

**ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES
DEPARTMENT OF SOCIAL ANTHROPOLOGY**

**FAIR-TRADE AND SMALL-SCALE COFFEE FARMERS'
COOPERATIVES IN ETHIOPIA: THE CASE OF *MELKA
BELLO WOREDA*, EAST HARARGHE ZONE IN
OROMIYA REGIONAL STATE**

**BY
SISAY TULU**



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By

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A Thesis Submitted to the School of Graduate Studies of Addis
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Degree of Masters in Social Anthropology.

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Hararghe Zone in Oromiya Regional State

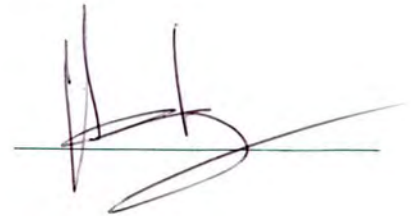
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Usage of Dating and Naming

Unless otherwise it is stated as E.C. (Ethiopian Calendar), all the dates indicated throughout this thesis are in Gregorian calendar. And all the names of the informants are pseudonyms.

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Transliteration

All words of Oromo used in this thesis are spelled-out according to Oromo orthography Qubee (alphabet). In this orthography doubling of vowels is to indicate lengthening of vowel sounds and that of consonants is to show germination of consonant sounds. To familiarize with the readings in Oromo terms the following phonetic transcriptions are employed.

Vowels

Oromo Vowels		English Equivalent	
Short	Long	Short	Long
/a/ as in nama	/aa/ as in baala	/a/ as in bat	/a:/ as in car
/e/ as in mure	/ee/ as in beela	/e/ as in bet	/ɜ:/ as in turn
/i/ as in bite	/ii/ as in diige	/i/ as in bit	/i:/ as in feel
/o/ as in bor	/oo/ as in loon	/o/ as in pot	/o:/ as in door
/u/ as in buna	/uu/ as inguure	/u/ as in put	/u:/ as in book

Consonants

There are some Oromo consonants that have different sounds from the English ones?

Oromo Consonants	IPA				
	IPA Symbols	Place of Articulation	Manner of articulation	Air system	Example Oromo
/ny/ as in nyaata	/ñ/	palatal	nasal	voiced	ñaata
/q/ as in qaalluu	//	velar	ejective	voiceless	kaalluu
/dh/ as in dhiba	/d'/	alveolar	ejective	voiceless	d'iba
/x/ as in xurii	/t'/	alveolar	implosive	voiceless	t'urii
/x/ as in canaa	//	alveolar	ejective	voiceless	canaa
/ph/ as in kophee	/p/	bilabial	ejective	voiceless	Kopee

Acronyms

ATVETC	Agricultural Technical Vocational and Educational College
CBD	Coffee Barry Disease
CTDMA	Coffee and Tea Development Authority
DAs	Development Agent
DST	Direct Specialty Trade
ECX	Ethiopian Commodity Exchange
EMA	Ethiopian Map Authority
EPRDF	Ethiopian People's Revolutionary Demotic Front
ETB	Ethiopian Birr (unit of Ethiopian Currency)
FDRE	Federal Democratic Republic of Ethiopia
FGD	Focus Group Discussion
FLO	Fair Trade Labeling Organization
GATT	General Agreement on Tariff and Trade
GOs	Governmental Organization
ICA	International Cooperative Alliance
IOFs	Investors Owned Firms
KMs	Kilo Meters
NCBA	National Cooperative Business Associations
NCBE	National Coffee Board of Ethiopia
NCD	National Community Development
NGOs	Non-Governmental Organizations
OCFCUS	Oromiya Coffee Farmers Cooperatives Union Society
PAs	Peasant Associations
SSA	Sub-Saharan Africa
TEVT	Technical Educational Vocational Training
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States
USD	United States Dollar

Glossary of Local Terms

<i>Aqrabi</i>	<i>coffee collectors who buys from sebsaby and ships to auction</i>
<i>Ashara</i>	<i>the dry coffee cherries pulp after being removed</i>
<i>Bakalessu-</i>	<i>the process of making coffee seedling</i>
<i>Bakaloo</i>	<i>coffee seedling</i>
<i>Bercha</i>	<i>khat chewing session</i>
<i>Calla</i>	<i>processed or cleaned coffee from its cherries</i>
<i>Debo</i>	<i>communal labor exchange</i>
<i>Dega</i>	<i>temperate climate zone</i>
<i>Derg-</i>	<i>the Marxist style military government ruled from 1974-1991</i>
<i>Dhala yali</i>	<i>first born or first harvest</i>
<i>Dikee-</i>	<i>locally made fertilizer from animal manure</i>
<i>Equb</i>	<i>local rotating credit group</i>
<i>Faaraqa</i>	<i>local labor exchange system for agricultural activities based on reciprocity</i>
<i>Guzza</i>	<i>traditional non-reciprocities work party carried out by adult men for agricultural activities and related activities.</i>
<i>Hoojjaa</i>	<i>a traditional drink made of roasted coffee husk.</i>
<i>Iddir</i>	<i>local self-help association</i>
<i>Janfal</i>	<i>unprocessed dried coffee cherries.</i>
<i>Jige</i>	<i>traditional work groups to support each other on farm activities.</i>
<i>Kebele-</i>	<i>the lowest administrative unit in Ethiopia called peasant association</i>
<i>Khat</i>	<i>plant with mild narcotic quality chewed by people for its stimulant effect</i>
<i>Kutti</i>	<i>type of tea brewed from coffee leaves</i>
<i>Laffiso</i>	<i>local food</i>
<i>Mashruuf</i>	<i>daylily expanse of household</i>
<i>Mushamaa</i>	<i>decorated factory-made plastic mat</i>
<i>Qalaasa</i>	<i>small cup used for drinking water</i>
<i>Qishir</i>	<i>hulled cleaned coffee</i>
<i>Qola</i>	<i>hot dry climatic zone</i>
<i>Rayli</i>	<i>local means of measuring the weight of coffee</i>
<i>Sebsaby</i>	<i>coffee collectors at local level</i>

<i>Timmad</i>	<i>local land measurement</i>
<i>Wonfel</i>	<i>traditional work group to support each other on farm activities.</i>
<i>Woreda-</i>	<i>a district, sub-division of a region less than a zone in regional administration unit</i>
<i>Woyna dega</i>	<i>semi temperate climatic zone (mid highland)</i>
<i>Yamisrachoo</i>	<i>local term used to call the first coffee product</i>
<i>Zone</i>	<i>an administrative unit above woreda and below region</i>

Abstract

Coffee is one of the world most traded goods and the majority of the production took place in developing countries. The small-scale coffee farmers who depend on international market for their product highly marginalized by the unfair international terms of trade and combined with imperfect local coffee market conditions induced farmers in a vulnerable position and live in absolute poverty. These problems, among others led to the formation of fair-trade certification scheme in order to help poor marginalized coffee farmers through their own organization to get accesses to international market and get fair price for their product.

Thus, this study is about the role of Fair-trade certified small-scale coffee farmers. Though, modern cooperatives exist in Ethiopia for many decades the reorganization of coffee cooperatives and the cooperative union after 1991 was partly in relation to the international coffee crisis that occurred at various times. Thus, the main objective of this study is to assess the role of 'Fair-trade' certified coffee farmers' cooperatives in addressing farmers problems by taking Tuti Kanisa and Riga Damu primary cooperatives as a case in Melka Bello Woreda, East Hararghe Zone.

In order to address the research objectives, a qualitative data gathering techniques has been employed. These are, the primary data were generated by conducting fieldwork through informant interview, focus group discussions and participant observations and observation.

The result of the study shows that fair-trade certified cooperatives brought economic and social benefit to the farmers. Moreover, the existence of cooperatives in local market brought competition that improved the price of coffee gradually at local market. Farmers also receive a premium that is to be invested in community development from fair-trade coffee sale that benefits the whole community.

Though, there is good demand for fair-trade coffee in the international market, due to lack of financial capital, poor infrastructure and absence of proper coffee processing equipments, low level of formal education among members and the influence of khat production and external intervention in cooperative affairs are major constraints to be mentioned.

Based on the findings of the study, it is recommended that the cooperative in order to be successful, there should be adequate financial capital for cooperatives, proper coffee processing machine should be available at local level, there should be a means to provide formal education for cooperative members and negative external intervention should be minimized in the affairs of the cooperatives

Chapter One

1 Introduction

1.1 Background

After World War II, coffee has been the second most valuable trade commodity followed by petroleum. Developing countries produce more than ninety percent of global coffee production while developed countries consume most of the coffee produced in the developing countries (Ponte, 2001). According to Global Exchange report (2002), United States consume one fifth of the world's coffee production which is the largest share followed by Europe and Japan. Coffee is a typical global commodity that the markets channels are extended beyond borders and the price of coffee is determined at international market stock exchange.

Ethiopia is one of the major coffee exporting countries in Africa. Tilahun (1998) confirms that, in Ethiopia, it is apparent that coffee is the most important agricultural product that yields the highest share of the country's export earnings and government's revenue. In addition to this, about twenty-five percent of the population is engaged directly or indirectly in coffee production, processing and marketing as major means for its livelihood.

Coffee farmers produce coffee in four different ways in Ethiopia; these include forest coffee, semi-forest, garden coffee and plantation. About ninety eight percent (98%) of the coffee is produced by peasants on small landholdings that are less than a hectare and the remaining two percent is produced by the state farm. Still the production and processing of coffee in Ethiopia has not changed much. Nearly all coffee bean production process takes place manually and demands extensive labor from planting of new trees to the final picking and processing stages (Love, 2001:227).

Small-scale coffee farmers suffer from coffee price fluctuation that is determined by New York and London international stock exchange. Though Ethiopia is one of important coffee exporter in Africa, in terms of supply the production is too small to influence global coffee price. Due to this small-scale coffee farmers experience greater price instability continuously that is beyond their control. Such conditions affect more coffee farmers than exporters or merchants at the local level who are involved in the coffee business (ibid).

In response to the international coffee price crisis since 1997, there were various responses both from coffee producing countries and from the international community. According to Milford (2004:1), a new way of challenging support to the developing countries has been proposed: fair-trade initiatives as a corrective measure for the coffee price crisis. Coffee consumers of the developed countries were concerned for coffee producers and their living conditions. Consequently, this led to the formation of Fair-trade labeling system as both a business partnership and a global social movement, which tries to guarantee the producers i.e., they have to be paid a fair price for their product. Fair-trade Federation (2002), noted that Global coffee commodity chains usually involve multiple exchanges beginning with the producers before moving to the middlemen, exporters, retailers, and finally the consumers. On such a chain, producers receive small portion at the first stage of the value chain. To help small-scale coffee farmers retain reasonable prices for their products various certification schemes are proposed. Fair-trade is one among these schemes, which attempt to alter the international commodity chain in favor of the primary producers in the developing countries (Backman, 2009:17). Accordingly, coffee is directly purchased from producers in developing countries in order to help primary producers' through Fair-trade certified scheme. As the result, fair-trade system is making use of democratically run farmers' coffee cooperatives in developing countries.

In order to confront the international price fluctuation and to solve some of the problems faced by coffee farmers at local level the FDRE government initiated the re-establishment of coffee cooperatives. Though cooperatives in general and coffee cooperatives in particular existed over the past decades, the reconsideration of coffee cooperatives after 1991 is related with the international coffee price crisis (Worku, 2008).

In Ethiopia the beginning of modern cooperatives in general and coffee cooperatives in particular traces back to 1960s with the promulgation of 'Farm workers' cooperative society decree No.44/1960 of the Imperial regime which paved the way for the establishment of cooperatives. The decree recognized cooperatives as vital actors for the overall development of the country. However, due to various reasons the cooperatives failed to achieve the desired objectives set by the government. After the 1974 revolution, the military regime opted for the socialist ideology and this in turn gave a wider scope for the emergence of cooperatives in the country (Mesfen, 2007). As the result, the *Derg* regime established Peasant Associations, Producers and Service cooperatives by government initiatives as a process of socialization of

major means of agricultural production. Thus, cooperatives were used as main instruments to implement the socialist ideology among the rural communities. However, with the downfall of the *Derg* regime, the cooperatives were abolished without bringing the desired outcomes (Wegene, 1989).

The establishment of coffee cooperatives also goes back to 1960s. However, after 1991 cooperatives were reconsidered again. The reestablishment of the primary coffee cooperatives and Unions has been substantially associated with and a response to the drastic decline of coffee price in international market. Moreover, cooperatives aimed at to enable small-scale coffee farmers to participate in the free market economy. The cooperative Unions receive their members' products and directly export to the international market. The OCFCU (Oromiya Coffee Farmers Cooperative Union) established in 1999 was started to work in line with fair-trade certification scheme and facilitate coffee export on behalf of small-scale coffee producers. Similarly, primary coffee farmers' cooperatives have been reestablished to overcome problems that small-scale coffee farmers face at local level (Mesfin, 2007: 2). Therefore, based on the above remarks, the study assessed the role of the two coffee producers' cooperative societies; Riga Damu and Tuti Kanisa located in Melka Bello *Woreda*, eastern Hararge zone.

1.2 Statement of the Problem

The re-establishment of the primary cooperative, the Union, and the move towards the production and marketing of fair-trade organic coffee by farmers' cooperatives at the international level is recent phenomena. According to the document of the OCFCU Fair-trade was introduced in Ethiopia by Oxfam international in 2004 working with OCFCU as the first fair-trade partnership. Due to these, there is no substantial research made to assess the role of coffee farmers' cooperatives and especially on the impact of fair-trade since 2004. There are some literatures on Harar's coffee but they emphasized in relation to the potential it has for the country's foreign exchange earnings. The economic impact of 'fair-trade' and cooperatives are important aspects that are not studied yet in relation to the small-scale coffee producers. No matter how significant the Harar's coffee for the country's foreign exchange earning, the conditions of the coffee producers at the local level have been over looked. However, currently there are some few recent researches on the related topic on either coffee cooperatives or Fair-

trade, they often tend to emphasize on the forest and semi-forest coffee production in the south and southwestern parts of Ethiopia.

Since the coffee of Hararghe has, special place in the international market and still represent crucial means of livelihoods for many farmers it is crucial to look at the role of the cooperatives at the local level. This study tries to shade light on the coffee farmers' situation before and after the establishment of fair-trade certified coffee farmers' cooperatives. Therefore, to meet its objectives, the study tries to use an anthropological perspectives and descriptive account of the role of coffee farmers' cooperatives and fair-trade in Melka Bello from farmers perspectives. Thus, the main purpose of the study is to assess the roles of the coffee farmers' cooperatives and fair-trade in helping farmers to overcome the long existed problems both at local and international level.

1.3 Objectives of the Study

1.3.1 General objective

The general objective of the study is to assess the role of Fair-trade certified coffee cooperatives in improving the living conditions of small-scale coffee farmers in Melka Bello *Woreda*.

Based on the above general objectives, the following are specific objectives of the study:

- To show the process of production, harvesting, and marketing of coffee in the studied area.
- To describe the main actors in the coffee business: at local, national and international levels.
- To list the economic and social benefit of cooperatives and fair-trade at grass root levels
- To find out farmers perceptions, participation towards cooperatives and fair trade
- To identify challenges and opportunities presented to cooperative activities

1.4 Research Methods

In order to address the above objectives, both primary and secondary sources of data were used. Secondary sources were useful before and after conducting field study. Thus, attempts were made to review some written documents of the cooperatives in the study area and the document of OCFCU. In addition, some materials were reviewed, like documents of the *woreda*

administration, documents of other related offices including the bureau of cooperative promotion and the east *Hararghe* zone of finance and administration. Primary sources; the relevant first hand information was gathered through fieldwork. The fieldwork methods include interviews, key informant interviews, observations, participant observations, focus group discussions.

1.4.1 Interview

This was used as a main research tool and is one of the major sources of primary data. An in depth unstructured interviews were held with heads of cooperatives, DAs, cooperatives member, the woreda administrators, cooperative promotion office and the managers of the OCFCU. An in-depth key informant interviews are important to understand how farmers benefited from cooperative activities, their perception towards cooperatives and fair trade, their participation in cooperatives activities. In general, it is important to get detailed information on how coffee is produced and marketed at the local level. By making farmers the primary subject of the study, key informants were drawn among member farmers from both cooperatives, interview with these farmers was important in collecting on some specific information on crucial aspect of the farmers lives in relation with coffee production. Twenty-four farmers were interviewed out of these seven were key informant from both cooperatives including three farmers among the cooperatives management committee. In addition to this, brief interviews were made with farmers on market day and at the cooperatives respective localities. Moreover, most relevant data were also generated through informal discussions during the market days and while visiting coffee farm both at *Bereda* and *Mulisa Haqa*. Farmers in the study area were selected as key informants with the help of cooperative managers; based on some criteria: ordinary member farmers producing coffee as a means of livelihood, the ability to reveal relevant information and able to remember the critical periods (challenges they face) in relation to coffee production and marketing.

In most cases interview has been conducted with farmers on coffee farm or near to their homes. Most of the key informants were visited twice whereas due to transportation problem, some farmers were interviewed once while on the field. The other important informants are the cooperative management committee; this is because they themselves are farmers in addition to running the cooperatives. Attempt were made to fill the gap with their help and much time was spent with them at Harawacha.

1.4.2 Focus Group Discussion (FGD)

This method of data collection is important to collect information about group perspectives towards cooperative activities, social and economic aspects of coffee in the area. In addition, it is important to know about farmers' participation in the cooperatives, common attitudes towards the cooperative activities, fair-trade and fair-trade certification process and social development projects associated with them. From each cooperative six management committees were selected. These are the managers, cashiers and coffee purchasing committees. The main reason for their selection was their willingness and the discussion with the management committee held at *Harawacha*.

