

# What will the co-operative of the future look like?

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**Co-operatives are vital for many millions of small farmers. So why do some co-ops make a difference and others fail miserably? After years of extensive efforts by a community of experts to understand them, some answers are emerging**

It may surprise you to know that the world's 2.6 million co-operatives have about a billion members. In agriculture, they are a vital force especially for smallholders, who continue to provide majority proportions of key crops such as coffee and cocoa.

Even so, it is nearly impossible to avoid the fact that small farmers have little leverage and face significant challenges. Producer organizations or co-operatives can be a lifeline for them, providing expertise, services, access to markets and collective negotiating power. But some can be a burden, skimming off portions of scarce farmer income and offering them little or no actual benefit.

Research suggests that even more than a direct investment in training, certification or credit, a strong producer organization correlates with higher farmer incomes and can combat inequality.

## **Key role in rural areas**

Because they have rules, provide services and offer an ongoing presence, cooperatives serve as de facto institutions in rural areas where there is little or no institutional presence to offer agricultural or support services. They can lead farmers in becoming more resilient and sustainable. So, it is important to understand them better. That's why the Committee of Sustainability Assessment\* (COSA) convened a group of global

experts to create a simple yet thorough system to measure the strengths and weaknesses of an organization in a range of categories, in order to determine factors of success.

A well-run producer organization can represent farmers in negotiations more effectively, reducing the asymmetry of power inherent in the supply chain, and at the same time create a healthy ecosystem for suppliers. Organizations as diverse as Kuapa Kokoo in Ghana and Brazil's COOXUPE are examples of how well-run operations can leverage their scale to channel services, facilitate inputs, or attract credit and financing for farmers individually and as a group.

In contrast, co-operatives that cannot manage basic information struggle to survive and offer limited benefit. COSA's work in cocoa and coffee illustrates how weak or dishonest co-ops provide few benefits and present risks to the trade when they cannot meet obligations or when they list certified members who are not aware that they are certified.

Even sound organizations are challenged by shifting conditions that include competing service providers, more accessible markets, and more aggressive traders. For those that can withstand the pressures, and follow best practice in managing their co-operative, there are many opportunities to provide the greatest value to farmers.

What makes one producer organization more effective than another? The shortlist includes disciplined leadership, sound business structures, experience, agility, core competencies, the ability to listen, and member commitment.

### **What makes a successful producer organization?**

That may sound like the components of success in any business but there are unique distinctions for a social enterprise like a co-operative. They have to consider factors such as democratic process, advocacy, provision of services – even in remote areas – and blending diverse knowledge areas from agronomy to marketing.

From the work of a number of institutions ranging from the US Department of Agriculture and International Fund for Agricultural Development to leading scientists and notable co-operatives around the world, COSA distilled the important features or characteristics of successful co-ops.

This expert panel identified an array of key indicators that can, with relative ease, reveal the extent to which they, and other important characteristics, exist in a particular co-op.

Once it is clear that an organization is fundamentally sound, there is a new characteristic surfacing that COSA thinks will predict its likely success. With increasing competition and tighter margins in the coming years, the new wave of 'digital' producer organizations will have a distinct advantage.

They are already emerging. Not only are they well run, they understand how to get and use data intelligently. And increasingly, we see this data serving farmers directly in ways that drive competitiveness and sustainability as well as some of the better sustainable sourcing programmes.

### **Using data to decide**

Producer organizations that work smarter not only understand and serve their members better, they also provide the traceability and transparency data that responsible sourcing will continue to demand.

The new wave of data-focused co-operatives will need to optimize operational efficiency and build datadriven relationships with buyers and projects to meet their sourcing and reporting requirements. Up-to-date data about

harvests, farmer characteristics, and operations are also important to lenders that offer supply chain finance and access to funds for long-term investments, such as coffee renovation and processing infrastructure.

