manufacturers.



Approximately 15 regional cooperatives were established these years. Cooperatives received harvesters and skilled assistance from Finland. Rapeseed production was launched in addition to sugar beet. Rapeseed was taken to be crushed in Finland.

In the beginning of 2000s foreign companies imposed an ever growing pressure on the cooperatives their old directors got retired and many of their members moved to strong foreign competitors such as Farm Plant Eesti and Kemira. KÖÜ was also rather dependent on the input supply of Kemira.

Kevili exported the first batch of grain in 2008, 4000 tons of wheat was shipped from Kunda harbour to Germany.

The current number of members amount to 161, who altogether have an area of about 87,700 ha. The smallest member has 50 ha while the biggest over 4,000 ha. Members are primarily family farms, however, agriculture businesses owned by private investors are also represented.

1990

2000

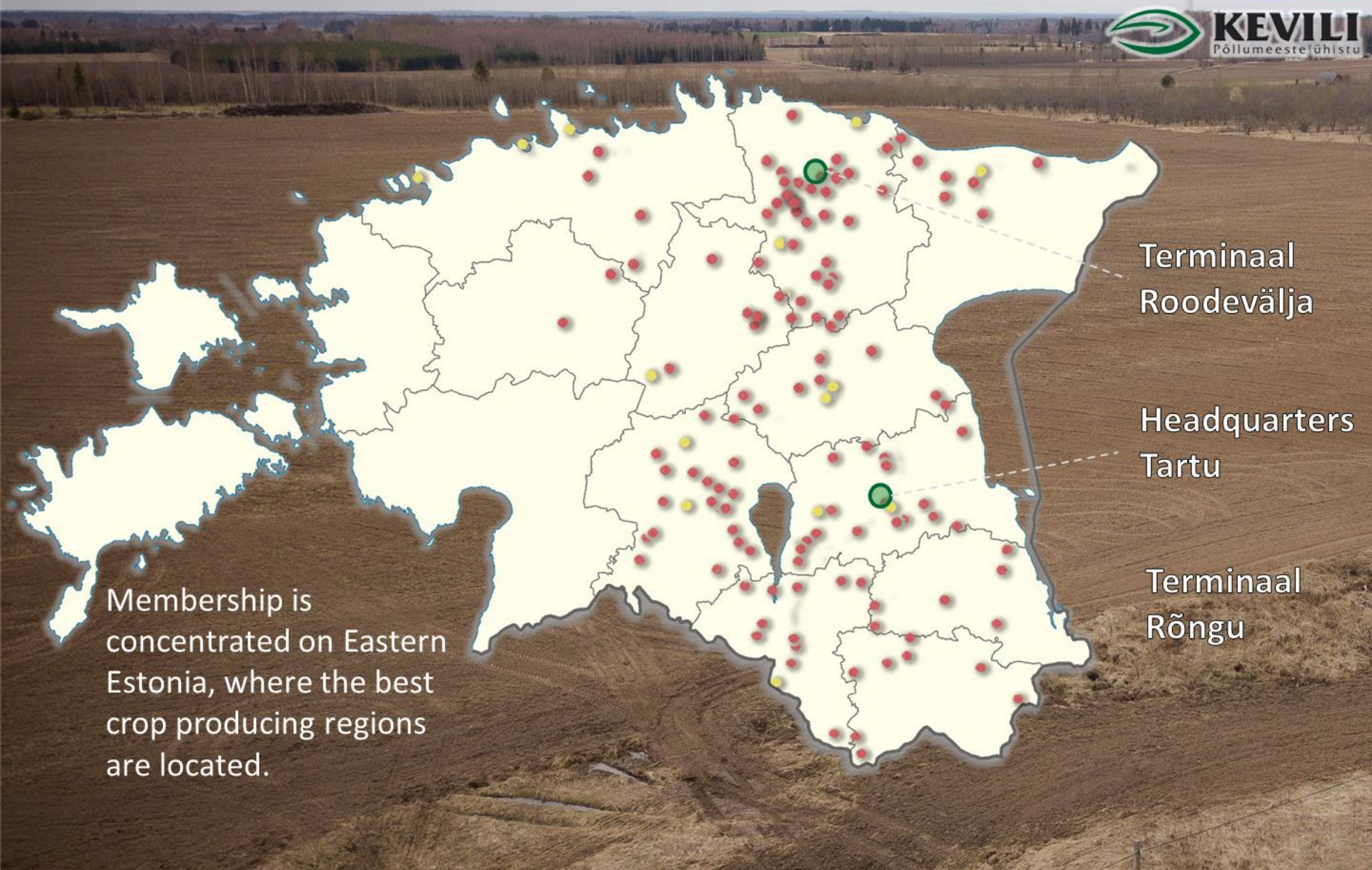
2005

2010

2018



# Location of members and facilities



Terminaal  
Roodevälja

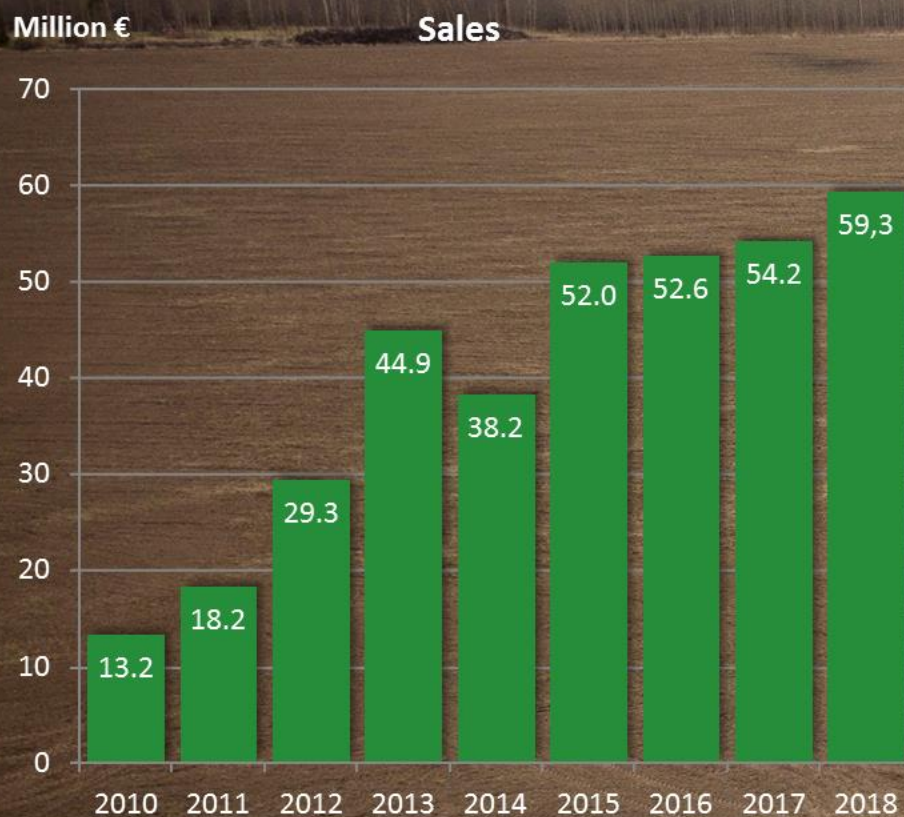
Headquarters  
Tartu

Terminaal  
Rõngu

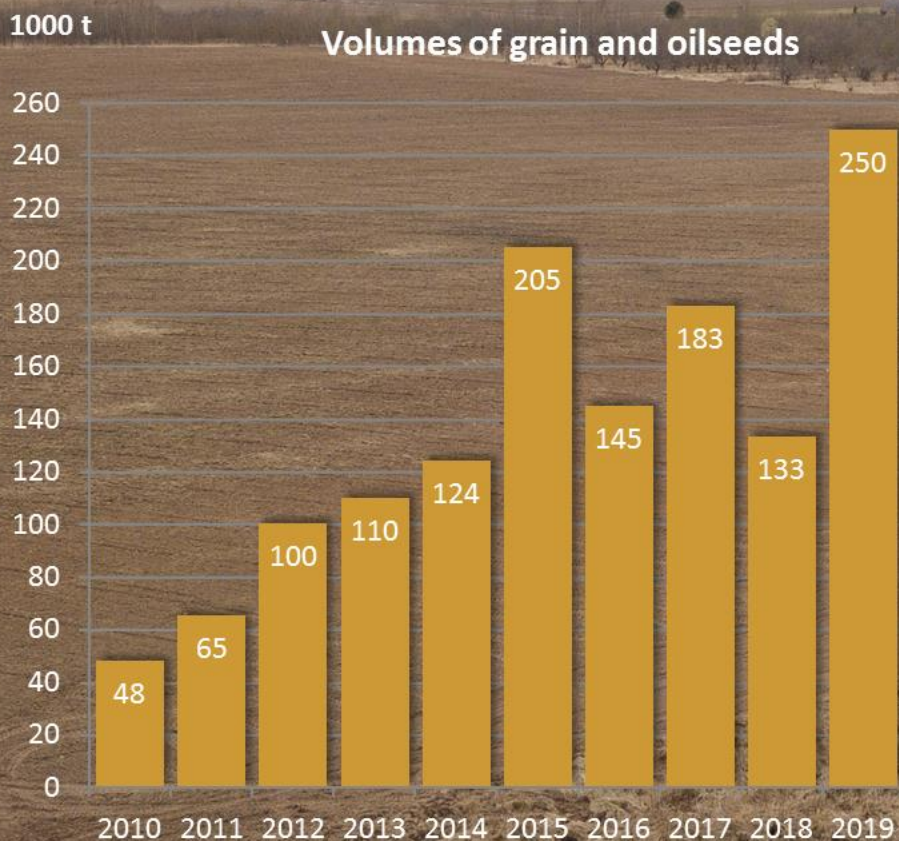
Membership is concentrated on Eastern Estonia, where the best crop producing regions are located.



