
# Co-investment for building viable cooperatives in Nicaragua

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Cooperatives play a critical role in building value chains that links smallholders with higher-value agricultural products. They provide downstream buyers with access to certified and otherwise high quality products, as well as reduce transactions costs for their members. They may also help poor farmers by providing them with important services for agricultural production. However, building viable cooperatives doesn't come cheap or easy. It often requires extensive co-investment by civil society and downstream actors in the value chain over an extended period. The challenge facing cooperatives and their co-investors lies in making the most effective use of these investments.

The fair-trade certified cooperative "Soppexcca" in Nicaragua highlights the potential for co-investment to yield improved business viability and positive impacts on poor farmers. Since 2004, Soppexcca has partnered with NGOs, donors, and a handful of coffee buyers to expand its coffee exports and improve its package of services for its nearly 500 members. Support from donors and NGOs allowed Soppexcca to expand and improve its services for members. Much of this support arrived in response to the coffee crisis – a period between 1999 and 2004 when international coffee prices fell below costs of production for farmers in Central America. In exchange for preferential access to high quality, certified coffee, buyers have provided the cooperative with affordable credit and lucrative coffee contracts.

## Evolving into a viable business

Soppexcca began 2004 mired with $450,000 of debt to its coffee buyers – a result of mismanagement by previous managers. By 2009, Soppexcca had repaid its debt and built a credit portfolio of US$300,000. It also provided multi-year credit to facilitate investments in coffee production by its members—a service that few cooperatives or other coffee buyers in Nicaragua are able to provide. During the period, Soppexcca constricted local offices for its members and purchased a processing plant for preparing coffee for export. The processing plant offers Soppexcca an opportunity to generate new revenue and reduce expenses. Soppexcca's staff of technicians grew from two to 12, and it maintained a core group of professional managers able to engage effectively with buyers, NGOs and donors. Buyers ranked Soppexcca among their most preferred suppliers, and reciprocated by offering Soppexcca prices that exceed those established by fair trade standards by 5-15%, on average, and no-interest, credit so that Soppexcca could purchase coffee from its members.

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## Changing members' lives

Between 2005 and 2009, many of Soppexcca's members gained reliable access to technical assistance and credit for the first time. Soppexcca's technicians provided critical assistance for rehabilitating coffee plantations and implementing environmentally sound technologies. Credit proved critical for coffee production, strategic farm investments, as well as for dealing with unexpected emergencies. Members have also benefited from higher and more stable coffee prices. Farm gate prices offered by Soppexcca, on average, exceed those offered by local buyers by 20% for conventional coffee. In addition, Soppexcca shields members from negative changes in international coffee prices through a guaranteed floor price. In return, Soppexcca demands strict quality control over coffee production and handling after harvest.

## Challenges for achieving greater impacts

Soppexcca and its members face various hurdles to build on their achievements. Soppexcca remains dependent on donor support for providing critical services. Higher coffee prices of late have intensified local competition for green coffee and effectively limited Soppexcca's ability to invest in its own operations. Members have yet to achieve a strong voice in cooperative oversight and planning, mainly due to a lack preparation for their posts. Soppexcca struggles to generate timely information on its business performance and the outcomes of its services. While Soppexcca staff has been effective in encouraging the uptake of new techniques for improved coffee quality, it has been less effective in helping members to increase the productivity of their plantations. Members delivered, on average, only 60% of their total coffee production to Soppexcca, reflecting the low credit amounts offered by Soppexcca and Soppexcca's inability to offer full payment upon delivery. Members often struggled to invest in their coffee production—roughly one-third of Soppexcca's membership depends heavily on income gained from farms of other coffee farms.

## Lessons learned

Soppexcca shows that cooperatives can evolve into important partners in rural development, while at the same time, advancing in their efforts to become viable businesses. Co-investments by development agencies and the private sector played an important role in this process. But gaps exist that have limited Soppexcca's ability to capitalize on its achievements and increase its impacts of the livelihoods of its members. Struggles reflect the incomplete development of Soppexcca itself, the discontinuous nature of support from partners, as well as the realities of working with poor farmers. Organizations such as Soppexcca do not reach maturity and sustainability within the short to medium term. Expectations should be for support to be tapered, but over a period that could be ten years or more. The Soppexcca experience highlights the need for greater attention to the circumstances of the poor when designing interventions. Interventions must recognize the differences among smallholders and tailor design services that address these needs.