The FGD mainly contains two groups, the cooperative management committee and member farmers. The FGD that was held with the cooperative managers were at one of the cooperative (*Tuti Kanisa*) office at *Harawacha*. It is common tradition in the area to keep a room adjacent to the main office for guests locally called *bercha* (*khat* chewing session) room. During their spare time (especially afternoon), management committees were interviewed as a group and focus group discussions were held. Since the time of field-research coincides with the time for coffee marketing in the area, the time for FGD was often held outside the coffee marketing day. During this time, cooperative managers were easily available at the main *bercha* session. Since the management committees of both cooperatives are close friends and spent much of their time together it was possible to conduct FGDs easily. During the discussions, ideas were forwarded as questions based on the questionnaire guide, participants of the FGD were asked to discuss important issues and while notes were taken and guides the participant through questions in a way that helps to bring the relevant issues.

Similarly, FGD with the farmers was held in the local areas at dusk in which farmers exchange information and talk about various issues. This is the time, locally known as night *bercha* session. As a 'tradition', chewing *khat* accompanied by talks and discussions and it is a time for being relaxed from the hardship of the farm work of the day. Farmers for FGD were selected with the help of the cooperative managers. Eight farmers were called and gathered at one of my host families: the bookkeeper of the *Tuti Kanisa* cooperative in *Baredaa* and the managers of the *Riga Damu* cooperative at *Mulisa Haqaa* PA respectively. Reason for their selection is first.

based on their willingness and those farmers who were thought to be well informed and for their proximity to the place of the FGD.

1.4.3 Observation

Both participant and non-participant observation were conducted. These methods are important in which some valuable data were collected. In addition, it is important to validate and cross checks some of the data gathered through interviews and FGDs. In addition, it was useful to maintain close contact with the cooperative managers, with the farmers and with the community in general. On market days at *Harawacha*, *Bereda* and *Mulisa Haqaa* I was acting as one of the cooperative managements committee in order to observe the coffee transactions. Through participant observation and observation, I had the opportunity to observe the coffee farm in both localities. Moreover, observation gave an opportunity to find out in practice weather the international coffee crisis forced farmers to replace khat in favor of coffee and to find out what has been reported by OCFCU on the community development in relation to fair-trade. It was also important to have an insight on the report of the beneficiaries' as well as those in charge of the coffee farmers' cooperative societies. Finally as a means of documentation pictures were taken to document physical evidence while verbal data was noted.

1.5 Profile of the OCFCU and the Primary Cooperatives

1.5.1 Profile of the OCFCU

The Oromiya Coffee Farmers Cooperatives Union (OCFCU) Ltd is a smallholder coffee growers' owned cooperative union established in June 1999 by 34 cooperatives with 22,503 farmers. OCFCU is a democratic members' owned business operating under the principle of International Cooperative Alliance (ICA). It was established with the objective to facilitate the direct exportation of coffee produced by small-scale farmers and assist in marketing, processing and provide other services. The objectives of the Union as stipulated on its bulletin are; to improve farmers' income, maintain the quality of the coffee production, improve and maintain the sustainability of coffee industry, improve quality and productivity of Ethiopian coffee, regulate local coffee market, provide farmers with the best service.

Currently the Union represents 129 primary cooperatives. All the 129 primary cooperatives are operating under the fair trade principle of which 28 of the cooperatives are fair trade certified. The Union selling fair-trade certified cooperatives coffee since 2002 (OCFCU bulletin, 2007).

1.5.2 Profile of Riga Damu and Tuti Kanisa Farmers Cooperatives

Similarly, the two primary cooperatives, which are the subject of the study, are called Riga Damu and Tuti Kanisa. The first established in 1998 with 19 male and 3 female and total of 22 members at the time of establishment. Currently the membership grows to 539 male, 213, and total of 752 members. The later also established in 2006 with sixteen members at the time of the establishment. Currently the membership grows to 570 male and 130 female and total of 700 members. Both cooperatives registered and licensed from the East Hararghe Zone of Cooperative Promotion Office as multi-purpose cooperative. *Tuta Kanisa* located at Bereda 36km and Riga Damu located at Mulisa Haqaa PAs 42 km from the main coffee trading center *Harawacha* respectively. The management structures of both cooperatives consist of general manager at the top, supervisory committee, board of directors and manager at the lower level of the cooperative management structure. A coffee Farmer can become a member voluntarily with an application letter that states his willingness to be member and accept and obey the by law of the cooperative society. If application accepted, pay an iteration fee and buy a capital share based on his/her capacity to afford. The share ranges from 250 hundred to 2500 thousand birr

1.6 Field Experience and Justification for Selecting Research Site

Before the proposal has been accepted, contact was made with the OCFCU, because it is the biggest Union that has almost members from various localities of coffee growing areas of the region. Having explained the interest and objective of the study i.e., that I am interested to conduct research on Hararghe coffee and coffee cooperatives, the Union's managers suggested four member cooperatives in Eastern *Hararghe* who have good performance in relative to other member cooperatives. These are, *Chafe Janata* in *Deder*, *Illili Darartu* in *Bedemmo* and *Tuti Kanisa* and *Riga Damu* in *Melka Bello*.

During the preliminary survey, it was observed that transportation and poor road conditions are major problems to move from place to place. Thus, it was realized that it would take time and

financial resources to deal with all the cooperatives as suggested by the Union and decided to focus on only one *woreda* that is Melka Bello. One of the major criteria's for selecting the *woreda* was based on the following points. According to the information obtained from Oromiya Agriculture and Rural Development office, and the OCFCU, the *woreda* is best known for its finest coffee production in terms of quality and in volume. In addition to this, relatively from other parts of Eastern Hararghe (from the own experience), coffee is major source of income for farmers instead of *khat* or any other cash crops.

Having made discussion with the cooperative promotion bureau in Melka Bello it was decided to deal with only two primary farmers cooperatives within the *woreda* i.e. Tuti Kanisa in *Bereda* and *Riga Damu* in *Mulisa Haqaa* adjacent PAs. They were selected for their; relatively the earliest to be established in the area, member to the OCFCU, they have significant number of members in comparison to other cooperatives, and relatively well organized (from the discussion held with Cooperative Promotion Bureau) and they are FLO certified for their organic production and processing coffee.

Before setting for fieldwork, it is important to make necessary preparation in order to create good rapport with the community. For this purpose, first, supportive letter were received from the Union to the member cooperative, that explain the research objective, so that they could provide the necessary support. Second, another supportive letter also secured from *Kombolcha* ATVETC (Agricultural Technical Vocational and Educational Training College) in which I used to teach before I was enrolled to post graduate program. The college has a wider reputation in Hararghe for training DAs (Agricultural Development Agents). The letter helped a lot in order to get permission to contact farmers and obtain information from different offices. Moreover, the former graduates of the college who are found in various positions in the *woreda* helped as a bridge to create good relation with the farmers and other *woreda* officials in the area.

In the study area, it is very difficult directly to approach the cooperative managers and the farmers without the proper consent of the concerned administrative offices. Thus, in order to get acceptance it was approached that the various offices hierarchically. First, talks held with the *woreda* administrator, then the Agriculture and Rural Development Bureau that led me to the cooperative promotion office in which they facilitated to contact the cooperative managers in person at Harawacha. The cooperatives managers they were hospitable and supportive. They

helped me a lot to carry out my fieldwork without any problem. Both cooperatives main office located in their respective localities but they have offices at *Harawacha* in order to facilitate coffee purchase. *Harawacha* served me as a starting point for my field research. After my first preliminary visit, I had visited twice *Harawacha*, *Jaja*, *Bereda*, *Harew* and *Mulisa Haqaa*.

One of the major challenges in the area is serious transportation problem. Except on the main road, there is no public transportation, which connects the local areas with the main road. The local people either they should travel on foot (30 to 40 km) or use big trucks (lorry) along with other things, even that is available more on market days. One of the regularly available trucks (pick-up) are those trucks (Isuzu) that transport *khat* from the deep local areas and are available on daily basis relatively than other means of transportation. Therefore, I forced to use these trucks for transportation that was very rough ride because, on rainy days the roads are slippery with areas difficult topography trucks do not move properly or stops for some days at all. The unexpected rain on my arrival after two days was a problem to move from place to place according to my schedule and forced me to wait for three days until trucks starts to move. On the other day where there is no rain, dust from the road is very challenging since it is open ride. On my arrival, unfortunately all the main *woreda* officials were on a meeting (all the East *Hararghe* zone officials held meeting in Harar town) and those officials who were delegated advised to wait until the end of the main officials return. Thus, the first two weeks almost wasted waiting the major *woreda* officials until they return from their meeting. With this challenging situation, it was difficult to execute my fieldwork according to my schedule and much time had been spent on waiting for transportation.

1.7 Description of the Study Area

1.7.1 Location and Size

Melka Bello district lies between $8^{\circ}31'$ and $9^{\circ}14'N$ latitude and $41^{\circ}10'$ and $41^{\circ}34'E$ longitude to the west of *Harar* town. It is bordered by *Deder* district (to the north and north east) *Bedenno* district (to the northeast) *Gola Oda* district (to the south east) and west *Hararghe* Administrative zone (to the west). *Melka Bello* district has a total area of 1147.25 sq.Km, accounting for 4.70% of the total area of east *Hararghe* zone. Its capital city, *Jaja* (has one Kebele) is about 168Kms far away from Harar town to west direction. The district has 22 farmers association and one urban center.

1.7.2 Physical Characteristics

The northern part of Melka Bello district is part of Harar plateau, and accordingly characterized by dissected plateau, Mountains, and hills. On the other hand, Harar lowland or plain mainly characterizes the southern part. It lies in altitude between 960-2925masl. Its highest peak i.e. *Adem Gedi Burka* mountain (2925masl) is located to the north while its lowest place lies to the south in the floors of *Ramis*, *Jerjertu* and *Dugo* River valleys. About 20 percent of its total area is explained by plains, while 25% and 55% of its area are characterized by highland (plateaus, Mountains and hills), and valleys including gorges respectively.

1.7.3 Drainage

The study district is drained by perennial rivers such as *Jerjertu* (with 38.75Km length and 159lit/sec discharge) *Jaja* (with 23.75Kms length and 30lit/sec discharge) *Dugo* and *Ramis* and small seasonal streams such as *Oda*, *Ela*, *Dubo*, etc. In general, the district lies within the *Wabi-Shebale* drainage basin. As calculated from the Topo sheet Map of the district EMA (Ethiopian Map Authority, 1979), there is total length of about 245.0Kms of rivers and intermittent streams in the district. This gives a drainage density of about 0.21Kms of rivers and streams per Km² of an area in the district in 2002/03. On the other hand, there are no well-known lakes in the district. There are also several well-developed springs such as *Bereda* (30lit/sec), *Keybetero* (60lit/sec), *Hide Dega* (10lit/sec), *Gerba* (3-4lit/sec) etc. These springs are mainly serving for domestic and irrigational purposes now a day.

1.7.4 Climate

The study district has three major types of Agro-climatic zones namely *kolla* (tropical dry climate), *woinadega* (tropical rainy climate) and *dega* (temperate rainy climate), covering about 39%, 41% and 20% of the area of the district respectively. *Kolla* agro-climatic zone (900-1500masl) characterized by 410-820mm main annual rainfall and 20-25⁰c mean annual temperature. Similarly, *woinadegas* agro-climatic zone (1500-2300masl) experiences average annual rainfall and temperature ranging between 600, 2000mm, 150c, and 20⁰c, while *dega* agro-climatic zone (2300-2925ms) experiences average annual rainfall and temperature ranging between 1200 and 2000mm and 100c and 150c. The district has Meteorological station; under the control of Ministry of Agriculture, it measures only rainfall.

1.7.5 Soil

The major types of soils are; black, clay and clay-loam soils covered about 40%, 15%, and 45% of the total area of the district, respectively. Similarly, according to the information obtained from Eastern *Hararge* zonal Atlas (1997) these soils can be classified into chromic vertisols association (36.53%) of the total area of the district, vertic cambisols and chromic vertisols association (27.2%), luvic phaeozems and vertic luvisols association (4.53%) and eutric regosols and vertic luvisols association (1.08%). The soil groups consisting of chromic vertisols, vertic cambisols and vertic luvisols association have good agricultural potentialities, but have certain limitations because of their swelling characteristics during wet season and cracking during dry season. On the other hand, luvic phaeozems have high agricultural potentialities while eutric regosols are poor.

1.7.6 Vegetation and Wildlife

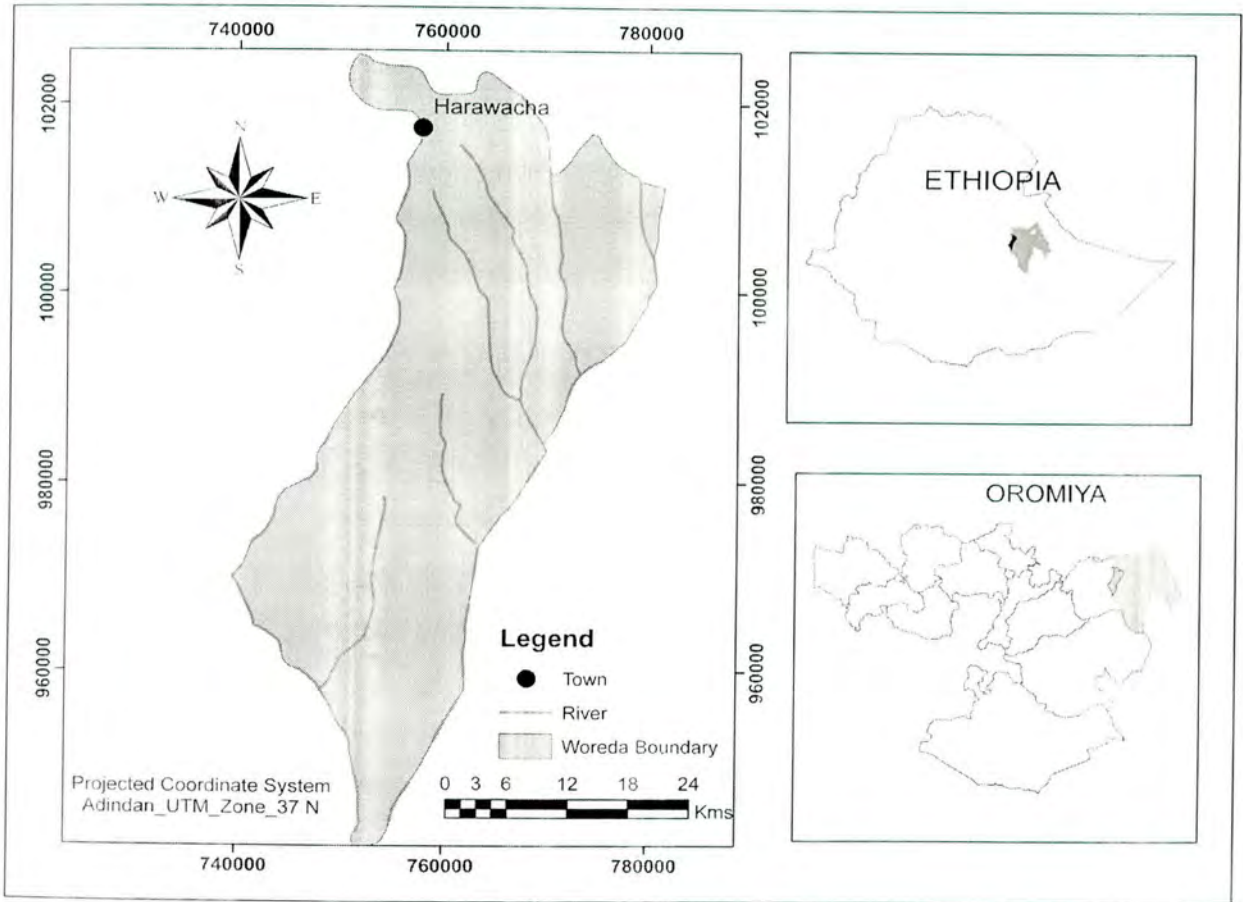
The district has few forests such as juniperus, procera (*Tid, Gatira*) podocarpus Gracilior (*Zigba, Birbirsa*) woodland savanna, juniperus wood land, Acacia woodland, grassland and manmade forest. These forests (manmade and natural forest) covered about 12.9% of the total area of the district. They are highly restricted to inaccessible area such as very steep slopes, hills, peaks, etc. There are no protected forests of any type in the study district.

1.7.7 Demographic and Economic Characteristics

According to the Melka Bello *woreda* public relation office documents (based on the 1994 population and housing census report), the total Population of the *woreda* is projected to 167,891 with male 8564, and female 82250. From the total population 9,531 are residents of rural areas while the remaining 158,360 are urban residents.

The major economic foundation of the *woreda* is agriculture. About 95 percent of the population depends for their livelihood on agriculture; about three percent on animal husbandry and the rest are engaged in various activities. Out of the total area, the cultivated land is 54,567 hectares. The rural population in the temperate and semi temperate zone in addition to the cash crop khat and coffee, crop production mixed with animal husbandry is common. Coffee, Khat, and vegetables are the main cash crop and Maize and sorghum is staple food crop. In addition to this cereals production pulses, oil seeds, vegetables, fruits are also produced.

According to the Woreda Agricultural and Rural Development bureau (ARD), the climatic and land topography of Melka Bello has high potential for coffee production. Almost all PAs (22 PAs) are suitable for organic coffee production. It is estimated that 27,723.37 hectares of land in the woreda is favorable for organic coffee production. Out of this, 11,927.47 hectares of land is covered by coffee and out of which 7618.9 hectares are highly productive. The endowment of the area with indigenous variety of coffee and ranges of altitude that made suitable for organic coffee production, made the area known as the home of the Arabica coffee of Harar. Due to this, the coffee from the area labeled by FLO is parts of the specialty coffee market.



Map of the study area

Source: open GIS 2010

Chapter Two

2 Literature Review and Theoretical Framework

2.1 Definition and Concept of Cooperative

2.1.1 Concept of Cooperative

There is no clear-cut and general consensus concerning the definition of the term 'cooperative'. The term is used in different ways in different countries, and it covers different types of cooperatives. According to Bager (1986:13), most definitions have been built upon some formal organizational characteristics, like open membership, membership democracy, voluntary membership, and distribution of surplus according to turnover. Such formal characteristics cannot, however, all be applied to all types of cooperatives, as for instance open membership is impossible for a production cooperative, as a member of an employee has to be kept at a certain level. Most definitions of cooperatives tended to be vague, because the definitions have to cover different types of cooperatives. The definition forwarded in most literature is quite vague as it is unclear who the members are, what members' roles are within cooperatives, and which types of economic interests are being promoted. Therefore, the definition to be used needs to be made more specific in order to differentiate from non-cooperative types of enterprises.