# Development of business activities



Source: Kevili



Source: Kevili. Note: 2019 is estimate.

Estonia had an all time record year in 2015, while a serious crop failure was experienced in 2016 due to adverse weather conditions. The low figure for 2018 volumes was attributed to very hot weather and drought .



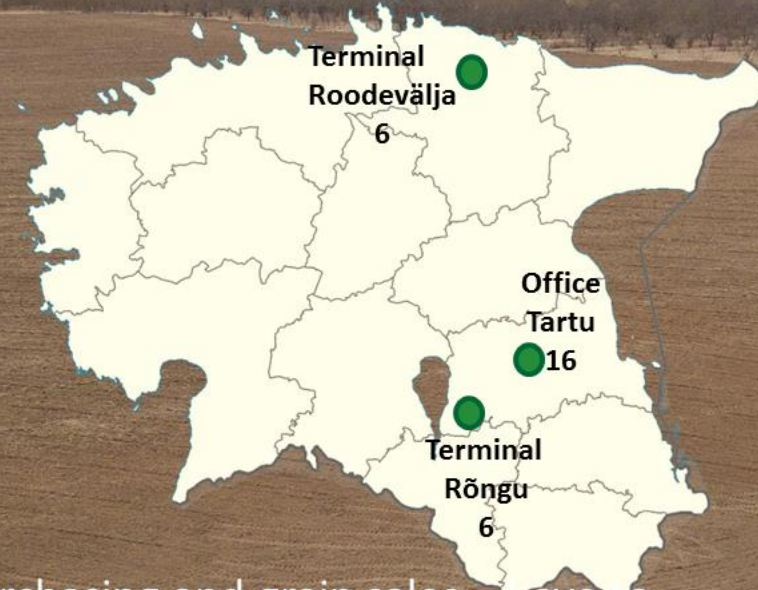
# Employees

The cooperative employed 28 persons as of September 2019



## Breakdown of employees by activities:

- General manager (1)
- Secretary (1)
- Agronomists (2)
- Bookkeeping (3)
- Logistics (2)
- Grain sales (2)
- Input purchases (2)
- Regional directors (3)
- Terminal directors (2)
- Terminals – technical activities (6)
- Terminal – laboratories (4)



All the departments – such as the terminals, aginput purchasing and grain sales – have to earn profit. Overhead would cover the costs of management and bookkeeping.

