

# CHAPTER 9



## Peru

### JNC-Peru: coffee cooperatives support a policy platform of the wider agricultural sector

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In Peru, the ESFIM programme was used by the Junta Nacional de Café (JNC) to strengthen a platform of economic farmer organisations. The JNC, representing 44 coffee cooperatives and associations, has a strong record in policy advocacy and had experienced that many policies affecting the coffee sector could best be tackled through an cross-sector platform. At the start of ESFIM, JNC was one of the most active members of such a platform, 'La Convención Nacional del Agro Peruano' (CONVEAGRO). The CONVEAGRO was created in 1994 and its membership includes a range of non-governmental organisa-

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tions (NGOs), farmer organisations and research institutes. Currently, it has approximately 40 member organisations, half of which are farmer organisations.

When ESFIM started in 2008, Lucila Quintero, a board member of JNC, was also a member of the board of the International Federation of Agricultural Producers (IFAP). Her role was to represent the Latin American members of IFAP and she felt that ESFIM was an opportunity to support her in sharing experiences between the four Latin-American countries taking part in ESFIM. However, even more important was the focus that JNC wanted ESFIM to have in Peru: to build a national platform that includes economic farmer organisations in all sectors, not only in coffee. In 2007, the JNC had taken the lead in exploring the possibility of forming a confederation of farmer organisations (*‘gremio de gremios’*) that could act on its own, independently of the NGO members of CONVEAGRO. They concluded, however, that there was a rather large difference between the policy perspectives of the economic farmer organisations dealing with collective marketing and quality issues, and that of the other farmer organisations and NGOs that did not have collective marketing activities. The JNC seized the opportunity created by ESFIM to further exploit this sector of market-oriented farmer organisations and develop a strategy to increase their advocacy capacity, within CONVEAGRO and/or independent from it.

## Development challenge

The development challenge that JNC hoped to tackle had, therefore, a strong political-organisational component and a focus on market-related policy issues that, according to them, had low priority within CONVEAGRO. The secretariat of CONVEAGRO is based in Lima in the building of the Centro Peruano de Estudios Sociales (CEPES), a non-governmental organisation. Although CONVEAGRO is technically independent of CEPES, the key role of CEPES is technical support and channelling donor funding from international donors to sustain the activities of CONVEAGRO. Farmer organisations were influential in Peru in the 1980s but suffered active obstruction by the Fujimori government until 2000. Fujimori abolished the levy on exports that funded most of their activities (*auto-gravamen*), and effectively weakened most of the commodity-based farmer unions. In the late 1990s, the role of CONVEAGRO became more important and visible than the role of the individual farmer unions that were member of the platform, with the notable exception of the JNC.

*“The ideological orientation of the Fujimori government was such that ‘farmer union group’ was synonymous with communism and cooperatives were associated with failure. In general, Peruvian society was dismantled, even the organisations of professionals disappeared. Most unions functioned on strong ideologies and as places for party-political action and not as genuine unions that have a structure of empowerment of their members. Thus, the structure of agricultural representation collapsed, with their economic structures and even with their paradigms. I would say the second part of the nineties, the unions were thinking about ways to survive. When they managed to survive, they started to develop again, like the coffee producers. The coffee producers benefited from their ample experiences in the eighties, especially in business organisation.”* (Interview with Lorenzo Castillo, June 2009)

At the start of ESFIM in Peru in 2009, the bigger farmer unions, such as the Confederación Campesina del Perú (CCP) and Confederación Nacional Agraria (CNA), were foremost dedicated to the struggle to protect the rights of smallholders and communities against the international companies that increasingly limited access to resources such as water (irrigation) and land to agro-exports. The major effort of CONVEAGRO related to water rights, free trade agreements and the ban on genetically-modified organisms. Less attention was paid to issues such as taxation policies, which at that time threatened to strangle the cooperative sector, or designing institutions and administrative procedures to facilitate public investment in collective marketing. In 2007-2008, CONVEAGRO had lost their battle against the bilateral Free Trade Agreement with the United States. One of the results of this agreement was the removal the tariff protection to cereal producers on US imports, which came into effect on 1 February 2009, and changes in intellectual property rights and regulations to facilitate foreign investment. Several government programmes were designed and implemented to compensate the domestic producers for this increased competition. For example, one of the new programmes was an innovation grant fund Programa de Compensaciones para la Competitividad (PCC) and some enhanced credit facilities through the agricultural development bank AGROBANCO. These new policies opened advocacy opportunities for economic farmer organisations such as the JNC, but they were felt to be held back due to the other priorities and sensitivities in the supporting NGOs.