In most literatures, there are two basic types of cooperatives, which can be termed as service cooperatives and producers' cooperatives. The former type is formed by households or enterprises to promote their needs as consumers or producers; whereas, members of the latter are employees of the cooperative enterprises. On the world level, service cooperatives dominate in the capitalist countries, while production cooperatives dominate the former socialist countries (Ibid).

Service cooperatives again could be sub-divided into two main types: marketing cooperatives and purchasing cooperatives. Marketing cooperatives can be formed by producers in order to process and market their products, while purchasing cooperatives are formed by households or enterprises to provide them with commodities they need (Merrett and Wlzar, 2004:25).

Apart from these two main types of service cooperatives, there also exist other types, which provide certain specific services for their members. Like banking services and

insurance. The other types also cooperatives that provide a number of services and therefore be a mixture of different types of service or multipurpose cooperatives (Ibid). Thus, in light of the above points, the cooperatives that this study deals with have a multipurpose character. They both organized marketing and processing of the products of their member, in addition supplying farmers with inputs and provided certain other services like credits.

2.1.2 Definition of Cooperatives

Cooperatives worldwide generally operate using the same principles as adopted in 1995 by the International cooperative Alliance (ICA). The principles are part of a cooperative statement of identity, which also includes the definition to a cooperative and list of cooperative values. According to the National Cooperative Business Associations (NCBA, 2009) and ICA (2004), a cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and carrying for others.

2.1.3 Principles of Cooperative Organizations

According to ICA (2004), Cooperatives are established on the following principles worldwide.

- I. **Voluntary and Open Membership-** cooperatives are voluntary organizations; open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
- II. **Democratic Member Control** - cooperatives are democratic organizations controlled by their members, who activity participate in setting their policies and making their decision men and women serving as elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one- member-one-vote) and cooperatives at other levels are organized in a democratic manner.
- III. **Member Economic Participation:** - members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that

capital is usually the common property of their cooperative. They usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the cooperative, possibly by setting up reserves, part of which at least would be indivisible, benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

- IV. **Autonomy and Independence:** - cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.
- V. **Education, Training and Information:** - cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. They inform the general public- particularly young people and opinion leaders about the nature and benefits of cooperation.
- VI. **Cooperation among Cooperatives:** - Cooperatives save their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.
- VII. **Concern for Community:** - While focus on member needs, cooperatives work for the sustainable development of their communities through policies accepted by their members (NCBA, 2009) and (ICA, 2004).

2.2 Review of Cooperatives

2.2.1 Historical Development of Cooperatives Movement in General

The practice of cooperation is as old as human beings from time immemorial people have been involved in voluntarily formed association for their betterment. However, modern cooperatives emerged in Europe. The earliest known and recorded cooperatives formed in

England during mid nineteenth century as a reaction to industrialization. Due to low wages, the English factory workers could not afford to purchase enough food to keep their families from going hungry. In 1844, one of enterprising group .of workers formed the Rochdale purchasing cooperatives to buy food in bulk. By doing so, these consumers lowered the unit costs of buying grosses, enables them to purchase more for their hard-earned wages (Merrett & Walzar, 2004.5).

Following an unsuccessful strike in 1844, 28 funnel weavers in Rochdale, England started the movement to combat low wages, high prices and poor quality food. The Rochdale consumer cooperatives were founded on the basis a clear set of principles. Their interest in cooperation built upon the foundation led by Welsh manufacturer and social reformer Robert Owen, who believed that ideal communities based on cooperation rather than competition would eliminate unemployment and pauperism and create prosperous and harmonious communities (Balnave, 2005.3). The 1844, the Rochdale equitable pioneers society opened a cooperative store in Toad Lane in Rochdale, England. Toad Lane considered as the birthplace of modern cooperatives because the principles and practice of the pioneers assured the success of the cooperative model and spread to other areas in the world. The establishment and successfulness of the Rochdale cooperatives marks the beginning of modern cooperative era (N.C.B.A, 2009).

Cooperatives began to flourish in the late 19th and early 20th century, immediately in the industrial and mining areas of the Northern Britain and Scotland. It also spread quickly among the urban working class of France, Grammy and Sweden and among the rural population of Norway, the Netherlands Denmark and Finland. During the Soviet era, marketing cooperatives in USSR and other Eastern Europe functioned as part of a centrally controlled purchasing network for farm produce. Cooperatives in these countries were modeled on the Russian model, in which all land was pooled and worked in common and income was distributed according to work performed (The New Encyclopedia Britannica, 2005: 3:605:3b).

The British immigrants played an important role in bringing the Rochdale principles to Australia, Canada and USA. Cooperatives emerged as part of colonialism in North America. The first cooperatives in Canada and United States were near replicas of European models, often started by immigrants with experience in European cooperative movements. Initially,

these immigrants and their ideas of cooperation come mainly from Britain, home of the world first and leading cooperative movement (Merret and Walzer, 2004:27).

Likewise, the concepts of modern cooperative were introduced to sub-Saharan Africa by European colonizers often for promoting the production of cash crops by peasants. For instance, the first cooperative in Kenya was formed by settlers in the 'white highlands' in the beginning of the century. The legal ordinance was passed in 1931, but it did not allow African to form cooperatives (Bager, 1980:20).

However, after mid fifties and after independence the situation changed radically in most Africans countries. Rapid expansion of cooperatives movement has been significant from 1961, with the objectives of for producer's initiatives to have a better price for their cash crop as well as to encourage African-owned enterprises. The government accepted this expansion as an instrument of economic independence that was controlled by expatriates and non-Africans (Abbott, 1995:136).

2.2.2 Modern Cooperative Development in Ethiopia

Cooperation is an age-old tradition that runs through the fabric of Ethiopian society. Cooperative work among the rural community is not new phenomena. The traditional cooperatives range from short-term cooperation like *debo*, *jigii*, *wonfel* and long-term cooperation like *equib* (rotating credit group) and *iddir* are among the common one (Worku,20008:12).

However, the development of modern cooperatives started during the Imperial Regime. Regarding agricultural cooperatives, it was initiated by the imperial government with the decree of 44/1960. It was during the first, second and third five-year development plan that the importance of cooperatives considered. Decree no, 44/1960 known as "the farm workers decree" and the proclamation no 24/ of 1966 "cooperative society's proclamation" were the legal corner stone's for the promotion of agricultural cooperatives. However, the legal frame work of the 1960 restrict membership only to farm workers while that of the 1966 confine to extension of service to a few rich farmers Cooperatives were created to support agricultural production in order to encourage export. In spite of decrees and proclamation provided, the decrees favoured large landholding farmers and smallholder were excluded. Due to the

undemocratic feudal system resulted in low performance and did not have any significant economic impact on the farmers' lives (Mesfen, 2007:24).

Just after the 1974 revolution, the military regime enacted proclamation, no 17/1975. It was a proclamation to provide for nationalization of rural land. The rural land reform policy in line with the socialist development triggered the establishment of cooperatives based on socialist ideology (Worku, 2008:25). During this period, the principles on which cooperatives established completely different from those Western type of cooperatives, because they were based on Marxist principles. After the revolution of the 1974, the military government favored collective solution in agricultural development. Service and producers cooperatives, the two major agricultural institutions set up by the authorities in order to increase peasant production and transform it along the socialist line. Cooperatives then taken as a measure to transform the agriculture through the establishment of large-scale cooperative, collective or state farm through state initiatives (Stahal, 1989:27).

The military government (1974-1991), claimed that the objective of cooperatives was to bring to end to capitalist exploitation (exploitation of Man-by-Man) and to prevent the reemergence of capitalism in agriculture (ibid). Gradually this ideology cemented and it has gone far that individual (family based) agriculture suspected in the eyes of the political authorities. The ideologist thought that individual peasant might evolve in to capitalistic farmers. Individually based agriculture production should therefore be officially discouraged. On the other hand, the producers' cooperatives were seen as the spread head for the collectivization of peasant agriculture. Every PA member has a legal right to peace of arable land. Land cannot be private property but all PA members have the right to land use. Because of these processes, agricultural land would be fragmented; the authorities argued that through the formation of producers' cooperatives, by pulling of land become possible and there by the establishment of large, economically viable production units, become suitable for mechanization (ibid).

Cooperatives were widely established to organize the peasants, monitor agricultural prices and levy tax. It served as extended government control at local level and promotes socialist ideology through forced participation. The element of forced conscription in to cooperatives, in collective work and the quota system of grain procurement were against the underlying principle of cooperatives. Due to this, the cooperative activity did not help farmers to solve

basic economic problem. With the collapse of the regime in 1991, the cooperatives also collapsed (Worku, 2008:23).

However, with the coming to power of the new government i.e., the then Transitional Government of Ethiopia showed revived interest in cooperatives. Proclamation No 85/1994 of the transitional government of Ethiopia followed by FDRE proclamation No 147/1998 lays a fertile ground for the re-emergence of the cooperatives (Mesfen, 2007:25). The renewed interest in the cooperatives development by the new government aimed at to support smallholders' participation in the new market system. Cooperatives were also considered as a crucial agent to poverty reduction program of the rural mass. The main measures proposed for the agricultural sector was to organize, strengthen and diversify autonomous cooperatives to provide better marketing services and serve as a bridge between small farmers and the non farmer sector (Worku,2008:24).

2.2.3 The Development of Cooperatives in Coffee Sub-Sector

The development of modern cooperatives in the coffee sub-sector also goes back to 1960. The importance of coffee in the foreign trade necessitate the establishment of the national organization that can organize the market and export of coffee. In 1957, the National Coffee Board of Ethiopia (NCBE) was established at the dramatic boom in the price of coffee. The organization aimed at controlling, organizing, coordinating coffee producers and exporters (Dawit, 1994:11).

According to the national coffee board, there were 23 cooperatives in the coffee sub-sector until land proclamation of 1975; of which 13 were registered. However, the amounts of coffee marketed through these cooperatives were quite insignificant before 1975. Efforts to improve cooperatives had remained more or less insignificant because NCB did not have skilled manpower in the field and its effort only limited to advisory level. The first coffee marketing society organized by the National Community Development (NCD) was the *Gomma* cooperative society in 1965. The Darasa coffee farmers' cooperative near Dilla, Sidamo and the Berra in Jimma, Kaffa are some of the cooperatives to be mentioned during this time (National Coffee Board of Ethiopia, 1972:18).

A major step towards the development of service cooperatives in the coffee sub-sector was taken in 1973 when the Washed Coffee Project (WCP), financed by the World Bank, was put in to operation. The WCP was mainly concentrated on building infrastructure in coffee growing areas however; organizing cooperatives in the coffee growing areas was the mandate of both the Ministry of Agriculture (MOA), and the Ministry of Coffee and Tea Development (MCTD) (Dawit, 1994). Later, after the revolution the National Coffee Board replaced by Minister of Coffee and Tea Development and Marketing Authority (CTDMA) with the aim of improving coffee production (Coffee and Tea Development Authority and Marketing Agency, 1978:11).

During the decades before the 1974 revolution the role of the small coffee farmer, though important, was gradually diminishing as larger, privately owned estate farms were expanding as part of a wider process of capitalist development in agriculture (Love, 2001:228). After 1974 revolution agricultural development i.e. land reform and cooperative development are receiving the highest attention of the provisional Military Government. With the 1975 land proclamation the entire land has been nationalized and the farmers have formed associations. Big coffee farms of the x-land lords are managed by the association of cooperatives. As a result of this many coffee farmers' cooperatives have been formed during this time (CTDMA, 1978:14).

Following the economic liberalization after 1991, farmers cooperative reorganized again to enable small-scale farmers to participate in the free market economic system. The international coffee crisis that impoverished many coffee farmers necessitated the reorganization and strengthening of coffee farmers cooperatives. In order to improve the performance of the cooperatives, government issued the cooperative societies proclamation No 85/1994 and more comprehensive one in 1998 No 147/1998. Following the proclamation primary cooperatives and farmers' cooperatives unions were established in the coffee growing areas and also in other sectors. The Unions were new institution that organized the primary cooperatives. They were established to manage coffee export business on behalf of primary coffee cooperatives that lacked human resources and logistical capacity at the local level. Mesfen (2007) note that with this legal ground the Oromiya, *Yirgachef* and *Sidama* coffee farmers' cooperatives unions were the first to be established consecutively. Among these in 1999, the Oromiya Coffee Farmers Cooperative union established, at the front to facilitate direct export of coffee produced by small-scale coffee farmers, assist in processing, marketing, and provide other services.

2.3 Economic Efficiency of Cooperatives as a Means of Rural Development

The role of cooperative in rural development is a widely discussed topic. The success of the cooperative organization in Western Europe has even led to the conviction that promoting cooperative can function as a universal means of increasing smallholder productivity and achieving rural development. However, the records of the significance of cooperative organization for agricultural development and rural change show rather pale picture (Kroker.1990; 39).

It was argued by some scholars that cooperatives, especially agricultural cooperatives, give raise to inefficiencies. For instance based on the economic inefficiency of the Irish dairy cooperatives over 1961-1987 it was investigated that cooperatives were thought to give raise to inefficiencies because of lack of control and resource allocation. The reason associated for inefficiency was price inefficiency i.e. with the fact that Irish dairy cooperatives pay more than the marginal product. Meanwhile, other scholars argue that, agricultural cooperatives play a crucial role in breaking the poverty cycle. For instance in Bangladesh, dairy cooperatives enable poor farmers to break out of the poverty trap. In this regard, a diary cooperative known as 'milkvita' in Bangladesh was able to increase its members earning ten-fold in 2002 (Mesfen, 2007:21).

In general, the performance of agricultural cooperatives in developing countries was found to be disappointing; they did not help increase production nor did they reduce poverty and inequality; they did not foster self-reliance. For instance the sub-Saharan African (SSA) countries were pointed out that cooperative were found lacking business experience, had poor accounting and internal control system, they were undercapitalized, had low degree of member participation, financial problems, lack of technically and administrative efficient management. The interventionist policy of government in Africa especially in SSA was counterproductive. For instance, the 1987 Kenyan cooperative policy has tended to reduce member participation and control, thus impaired the flexibility required for running of the cooperatives as business enterprise (ibid).

Milford (2004) also confirmed that cooperatives to extent that they are member-owned and member controlled business, well-operated cooperatives can demonstrate a number of characteristics that can make them a positive factor in rural development. They are crucial to increase competitiveness, economies of scale and credit opportunities, innovation and member education. Furthermore, it is asserted that cooperatives can help reduce individuals risk through pooling risk at the level of the cooperatives enterprise. Cooperatives can give economic advantage to their members by combining their resources. Goods and services more efficiently and market them in larger volumes, thus giving them a stronger bargaining position in dealing with traders and processors. Activities such as transport, processing and acquisition of information about market opportunities are performed more efficiently, if producers, such as coffee farmers form a group than each one acts alone. Hence, cooperatives are the best way for farmers to capture the profit that exist in selling their produce directly to an international trader, instead of intermediaries.

However, cooperatives potential can be fully realized if they are integrated into the development process, without under interference of governmental authorities and donor communities. Democratic coffee co-operatives have the potential to increase the farmers' margins and thereby their incomes and standard of living. Several economic cooperative theorists have also shown that they may have a pro-competitive role in market situations with imperfect competition. Furthermore, they can play an important part in social development by informing and empowering marginalized producers. Because of these attributes, attempts have been made to form and support agricultural cooperatives in developing countries. Nevertheless, many of these cooperatives failed, both because of certain external conditions and because of events that prevented their success (ibid). Smaller 'bottom-up' cooperatives organizations established by farmers or traders themselves tend to be more successful than cooperatives established by government (Baulch, 2001:155).

Corruption, miss management and elite capture have been cited in the literature as intrinsic barriers to the success and efficiency of cooperatives. As a result, emphasis has been placed on building transparent, accountable structure in modern cooperatives. The other challenges indicated by some author to cooperatives viability are lack of capital and poor financial flow, poor accounting and management skills in cooperatives while in some countries, the government still maintain dependency relationship with cooperatives. In others, cooperatives

are heavily dependent on NGOs for credit, training and other technical support (Worku, 2008).

Studies have shown that the top down approach followed by the past regime 1974-1991 exhibited a failure story in cooperative movement in Ethiopia. Because of this, cooperatives conceived as a threat, a source of insecurity and burden. This was witnessed by the response of most of the cooperative members following the announcement of the mixed economic policy and the overthrow of the *Derg* regime; their own members dissolved the majority of the cooperatives in *Wollo*, *Jimma* and in *Wonji* area. For some time, after the establishment of the new government (after 1991) and introduction of market economy cooperatives were considered as socialist institution and should be done away (Mesfen, 2007:23).

2.4 Review of Fair-trade

2.4.1 Historical Development of Fair-trade

Although Fair Trade has been in existence of more than 40 years, discussion in the business and business ethics literature of this unique trading and campaigning movement between developing countries producers and the developed countries' buyers and consumers has been limited. The Fair Trade movement can in one sense, trace its origins back to the development of the co-operative movement in the late nineteenth century. In the form in which recognizable today, however, it began with the Mennonite Central Committee trading with poor communities in the developing countries in the 1940s. However, it only began to expand and become a 'movement' in the 1960s and 1970s. It had grown significantly since that time but remains relatively small in trading terms (Moore, 2004:73).

The idea of fair-trade originated in the 1960s as a response to the unequal terms of trade imposed upon the developing countries. In many western countries this led to a new social movement with the aim to alleviate poverty in the poorest countries by building direct, sustainable relationships with disadvantaged producers and providing fair access to markets in the North. These aims are still very much in vigor but meanwhile fair-trade has developed into a powerful force and a recognized *labeling*. Indeed, the labeling issue became quite important to distinguish the fair-trade products from the other 'ordinary' ones. The labeling organizations became the reference organizations and backbones of the fair-trade movement. In 1960s the expression 'trade not aid' was coined at United Nations Conference on Trade

and Development (UNCTAD), the conference at the time arguing that achieving better trading conditions is preferable to receiving continued foreign aid (Milford, 2002).