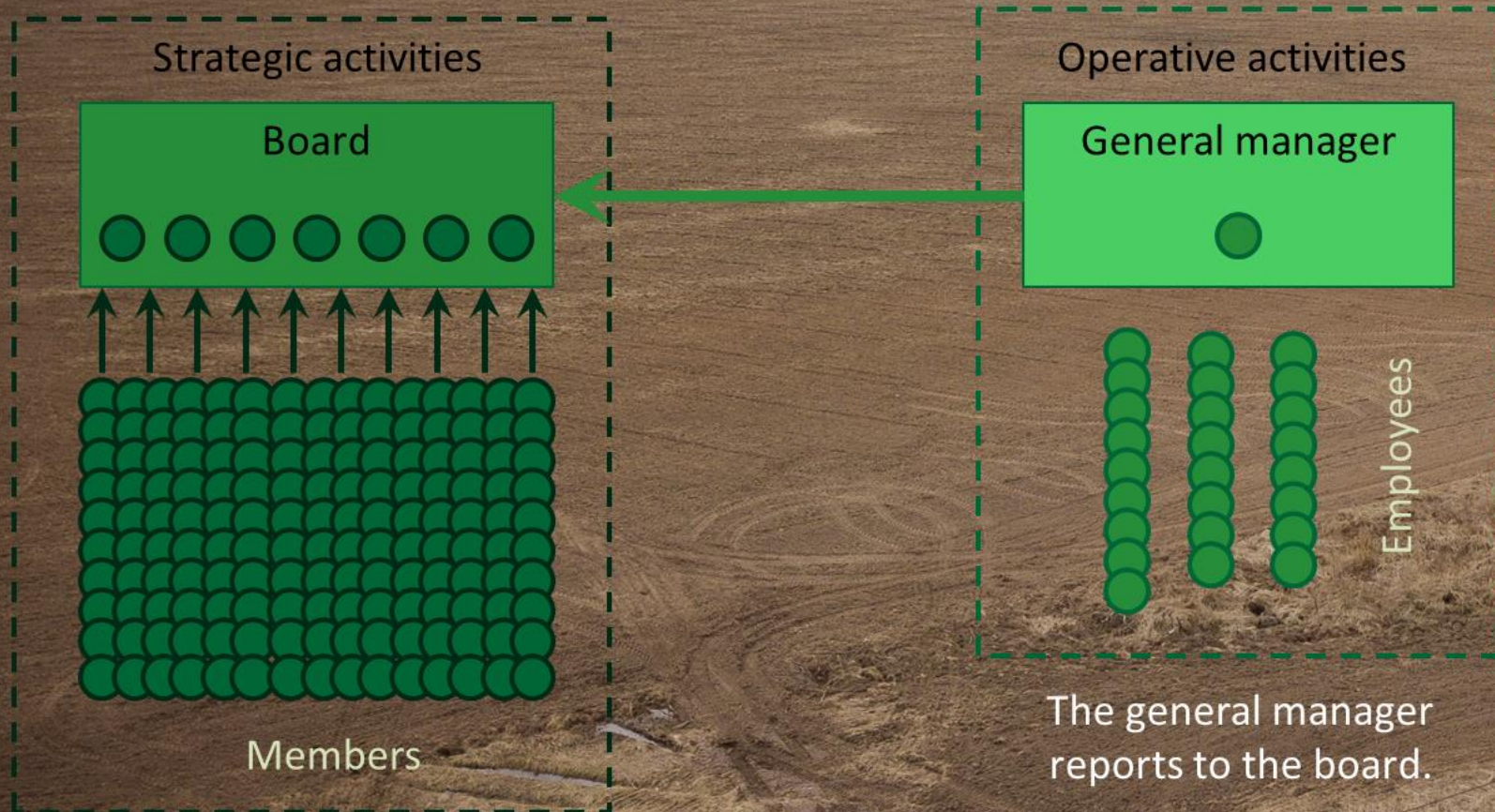
About 10 additional persons are employed during harvest time, five at each terminal. Six of them have technical jobs and four are employed in the laboratories.

Logistics is outsourced to about ten external transportation companies, with which Kevili has long-term business relationship. At peak time about 50 trucks are used continuously, half of which are the members' own vehicle and the other half by contracted transporters.



# Organisation

Kevili's Board of directors are elected every three years. The board is made up of seven members, all farmers. They meet monthly to check the cash-flow situation and to take care of the cooperative's strategic policy.





# Activities



All activities are designed to serve the needs of member farms:

## 1 Sales of grain and oilseed

Grains and oilseeds are sold in large batches to end users in Estonia and international buyers on the grain markets which results in better prices. Thus the brokerage of domestic grain trading companies are saved and retained for the member farms.

## 2 Mediation of agricultural inputs

Kevili purchases large volumes of agricultural inputs such as seeds, fertilisers, pesticides, fuel and others. The advantages of discounts are forwarded to the member farms.

## 3 Joint ownership of terminals and equipment

Kevili offers transportation, drying and storage with which the expenses of member farms are kept under control and they can focus on their prime activities such as harvesting.

## 4 Access to reasonable financial resources

Kevili arranges for its members access to short term revolving credit with favourable interest rates related to the sale of yield or purchase of inputs. This sets them free from negotiating with the banks for loans one by one.

## 5 Regular communication and technical assistance

Members are given advice by Kevili's own agronomist. Additionally, members share their practical experience with each other.

## 6 Organising seminars, study and leisure trips

The objective of seminars is to get new information on the rapidly changing business environment. Experienced lecturers of various fields come from Estonia and abroad to train the members. Events and study tours give the members a chance to learn professional information, but also reinforce their social relations and enjoy recreational programs.



# Activities

## 1 Sales of grain and oilseed



There are only two persons in the grain sales personell. The majority of grain is sold through Danis brokers (Copmer ja Skovskorn). Avena Eesti or other companies work with the same brokers, therefore Kevili and others can fill the same ship of a particular broker together. Brokers have a list of solvent trustworthy buyers and ensure rapid payments.

Grain is sold FOB Muuga, Sillamäe, Kunda or Pärnu and the payment are received immediately, once the ship has been loaded.

Kevili's loading activities 10 years ago...

