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INTERNATIONAL
COFFEE
ORGANIZATION

CF 3/13

15 August 2013
Original: English

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3rd Consultative Forum on Coffee Sector Finance
10 September 2013
Belo Horizonte, Brazil

Case Study A
The pre-cooperative phase:
The first step in farmer organizations

Background

1. The 3rd Consultative Forum will take place on Tuesday, 10 September 2013 from 09:00 to 17:30 in Belo Horizonte, Brazil; during the week of the 111th Session of the Council (information about these meetings is contained in document ED-2153/13). The objective of the event is to identify best practices and disseminate information to Members about aggregation as a platform through which access to finance and risk management could be achieved more effectively. The terms of reference developed by the Core Group were circulated in ED-2158/13. The Forum will be attended by ICO Members, observers and private sector representatives. In addition, experts in farmer aggregation from different geographical and coffee-growing regions have been invited who will form an 'Expert Nucleus' for the session. The programme for the Forum will be circulated separately.

2. A set of seven case studies with discussion questions has been prepared by consultants as the basis for small group discussions amongst delegates and experts. The purpose of the scenario exercise is to engage the entire audience in identifying best practices and the challenges that farmers face in developing farmer organizations or efficiently achieving the objectives of their organizations. This document includes the following case study: **The pre-cooperative phase: The first step in farmer organizations.**

Action:

The Consultative Forum is requested to review and discuss this case study.

Managing and Growing Farmer Groups Group Discussion

Case Study A:

THE PRE-COOPERATIVE PHASE: THE FIRST STEP IN FARMER ORGANIZATIONS

BACKGROUND

This case study is based in a country where farmers have a long history of growing coffee. Following decades of total state control through cooperatives, the coffee industry was fully liberalized in the early 1990s with export quality control remaining a governmental responsibility. Production that fluctuates in recent years from 2 to 4 million bags comes primarily from 450,000 small farms where it is intercropped and serves as the major cash crop. Although new high yielding, faster maturing, rust resistant varieties are available, most plants in production are still the older varieties. Most Robusta is sundried though efforts are being made



Ripe Organic Coffee, by Erica Spizz

to reintroduce wet-processing; while most Arabica (12% total) is processed with the use of hand pulpers, attempts are under way to upgrade processing through the introduction of eco-friendly integrated pulping systems that simultaneously remove both pulp and mucilage whilst using only small amounts of water, making them particularly suitable for use by smallholders.

Noting that the industry has developed a processing capacity that currently is five times the present level of farm production, most members of the trade association, who were originally involved in processing and marketing activities, have realized the need to start investing in production and quality improvement; otherwise the country may start to lose some of the big coffee buyers to countries where supply is more consistent. Relationships between the coffee industry and the government do not yet support coordinated industry development. The private sector is considered to be fragmented and weak while Government is not responsive to private sector initiatives.

This Case Study is divided into two parts to highlight the different perspectives: 1) memo from the company Managing Director to staff outlining the why and how of bringing farmers together; and 2) farmers discussing an upcoming meeting with the coffee company to discuss linking together.

MEMO: ACE COFFEE COMPANY

From: Managing Director

To: Senior Staff

As we discussed in our last staff meeting, with the completion of our new processing plant the volume of beans we are receiving means our plant is operating at just 35% capacity, which is unsustainable. We must increase our flow through volume. To accomplish this, I have decided that we must establish a direct relationship with

the producers rather than continue to depend on the traders, who are acting as intermediaries. One of the reasons that marketing costs are so high is that the farmers are not organized to bulk their crop into economic sized units. My plan is to get the farmers into groups of 50, appoint a chairman, and pay him to bring his group members' coffee together at one spot based on the delivery schedule we establish. This should allow us to increase the farm gate price by 5%, which will still be less than what we are paying the traders. With all of the unlicensed exporters that have sprung up, competition for product is only going to increase so we need to move quickly.