Fair Trade is the brainchild of NGOs such as Oxfam, Max Havelaar, Twin Tradecraft, etc. which seek to establish 'partnership' with their beneficiaries, a principle at the heart of the new development cooperation fashion adopted even by the world bank (Paul, 2005:135). It owes its beginning to a number of relief oriented, trade based development projects implemented by NGOs like Oxfam during the 1960s. In 1960s this initiatives gave rise to the alternative trade movement, which specifically at providing producers with increased returns from trade by offering them direct and equitable trading relationships with northern retailers (Potts, 2007:7).

In an effort to extend the benefits alternative trade to a large group of producers, the first Fair-trade certification system established under the name Max Havelaar in 1988 in Holland. Within three years, Max Havelaar had secured a two percent market share and numerous other fair-trade certification systems had been established across Europe. Coffee served as a flagship product for all the national certification initiatives. In 1997, 17 national fair-trade certification initiatives came together to form fair-trade labeling organizing institution 'FLO' in order to established harmonized standards, monitoring and enforcement (Ibid). Fair-trade is based on partnership between so called Alternative Trade Organizations (ATOs) such as Twin Trading, Oxfam, Equal Exchange, consumers in developed world and producers in third world countries (Ponte, 2001).

The FLO standards for coffee is voluntary scheme, paid by license fee lived on the brand owners. The guarantee of decent terms and conditions for farmers is mentioned by FLO in cooperation with national bodies, while organizations such as Max Havelaar (Netherlands, Belgium, France, Switzerland, and Denmark), Transfair (USA and North America) and the Fair-trade foundation (UK) manage and promote the different certification marks in their respective consumer market (Moore, 2004)

The emergence and objective of alternative trade is to offset the organization of production and trade around 'abstract market principles' which devalue and exploit disadvantaged people and the environment particularly in developing countries. The alternative trade initiative seeks to address the commodity trade flow within ecological and social relations.

thus challenging the dominance of conventional price relations in guiding production and trade conditions (Worku, 2008:7).

The core of the fair-trade movement was in pursuant to change international commodity trade relations in such a way that 'disadvantaged producers' can increase their control over their own future, have fair and just return for their work, continuity of income and decent working conditions through sustainable development (Fair-trade Federation, 2000). Organic Fair-trade certifications as a movement are based on two 'distinct philosophies' one environmental; the other is social justice. However, fair-trade which based on social justice as pointed out considers environmental issue too. Both approach converged and the fair-trade labeling organization international and its member's organization have recognized the importance of 'ecological well being'. Groups or farmers organization must have a work plan that shows they are working to reduce the negative environmental impacts of production and processing their coffee (Worku, 2008:8).

Baker (2006:7-8), point out that in spite of positive reports of fair-trade certification scheme, there are also criticism and limitation. The first limitation its limited market shares in the world. It is only 0.01 percent in the global market share. Because of this, it benefits a handful of producers in developing countries (Fair Trade Federation, 2002). One reason for limited volume is high price make-up applied to the product that apart From fair-trade attribute has nothing to offer to consumers. Other mentioned point as negative impact is, it increases dependency among producers and organizations and sometimes barriers to producers' group negotiating favorable contract in the mainstream commercial market. High cost of certification fees and complex set of criteria's for certification also barriers for producers to access to fair-trade market. The market share depends on the good will of individual in developing world. Because of these constraints on the market, many fair-trade producers only able to sale small share of their product of the Fair-trade.

2.4.1.1 Definition and Goals of Fair-Trade

Over the history, there have been many and varied definitions of Fair Trade. The most widely accepted definition accepted by the umbrella organization FLO, is the following.

Fair Trade is a trading partnership, based on dialogue, transparency and respect, which seeks greater equity in the international trade conditions to, and securing the rights of marginalized producers and workers especially in the south. Fair Trade

organizations (backed by consumers) are engaged actively in supporting producers awareness raising and campaign for changes in the rules and practice of conventional international trade.

The Goals of Fair Trade that fallow from this definition are-

- To improve the livelihoods and well-being of producers by improving market access, strengthening producers organizations, paying a better price.
- To improve development opportunities for disadvantaged producers especially women and indigenou people and to protect children from exploitation in the production process
- To raise awareness among consumers of the negative effects on produces of international trade so that they exercise their purchasing power positively.
- To set an example of partnership in trade through dialogue transparency and respect
- To campaign for changes in the values and practices of conventional international trade
- To protect human rights by promoting social justice sound environmental practice and economic security (Moore, 2004:74).

2.5 Coffee Cooperatives and Fair-trade

Cooperatives are fundamental parts of the fair-trade movement. The majority of fair-trade producers are members of various cooperatives. Cooperatives provide a support network for small farmers because they exist for their members by being democratically run, return profit to the producers and provide technical training. These goals are very similar to the goals and standards of fair-trade (Surber, 2005:3-4).

Cooperatives provide a structure for farmers seeking to become Fair-trade certified through their support to farmers and collective power. Several cooperative principles also meet fair-trade standards, mainly, freedom of association for farmer and workers, and democratic decision-making process; removal of unnecessary intermediaries that decrease producers income (Ibid). Fair-trade does not work with small-scale farmers, so in order for them to join they must form organizations to represent them. Small-scale coffee farmers can join fair-trade if they have formed organizations (in cooperatives, associations or other organizational forms); which are able to contribute to the social and economic development of their member

and their communities that are democratically controlled by their members (Backman, 2009:17).

With strong emphasis on cooperative management and organizational structure, fair-trade requires people in the coffee supply chain to work to transparent terms of trade and to guarantee decent production conditions at the same time addressing some of the key obstacles that prevent poor farmers from accessing market (Worku, 2008:8). The cooperatives that live up to fair-trade standards get a fair-trade certification. It guarantees a fair price of a fair-trade premium. Fair-trade standards require that the producer's organizations are democratic, transparent, and bring social rights and security to its worker. FLO expects the cooperatives to improve working conditions, improve environmental sustainability and invest in developmental projects for workers and farmers. This is to help them move from marginalized position to economic self-sufficiency and to empower them actively improve their working and living conditions (Backman, 2009:18).

2.6 Theoretical Frameworks

2.6.1 Marxist Perspective of Producer's Cooperatives

As discussed above the movement of modern cooperative for the first time emerged in the capitalist Europe, in England. Eventually, cooperatives, especially agricultural cooperatives spread in to both other capitalist and the former socialist countries. However, the theoretical and the principles in which these institutions established were fundamentally different. Thus, cooperatives are economic and social institutions, their establishment are based on the economy and political ideologies of the state in which it is organized and operate.

In Ethiopia after the 1974 (EC), revolution opted the socialist ideology for the country's rural agricultural development. The establishment of producers and service cooperatives were established based on the Marxist-Leninist principles. Today though cooperatives are not established based on Marxist-Leninist principles, some of the basic theoretical discussion is still relevant to understand the real nature of the cooperatives and helpful to compare the differences and similarities in which cooperatives established and operates today. Thus, though the Marxist point of view doesn't directly relate to the current cooperative movement, it is important to discuss some the Marxist views of cooperatives in general and producers' cooperatives in particular.

Producer's cooperatives are a widely discussed topic by Marx and the early classical Marxist in relation to modes of production. Karl Marx was the first to conceive of human history as a succession of mode of production, in which labor progressively liberated itself from bondage to serfdom, from serfdom to free wage labor, and ultimately from wage labor to collective ownership of the means production. Although, Marx developed the concept of mode of production through analysis of a specific instances of the dynamic of forces and relation of production namely Industrial Capitalism, it is clear that he also recognized its universal significance. He saw capitalism as unique and let historical formation in which exploitive relations were disguised in the form of a wage contract between freely contracting parties. However, his analysis of capital as relation of production specific to the capitalist mode, in which private ownership of the means of production appeared in contradiction to the increasingly social character of production itself, led to the recognition of significance of forces and relations of production in human society in general (Cooper, 1984:257).

On several occasions, Marx declared himself strongly in favor of cooperative firms, maintaining that their generalized introduction would result in a new production mode. At different times in his life, he even seems to have been confident that cooperatives would eventually supplant capitalistic firms altogether. Lenin also endorsed the cooperative movement and, in a 1923 work (entirely devoted to this subject), he went so far as to equate cooperation with socialism at large. More precisely, besides describing cooperation as an important organizational step in the transition to socialism, he explicitly argued that 'cooperation is socialism' (Jossa, 2005:3).

Marx conceptualized cooperatives in terms of capitalism or market system. The system of producer cooperatives envisaged by Marx is a market system where workers become 'their own masters' and where owners of capital are deprived of decision-making power concerning production activity. This system is 'in accord with the behest of modern science' and, at the same time, efficient even more efficient than capitalism because it entails a new production mode arising spontaneously within the older production mode and improving on it. This thesis is more confirmed by other well-known passages from *Capital*, which clearly reveal how Marx looked upon a system based on producer cooperatives as a new production mode superior to that of capitalism. He further confirmed that joint stock companies (cooperatives)

as a first step toward 'the abolition of capitalist private industry', though 'within the capitalist system itself (ibid).

There are also classical Marxists who viewed cooperatives by the very nature an intermediate form in between capitalism and socialism (ibid). Economists have also noted that cooperatives make possible public ownership of the means of production without state ownership and free enterprise without capitalism and sometimes considered as third sector (the other two being government and the private sector) consisting of organizations which have motives beyond profit and are rooted in local economies (Brown, 1997:66).

Marx further confirmed that cooperative firms in which worker or producer are their own capitalists would result in a new mode of production superseding capitalism. Based on these views, the Marxists can be set into at least two distinct groups. First, those who maintain that in Marxian terms socialism must be identify with a system of self-managed firms and those who equate socialism with a state planed command economy. Thus, most Marxists argued that it is possible to view that an efficient system of producer's cooperatives is a socialist order, which may succeed capitalism in full harmony with Marxist thought (Jossa, 2005: 2).

In Marxist theory, cooperatives are meant to perpetuate some of the main defects of capitalism, in particular the anarchical nature of production and generally all the shortcomings of a market economy: but it is possible to think of cooperatives as a typical institutions of the transitions to communism. Marxists increasingly equated socialism with Nationalization of production means and when following the Bolshevik revolution, a choice was to be made between state enterprise and cooperatives firms; they systematically gave priority to the former over the later (ibid).

Among the classical Marxist Lenin also endorsed the cooperative movement (In his work 1923) that he went so far as to equate cooperation with socialism at large. More precisely besides describing cooperation as an important organizational step in the transition to socialism. He explicitly argued that cooperation is socialism. He further confirmed that it is impossible for industry and agriculture to develop along the socialist line in which the private property predominates. The co-existence of the two mutually opposed foundations for long time would preclude the whole economy from developing along the socialists' line. The petty bourgeoisies trend among the peasantry and the endangered of capitalist elements by them are a threat to the cause of socialism. it is mandatory to replace private property by large-

scale socialist farming Lenin also considered gradual transformation from the simplest forms of cooperation (consumer and marketing cooperatives) to the highest form (producers cooperative) to be no less important (Wagane, 1989:18).

Participation by the poor and middle peasants in the simplest forms of cooperation involving marketing, supply and consumption does not demand economic risk and facilitate their transition to socialism. Within this theoretical frame works agricultural producers cooperatives emerged and developed in the first socialist country; the USSR's right after the 1917 revolution. This experience of the Russian cooperative had been adopted by other countries following the socialist path of development (ibid).

The major relevant thesis of the classical Marxist Leninist theories in relation to producer cooperatives can be summed up in terms of the following four points.

- Social ownership of the means of production primarily land.
- The development of large scale collective farm in to two forms: state and cooperative farms
- Guidance of the operation of large scale socialist enterprises through central planning
- Achievement of the development of the productive forces by applying advanced technology and scientific farming methods on the large collectively owned enterprises (Ibid).

2.6.2 Cooperatives in Market Economy and Its Competitive Yardstick Effect

Even though there are several economic cooperative theories, the cooperatives competitive yardstick theory more relevant to the topic of the study. In capitalist system cooperatives established based on certain principles to meet economic and social objectives of its members.

Cooperatives in market economy served as economic role by adding discipline to the market place. For example, farmers who are integrating their product upstream or dawn stream work together to protect themselves from monopoly market conditions. In such instances, over all social surpluses is reduced as monopoly prices from competitive prices. The quantity

Cooperatives were also viewed as correcting many evils of capitalism and performing a balance wheel or check point function that improved the competitive performance of the economic system itself. Cooperatives thus, viewed as being supplementary and providing a means of complementing the capitalistic economy at its weakest point. Thus, the existence of cooperatives is to enhancing competition and perfecting the capitalistic system compared to a system performing without the cooperative alternative (Ibid).

Since the cooperatives are simply an organizational tool on behalf of owner-users, it is viewed as a higher order economic institution because it embraces equitable treatment of members' economically and higher social ideals through democratic process than does the conventional profit seeking firm or investor owned firms (IOF) which pursue profit maximization (Ibid).

The other is the social goal, which aimed at elevating the position of members upward through a bootstrap organization process; based on self-help principles and democratic organizational process. Generally, cooperatives in capitalist system serve the national interests by providing accesses for farmers to participate in an increasingly concentrated business economy. By their very nature, cooperatives integrate a degree of market competition that pushes the market nearer to the competitive norm. In the final analysis however, cooperative's contributions will be measured by the economic survival and well-being of its members (ibid).

During the *derg* regime the marketing and pricing policies of coffee were adopted from the socialist countries. The aim was to establish government monopoly over marketing, control price and supply. To this effect government coffee marketing institutions and forceful pressure to form cooperatives were the basic characteristics of the regime. However, since 1991 the structural adjustment program has started. In order to increase production and export the Transitional government of Ethiopia the liberalization of the coffee market started (Abdurhaman, 1995:2).

As background to this, in 1998 the cooperative societies proclamation issued by the FDRE government to help small scale coffee farmers to participate in the market economic system. Thus, the theoretical discussion of the cooperatives as competitive yardstick is relevant in this regard. However, it is difficult to apply all models of the cooperative yardsticks to the cooperatives studied, their performance evaluated from the point of, whether cooperatives

bring competition, vertical integration to the value added market, empowerment to small-scale farmers through processing and market of their product through joint action is assessed.

Chapter Three

Data Analysis and Major Findings of the Study

3.1 Coffee Production, Harvesting, Processing and Marketing

3.1.1 Coffee Production in General

The *Mocha* Harar type, which is the best in terms of its taste and aroma that has high demand in the international market is produced in the zone. Among the 22 *Woredas* in the Eastern Hararghe Zone Melka Bello is the major coffee producing *woreda* in terms of quality and quantity. Coffee production in Melka Bello poses unique 'cultural' practice that passed through several generations with local varieties peculiar to the area. This indigenous practice of coffee production is still maintained without much change.

The coffee production in Melka Bello generally known as organic Arabica coffee that is produced under tree-shade, garden coffee. Garden coffee is grown near farmer's residence in small plots of land. Coffee production intercropping with *khat* and other crops is the most common practice in the area. Coffee can be produced on two altitudinal differences that are on the highlands and in the lowland or in the valleys of the *woreda*.

There are at least three majorly known local coffee varieties peculiar to the area. These are known as *Guracha*, *Abadir* and *Chercher*. Based on the color characteristics, there are also two types of coffee beans; these are the yellow type and the dark green. The yellow type is superior in terms of price in the area and usually the dark green coffee is supplied to market mixing with the yellow one the majority of the coffees produced are known by its unique color as yellow.

The production of coffee in Melka Bello involves chains of activities that include seed selection, seedbed preparation, hoeing, and seedlings. Among these activities, the first step is seed selection. Coffee seeds are carefully selected among the finest coffee tree in the garden for its diseases resistant and productivity. Next step is preparing seedbeds; after that, the already prepared seeds are sowed on seedbeds in mid April. According to the farmers, the germination takes place within 40 or 45 days. This process is known as *Bekallessu* (the process of making seedling) and the seedling known as *Bakallo*. In parallel to this, suitable

plots of land selected for planting marked on the ground in a row under the tree shade and holes are dug two centimeters deep around mid January. After the seedling grow up strong enough on the prepared seedbed, around April the young shoot uprooted carefully and the transplanting of took place. Productive coffee tree among others depends on the time of its plant, so farmers give due attention to the time of planting the coffee seedling, for instance one of my informant note that, if the coffee seedling is planted in June, physically the coffee tree will be good but it will not be productive.

Coffee after being planted, it is expected to give production within three or four years depending on the varieties and climatic condition. However, according to the farmers and DAs good harvest starts from the fifth or sixth years. The first coffee product is known as *dhala yali*, Sometimes *yamisrachoo* (common in Western Hararghe) to mean the first-born or the first harvest. This first product is small in terms of quantity and in most cases, farmers do not sell it or consume it all by themselves; rather they share it among neighbors in celebration, as it is believed that the next successive product will be good.

Once coffee tree established or planted the principal impute requirement is labor for weeding, harvesting, pruning, and manure preparations and other related activities. Coffee trees need much attention and proper care in comparison to other crops or plants. The main activities are weed control or hoeing which is done three or more times a year depending on rainfall, that determine weeds growth. The final hoeing at the end of the rainy season may be designed to produce a final dry tilt round the tree to serve as mulch. The other major laborious activity is making terracing; especially this is important on mountainous areas in order to preserve water during rainy seasons and protect soil erosion.

3.1.2 Organic Coffee Production

Abdurrahman (1995. 23), note that Coffee production in Hararghe poses a unique 'cultural' practice that existed for generations. About more than 90 percent of the coffee production in the Hararghe comes from small-scale coffee growers produced on small plots of farmers' garden less than 0.5 hectares in average.

Fair-trade as a principle encourages organic agricultural production. Though, there is no general definition about organic agricultural practice, there are some common views regarding organic agricultural practices. According to World Development Report, (2008.132), organic

agricultural farm practices are farm management systems based on natural methods that help enhancing soil fertility, resisting diseases, rejecting synthetic fertilizers and pesticides and minimization of damaging the environment and wild life.