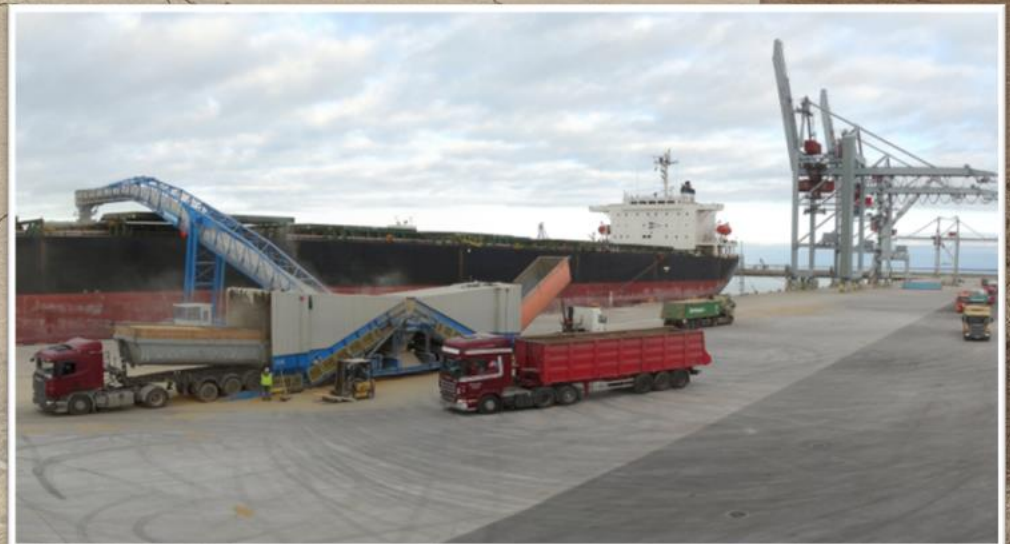


Photos: Kevili

Tallinna  
Muuga

Sillamäe

...and now.





# Activities

## 1 Sales of grain and oilseed



Grain sales contracts are made with the members right in the spring, concurrently with the agricultural input purchase contracts. Volumes are determined at this point.

Members can fix their volume to the daily market price. Kevili announces prices daily based on MATIFF prices. If a member decides to fix the price of his volume to a certain day's price, Kevili sends a note to the bank to hedge the volume in the stock exchange. Swedbank provides Kevili with the financial services concerning price risk management, factoring, long-term loans and daily bank services.

A grain batch – provided it is dried – can be delivered straight to the harbours. Kevili rents storage space in the Kunda, Sillamäe and Muuga harbours. Members can deliver there dried grain up to the volumes determined in their contracts. Kevili usually has sales agreements for this volume in advance.

If a member wants to sell volumes exceeding the level set in his contract or his grain needs to be dried, the batch is delivered to one of Kevili's terminals and it is sold later.

Grain drying needs are surveyed separately. Usually members are supposed to demonstrate either own or an access to external drying capacity at the phase of joining the cooperative. Many farms have invested into own dryers in Estonia with the partial subsidies of EU. Additionally, they tend to rent drying capacity from external sources.