Another problem we may have to address in the future is falling production. Coffee Rust Disease in the two eastern Districts is certainly an issue, but I believe the main reason yields are so low is that the farmers just aren't following the good agricultural practices like fertilizer application. Also, they aren't spraying on time, and when they do, it's often with red listed pesticides, which if it became known could hurt our position in the international market. In short, the farmers aren't being serious about their production. Better extension may be something we have to address in the future, but given the extra expense involved, we should try and get the Ministry of Agriculture to take this on.

For our next meeting, I am putting the following items on the agenda, so please think about them and come prepared to contribute:

- How to organize the farmers into groups in a way that benefits Ace? Who should we use to set up the groups - Ministry extension officers? Active NGOs?
- Who should we appoint as the group president: Local headman? Largest coffee farmer? School teacher? (for literacy)? Government extension agent? What should they be paid?
- How can we cost effectively encourage better production practices: posters, radio, brochures?
- Develop a map of pick-up points that would be efficient for 40 ton trucks
- Develop a schedule of meetings to introduce the concept of groups and start the organizing process

FARMERS MEETING

Several friends started discussing the upcoming meeting announced by the local extension agent about coffee groups. They were soon joined by other farmers and the discussion went on for several hours, becoming quite heated at times. Here is a collection of some of the most interesting comments arranged by topic:

1. Farmers attitudes toward growing coffee

- "I have about ½ acre of coffee that I keep in spite of getting fewer bags each harvest. Although I don't get much, it's like free money – I put little in and get something out, though if my harvest goes much lower I'm switching to maize"
- "I think of myself as a coffee farmer; I have 15 acres under production but I'm not getting the yields the extension agent said I should. Fertilizer is so expensive, I only use half the recommendation; plus having to travel to town to buy it then find transport back is an extra bother and expense. With all the labor and other costs I have, I barely break even"

2. Production problems

- "I didn't get around to pruning my plants this year; just too much else to do getting my maize going. Having enough food is more important than the little income I lost. If only I could get a better maize seed I would have more time to spend on coffee"
- "My back pack sprayer is broken; by the time I could borrow one from my brother, it was pretty late. I went ahead and sprayed anyway but I'm not sure it did any good"

3. Inputs

- “I just heard on the radio that rust disease is coming this way. They said that there are plants that won’t get sick but they didn’t mention where to get them. And I bet they are expensive. Maybe that NGO that gave away fertilizer 2 years ago will get them for us”
- “With pesticide prices going up, I bought the cheap one. It didn’t work”

4. Marketing

- “I’m sure that the traders who come to buy our coffee – even Charles who is a big grower here in the village – cheat us every time. We don’t know what price the companies are paying but I’m sure it’s a lot. Remember the good old days when the traders would come in with cash to buy and we didn’t have to repay our loans to the co-op”?
- “Honest’s brother, who is going to school in America, says people pay \$1 or more for a cup of coffee there. If they get so much why are we being paid so little. The companies are really cheating us.”
- “Why does the coffee price change so much? One year it’s high; the next it’s dropped so low that even with a good harvest, we lose money”

5. Working with the company

- “Ace Coffee says it wants to work with us and that we should sell them our coffee. We tried this before and it didn’t work; the company refused to guarantee the price, so we just sold to whatever trader came first with the cash”
- “Companies come through here making big promises and then never deliver. Eight years ago, we put all our maize together; the company picked it up then never paid us. Why should we trust Ace Coffee?”

6. Past experience with farmer groups and co-ops

- “We had a farmer association about six years ago. It was set up by a NGO for marketing coffee. The NGO built a drying shed for us and promised a pulping station but then they lost their funding. The first season, they told us to hold onto the coffee until the price went up but we had school fees to pay so most of the coffee got sold to the traders like usual”
- “So many NGOs and government agencies have come through here with their projects and promises but things never get any better”

CASE STUDY DISCUSSION QUESTIONS

1. What is the driving force in Ace Coffee’s decision to set up farmer groups? What are some of the weaknesses in their approach?
2. What are the major concerns of the farmers regarding coffee production as a cash crop? What could Ace do to address these concerns?
3. Where do you see the company’s and farmers’ interest coming together? Where are they in conflict?
4. Are the company and the farmers likely to work together successfully? If so, how would the relationship need to be structured so that it is mutually beneficial?