During field observation and discussion with farmers, almost all of the farmers claim that coffee production in Melka Bello is conventionally natural that is to mean organic. The cooperatives investigated for this study produce organic coffee. This fact also confirmed with double certification to both cooperatives given i.e., organic and fair-trade by FLO international that is found in Bone, Germany. The practice of organic farming i.e. shade grown coffee production is a fundamental parts of fair-trade certification. In this method, no artificial, chemical fertilizers or pesticides are used. The producers use compost for fertilizing, which they usually make themselves often from animal dung locally known as *dikkee*, from the pulp of the coffee cherries. They also weed around the coffee plants by hand instead of with chemicals. Organic coffee fields are made into terraces in order to irrigate the plants naturally, and to avoid soil erosion.

In the study area of both Bereda and Mulisa Haqa PAs, fulfilled these criteria. According to the farmers and DAs, the coffee varieties are adaptive to tree shade. In addition to this, it is highly resistant to the common Coffee Berry Disease (CBD) that is prevalent in other coffee growing areas of Hararghe especially western parts. In fact, there are minor fungal diseases and pests in the area but these are controlled easily by the use of natural methods or mechanical methods such as cutting or burning the branches or the whole coffee tree that are affected by diseases. Pests are also controlled by keeping field hygiene, smoking and fumigating activities etc.

According to the DAs, the relevance of tree shade in coffee production is that it protects the coffee tree from excessive sun heat and helps to control erosion. In order to provide tree shade for coffee it is common practice in the area intercropping coffee with deep-rooted indigenous trees for long time. The leaves of such trees also benefits the coffee plants as natural fertilizers and reducing weeding cost by suppressing the general growth of weeds. The most common type of trees is acacia species that are most suitable for coffee shading.

According to field observation and discussion with farmers, coffee grown in 'traditional' manner does not require using expensive chemical fertilizers and pesticides. This method of

growing coffee also lowers the cost of production. Moreover, organic agricultural practice in general and coffee production by this way helps to protect both the farmers from costly farm chemical input and from environmentally hazardous chemicals. In organic production, no artificial, chemical fertilizers or pesticides are used. The producers use compost for fertilizing, which they usually make themselves, often from the pulp from the coffee berries, and in some cases barnyard dung. They also weed around the coffee plants by hand instead of with chemicals. Organic coffee fields are made into terraces in order to irrigate the plants naturally, and to avoid soil erosion

It is believed that Maintaining shade tree around the coffee farm provides habitat for birds and other variety of insects that enhances the environment in general and the quality of coffee in particular through natural processes. Due to this, most indigenous trees used for coffee shading are maintained which could be cut down for charcoal or for timber as in other non-coffee growing areas in Hararghe. Some of the DAs remarked that had it not been for coffee production in this area, these indigenous trees used for coffee shade, would gradually be illuminated through illegal cutting for other purposes. Moreover, organic coffee production with the favorable environment also allows farmers to practice apiculture along with coffee farm. The farmers in the area usually have bee hives ranging from few to several ones around their coffee farm and could managed to obtain additional incomes from such activity.

3.1.3 Coffee Harvesting

A part from cultivation, harvesting is the other major activity requiring labor input. Coffee cherries begin to turn into red blossom and ripe in mid September up to mid or end of November: but this is also varied according to the coffee varieties and climatic zones. Those coffee in temperate (*Dega*) climatic zones, it could be ripe in between September and November while the semi- temperate (*weyna dega* or *qola*) from October to November roughly. The time for flowering determines the time of maturing of the coffee fruits. The distribution of rainfall is important for coffee flowering.

Coffee harvesting starts in mid October up to end December roughly with two or three round. Once the coffee cherries mature turn in to a red glossy, firm cherries, which are harvested either selectively or striping. The striping methods that has been practiced for long now abandoned to some extent because of the impact it has on the quality and productivity of the

coffee tree. According to farmers, collecting coffee cherries through stripping method has two negative results. First, the harvested coffee is likely to contain semi-ripe and unripe coffee cherries that reduce coffee quality. Second, the striped branch takes some time to recover (to produce leaves) quite often the branches dry up, hence resulting in poor quality harvest in the next season. This condition termed by farmers as 'shocking effect' or shocked coffee tree. In addition to this, picking or collecting coffee from the ground once practiced totally abandoned. As farmers given training on how to maintain the quality of the coffee in producing harvesting and processing, by the woreda agricultural extension bureau and from the OCFCU through DAs, they only pick by selecting the ripe cherry from the coffee branches.

The careful process of selective handpicking of all cherries that are bright red from the branches is labor intensive and time taking. Coffee harvesting is done mostly by family labor, as the size of the average coffee farm is small, mostly handled by family labor. Coffee harvesting can be carried out for at least two to three rounds. The first round harvest is the biggest in terms of quality and quantity hence it is labor intensive. Due to this, it needs more labor input apart from the family labor and the ripe red cherries only are picked and leaving the unripe cherries for the next round. Thus, the first round harvest involves many people while women and children at family levels handle the second and sometimes the third round harvesting.

Coffee land holding varies from household to household and the size of the coffee land determines the labor input for harvesting. In the case of small size of coffee landholdings usually handled at each family level but as part of the 'tradition' no matter how small, it is common that neighbors participate in the process of coffee collection. However, there are farmers who have relatively large amounts of coffee plant that need additional labor input in addition to family labor. In this case, the first round harvest is carried out through locally known labor exchange system *Guzza* and *Faraqaa*.

Guzza and *Faraqaa* are the most important labor exchange system is in the area. Paid labor work in coffee production and harvesting is not introduced yet. In the south and southwest parts of Ethiopia, paid labor in coffee production is common. Worku (2008.50) noted that in *Mana Woreda*, Jimma zone, cooperative members require additional labor from weeding, through hoeing to harvesting. Harvesting being the main task is contracted out to immigrant

laborers. He found out that the main production cost is 85 birr per quintal for coffee harvesting in the area. However, in Melka Bello at farmers' level there is no paid labor work in association with coffee production and harvesting.

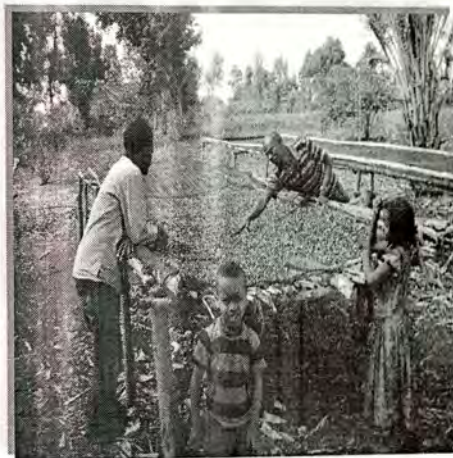
Guzza is a group work that involves several men and women to collect coffee on individual farm. It is indigenous labor exchange system on which a farmer calls for others' help when individual farmer needs such kind of service. It involves relatives, neighbors, and close friends. There is an actual compulsion for farmers to accept the contract and there is no compulsion for the beneficiary to return the labor he received from others immediately. It is generally concerns a group of people who are close to each other, friends or relatives and only one aspect of the social life in such a group. The beneficiary must provide food, especially *khat*, and other services for all the members who participate in harvesting; this of course makes it difficult for some households who are economically poor to provide such service if the participants are many. Because of this, the communities propose another means more based on reciprocity that is *Faraqaa* (collecting coffee in rotation on each farmers coffee farm), this off course developed during the Derg period to provide labor work on the ex militias in the area. *Guzza* serves as a labor exchange, not only for coffee harvesting but also, for other communal and farm activities that needs additional labor input.

In the case of *Faraqaa*, the community harvest coffee turn-by-turn on each farmers field. In this type of labor exchange system, the farmers who received the labor service have the obligation to give the same service to individual who gave the labor service. In such manner coffee collected in round on each family's coffee farm, the condition to serve participants with food and other drinks are optional and depends on the family's economic status but the participants do not expect such kind of service. Unlike *Guzza*, *Faraqaa* is equal exchange of labor and the role of women each system majorly concentrated on preparing food and drinks apart from picking coffee.

3.1.4 Coffee Processing

After the ripe coffee is harvested, the next step is drying. Harar's coffee, Melka Bello in particular known for processing through sun drying and this process known as natural method. The sun drying method is a process of drying the coffee cherries naturally in open air exposing to sun light. Farmers either dry their coffee on raised bed made from simple

material available in their area, on plastic rug or improved raised table made of mesh-wire. Since cooperatives buy fresh red cherry at the beginning of the harvesting time, every cooperative has well prepared cement floor and raised table for basking fresh cherries. Fresh coffee cherries can be well dried in three to four days continuously exposing to sun light. In order to insure that the coffee beans dried uniformly it needs at least two weeks. Since the cooperatives buy fresh coffee, the coffee cherries basked on cement floor in long row not more than two centimeters high. These rows are turned over every thirty minutes for the first few days to prevent fermentation, or developing moldiness and to make sure the beans become dryer uniformly.



Locally made and improved mesh-wire coffee drying raised bed (Bereda) (photo by author)

The next step after the coffee is dried well that is called *Janfal* (un-husked sun-dried coffee) is pulping i.e., removing the beans from its seed coat. Farmers in the area husk their coffee through manual pounding process with big wooden standing pestles and mortar. The coffee bean pulped through this way is called *Qisher or Callaa* (cleaned coffee bean). Most farmers who are members of the cooperatives almost abandon manual pounding practice because of the effect it has on the quality of the coffee bean. Because the coffee bean husked through this method, some of the coffee beans either would be broken, i.e., loses their original shape that would reduce the quality of the coffee required for export. Therefore, currently the cooperatives hull the *janfal* coffee by grain mill. Thus, new grain mill that were not used for other services is adjusted so that it can hull the dry coffee cherries. The dried coffee cherries hulled by the grain mill by far better of the manually processed by the farmers in terms of

quality and time. However, the grain mill has its own defect in comparison with the proper hulling machine.

The coffee bean is not however the only part of the coffee plant that farmers harvest in the area. The by-product of the processed coffee pulp locally known as *Ashraa* (pulp of coffee) is one of the byproducts. *Hojjaa* (tea prepared from the pulp of coffee); a typical culture of the Somali people, also become common now in other parts of Hararghe. It can be brewed in combination with milk and has demand in Somali region. *Ashraa* is common now to find in small amount in market day for sell by women. At the time of the study, a quintal of *ashraa* could be sold from 30 to 50 birr and the price fluctuates very much. The other important byproduct of the coffee tree is the coffee leaves called *kutti* (tea from the coffee leaves). *kutti* is also brewed from the leaves of the coffee tree that is at its two or three years old. Farmers told that only branches that have already bear fruit are harvest for their leaves and the productive branches are not picked. *Kutii (quxxii)* is famous drink made infusing the coffee leaves in boiled water. Most of *kutti* is picked for domestic consumption but it is common to see women selling small amount of *kutti (quxxii)* leaves at Harawacha on market day. Both *ashara* and coffee leaves can also be used for manure the coffee farm.

3.1.5 Coffee Marketing and Marketing Value Chain in *Melka Bello*

Woreda

In *Melka Bello Woreda*, coffee marketing mainly takes place at *Harawacha*. *Harawacha* is a small town strategically located at the center of four major coffee producing PAs. These are *Laga Harow*, *Laga wayu*, *Laga Jaja* and *Laga Bareda*. These are major river valleys in the woreda. These PAs found in the river valleys in which coffee grown both on the mountain and in the valleys.

Currently there are at least two categories of marketing agent's legally operating in coffee business. These are the local or interior and export marketing agents. The first carried out at local level at *Harawacha* and the latter at *Addis Ababa* and *Dirre Dawa* respectively. At local market, there are also two major coffee marketing agents. The first marketing agent represented by the private sector, these are consisting of collectors, wholesalers or suppliers and private exporters that channel or export the coffee through *Dirre Dawa*. The local private dealers known as *sabsabi* (local collectors) buy coffee directly from the farmers at specified designated place mainly *Harawacha* and sometimes at village market. Then they sale their

coffee to private wholesalers at Dire Dawa and the wholesalers or suppliers further sort bags and supply for auction at Dire Dawa auction terminal and exporters buy and export overseas market. The big companies that once dominated the coffee market for long like Mhoamed Oxeday and Bashenfer family now their role minimized at the local market, because as farmers more organized in to cooperatives their role is now minimized and changed into exporting agent at Dire Dawa. The small traders and group of traders are supplying to this kind of big coffee exporting companies at Dire Dawa.

Apart from the private traders who have license to collect coffee at local level individually, there are also individuals in the town or in the surrounding locality that do not have coffee farm but organized into joint venture and collect coffee. The wholesalers either stationed in Dire Dawa or have warehouse at Harawacha in order to collect coffee and process for export. The last and major coffee marketing agents are the coffee farmers' cooperatives. These cooperatives mainly located at the coffee farm or at the members' village but each of them have warehouses and office at Harawacha town in order to facilitate the coffee purchase and sell.

In Harawacha, there are two type of market. The first is the big and general one that takes place at the center of the town. The second type of market is the specific coffee market at a place locally known as *Dire Mizana* and located at the other end, in the way out to Jaja (the woreda administration center). At this market, only coffee transaction carried out. The name *Dire Mizana* also derived from its function that is chains of small coffee warehouse on both sides of the road with big scale on front of their doors that belongs to both cooperatives and private traders that they buy and sale coffee. On market day, there is high transaction of coffee between coffee farmers and traders at this particular place.

In Harawacha marketing in general and coffee in particular do not held always. Rather there are two major marketing days. The first one is the biggest locally called as *Magalaa Guddaa*; (literally to mean the biggest market day in Oromo language *Magala* also to mean town or township and also to mean market), held on Saturday. The second, the lesser one called *Magalaa Xiqqa* that is held on Wednesday. Both the general market and the coffee market carry out in parallel on the same day at the same time.

On market day, farmers come from the surrounding local areas in order to transact coffee and other things at Harawacha. Also with some variation on the days of the market conducted.

There are also market days in local small towns like *Harow* and *Jaja*. In the local market, there are individual traders who collect coffee. These are the agents of either the private traders or the cooperatives; However, on market day the majority of the coffee comes to *Harawacha* because farmers not only sale coffee but also sale and buy the majority of their consumption from the general market held in parallel with the coffee market.

Coffee supply by the farmers to the market starts at the mid October. Coffee can be supplied to market in three forms; wet fresh coffee cherries, dry unprocessed called *janfal* and finally the processed cleaned coffee bean. The first one is fresh cherries, immediately after it is has been harvested by farmers it could be supplied to cooperatives or private traders. Then the cooperatives or the private merchants start drying the wet coffee cherries after they collect from both the members and non-members. The second type is in the form of *janfal* that also needs further processing thirdly, the processed cleaned coffee beans called (*callaa* or *qishir*). Out of these three forms of coffee, the majority of the volumes brought to market are in the form of sun dried unprocessed coffee (*janfal*). Most private traders usually buy cleaned coffee bean instead of fresh cherries or *janfal*. The majority of the coffees in the form of *janfal* are supplied to cooperatives instead of individual private traders.

The fresh coffee usually are sold by farmers who have immediate needs for cash among others, the most important reasons which forces farmers to sell fresh coffee are, expenses related with schooling for their children, repairing or building new house or domestic investment on, like animal fattening for upcoming holidays are common expenses by farmers .

Those farmers who sell their coffees to individual coffee merchants come from relatively remote area that have no access to cooperatives or do not organized in to cooperatives for various reasons. As a rule from the Zone Cooperative Promotion Office, farmers who should organized in cooperatives should be those farmers who live in the same vicinity and produce the same cash crop like coffee. Because of this, many farmers who have coffee farm lives in dispersed are not member to cooperatives. Thus, these farmers in most cases process their coffee manually and supply either to cooperatives or to private traders based on proximity and relative advantage of coffee price. Therefore, geographical proximity is also determines access to cooperatives for farmers.

Cooperative members supply their coffee to their respective cooperatives in the form of *janfal* or fresh coffee cherries in order to keep the quality of the coffee instead of processing

manually by them. However, the price of manually processed cleaned coffee has relative advantage for farmers than the unprocessed one. Since manually pulped coffee have some defect on the quality of the coffee bean, farmers supply to cooperatives for further processes with grain mill established by their cooperatives at their respective localities.

The coffee transaction at Harawacha, carried out with its own peculiarity. For instance, when coffee bean presented for market by farmers, a sample of handful of coffee is taken to sniff for some minutes and carefully examined with eyes for its quality. In the case of coffee supplied to the private coffee merchants, based on the quality of the coffee simply by observing with their eyes, it will be decided right on the spot whether it is for export or for domestic consumption based on its quality this also determine the price. The private merchants give bonus for farmers as additional payment for quality coffee farmers brought and in most cases price of coffee will be settled with negotiations based on its quality. On the other hand, coffee that possesses bad odor, contains crushed coffee beans, moisture, etc is usually considered as less quality coffee and hence brings less price. If it is *janfal*, some of the samples grabbed with hand and some samples are bitten between the teeth to check for its dryness and whether the coffee cherries contain healthy coffee bean inside. After that, it will be put on scale to weighting.

The cooperatives collect coffee from both the member and non-members. The members supply three kind of coffee, conventional coffee (mostly from non-members), organic coffee and fair-trade certified coffee. They strictly expected to register the kind of coffee they collect from farmers by OCFCU and FLO on the special registration form in order to differentiate the type of the coffee collected.

During the time of the fieldwork, there is no wet fresh cherry rather it was the time for dry unprocessed coffee (*janfal*), the price of normal type of coffee for wet fresh cherries was seven, for *janfal*, fifteen and for cleaned coffee bean between thirty five to thirty seven Ethiopian birr per kilogram in local markets. However, surprisingly the price for domestic consumption is forty birr with very low quality in the same local market.