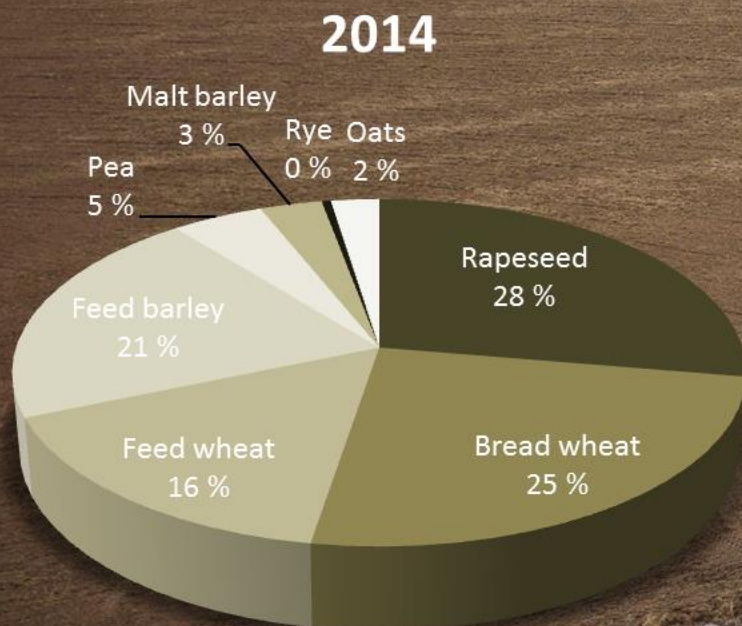


# Activities

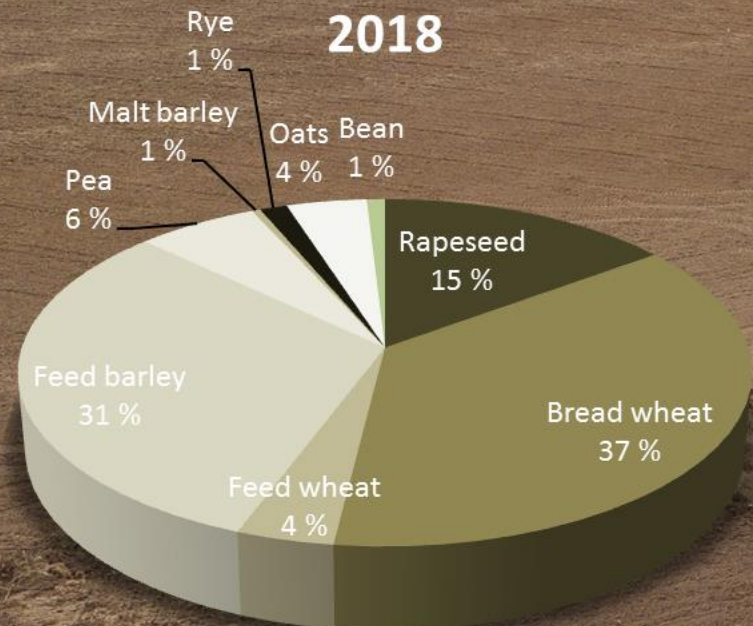
## 1 Sales of grain and oilseed



Kevili members have a commitment to sell 80% of their rapeseed to the cooperative. There is no commitment rate for grains, over a certain limit members are free to sell their grain wherever they want to. Despite the lack of formal commitment rates, steadily increasing grain volumes have been sold to the cooperative and has reached approximately 70%.



Source: Kevili



Source: Kevili



# Activities

## 2 Mediation of agricultural inputs

In 2018 the total turnover of agricultural input mediation amounted to EUR 24,7 million.

Certified seed originates to a large extent from member seed producers. The sales of the business branch was EUR 1.6 million in 2017. The rate of certified seed use in Estonia is 20%, but the actual rate varies by crop.



In 2017 the volume of mediated fertilisers amounted to 43.5 thousand tons, 95% of which was purchased directly from the manufacturers.

Pesticides and chemicals were also purchased directly from the manufacturers. In 2017 the turnover reached EUR 5 million.





# Activities

## 2 Mediation of agricultural inputs



In the spring a contract is made about the volumes of agricultural inputs with each member. At the same time, members commit themselves to sell grain to Kevili for the same value as they purchase inputs. Kevili's objective is to ensure at least EUR 23 million – the level of agricultural purchases – worth of commodities available for sale after harvest.

The value of grain sales determined in the contracts by the value of input purchases is a minimum level, members are obliged to deliver. They can of course exceed this minimum.

Although members are free to sell the rest of their yield on the markets, loyalty towards the cooperative has increased notably. A few years ago members used to sell about 40-50% of their yield through Kevili, a share which has grown to 70% by 2017. The main driving factor has been the shortening of payment period to five days, which has surged the loyalty of members. According to the most recent information 62% of the members sold over 70% of the grain to Kevili in 2018 .



# Activities

## 3 Joint ownership of terminals and equipment

Kevili's own capital amounts to EUR 5 million, which includes the own financing share of terminals and the share of paid back loans. The cooperative also owns a fuel transporting truck..



### Roodevälja terminal

The terminal was built in 2013. Its storage capacity is 56,500 t, (10,000t flat and 46,500 t silos). The value of investment totalled EUR 9.1 million, of which EUR 2 million subsidies and the rest the members' own contribution and bank loan. The loan is scheduled to be paid back by 2020.



### Rõngu terminal

The terminal was built in 2016. Its storage capacity is 51,500 t. The value of investment was EUR 8.6 million, of which EUR 1.6 million EU subsidy, EUR 1 million own financing and EUR 6 million bank loan (Swedbank). The bank loan is scheduled to be paid back entirely by 2026. The capacity of flat storehouse in Rõngu is 5-6,000t.



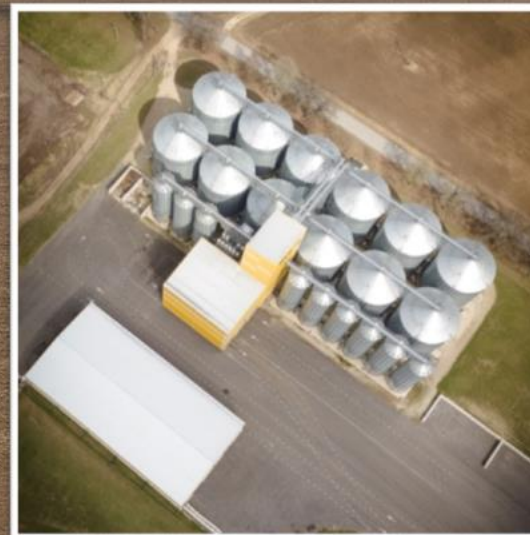
# Activities

## 3 Joint ownership of terminals and equipment



### Grain transportation

Kevili does not have own grain transporting trucks. Grain transportation is outsourced to 10 business partners. The highest need of transportation capacity is 50 trucks at the same time, half of which is provided by members and half by the above mentioned external companies.