## Collaborative research process

ESFIM started with a kick-off workshop in March 2009 to discuss the priorities for research and advocacy support. The workshop resulted in a work plan proposing to further interaction between the farmer organisations through a national workshop and field visits to successful grassroots organisations. The research support was especially dedicated to three priority issues: government procurement policies; quality standards; and management of collective marketing activities.

The research on government procurement policies started in October 2009. A study to scan the legal and regulatory environment was assigned by JNC to a lawyer in CEPES, while JNC staff collected information from organisations supplying to governments and nutritional programmes. A second assignment was initiated to establish quality standards for coffee production, especially concerning the production of high-quality planting material in nurseries.

The second ESFIM workshop took place on 9-10 December 2009 and was especially dedicated to the issue of government procurement. In an informal meeting the day before the workshop, a former manager of the Programa Nacional de Asistencia Alimentaria (PRONAA) explained the problem of reaching small holder producers resulting from administrative requirements on transparency. During the workshop, Carlos Paredes of the FDCC presented three examples in the Cusco-Puno region, where farmer groups indeed managed to supply to the local government. He considered these examples to be valuable learning experiences to prepare for a more demanding and competitive market. The local government is not necessarily an attractive market but more experience is needed, with a view to generating proposals for improving the access of smallholder organisations. For larger and more developed organisations such as those dealing with coffee and rice, however, other markets are perhaps better and more accessible. Also, a detailed study on the legal framework around government procurement was presented and discussed, and the political space provided in the law for farmer organisations to participate in governance and social control were discussed. The second day was used to exchange marketing experiences between the farmer organisations, with presentations from the coffee and alpaca sectors and the cotton cooperatives in Piura.

On 2-3 November, 2010, the third ESFIM workshop was organised by JNC in the offices of CEPES in Lima. Lima was chosen as the meeting place in order to facilitate the presence of government officials and



financing institutions. The first day of the workshop was used to present outputs of the on-going ESFIM research and to allow several farmer organisations to present their current activities and advocacy priorities. The research on government procurement policies and practices was discussed by Gilbert Bustamante of JNC and a policy brief was distributed among the participants. After this, the union of alpaca herders, Sociedad Peruana de Criadores de Alpacas Registrados (SPAR) explained their experiences in delivering wool for school uniforms, and their alliances with the garment industry (quality issues) and with the government (trade financing). The SPAR representative emphasised the importance of having producer interests more directly expressed in sector policies and international promotion campaigns, as margins tend to be accumulated by the garment industry through the manipulation of prices and quality measures. Victor Vazquez of the union of rice producers Comité Nacional de Productores de Arroz (CNPA) added a critical note on government procurement. He explained the perverse effects of the rice procurement system of PRONAA, which distorted the market and gave very little benefit to small producers. He explained CNPA's new strategy to develop an economic branch, in partnership with an international investor, to support the organisation's role in representing producers' interests.

The second day of the workshop was dedicated to trade-financing mechanisms, with the presence of various financial institutions (AGROBANCO, SOS-FAIM, SHARED INTEREST, FOROLAC-FR). Also, the policies around quality certification and export promotion were presented by Claudia Solano of the governmental agency PROMPERU. The issue of quality certification raised a lot of interest in the participating organisations, e.g., with relation to the special qualities of Piura-cotton, alpaca wool and native potatoes. JNC also took advantage of the opportunity to discuss the issue of fair trade certification by PROMPERU, beyond the usual certification schemes. It became clear that this initiative was only related to certification in the clothing industry.

The workshop ended with a detailed research plan to support the advocacy efforts of the associative sector in CONVEAGRO, considering the opportunities offered by the presidential election process in 2011 and the change of authorities due to the regional and municipal elections. Five issues were prioritised as key issues to be taken up by CONVEAGRO in the advocacy around the presidential election:

- Government procurement
- Regional guaranty funds for loans to productive investments
- Redirecting the grant fund PCC to its founding principle of supporting existing organisations
- Re-instituting the possibility of using sector levies in the Magna Carta (with CEPES)
- Collecting good practice case-studies of collective marketing through a national concourse, with premiums for the most interesting case-study and replicable internal governance mechanism.