In addition to the usual weighing method of coffee, there is also commonly used 'traditional' measuring system locally called *Rayli*. Accordingly, even though it varies from place to place, one *Rayli* is equivalent to five or six *qalaas*- is small cup made of either plastic or

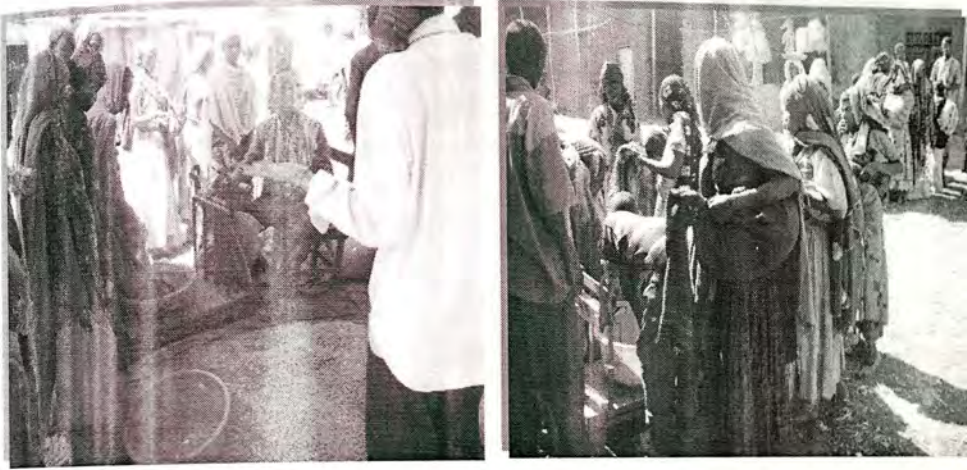
nickel used for drinking water. Especially the villagers prefer Rayli to measure their coffee than the measuring scale used by the merchants. If the coffee beans weigh more than a kilo, then they use measuring scale than Rayli for exchange, otherwise, the coffee bean sold by *qalaas*, as one *qalaas*, two *qalaas* etc. as one *qalaas* equivalent to roughly sixth or seven birr.

The ripe coffee cherries, after being harvested and dried, it could not be supplied to the market all at once rather, the dried cherry is stored in farmer's house for relatively longer time and it is usually delivered to market in small portion throughout the year (beginning from September to June) to cover the expenses of the family. Storing dried coffee cherries in the house is equally considered as saving or cash for that can be sold and used whenever needed.

Women and men usually deliver varied amount of coffee to the market. According to the observation made in one of the market days, coffees supplied by the women are small amounts in as compared with the amount delivered by men. This is because, women usually deliver small amount of coffee sometimes less than a kilo in proportion to their daily expense locally known as *mashrifa* (daily household expense). Whereas men use pack animals like donkey, mule, or horse for transportation and offer large amount of coffee to the market as compared to the amount brought by the women.

Members of the cooperatives directly brought their coffee to cooperatives. Then the cooperative registers the name of the member farmer, the amount of coffee and the type of coffee on special registration form. After that, the farmers are paid immediately as the amount they brought according to the price in the market. The registration is to help the cooperatives to pay to individual farmers, the dividend according to the amount of coffee supplied at the end of the year. It also helps to control and separate the organic fair-trade coffee from other non-certified coffee types. Strict registration is one input and requirement by the FLO inspection team at the end of the year.

Coffee marketing in the research areas starts roughly from December and eventually declines around the end of May and June. Since collected coffee by the cooperatives can be stored for longer, the supply to the center at (Addis Ababa) might be extended a bit more to June. However, during summer, the general marketing of coffee and markets for other commodities generally declines in the area.



Coffee collecting center Dirre Mizana at Harawacha (photo by author)

3.1.5.1 The Value Chain of Coffee Marketing

Coffee collected and processed from the farmers by the cooperatives directly sent to the Union. With limited capacity at local level, farmers' cooperatives cannot process fully their coffee to the required export standard and directly sale to international buyers. Milford (2004:45) found out that, in coffee producing, processing and marketing there are many costs involved at different levels starting from the first producers. Processing itself requires the use of special machinery and equipment, and investment in a processing factory is costly. Coffee exporting is also a business that is difficult to enter without the necessary resources for transport, insurance, storage, safekeeping and customs duty, and for marketing in order to find customers. In order to succeed, it is also necessary to have people with the right knowledge and skills to perform the tasks of processing and exporting. This means that one needs both people with technical, administrative and logistic skills and people with knowledge about the coffee trade.

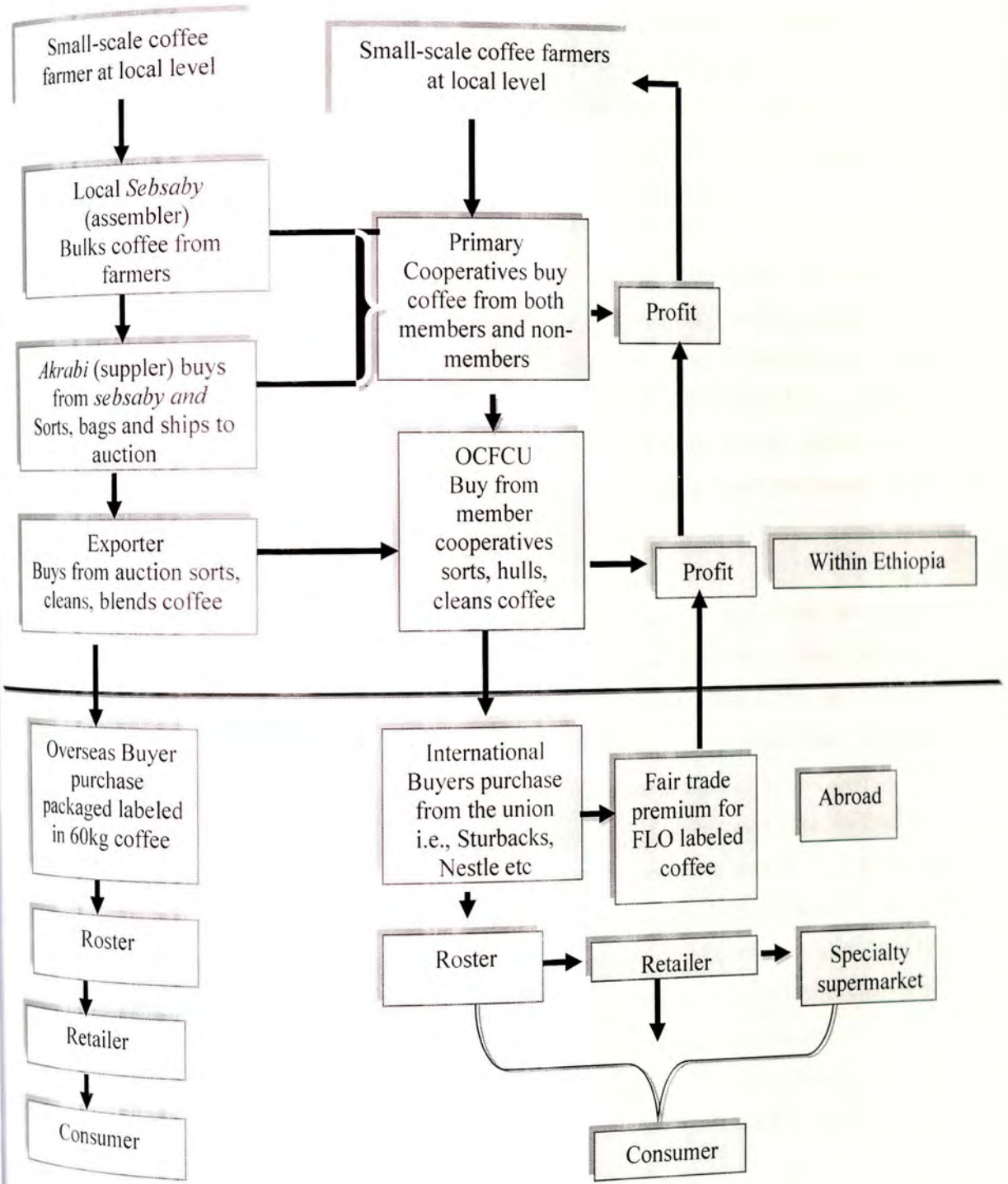
As a rule, the international coffee buyers only buy coffee from licensed exporters rather than farmers' cooperatives that do not have license to export their products. Thus, in order to link the primary cooperatives with the international buyers the government relaxed the rigid auction system for the farmers' Unions to carry out direct export on behalf of the primary

cooperatives in which private traders compel to process the export through one of the auction terminal at Addis Ababa or Diredawa towns. Accordingly, member cooperatives have to send their coffee to the Union at Addis Ababa, in which the Union further sorts, bags the coffee according to international export standards and then directly send to international buyers through specialty market in the case Fair-trade organic labeled coffee. Thus, the primary cooperatives directly connected to international market through their Union.

Coffee Value Chain

Free Market

Cooperative Market



(Source OCFCU documents and redesigned again by author)

The above figure illustrates the conventional coffee market (value chain) and fair-trade certified cooperative marketing (cooperative value chain) and its relationship to the coffee commodity chain. The graph also shows that marketing chain of the coffee farmers cooperatives registered with FLO sell their coffee directly to licensed international buyers or roasting company based in consumers' country instead of going through several linkages of purchasers and sellers. As the result, more of the market value or consumers prices retained by the producers through FLO labeling system as fair-trade organic coffee that increase the chances of getting in touch with international traders and consumers.

Conventional coffee trade or the free market generally involves certain links such as intermediaries who are between producers and buyers or consumers. The intermediaries often purchase coffee at the local level below the market price. This is due to various constraints at local levels that enabled them to pay as little as possible to the benefit of their own higher profit. Therefore, the fair-trade market channel connects the small-scale coffee farmers directly to the international consumer via their Union that is by far better than conventional market makes them more profitable.

As depicted in the figure unlike the conventional coffee market small-scale farmers are connected to the mainstream international coffee market via their Union. From this, it is evident that farmers are vertically integrated into the value added coffee market chain, which is one of the main objectives of the cooperative and fair-trade. This enables farmers more to control over the coffee processing and able to get substantial amount of income distribution from the market channel otherwise that would be expropriated by intermediaries. As reported by Oxfam in 2002 (quoted in Mesfen, 2007) in the conventional market channel, some farmers in the Oromiya Regional State, for instance received 27 to 54% of the coffee export price. This indicates that a substantial amount of benefit goes to the intermediaries, than to small-scale farmers. This is the smallest amount of benefit in comparison to other countries. For example, Abbots (1993.137), found out that in Kenya the government has ruled that 80% of the Kenyans Planters Cooperative Unions profits must passed on to the producers. This condition makes Kenya one of the very few countries where farmers actually receive something near the world market price.

According to Oxfam (2002) report, most roasting companies buy coffee from importers in small and frequent purchase. Roasters have the highest profit margins in the value chain. Retailers usually purchase packaged coffee from roasters, although an increasing number of retailers are also roasting their own bean for sale. Supermarkets and traditional retail chains are still the primary channel for both specialty coffee and non-specialty coffee, and they hold about 60 percent of market share of total coffee sale. The consumers can recognize a product as fair-trade, either by its specific fair-trade label or by the specific type retail outlet (specialty supermarket).

Thus, the cooperative marketing channel is to some extent effective in reducing the influence of intermediaries by cutting out from the value chain and it is good opportunity for farmers to enhance their income up to 70 percent who are found at the first stage of the value chain.

3.2 Major Challenges of Coffee Farmers before the Establishment of Cooperatives

3.2.1 Coffee Price Fluctuations and Local Market Condition

There have been various reports such as Oxfam (2002) and Equal Exchange (2004), on the coffee price crises since 1997, and especially in 2001 that have affected millions of people who depend on coffee for their livelihood. Ethiopia the largest coffee exporter in Africa and the birthplace of coffee has been hard hit by the price fall. The massive slump in the international coffee has left many coffee farmers families in deep poverty and hunger. The time of farmers report on the coffee crisis in the studied area also coincided with time of the report of the international coffee crisis. For example, Backman (2009:9) note that between 1999 and 2004 in Ethiopia million of farmers affected by the international coffee price crisis and the country's export earning reduced by 70 percent.

According to Oxfam International (2002), the main reason that prices are so low is the massive oversupply of coffee on world markets in relation to demand. Production has increased by 15 percent since 1990 because of the planting of new coffee trees, technological innovation, and the arrival of newcomers on the market. Ten years ago, Vietnam was an insignificant exporter of coffee. Today, it is the world's second largest exporter. Other factors have contributed to the steady expansion of coffee supplies. The pressure of debt has forced countries to expand exports in order to generate hard currency. Meanwhile, the World Bank

and other agencies have actively promoted export production, through project lending and wider macro-economic reforms. For example, World Bank loans were instrumental in helping Vietnam start producing and exporting coffee. In Colombia and Bolivia, farmers were encouraged by UN-sponsored programmers to switch from coca to coffee.

As explained from the farmers, Cooperatives after they have been established and involved in the local coffee market, they have brought relative change both on the market as well as on the lives of the small-scale farmers. In local coffee market in addition to the private coffee merchants, earlier farmers supply their coffee to government coffee marketing agencies like Ethiopia Coffee Marketing Authority. However, most farmers commented that the government market agencies were inefficient in handling the coffee market and influential private traders easily manipulated them and unable to function properly as efficient government market agents. Due to this, the private coffee traders were dominated the local coffee market until cooperatives establishment and effectively began to operate in the area.

According to my informant, starting from 1998 there was a drastic price decline in the area that has affected many farmers who depend on coffee for their livelihoods. The international coffee crisis coincides with the farmers report and they confirm that the international coffee crisis has affected the major coffee growing areas. During discussion with farmers and cooperative managers, around 1998 there was a campaign and concern by university students and other civil societies, that the international coffee crisis would force farmers to change the coffee land to *Khat* that would gradually destroy the indigenous coffee species in the area.

In relation to coffee production and marketing, one of the major problems was drastic decline of coffee price and continued until farmers' cooperatives established and involve in the coffee business for some time. Due to this coffee was unable to sustain farmers' life as it used to be. Addi, coffee farmer at Bereda explain this fact that

I really remember the difficulty we had passed through; starting from government change since 1991, there was a gradual decline of coffee price in our area that frustrated many of us to produce coffee. The local coffee merchants even reduce the existing price that exacerbated the situation. They were the one who decide on the price and always they come up with some stories to reduce the price. We sometimes traveled to the nearby towns where we heard there could be better price but the situation was the same everywhere. The price of a kilo of coffee at the time was between eight and nine birr in our area. It is only recently that the price gradually improved with the efforts of farmers' cooperative. The price for grain was by far better; it was really

better for someone to go with other grains like sorghum instead of coffee. We simply accept the price what the market provide us. We did not have any other option like today where farmers can opt to sell between cooperatives and private traders. It was disappointing for a farmer who depends on laborious coffee production for his livelihood.

In relation to price decline farmers explains that the price of coffee was not rewarding in terms of the labor it demands. As most farmers and DAs explained coffee production is labor intensive, it needs much care and attention throughout the year. The labor input and its benefit in terms of price was not encouraging for farmers in earlier times; producing coffee is tiresome, that it needs its owner care if it needs to give good harvest. However, the price was discouraging for many farmers to produce. Some farmers even explained to the extent that the price of coffee unable to match with the price of other grain. As Yusuf, a forty-five-year old coffee farmer in Mulisa Haqaa said that,

We were producing coffee for generation. However, we never experience such trouble drastic price fall. It is strange for some one to hear that price of coffee unable to much with the price of other grains. Even there were time that a quintal of coffee unable to buy the same amount of corn or sorghum. There was a fear among us that if the situation continued there might not even market for coffee and we were concerned about our family. We cannot change our coffee to others crops overnight. For some time producing coffee considered as wasting your sweat for nothing. Still I really do not satisfied with the current price though, by far better than before, and I hope it will be even better than this one and benefit us according to our toil.

Farmers in the area not only experienced unstable and drastic price fall but also exposed to other related problems. Before establishment and involvement of the farmers' cooperatives in the coffee market intermediaries and illegal coffee traders penetrate in to the coffee farmers' village and buy coffee with low price. In addition to this, informal 'patron-client' relationship with the local coffee dealers was common. Such relationships as explained by farmers were exploitive in nature and kept many farmers dependent on those local coffee dealers for many borrowing.

Especially during summer, farmers face shortage of money to sustain their basic needs. Months like June, July and August, considered as hunger-seasons of the year. In such times, for local coffee dealers was an opportunity to exploit local farmers. Since some farmers do not have reserve money or any other option, they turn their face to those local coffee dealers for borrowing. One of the common ways to get borrowed money was to deal for future harvest. After farmers borrowed the many, they return in coffee instead of money. However, if the price for coffee rises at the time of returning the money, they have no right to ask for

the difference but if it is below at the time of the borrowing, they obliged to compensate the difference with coffee. Otherwise, such kind of grant would not be available at other times.

The other means of borrowing, for farmers' urgent needs was selling the coffee cherries right on the farm before harvesting. The price for coffee estimated in the way that favors the borrower in order to get the money. The borrowed money is paid not in full about at least half of the estimated amount. Then the farmers gradually collect the coffee and supply to his moneylenders. One of the cooperative managers Musa in *Bereda* elaborate that,

Our experience is that when we have the produce, we are always at the mercy of the middlemen who want to take advantage of our urgent need for money to be able to paid out. Either we sell it right on the coffee farm or we could sell it for future harvest, it was totally for the advantage for the moneylender. This condition kept many of us in poverty and our life is the same every year while private traders are getting richer and richer.

The other problem discussed by farmers in relation to the coffee market was, that farmers were highly sabotaged by the private traders. Few private companies in the area monopolized the export of Harar's coffee earlier. These companies and other individual influential private traders set the price for local coffee market. Sometimes these companies and other private traders work together in favor of their common interest in order to gain more profit from the coffee trade. The government coffee purchasing agents were under the direct influence of the wealthy coffee merchants and totally price for farmers coffee was decided by the private traders.