### Joint dryer and grain reception

The dryers operating in the terminals have a capacity of 75 tons of grain an hour.

The reception capacity of terminals is 400 tons or 16 truckload of grain an hour.

### Laboratories

The laboratories are among the most modern ones in Estonia, where the results of analysis are ready instantly after sampling.





# Activities

## 4 Access to reasonable financial resources



Kevili has an EUR 30 million short term credit. Kevili gets its receivables quickly with the help of factoring, which facilitates the fast – five day – payments to its members. In Estonian grain trade the five day payment time has become a standard applied by all companies.

The same short term loan facilitates the purchases of agricultural inputs for their members. In the framework of so-called pre-financing members purchase agricultural inputs in the spring for credit and they pay it back with their yield after harvest in the autumn. Kevili's annual interest rate is only 2.5%.



Pre-financing is a sure source of income for large companies

Pre-financing is the large competitors' most secure source of income and profit. It is independent of weather conditions, or the quality and volumes of production. As much as half of the profit of some competitors originate from credit services. Crop farmers buy their production inputs in the spring from the same companies, to whom they sell their yield in the autumn. Regularly a 1-1.5% monthly interest rate is charged on the loans given for input purchases, which equals to 12-18% on a yearly basis.

*"Your life is made very easy but for your own money!"*

Kevili members are more entrepreneurial than average crop farmers in Estonia.



# Activities

## 5 Regular communication and technical assistance



Kevili's own agronomist in cooperation with a consultant prepares nine videos of timely issues and advice over a growing season.

Kevili organises two big field days in a growing season, one in the north and one in the south. Among others, results of experimental plots are reviewed, or grain varieties are introduced and evaluated in these events.

Additionally smaller "ad hoc" field meeting are also organised on a short notice. If a member notices any interesting phenomenon on his field, which he wants to share with other members, he informs the agronomist, who transfers an invitation to the members. A Whatsapp group was established for instant communication, presently (September 2019) including 90 members. Other channels for communication are email and the intra pages of Kevili website. Photo invitations are distributed in Whatsapp usually about 2-4 days before the field meeting. During 2018/19 season about 50 small field meetings were organised altogether.



An important way of consultancy is the communication of members with each other in small groups. Members who have constantly achieved remarkable results tell the others their successful practices.



# Activities

## 6 Organising seminars, study and leisure trips



### Professional seminars

Professional seminars are centred always around one particular topic – such as economic- legal- or financial issues or crop production technology. Lecturers are these fields' experts from external organisations.

### Development seminars

Six development seminars are organised a year, each of which involves 20 members. Hence altogether 120 members – the majority of membership – are involved in these seminars every year. These seminars also begin with 4-5 presentations, but participants continue to work in small groups afterwards. Members discuss about operational routines, what they like and what they dislike. They propose changes for the future. The results and the proposals of group discussions are taken to the board meetings as a feedback. The development seminars were designed to get members actively involved to influence the strategic policy and daily operation practices.

Kevili organised 17 seminars for its membership in 2017. Participation to the professional seminars is free of charge for the members.



# Activities

## 6 Organising seminars, study and leisure trips



### Assemblies

Large assemblies are organised three times a year. Their objective is to come together, celebrate, get to know each other and spend time with each other's families. Members pay themselves for their and their families' participation. In 2017 the following assemblies were organised:

- Summer event in Lammasmäe holiday centre
- Harvesting party in Seaplane harbour
- Moose hunting in Kadrina county



### Foreign trips

In 2017 four trips were organised for the members at their own costs. Three trips were study tours to the Czech Republic, Germany and Kasakstan, while one trip was for leisure to Peru. Earlier leisure trips were organised to e.g. New-Zealand, South-Africa, Cuba, Mexico, and Vietnam. About 30-40 members participate into study tours and about 20 to leisure trips.





# Financing



Kevili's daily operation is financed by its all major activities. Income is earned from the mediation of agricultural inputs, grain sales and the fees collected for terminal services. All departments are responsible for profit generation within the cooperative.

The primary objective is to keep unit costs i.e. salary costs/sold grain and oilseed below the limit of EUR 5/ton. This is considered a competitive threshold compared to big companies.





# Withdrawal from the cooperative



Should a member want to withdraw from the cooperative, he will be paid back his shares in the following way:

- EUR 3,000 membership fee is paid back
- The value of storage shares:  $n \cdot 50 \text{ t} = n \cdot \text{EUR } 6,300$  is paid back
- A share of the ongoing year's profit is paid in proportion of the purchases of agricultural inputs and the sales of grain of the withdrawing member.

