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

Case Study D
The growth phase:
Meeting the never-ending challenges

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 growth phase: Meeting the never-ending challenges**.

Action:

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

Managing and Growing Farmer Groups Group Discussion

Case Study D:

THE GROWTH PHASE:
MEETING THE NEVER ENDING CHALLENGES

Background

The Growth phase is perhaps the most crucial time in a cooperative's life. After the initial euphoria generated by early "easy wins" and subsides, the cooperative leadership and members must be committed and competent enough to resolve the inevitable challenges they will face if they are to survive in a competitive, changing environment. Often in this expansion phase unexpected social issues will also arise that the cooperative must address if it is to continue.

Organic Coffee Farmer, by Stanley Kuehn

This Case Study is based on a co-op established in 1980 by decree of the country's new revolutionary government. The Santa Maria Coffee Cooperative (SMCC) was created from 840 hectares that were seized and redistributed to 340 farmers with collective ownership. For the next 12 years, the cooperative floundered under heavy debt, lack of sound management, and no technological assistance. During these same 12 years, soldiers roamed back and forth across the coffee fields destroying any crops and equipment in their way.

THE CASE STUDY

In 1992, when world prices were at their lowest in several decades, SMCC still sold 648 tons of coffee beans at a price of $0.49 per pound; however, the previous six years of declining prices had taken its toll, and the members were beginning to reconsider their investment in coffee—especially the younger farmers who were increasingly attracted to urban employment. It was at this point that the co-op was approached by an international NGO with an offer of support for moving into organic production. Initially, the idea seemed a little crazy to the farmers, but after a prolonged discussion, they decided it would be an interesting challenge that, if they succeeded in mastering the organic practices, could resolve their financial problems.

They began with a pilot test on 70 hectares, where the members received intensive training from the NGO. Early production results were not good, but the members persevered, improved their yields, and obtained organic certification from Organic Crop Improvement Association (OCIA) International after three years. With prices rising slowly but steadily over the next 12 years to US$1.23/lb, SMCC prospered. It gradually built a solid reputation for the excellent quality of its coffee, eventually selling directly to major buyers in Europe, Japan, and the US, while earning premiums of more than US$55/100 lbs.

One of the secondary benefits of moving into organic production was that the members began to notice some environmental improvements like the return of several endangered bird species, which had not been seen for decades; also, spotted deer were sighted, and the children were once again catching crayfish in the local streams—all improvements the members attributed to the reduced use of pesticides. A more practical milestone was achieved in March, 1997 when SMCC celebrated *the burning of its mortgage.* “A debt free and independent Cooperative is very important,” said the Chair at the ceremony, “but equally important are our three schools, health clinic, and the new homes with water and electricity for nearly all the members.”

During this period, a small minority of the membership became increasingly concerned about their exclusive reliance on coffee as the only source of income. They unsuccessfully tried to argue for transferring their organic farming skills to producing fruits and vegetables for the nearby urban market. A few years later, the SMCC also declined an offer to produce calla lilies for export due to a lack of interest on the part of the members. Coffee prices were high and rising, so few of the members wanted to assume the risk and hard work it would take to venture into a new sector. Over the years, the majority of the farmers had stopped growing other crops and were relying on the proceeds from their coffee sales (an average USD$6,000 per family) to purchase household food.

This minority concern over their mono-culture proved justified in 2010 when production dropped by 60% and sales by almost half, in spite of a $0.20 increase in price. SMCC, like the other coffee co-ops, was highly dependent on seasonal input credit; some had failed to clear their loans the previous season, and the banks still recovering from the 2008 crisis significantly reduced the lines of credit for the entire industry. Given the higher cost of organic inputs, SMCC, which had never created a contingency reserve, was hit particularly hard.

The membership reacted by replacing the Board, who they decided had been too complacent. The new Board moved quickly to diversify its activities by installing a roaster that allowed them to offer ground roasted coffee in packs of 450 grams for the domestic market, while also looking for export opportunities. Rural tourism was identified as another diversification option that they pursued with help from the International Fund for Agricultural Development (IFAD) and the Ministry of Agriculture. The SMCC built two small cabins and opened tourism trails in the area. This endeavor has generated some income and employment for a few families, but not enough to compensate for dramatic changes in the coffee sector.

The most serious threat happened just last year when production again nosedived from 700 to just 205 tons due to the onslaught of rust disease. The disease had appeared some years ago in the region and was expanding, but SMCC had failed to react. Although there are measures that can be taken to deal with this new calamity (i.e. applying organic fungicides, pruning and improving other cultural practices), the question is whether the membership can be mobilized to take on and solve this latest challenge.

CASE STUDY DISCUSSION QUESTIONS

1. What were the major challenges faced by SMCC over the years? Its major successes? What factors contributed to these successes?
2. In retrospect, what should SMCC have done differently? What additional support would have been useful?
3. What advice would you give SMCC for dealing with its latest crisis?
4. What lessons can be drawn about cooperative development from reviewing SMCC’s 30 year lifespan?