## **Digitizing processes**

Asociacion Aldea Global is a good example of a fast-growing organization now serving more than 11,500 members and working in more than 600 rural communities in Nicaragua. It began digitizing key processes such as those associated with payments, collecting vital member information, and managing internal credit funds for lending to members. As it learned about farmers' specific needs and conditions, they were able to target services and, as their sophistication grew, they began to integrate a variety of data streams to increase the co-operative's efficiency and open new markets (see box).

In difficult, challenging circumstances such as Nicaragua, effective organizations stand out. "As depressing as coffee prices will be in 2019," said Warren Armstrong, Aldea Global General Manager, "we can continue to refine how to provide better services more efficiently."

Smaller organizations – even the majority that are still heavily dependent of paper-based documentation – also benefit when they have access to data. Easy-to-understand dashboards and benchmarking synthesize complex information so members can grasp the lessons derived from it, even with a very basic or no formal education.

COSA saw this with producer organizations in Kenya. When they were presented with their own data via dashboards for the first time, they were enthusiastic to learn about more sophisticated information such as their return on assets and debt-to-equity. Although many of them already recorded or analyzed financial statements, they welcomed the way in which new ways of using information helped them understand whether they were efficiently using their resources or maintaining a reasonable amount of debt.

## **Adopting best practice**

Functional co-ops are emerging as favourite partners for business ventures and for development efforts. When they are good data managers, they understand their members and can segment and target their needs and strengths.

Some farmers may need basic agronomic services or technical advice; others are ready to access financing. Yet other segments may need support to undertake a certification or quality improvements to penetrate high-value micro-markets. As organizational best practice becomes increasingly understood, opportunities will likely emerge and more producer organizations will be expected to follow good practice.

But how will we know which of them are meeting optimal practices? Simple practical assessments using tested indicators can now determine their capacity quickly. A handful of key performance indicators (from a comprehensive library) can capture the key aspects of producer organizations, from organizational structure to producer technical services and financial stability. Developed in collaboration with the expert panel on producer organization they are available from COSA (<https://thecosa.org/producer-organizations-indicators/>) at no cost thanks to the generous support of the Ford Foundation.

## **Driving sustainability to new levels locally**

Producer organizations can be powerful partners for farmers. They can drive greater sustainability in ways that others cannot. The collective voice of the co-operative can build consistent farmer engagement and more equitable outcomes, critical components of longterm sustainability.

Organizations like Cooperativa de Los Andes and many others have notable farmer-level engagement and programmes that attract leading buyers because they know their farmers and can demonstrate good practices

and even continuous improvement. Aldea Global has local committees that serve as internal grassroots structures, grouping producers to facilitate the execution of projects, programmes, and business activities, and support democratic decision-making.

Without producer organizations small farmers and their communities could become increasingly marginalized and less sustainable. At minimal cost, the right diagnostics can quickly open doors to enable producer organizations to improve the way they work.

The more effective an organization is, the clearer the path to prosperity for small farmers becomes. ■ C&CI

### **Making data work for co-operatives**

With support of the Sustainable Agriculture, Food and Environment Platform (SAFE) of the Inter-American Development Bank and Farmer Brothers, Aldea Global worked closely with COSA D2K (Data to Knowledge) experts to improve management's data and technology systems in three steps:

- Map and consolidate key data sources
- Develop more sophisticated analytics
- Create functional data visualization

The result is a co-op that provides members with new market opportunities, extraordinary levels of service and proven satisfaction to its members – all in a difficult operating environment. ■ C&CI

### **Democratizing data**

Low-cost technology combined with improved data management is finally making possible the kind of data feedback loops that COSA President Daniele Giovannucci calls 'multi-logues' wherein farmers, traders, processors, and government all benefit from data flows that are readily digestible. These feature simple visualizations such as dashboards and graphics that convey essential knowledge for better decisionmaking. ■ C&CI

### **Interested in how your cooperative scores?**

COSA has a mini online assessment anyone can take for free. The Producer Organization Diagnostic (POD) can be found at: <https://data.thecosa.org/pod/> ■ C&CI

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