Kevili generated EUR 211,000 profit in 2017. The cooperatives had losses of about EUR 400.000 in 2018 due to dry weather and low utilisation rate of drying capacity. Presently Kevili's profit is not divided among the members, but it is used for company development purposes.

The objective is to start a regular distribution of profit as soon as the own capital has reached the level of 25%.



# Development plans



Kevili intends to focus on the following issues in the future:

Developing the organisation into a modern cooperative with high corporate culture and motivated personnel.

Developing logistics and data systems in order to improve transportation and production.

Investigating value added opportunities and making additional investments that are needed to achieve them.

Developing the internal advisory system, improving the current services and adding new new ones.



# Growth



Kevili keeps growth at a modest level intentionally as only up to 10 new members are approved every year. A modest and controlled growth is meant to ensure the quality of activities.

Accession opportunity is not advertised anywhere, yet, there has been a constant interest. Eight new members were approved in 2017. The process of accession is explained in Kevili's website.

The accession procedure is rigorous and strict conditions apply:

First Kevili's regional representative visits the farm who expressed an interest to become member, then the general manager have a discussion with the farmer. The economic conditions of the farm is analysed thoroughly. The applicant has to find two advocates among the current membership. If all the conditions are met, the formal application is submitted to the board of Kevili, which makes the decision. After approval the applicant pays the accession fee of EUR 3,000 and becomes a member of Kevili.



# Mission, vision and values



## Mission

To generate competitive advantages for the members through cooperation.

## Vision

To build a national crop farmers' cooperative, which ensures profitability for their members and sustainable agricultural activities in Estonia through joint purchases, marketing and training.

## Basic values

trust

cooperation

effectiveness



# What can we learn from the Kevili model?



## 1. Commitment of the members

The accession fee of EUR 3,000 and participation in the investment costs through the purchase of storage shares are to strongly commit membership to the cooperative. The latter payments (annual instalments) can vary from EUR 1,300 to EUR 50,000.

## 2. Involving the members into corporate development

Members truly get involved and their opinion is taken into account through the development seminars. Members can also have an impact on important decisions and the Board of Directors of seven members has been found a well-functioning decision making body. The success of Kevili's involvement strategy was also verified by external researchers and observers.



# What can we learn from the Kevili model?



## 3. Controlled growth

A reckless growth of membership is intentionally avoided and new applicants are carefully checked for eligibility e.g. of economic conditions such as profitability. A new member is supposed to agree and commit to the rules and activities of the cooperative. Obviously in Estonia this "modest" growth and the approval of up to 10 new members a year means about 5-6,000 ha annual growth in the farm area with the 580 ha average farm size of the current members.

## 4. The importance of financing and management

One of the most successful decisions of Kevili was the recruit of general manager from the banking sector. Its significance cannot be sufficiently emphasised. The general manager handles Kevili's big EUR 30 million short term loan as well as negotiates factoring solutions with the bank as an equally competent banking expert. The general manager also gives the members advice related to financial and economic issues.



# What can we learn from the Kevili model?



## 5. Competitive prices and services

Kevili's objective has always been to provide their membership with competitive prices. The share of the members' grain sales used to be rather low in the beginning. It was noticed, however, that by improving the conditions such as shortening the payment time to five days, the share of sales increased considerably. Price is not the only factor after all, but an attractive package and quality of services. Nonetheless, Kevili also aims at offering competitive grain prices to its members.

## 6. Open and transparent communication with members

Communication and the applied channels support the involvement of members even to strategic policy and daily operations. Over 20 seminars and events a year, tens of field meetings as well as effective communications channels make sure to keep the members updated on agronomic conditions and the activities of Kevili.



# What can we learn from the Kevili model?



## 7. Quality services and company image

The internal advisory, on both agronomic and financial issues, favourable credit for input purchases, access to joint drying and storage facilities, modern commonly owned buildings and equipment, grain sales are all services of high importance for crop producers. These make Kevili an attractive cooperative and is becoming a renown and respected brand among farmers in the Estonian grain and oilseed sector.

## 8. Compliance with cooperative principles

Kevili pursues to comply with the cooperative principles such as equal treatment of the members and the "one member one vote" principle regardless of the size of the members.



# What can we learn from the Kevili model?



## 9. A feeling of fellowship

The conditions for accession, economic commitment, involvement in the decision making process, transparent communication, common ownership and participation into various seminars, events and trips create a club-like feeling of fellowship for the members, to which it is a privilege to belong. The sense of community and common objectives appear to be reality for the members.

## 10. Trust and cooperation

Trust and cooperation are the basic values of Kevili, and they are not empty words. Without trust among the members and towards the board and management the activities cannot be carried on. Cooperation is taken seriously at Kevili.

## 11. Risk management

The grain sales batches are secured by hedging services of the bank, which helps Kevili manage the price risks. It is essential for crop farmers' cooperatives to minimize risk in general.