INTERNATIONAL COFFEE ORGANIZATION

CF 8/13

15 August 2013
Original: English

E

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

Case Study F
The established and growing phase: How should we grow

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 established and growing phase: How should we grow**.

Action:

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

Managing and Growing Farmer Groups Group Discussion

Case Study F:

THE ESTABLISHED AND GROWING PHASE: HOW SHOULD WE GROW?

Background

This case study is based on an East African country. The cooperative is growing and is interested in diversifying its clients, who have principally been European and North American.

Most coffee cooperatives in this country are business-oriented and actively involved in input supply and output marketing for their members. However, some government involvement limits private sector investment and the autonomy of cooperatives. There are individual cooperatives and apex organizations that provide services, including marketing and credit support to cooperatives.

The manager of a typical cooperative is a professional with a four-year degree in agronomy or similar subject. Several other co-op staff members are professional, including the accountant. The president and the other members of the Board of Directors (BOD) are coffee producers with elementary and high school level education. Most staff and members of the BOD have received training. BOD members and managers are aware of their duties and responsibilities, and both recognize the need for internal controls. The general assembly makes the major decisions, and the BOD carries out these decisions and oversees management; managers and other staff ensure that day-to-day business is handled. Balance statements are shared on an annual basis with the general assembly and often cause confusion and mistrust among the members. Most cooperatives have 100-400 members and annually produce an average of six containers of specialty coffee (80 points SCAA).

This case study is divided into two parts to highlight the different perspectives: 1) A cooperative BOD meeting discussing investment needs and strategies; and 2) an emergency general assembly meeting discussing the proposed investments.

Jumping Goat Cooperative Board of Directors Meeting

The general manager of the Jumping Goat Cooperative recently returned from a trip to South Korea, where he met with a roaster who is interested in purchasing 10 containers of 83-point coffee on an annual basis. To receive and properly manage this volume of high-quality coffee, the general manager believes the cooperative needs to expand its warehousing facility and install an electronic sorting system and a cupping lab. Also, the cooperative will need to get the Japanese Agriculture Standard (JAS) certification. The general manager suggests that the cooperative should take a loan from an international credit provider for the necessary investments. He explains that he has met with a credit provider who is willing to provide a low-interest loan covering 65 percent of the cost, with the cooperative covering the remaining up-front costs. The treasurer suggests getting a loan from their apex organization or national bank and meeting with the government cooperative support organization responsible for all cooperatives. The general manager insists that the international credit provider is a better option and that they will not only provide this loan but will provide additional loans for the collection and marketing of their coffee. The general manager says he does not want to consult with the government cooperative support organization. The president agrees with the general manager and they decide to request an emergency general assembly to vote on the investments and loan.

Jumping Goat Cooperative General Assembly Meeting

During the emergency general assembly meeting, the BOD describes the new opportunity to reach coffee buyers in Asia to the cooperative members. The BOD explains that to reach this new market, the cooperative needs to make infrastructure investments and acquire a new certification, and they explain that there is an international lender who is willing to provide them with a loan to make the necessary investments. When the members hear about the needed investments, they began to voice concerns. Many members say they do not think that the cooperative should take out any loans because they do not trust financial institutions and the private sector is always trying to take money from them. One farmer yells out that he does not trust the general manager. He asks why the general manager was in South Korea and how do they know it is a real buyer. Several other members complain about making investments when the cooperative doesn’t provide any services beyond an occasional visit by the general manager, who they say doesn’t know much about coffee. They complain that they only see the general manager at these meetings and that he has never been to their farms. After the heated discussion, the general assembly votes against taking out the loan.

CASE STUDY DISCUSSION QUESTIONS

1) How could the BOD and general manager improve their communication with the co-op members?
2) What do you think happened in the past which has created distrust of the general manager and credit providers? How could this be prevented to allow the cooperative to grow?
3) What should the BOD and general manager have explained to the general assembly about the credit? How does this apply to other cooperatives in similar circumstances?
4) Other than seeking out credit, what are some other options for cooperatives to capitalize and grow to reach new markets?
5) Why doesn’t the general manager want to consult with the government cooperative support organization?