This third workshop proved to have large effect on the advocacy strategies of the sector. The advocacy agenda served to empower the economic, market-oriented farmer organisations in re-directing the priorities in CONVEAGRO. Three weeks after the ESFIM workshop, elections were held for a new board of CONVEAGRO. Several of the persons that participated in the ESFIM workshop were elected to the CONVEAGRO board on 24 November 2010, and can take the agenda forward. Lucila Quintana of JNC became the new chairwoman of the board.

In 18 March 2011, CONVEAGRO headed the organisation of a major advocacy event with ESFIM support entitled 'Agriculture Decides its Vote' (El Agro Decide Su Voto), at which all presidential candidates in the election were invited to present their policy plans and respond to CONVEAGRO's proposals.

## Advocacy outcomes

In 2011, one of the priority issues of the platform of economic farmer organisations, that of the eligibility for receiving grants from the PCC, was resolved successfully following a change in the procedures. Several cooperatives and farmer associations were able to have their business plans approved. Some promising cases emerged on the issue of the regional funds (e.g., the Regional government of Ucayali), where funds were released in a formal credit system for smallholder producers of oil palm.

In 2012, AGRINATURA researcher Michel Dulcire synthesised the organisational trajectory of the cotton organisation COSTACH in Piura, and its experience of direct exports of quality cotton. COSTACH provided a promising model for strengthening the associative sector that engages in collective processing and development of specific quality parameters to gain a niche market for Piura cotton (see box 8). JNC and ESFIM helped COSTACH by funding part of the costs of the meetings with members that were necessary to prepare and evaluate the experience of the first direct export of cotton to Italy since the 1980s, which took place in September 2011.

Furthermore, with the support of ESFIM among many others, JNC developed a quality assurance system for coffee nurseries and prepared a manual on standards for the production and management of certified coffee plants. These standards have been implemented and practical assessments have demonstrated the competence of a number of seedling producers. In July 2011, 17 producers, technicians and workers received official certification that confirmed their ability to perform their work on coffee seedlings production- this was a first step towards achieving adequate productivity in coffee plantations. These growers were evaluated by the National Coffee Board (JNC) and Environmental Management for Agriculture (GEMA) and are now authorized by the Peruvian Institute of Evaluation, Accreditation and Certification of Quality (IPEBA). This consolidates a process that began in February 2010 as a pilot programme, supported by ESFIM, through which the JNC and IPEBA joined efforts to certify the skills of the producers of coffee seedlings.

In 2011, an old advocacy issue came to the forefront, more directly related with the interests of the coffee sector. JNC had been working for several years on the Cooperative Law, specifically opposing the fiscal authorities' placement of a value-added tax (VAT) on internal transactions between members and their organisations. Both the cooperative banks and the coffee cooperatives would be severely affected by such taxation. The taxes were to be paid retroactively over the last five years. Several of the coffee cooperatives had already been called to account for not paying these taxes and faced the threat of bankruptcy. Advocacy on this issue by JNC was impressive and successful. After years of lobbying the Parliament, in May 2011 the Peruvian Parliament restated the original intention and interpretation of the law to exonerate VAT on these internal transactions. In August 2011, however, one of the first policy interventions by the newly elected government of Humala unexpectedly and without notice rescinded the parliamentary decision on tax regulation that the sector (led by JNC) had managed to obtain in May.

### BOX 8 COSTACH Ltd: Partnering for quality and chain integration

The Cooperative of Multiple Services “Tallan-Chusis” (COSTACH Ltd.) is an association of producers of Pima cotton in the region of Piura, Peru’s north coast. At the moment, 5,600 small family farmers (producing 3-5 ha each.) are members.

The cradle of cotton in Latin America is in Peru, where pre-Columbian cultures used it to weave clothes. The Peruvian Pima has an exceptional fibre quality: fineness, strength and long staple length (40-45 mm). The demand for this high-quality cotton constitutes 2 per cent of the world production, and represents an attractive niche market with relatively high prices. In the past the “White Gold of Piura” was listed separately on the Stock Exchange. In the early 1970s, agricultural companies on the Peruvian coast became production cooperatives as result of a drastic land reform. But from the 1980’s onwards, these cooperatives were economically and institutionally strangled: there was a process of individual land allocation, and the state service providers to small family farmers gradually disappeared. Additionally, the reduction of import tariffs particularly affected the market. The textile industry refrained from paying fair prices, as it managed to import cheap and subsidised lower quality cotton from the US. And worst of all, “they are making clothes with regular imported cotton and stating that it is Peruvian”, exporting it as if it were made from Peruvian Pima.