According to discussion held with farmers on coffee marketing and field observation, market for coffee in this area held on specific days like Saturday and Thursday. Farmers in the hope of getting better price as usual flocked to market from various distant localities. During the night just before the market day sometimes discussion will be held among the major coffee traders in order to decide the price; in the morning on farmers' arrival, the price of coffee would be much below what was expected, wherever they turn in the market, it is the same. Since farmers come from distant areas they did not had any other option and cannot carry back their coffee home, rather they would sell on the price that was already decided. There was even competition sometimes among big traders to dominate over the collection of coffee, in such cases with very slight price difference traders can offer better price. In addition to this, they also use some local farmers as an agent who lobbies farmers to sell their coffee to

their respective clients for commission. Most of the time, the competition in the local market among the private traders were not beneficiary to farmers, because it was not as a pure economic competition. Due to the condition of local coffee market for some time left farmers in poverty. As Bedri in Bereda explain this fact as fallow;

We simply watch for many years that our coffee unable to change our life significantly and we are still in deep poverty, while few other peoples are prospered out of our coffee. Earlier, it was the grain farmers who employed as coolie in our areas during winter, who were supposed to be the poor. However, the situation reversed, coffee farmers are practically poor now. Farmers who depend for their life on khat or other crop production are by far better than we are, we still struggling to make things better.

In addition to these, for some time coffee merchants brought cheap coffee from other areas in order to mix with the fine coffee Melka Bello so that they could get relatively better price. This also reduces the demand for our coffee in the international market for sometimes that exacerbated the coffee market.

3.3 The Role of Riga Damu and Tuti Kanisa Primary

Cooperatives at Local Market

Merrett and Walzar (2004) note that the fundamental rationally for group of farmers' action with regard to the marketing of their products is their disparity in size and scope of activity as individual seller compared with the buyers they face. A cooperatives being as an association of a large number of small farmers, acts as large business entity in the market, obtain the significance advantage of economy of scale that are not available to its members individually.

Cooperatives as a form of business organization are distinct from the more common investor-owned firms (IOF). Both are organized as corporation, but IOFs pursue profit maximization objectives. Whereas cooperatives strive to maximize the benefits they generate for their members. Agriculture cooperatives therefore created in situations where farmers cannot obtain essential service from IOFs (because the provision of these services is judged unprofitable by the IOFs, or when IOFs provide the services at disadvantages terms to the farmers). This situation characterized as in economic theory as market failure or missing the service motive (Ibid).

As indicated by the competitive yardstick school, the unsatisfactory service by IOF also leads to the creation of cooperatives as a competitive yardstick or as means of allowing

farmers to build countervailing market power to oppose the IOFs. The concept of competitive yardstick implies that farmers, faced with unsatisfactory performance by IOFs may form cooperatives whose purpose is to force the IOFs, through competition, to improve their service to farmers or better price for their product.

As mentioned above farmers cooperatives can play a positive role in stabilizing the local market for coffee through competition. The first and most important aspects of cooperatives in the local market are that they provide efficient market channel and an alternative market for farmers in local areas. Cooperative provides a more stable and uniform marketing system than the market condition without cooperatives. The market condition dominated by private traders would expose farmers to exploitive intermediaries whose main objectives are profit maximization. This is an indication of that substantial amount of benefit in the conventional market without cooperatives goes to the 'middlemen' than it does to small-scale farmers and hence the cooperative marketing channel is an opportunity for smaller coffee farmers.

In principle, it has been argued that the cooperative marketing channel empowers farmers with far more control over the local marketing and distribution of income than the conventional marketing channel. Since cooperatives remain partly open, they represent an alternative to non-members also. Thus, farmers' cooperatives are competitor to private traders that force them to increase the price level in order not to lose their market share. This of course increased bargaining power of both members and other farmers.

Farmers in the study area remember that the price for a kilo of coffee starts to improve gradually from eight to eleven birr. At the early stage of cooperative establishment, farmers witness that in order to drive out the farmers' cooperatives from the local market the private traders offered relatively higher prices. This was of course an opportunity for all farmers that they receive above eleven birr per kilograms, which was by far better than from eight and nine birr at the time. Gradually with the help of government and other institutions, the cooperatives built their capacity and pushed up the price from eleven to fifteen and sixteen birr. According to most farmers, this was between 1998 and 2004. After that they began to control the local market and able to set the price for their coffee at the local market corresponding to the national and international coffee market price.

Due to the existence of cooperatives and represent farmers interest, the local-coffee market price has improved gradually. At the early stage of their establishment, there were stiff

competition between cooperatives and private coffee-merchants. Because of this both their members and the amount of coffee they sent to the Union was very limited. However, eventually with the help of government and NGOs support both in terms of financial and in technical matters, they able to overcome and dominate the local coffee market. Bedri one of the cooperative management committee (Tuti Kanisa) at *Bereda* confirm this condition in the following manner;

When the private traders saw that the condition are going to be changed that farmers going to be organized in cooperatives, immediately began to react by improving the price for coffee. At the time, the attitude of farmers' towards cooperatives and the benefits were not worth considered. Due to this, the farmers who are registered as a member were very few. Besides this the price of coffee offered by private traders were relatively improving and farmers could not realize any advantage of joining the cooperatives. For some time, since the members were too small, the coffee that was sent to the union was insignificant. Thus, they were forced to buy coffee from private merchants in order to send to the union. Moreover, one of the major problem on the parts of the cooperatives were unable to compete with the private traders that they set price and change from time to time in order to drove out the cooperatives from the local market. This was in fact a good opportunity for us but it did not last long and the cooperatives gradually took over the market.

Gradually with efforts of *woreda* officials in creating awareness about cooperatives, farmers' attitude began to change. With the increase of the farmers' awareness about cooperatives, they were able to recruit substantial amount of members in their respective localities. Due to this, most influential private traders who once dominate the market now pushed out from the local market and concentrated at the main coffee market at Harawacha.

Cooperatives marketing channel creates market opportunity that enable small-scale coffee farmer to take their products further through the value added coffee market channel through their Union to the final consumers or buyers. It also provides a way for farmers to integrate forward and participate in the processing and marketing of their products.

Cooperatives also serve as important channel in which important information and education of the coffee quality production passed on. Cooperatives can increase the level of knowledge among farmers of coffee production, quality and information on both national and international prices. These crucial factors bring about a general strengthening of farmers' bargaining power than acting individually. Moreover, since the cooperatives have daily contact (at Harawacha) through telephone with their union at Addis Ababa enabled them to

follow the coffee market situation both on national and international level. Thus, they have up-to-date information about the coffee price and serve as information channel for coffee price at the local level for both members and non-members. According to the cooperatives management committee earlier private traders had the relative advantage in accessing information related to coffee market conditions both the national especially the international coffee price. The farmers largely depend on government radio broadcasting which was inefficient. Regarding this, cooperatives not only benefit members but also non-member farmers on price information.

In general, cooperative brings farmers together providing service that increase quality as well as offer a collective bargaining power. As cooperatives began to increase, their efficiency it will certainly increases marketing power both in the local and international market. Cooperatives after being established and involved in coffee business gradually they began to control over marketing conditions for their product rather than being as the economist call it 'leave it or take it' proposition at local market. Moreover, the cooperatives influence in the local market gradually become stronger and they began to set floor price for their product and monopoly of collecting coffee. In addition to this in deeper villages, cooperatives are serving as collection point for farmers' coffee cherries in which they used to sale even below the local market price in such remote areas. In addition to this, maintaining quality control, coffee pulping service and supply transportation also another important service that can add value to their produce.

3.4 The Role of OCFC Union

The OCFCU established with the objective of facilitating process and export coffee on behalf of the primary cooperatives that lack human resource and logistical capacity at local level. Apart from exporting, it provides crucial services like warehousing, training on quality coffee production, credit and other services which are important for coffee farmers at local level.

The Union has a wider reputation in organizing and connecting small-scale coffee farmers to fair-trade coffee rosters via DST (Direct Specialty Trade) or other marketing channel. It facilitates the fair-trade organic certification for its member cooperatives. Fair-trade certification granted to primary cooperatives through the union. The member certified cooperatives increased from time to time, the Union has started certifying its members since 2004, it started only with eight cooperatives in 2004 but now it reached twenty eight in

2009/10, this makes it the biggest fair-trade certified cooperatives Union in the country. The Union tries its best to maximize the opportunity from fair-trade and organic certification scheme.

The Union purchased coffee from the cooperatives at a price equivalent to the domestic auction price at the time. The payment to primary cooperatives is usually made immediately or after a couple of weeks following coffee delivery; as cooperatives managers note the exact time of payment depend on financial status of the Union. After received coffee from the primary cooperatives, then Union exports coffee through a fair trade route (in the case of fair trade certified coffee), or conventional route for conventional coffee. After completing the audit of Union's, decides the amount of the dividends to be paid out to the member cooperatives. The dividends are calculated after deducting thirty percent (30%) of the net profits including the dividends to farmers after auditing procedures are complete. The mode of dividend distribution is based on the volume of coffee and the size of the share purchased by individual farmers. The union also provides credit to the primary cooperatives in addition to the Fair-trade sixty percent pre-financing of the contracted amount.

According to Oxfam (2002), the global commodity chain for coffee involves a string of producers, middlemen, exporters, importers, roasters and retailers before reaching the consumer. In the conventional coffee market chain, farmers directly sale to middlemen who are known to take advantage of small farmers, paying them below market price for their harvest and keeping a high percentage of profit for themselves. The international coffee roasters or importers buy coffee directly from the small-scale farmers' cooperatives through the union. Thus, organization like the OCFCU is important in serving as a channel for coffee farmers to involve in international coffee market. Because of this, the intermediaries' cut out that existed between the producers and the consumers. Thus, both the producers and the international buyers or roasting companies are closely sanctioned by the FLO to fulfill the term of conditions.

3.5 Economic Benefits of Cooperative to Members

3.5.1 Direct Economic Benefit

Most literatures on cooperatives state that Farmers have certain goals and objectives when embracing group action strategies for marketing their produce. Among these, the chief one is economic motivation. Among the economic benefits attributed to the cooperatives is marketing facility and supply of input, increased competitiveness, credit opportunities, innovation of new techniques are termed as economies of scale. The main goal among these is income enhancement because of possible increase in the value of their product. In addition to this, it is important market outlet for local farmers and 'fair' price, according to the market.

Apart from marketing members' product and payment for according to the market price, extra income in the form of dividend is one of the most desirable outputs for farmers in the studied area. Members receive payment (profit) in two rounds, the first payment as dividend is the payment after delivering coffee to the union. The union pays the cooperatives for their coffee based on the price decided at the national auction. This payment is called the first payment. The second payment and the major one is profit after the union delivers to the international market through either fair-trade market or the conventional market channel. This is usually return to cooperatives seventy percent (70 %) as dividend in order to be distributed to individual farmers as per the amount supplied by individual members.

Farmers explained that one of the good aspects of the major dividend (second payment) is, usually comes at the end of the year where farmers used to face shortage of money. Through FGD and individual interview with farmers, dividend is one of the major aspects that attract farmers to join cooperatives from time to time. According to the records of the Riga Damu and Tuti kanisa, primary cooperatives, the least dividend for 2009 was about 700 birr, while the highest is 3500 for Riga Damu; 522 the least and largest 4020 birr is for Tuti Kanissa. In addition to these, those farmers who have bought shares of the cooperative (almost all have at least from 250 to 2500) receive additional payment as a profit according to the share they have and receive interest from the money they have as shares. This is what reputedly mentioned as good aspect of cooperatives by their members. Therefore, profit that returns in the form of dividends is one of clearly visible and direct economic benefit they enjoy because of being member.

Processing and marketing of members' products is also characterized as economies of scale or economic advantage. Activities such as transport to central market, processing and acquisition of information about market opportunities are performed more efficiently than through cooperatives than acting individually. Member of a cooperative can also benefit from various economies activities other than directly related to marketing of their products. Such extra activities are, credit provision is one example how a cooperative can benefit their members.

A formal credit service for small-scale farmers is not often available in such rural areas. There is no banking service in Melka Bello, only found in Deder that is more than 100km away. This condition earlier forced farmers to depend on local moneylenders with high interest rate. However, the cooperative managers whenever farmers need money in addition to the Union's credit service, search credit on behalf of the farmers from both the government and private banks like Oromiya Cooperative Bank and distribute to farmers for specific purpose. Most cooperative managers explain that to get credit service from any institution is much easier for the cooperatives than for individual farmers. Since Cooperatives run for members' benefits, they offer credit with low interest rate, which very much appreciated by members, especially compared to the interest rates of the private moneylenders in the local area.

3.5.2 Improvement of Members' Living Condition

The major benefits gained from cooperatives activity in the local areas are sustainable coffee market and better price in comparison with the previous conditions. Though currently the price for coffee increases both at the local and international level, cooperatives are playing substantial role in stabilizing the market at the local level.

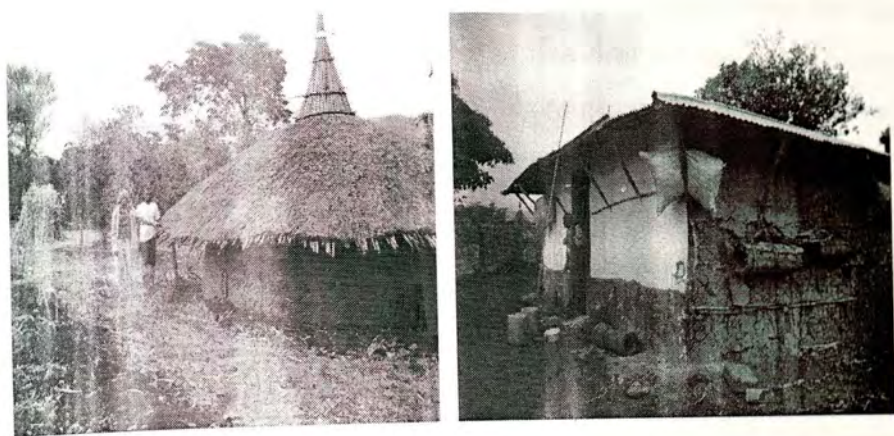
According to the observation made and discussion with member farmers at this moment cooperatives do not bring a substantial wealth formation among individual members. Rather it helps farmers to subsist their daily life at least with some improvements. During the individual interview and FGD about their life change because of being member to cooperatives, their answers revolve around house improvements that are changing from thatched hat roofing to rectangular corrugated iron sheet roofing, slept on sponge mattresses, able to educate their children and access to better diet are some of the points regarded as improvement. Apart from these, there is no as such individual wealth formation and in most

cases, farmers live subsistent level. Question was forwarded if there are any farmers who are rich due to coffee farm; they respond that there is no as such rich coffee farmer. No matter how many coffee stem a farmer has he barely subsist his family's lives without any wealth formation. Ahmad from Mulisa Haqa PA further explain that

Let alone saving extra money for other purposes, we barely survived sometimes from the money we get from the coffee. Currently (within these two years) due to relative improvement of the price of coffee, we can witness some farmers able to invest on other income generating activities like animal fattening. Except that, if a farmer is rich not because he has much coffee tree rather either he is engaged in Khat production or other business activities.

The major expenditure of the money earned from coffee are on daily expenditure on foods, clothing, health (occasionally) related expenses farm input and some domestic investment like animal fating (at least one or two) and cow for milking. Apart from the usual food item like baked bread, *laffiso* and porridge mainly prepared from maize and sorghum, Farmers supplement family food requirements with some rice, spaghetti, macaroni, and wheat flour bought from the market. In the area rice, spaghetti and macaroni with additional vegetable stew considered as access to better diet by the farmers. The daily cash demand of the household for the expense, cooking oil, kerosene for lighting, salt, sugar etc mainly secured from coffee income.

During discussion with farmers on expenditure of coffee income, apart from the daily consumption, it is noted that coffee income and schooling is closely associated. In the local areas like Bereda and Mulisa Haqaa there is no high school. Children after completing elementary school either they should go to Jaja or Harawach in order to attend high school, which is more than 35 KMs away. Since students cannot afford to attend school on daily basis while they are with their families, they should rent a house near their school. This is one of the major expenses for families in order to provide the necessary provision and house rents for their children while they are in school. Students' school dropout is common in the area both from elementary and high school if their families' income from coffee is not sustainable. This well witnessed by two management committee members Shukur and Jemal who drop out of school from grade 9 and engaged in other business so that they could help their families and themselves.



Farmers thatched hat roof and improved corrugated iron sheet house (photo by author) (Mulisa Haqaa).

Another important expenditure from the money earned from coffee is on house improvement. It is common trend in the area, if farmers' income increases substantially, immediately they improve their house from thatched hat roofing to corrugated iron sheet houses.

Whenever farmers asked the question, what changes brought on your life being as a member, they repeatedly reply that they sleep on sponge mattress instead of simple plastic rug locally called *mushama* and change their house to corrugated iron sheet from thatched hat roof. Especially those cooperatives managers tend to measure the success of their cooperative by mentioning repeatedly that all their members are sleep on sponge mattress and renovate their house. This is also used as a means to recruit new members.

Another important aspect mentioned by farmers in relation to coffee income is those farmers who have relatively surplus money left from their consumption are livestock investment. The area apart from coffee production it is also best known for its animal fattening and has high demand in the other towns. Animal fattening is common practice in the area that enables them to diversify their income. Every family at least keeps some small calf for fattening.

3.5.3 Social Benefits and Social Capital Formation

As Marriet and Walzer, note that (2004:275), empirical research shows that substantial benefit results from the presence of high level of social capital in a community because of collective problem tended to be solved more easily by increasing the social interaction and trust. Citizens who have worked together have developed a level of trust and awareness of one another that facilitates the flow of information, lowers transaction costs, and eases the dilemmas of collective action. Cooperatives in general have the potential to create significant increase in communities' social capital. Over the past twenty years, sociologists and economists have articulated the value of social capital in economic transaction.

Robert Putnam (as quoted in Merrit and Walzare, 2004:275), defines social capital as connection among individual, social networks and the norms of reciprocity and trustworthiness that arises from them. These networks facilitate cooperation for mutual benefit, result in mutual support, cooperation, trust and institutional effectiveness, and thereby would strengthen service potential derived from social relations.