As a result, the 60,000 ha of Pima in the 1960-80’s dropped to only 1,500 in 2010. Through COSTACH, Pima cotton has been re-introduced. The activity of COSTACH and its partners sought to ‘paint the fields in white’ aiming for 12,000 ha in the 2012 campaign. In 2011 COSTACH started to assume processing and exporting functions. It managed to contract a cotton ginnery to produce fibre and vegetable oil. COSTACH is recognised by key institutions such the Ministry of Agriculture, investment banks and municipalities and is now looking for ways to build their own ginnery. They are starting the first step to a Denomination of Origin (DO) of the Peruvian Pima Cotton, to stop unfair competition with imported low-quality textiles. The association COSTACH must withstand the current oligopolistic control of the economic flow of cotton in Peru by strong private companies. For COSTACH this means “to make links, to go abroad, to improve farmers’ activities” and to regain part of the value added in the Pima cotton market chain.

*Source: Michel Dulcire (AGRINATURA) ‘La Cooperativa de Servicios Múltiples Tallán Chusis (COSTACH), de algodoneiros del Pima en la zona de Piura, Perú: historia, balance y perspectivas. ESFIM-Peru, 2012*

*“However, it took until November 2012 to have the national tax service (SUNAT) effectively apply the law and free the cooperatives from its fiscal harassment. This meant a historic victory for the cooperative sector.”*

In response, advocacy efforts had to be intensified, e.g., through an emergency session on 22 August 2011 in Congress and a march to the Congress on 23 November 2011. In response to the march, the Government formally withdrew the change in the tax law from the Congress’ agenda. However, it took until November 2012 to have the national tax service (SUNAT) effectively apply this new interpretation of the law and free the cooperatives from its fiscal harassment. This meant a historic victory for the cooperative sector.

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## Partnership

The ESFIM partnership had a rather unusual role in Peru. ESFIM played a minor part in the constellation of factors that defined the political success of the farmer organisations to influence policy making through CONVEAGRO. In retrospect, however, it was used in a very timely manner by JNC to empower the sector in advance of the election process within CONVEAGRO. The three workshops held with the (informal) platform members were exemplary for the ESFIM process, the purpose of which was to support advocacy around evidence-based research. After 2011, the research component became secondary to the advocacy actions taken, not in the least because CEPES and other research institutes had already provided research support to farmer organisations for a long time, and they continued doing so with the new board. Furthermore, JNC was obliged to refocus its attention to the tax issues and left CONVEAGRO to take up the work around cross-sector advocacy issues. In 2013, the process to strengthen cross-sector advocacy between cooperatives and producer associations was continued, culminating in the constitution of the National Federation of Agricultural Cooperatives of Peru.

The coordinator of JNC, Lorenzo Castillo, presented the ESFIM and JNC strategies at several international conferences, the IFAD Farmers Forum in February 2012 in Rome, and the Global Conference on Agricultural Research on Agriculture and Rural Development (GCARD) in November 2012 in Punta del Este - Uruguay. He clearly demonstrated the potential of farmer organisations in empowering smallholder farmers in markets, and the importance of programmes that help them to do so.

## Lessons learnt

- It proved advantageous to provide research support to an organisation already having a strong track record in advocacy. JNC had the capacities to ‘mold’ the ESFIM research support to their advocacy priorities. Of course, the downside of this is the modest role of ESFIM in triggering a qualitative upgrading of advocacy capacities. In fact, JNC provided support and expertise to the ESFIM programme and researchers, perhaps more than vice-versa.
- However, JNC had problems coordinating the activities of ESFIM with other organisations in the platform. The support to COSTACH was very successful, but for some of the others it proved difficult to define clear terms of references. In response to this, JNC delegated the responsibilities for this support to other sectors to the new CONVEAGRO board, in which these farmer organisations were represented. CONVEAGRO, however, proved to have other priorities than research support consultancies for some of their members, focusing on policy issues related with the presidential elections (external focus) and their relations with the NGOs in CONVEAGRO (internal focus). Therefore, a part of the budget was unspent and re-allocated to support activities that were more supportive to JNC’s own advocacy priorities, and less relevant for the platform of economic farmers organisations.
- Strengthening advocacy platforms of farmer organisations takes time and needs perseverance. The constitution of the National Federation of Agricultural Cooperatives, in September 2013, resulted from a process in which the ESFIM activities in 2009-2010 have been catalysing factors.

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