Both Bereda and Mulisa Haqaa where the cooperatives located characterized by poor infrastructures and cooperatives operate where there is no electricity, proper telephone line, water, and poor road conditions. Member farmers explained that even before the establishment of cooperatives there was the spirit of cooperation among individuals in order to solve the community's problems. The Common problems that existed in the area necessitated for individuals to come together for collective solution. According to the farmers, the major problems were mill service, lack of proper roads networks; water and health services. They tried to solve their problem gradually in collective action. As kalifa in Bereda explains this fact

One of the major problems was absence of mill service in our locality. Our daughters and wives should travel more than thirty kilometer in order to get the mill service to either Harawach or Jaja. They face various problems on their return especially during night. Due to this, the communities decided to work together to solve this problem. Then finally, we form an association and establish diesel grain mill in our respective areas. Then we pave the local road networks manually in collaboration with the neighboring kebeles. This gave us a good experience and finally we decide to establish cooperative in order to find better market for our coffee. The woreda administration saw our effort and helped us in forming the cooperative.

Milford (2004) also notes that cooperatives as grass root organizations; they can become an important part of the country's civil society contributing the formation of social capital, and

furthering a process of empowerment and democratizations. Through local organization, individuals come together and work towards a common goal. Their primary goal might be marketing their product however, as an organized group, they became a part of civil society and their voice joined, are more likely to be heard by the decision makers. Effective cooperation is thus the key successful intervention of civil societies in their communities' development.

During discussions with the member farmers on value of being organized, they emphasized the value of being united as a group, particularly in such remote areas where there is no adequate infrastructure. Most farmers appreciated their being organized in such a way. In relation to marketing their coffee, they owed much to their cooperatives that they are not being left at the mercy of the intermediaries as it used to be. Cooperative membership helped people create networks with each other and with other communities and they could help each other in difficult situations. For Riga Damu farmers cooperatives, the earliest to be established, considered as a success and most coffee farming communities in adjacent PAs organized in similar manner following their footsteps. Tuti Kanisa was established with the Riga Damu's help and still they work together in many aspects. The other important point to be mentioned is cooperatives promote the value of self-help in practice, as the cooperative leaders and farmers explained that whenever there is shortage of grain or shortage of food the cooperatives buy grain from other areas and distribute to the community without profit. On the other hand, whenever there is some crisis, like food shortage or any other disaster in the community, they are the first to react before government or any other concerned body. Therefore, cooperatives are useful for the whole community beyond economic reasons in such remote areas and promote the value of self-help.

Chapter Four

4 Benefits from Fair-trade and Challenges for Cooperatives to Exploit the Existing Market Opportunity

4.1 Membership Democracy and Members Perception towards Cooperative Activities

Unlike the cooperatives existed in the past especially during the Derg period, cooperatives were established by government initiatives that lacks many of the democratic element of cooperatives. This is also one of the main constraints at the early stage of cooperative establishment that most farmers doubt that any cooperative activity means that there would be enforcement to join cooperative as used to be. Due to this, for sometime farmers showed reservation and still there are farmers who doubt that cooperatives are good for nothing. As one of the farmers said at Bereda,

I thought for the first time that, these people who are running here and there to establish cooperative, they are going to west our money. However, gradually we can witness that the condition is different.

Thus, for cooperatives in order to recruit new member was a bit difficult, with thorough effort of the cooperative promotion bureau the situation began to change.

According to ICAs (2004) principles, cooperatives are democratic organization controlled by their members who actively participate in their organizations; participation and decision are made based on equal voting right (one-man-one vote). In addition to this, Baggers (1980) also noted that, membership democracy may be an important dynamic factor within cooperative societies. Thus, active members contribute to the running of the societies and inspire their elected committee members in a very important way. On the other hand, passive and uninformed members are a burden, as the societies are forced to call them to the general meetings and to fallow decisions made at such general meetings that may be taken on the basis insufficient knowledge. Thus, it is very important for cooperative societies that their members are active and well informed.

Regarding participation in the cooperative affairs, farmers are active. According to the cooperatives annual schedule there are two annual meetings. These are at the beginning and at the end of the year. All farmers participate in the general meetings, which is the supreme

body of the societies. Since member farmers, close neighbors and most of the management committees are among themselves, they and the committee members control the cooperatives affairs and farmers have full insight into the affairs of their cooperatives. Some of the major activities to be carried out during the general meeting are; electing various management committee, evaluation of the performance of the cooperative business activities, discussion on various problems related with farmers and coffee production, social development project and plan to be executed are some of the major agendas to be discussed on the general meeting. The basic procedure of the selection of the managers and management committee is based on the principle of the cooperatives and appears to be democratic, one-man-one vote basis. Interviewed members indicated that they did not mention any major unfairness and they confirmed that the management committees are farmers among themselves who were elected by them. They further explained that the importance of such kind of participation for the wellbeing of the whole members. They actively attend, participate in meetings and raise their hands indicating approval for the election of executive members and on other issues that need their approval.

The other important point to be mentioned is members' perception towards their cooperatives. In this regard there are two groups of farmers; the first one, are those farmers who are member at the time of the cooperative establishment these are small in number and they strongly claim that the cooperative as their own organization. During the interview, they stressed how they passed through several problems in establishing the cooperatives and consistently use the term 'our organization'. The majority of the member farmers who joined later on constitute the second group. Most of them claim that the cooperative organization as their own. However, among them, some also think cooperatives are still government institution. They justify that how government (*woreda* officials) controls the affair of the coffee business in the local areas indirectly. Since coffee related with major government revenue both at local and national level, there is an indirect influence on both the production and marketing of the coffee product. The *woreda* officials rather than cooperative managers or supreme body makes any serious decisions in relation to their economic affairs. As a result, there are farmers who still think that cooperatives are partially government institutions that supervise farmers market their coffee and supervise activities of the cooperative societies in general.

In the studied area government control and supervise the cooperative activities mainly through cooperative promotion office. However, there is no pronounced disappointment regarding this among members. Nevertheless, there was strong resentment, among members, toward the taxation on the second dividend payments through the Cooperative Promotion Bureau. They were very irritated and even said that it is better to leave the payment instead of being taxed.

At the time of the study, there was a movement to form a district union initiated by the Cooperative Promotion Bureau and some of the *woreda-cabne* (*woreda* officials) members. The cooperative managements and some members were not happy about this act. Because this act will allow more the Cooperative Promotion Bureau and other administrative officials to involve in the cooperative affairs, even there was fear that BPR (Business Processing and Reengineering) is coming to cooperatives and much of the management committees are in fear that they would be replaced by more educated personnel.

Except some of the Cooperative Promotion Office, the local *kebeles* or PAs administration, the cooperative management committees are all from the farmers themselves regarding this there is no complain from the members. Cooperatives are controlled and managed by democratically elected managers rather than by employed professional full time managers. Still those farmers who played crucial role in establishing the cooperative at the initial stage dominate the management committees.

Both cooperatives and fair-trade principles advocate cooperatives to operate without gender discrimination. However, regarding women participation, both as a member and as a management committee is insignificant. Even those women who are registered as members are very few in comparison to men. The major reason could attribute to cultural factors that still husbands are head of the family, they are the one who registers as membership, and women are in second position to their husband in economic decision. Except some widowed women who registered as member, women both as a member and involving in cooperative management still insignificant.

However, the low number of women membership and in cooperative management does not mean that their role in coffee production, processing and marketing is insignificant. According to DAs, they have significant role in the cultivation, harvesting, processing and

their role more visible in marketing coffee. Thus, except a husband, took coffee to market for needs that require significant amount of money. Women majorly sell the coffee and provide the whole family with necessary basic needs from the coffee income.

Concerning women participation in cooperatives management is also insignificant. There are no women which actively participating in the affairs of the cooperatives. Cooperatives supposed to educate farmer about gender imbalance in the cooperative activities and in other economic spheres. In this regard, cooperatives are not playing their part because of low level of formal education among the cooperative managers and lack of commitment. Contrary to the cooperative and fair-trade principles, the gender gap is visible and the cooperatives are unable to play the expected role yet. In terms of participations, they attend meetings but it is difficult to conclude that they actively participate in decision-making process. However, no women members are yet represented in the cooperatives leadership and it is obvious that they are not treated as equally as the male members are in decision-making processes.

4.2 Fair-trade Certification Process

Fair-trade certification process for all members of the cooperatives is one of the serious challenges at the local level. In most of the time, farmers fail to understand what is expected of them in order to maintain the certification for long, since the criteria are too complex for them. The certification process requires both the coffee producing farmers and the buyers to fulfill certain conditions as set by the certifying bodies. The coffee farmers need to fulfill the conditions both the social requirements like democratic institutions, open and transparent cooperatives management, awareness creation of the members, and focus on social development activities. According to FLOs' principles regarding coffee production practice the farmers are required to keep the quality of coffee production, sustainability, environmental protection, health, cleanness of the processing plant, health, and cleanness of the coffee processors, fair and minimum wages for employee of the cooperatives. In addition to this, organic coffee should be produced using methods and materials that have less impact on the environment. Whereas the organic production system replenish and maintain soil fertility, reduce the use of toxic persistence pesticides and fertilizers and build biologically diverse agriculture.

FLO third party certification organizations verify that organic farmers use only methods and materials allowed in organic production. The OCFCU starts to facilitate the fair-trade certification since its establishment. FLO guarantees the fair-trade certification scheme to farmers' cooperative with the notion that cooperatives are the right channel to benefit the marginalized farmers. However, the standard for certification is one of the major challenges to get certification for all the cooperative members. During the fieldwork, most farmers including the cooperative managing committee do not know well what fair-trade organic certification means. Due to the supervision made by the 'fair-trade' officials from both the FLO and the Union once or twice a year, member farmers only, know the name 'fair-trade' in relation to the community development projects in their respective locality. Farmers asked if they know anything about the concept of 'fair-trade', they only know that the community development projects potable water, clinics schools are financed by simply 'fair-trade', otherwise, the concept and the standard or criteria for certification are difficult to understand for most of them.

In relation to community development project some farmers even, consider it as the favor made by the Union instead of that any certification or benefits is the result of the endowment of the area with the specialty variety coffee. In addition to this, the standard changes from time to time that create difficulty in clearly understanding the criteria. Cooperative executives told that except doing what they were told to do, they do not understand much about the criteria. Though farmers do not understand much about what fair-trade is, they are well aware that the uniqueness of the coffee they produce. As one of the farmers explains regarding this fact as follow,

What brought many foreigners and other people in our locality steam from the variety of the coffee we have, the nature of the soil or type and the way we process our coffee in our hand. All the activities related with coffee production and processing are carried out through 'traditional' way, I think this is what makes our coffee special and attracts people to visit us frequently.

For cooperative to be eligible for FLO certification first there are pre-conditions and processes to be carried out. The selection criterion begins with the interest of the cooperatives and their readiness to be certified. In fact, the OCFCU own technical staff that teaches farmers how to grow organically and how to improve the quality of the coffee, by using the shade of other trees, handling the bean carefully and so on. These technical teams checks out regularly and assists the cooperatives in order to fulfill the criteria and to be certified. The main criteria

to be certified that held by the Union and FLO are, the cooperatives potential (the area) for sustainable coffee production and supply, capacity to fit with the fair-trade standards, willingness and commitment to use fair-trade premium according to fair-trade criteria, legal formation of cooperatives, members consistency and others. In addition to this, the Union after making its own inspection, calls on auditors from the labeling organization for further inspection so that they decide whether a cooperative should qualify for fair-trade certification. Above all to be certified the main criterion is organic production practice that is sustainable for both the society and for the environment.

According to the rules, certification is granted only for one year. At the end of each year, there is intensive auditing and the FLO bodies make inspection whether the cooperatives are doing according to the FLO standards. However, there are some improvements regarding the duration of certification i.e. FLO amended and it is possible now to get three-year certification with serious annual audit and inspection. The inspection conducted both by the cooperatives body and by FLO each year. There is also the possibility of decertification based on the inspection report that if cooperatives are working against the terms of FLO standards like corruption, mismanagement, use of prohibited pesticides and fertilizers etc. For this the FLO conduct serious field inspection, interview members, examine the documents of the cooperatives like income distribution and meeting minutes etc. The third party (FLO) certification involves payment for certification and the OCFCU handles the payment for the member cooperatives and Owens the certification.

4.2.1 The Demand of Organic Fair-trade Coffee in the International Market

According to the Coffee and Tea Development and Marketing Authority (1978), Ethiopia being the home of coffee Arabica has multitude of coffee types, which are more numerous than in any other countries have economic significance for the country. The coffee known principally by the area in which it is grown such as *Jimma, Kaffa, Limu, Yirgacheffee* and *Harar*.

Increasing for exports, the driving force for high price of coffee is the expanded international demand for specialty coffee (Milford, 2004). Specialty coffee is a growing global phenomenon and a strategically critical market segment for the Ethiopian coffee industry. According to ECX (2010), Ethiopia naturally endowed with various genetic coffee varieties, makes it the recognized home of specialty coffee, where it can be argued that more potential for market

differentiation exists than anywhere on the planet. Although there is no universally accepted definition of specialty coffee, from a commercial standpoint, according to ECX definition specialty coffee is;

Specialty coffee is defined as coffee, from a known geographic origin, that has a value premium above commercial grade coffee due to its high quality in the cup and to particular attributes that it possesses.

In order to bring high value premium market price it should be high quality coffee that fulfills the industries' standards as specialty coffee. In such market, traceability and certification are fundamental parts in order to be recognized as specialty. Traceability is the ability to identify the origin of the coffee to the most relevant level of aggregation along the supply chain. It is about the generally information that has market value. Traceability must be complimented by recognized and accredited third-party certification entities that can collaborate with the exchange to obtain this traceability information and ensure its consistency and integrity. For this, the market requires third party certification that adds value in the market like fair-trade certification scheme.

According to World Development Report (2008), High-level products make up a rapidly growing share of international trade in agricultural products. Organic products now make up 47 percent of all developing countries exports; far more than the 21 percent traditional export commodities provide opportunities for entering high value markets. The market for premium quality goods such as coffee, organic and fair-trade products have grown considerably in the last decade.

ECX's (2010) document shows that the global trends in the specialty market, categorizing by regions, the consumption of specialty coffee by US (United States) is more significant. The consumption estimated to be nearly one fifth of the total consumption and growing rapidly representing nearly 60 percent of the global demand; USA, Europe and Asia (Japan) the major consuming and market outlet for specialty coffee. Thus, in 2006 and 2007, the retail value of specialty has risen above 50 percent of the total value of coffee sold, which is a very important trend. this can be largely attributed to what is refer to as the 'Starbuks phenomenon' with an explosive growth in the number of stores over the past decade, as the gourmet coffee culture has become popularized. In very recent years, other retail outlets for the gourmet market have emerged such as McDonald and Dunkin Donuts. Overall industry suggests that the global

specialty market is growing rapidly, and that 'specialty coffee is becoming 'mainstream' as the gourmet coffee culture, particularly among the younger demographic and emerging economies where coffee is a status symbol, continued to expand.

In addition to the growing demand of the specialty coffee in the international markets, the coffee marketing seems to be changing, among this ECX has launched a new coffee trading system called Direct Specialty Trade (DST). DST is an on line trading in which make farmers' organization to directly trade with international coffee buyers. Among these farmers organization the OCFCU are part of the DST program. Thus, Fair-trade certified coffee is the fastest growing segment of the specialty coffee market in the international coffee trade. According to the ECX, DST schedule most specialty coffee that have been and going to be traded through DST are the Fair-trade and Organic coffee certified and the majority belongs to the OCFCU. On the demand side the dominant one is the US specialty coffee roasters and retailers followed by Europe and Japan. During the fieldwork it was observed that some European and Japan coffee dealers were visiting the coffee growing areas. The Union has also so far secured market access for Harar's coffee from countries like in Asia Japan, Middle East Saudi Arabia, Europe Netherlands and Germany, and USA.

4.2.2 Benefit from Fair-trade Community Development Project

The most direct benefit of fair-trade is the minimum price guarantee and social premium (extra payment above the international market price) offered to producers. The magnitudes of the benefits are dependent on the price differentials on the fair-trade price and the conventional market price. However, farmers do not believe that the price they receive currently through fair-trade as fair. According to them, it is fair only in comparison to the condition what was before. Whatever it is said as fair price by the FLO farmers still hope that the price for their coffee will increase. This is also due to lack of clear understanding of the basic principle and objective of the fair-trade among farmers.

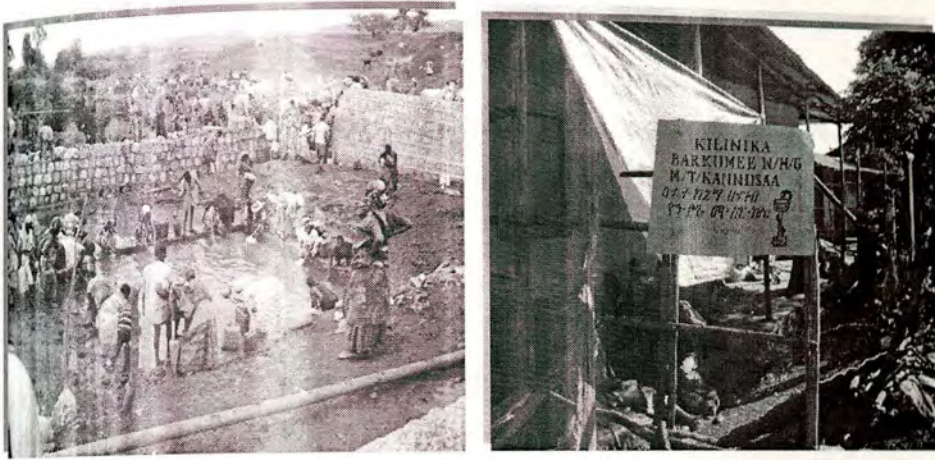
According to fair-trade principles, Fair-trade labeling provides farmers, and their communities with economic, social and environmental benefit for the fair-trade certified products they sale. The fair-trade standards define the rules of fair-trade trading and outline a number of benefits that must be provided to producer and their organizations.

The volume of certified coffee sold by the OCFCU increased from year to year. The current minimum price for fair-trade coffee is 1.24 USD/lb plus 0.10 premiums. If the world coffee price is above 1.24 USD/lb (1b= 2.2046kg= pound) the price will be the same. However, if the price falls below the established price in the international market the price remain the same but in principle always remain above the international market price. Fair-trade guarantees the minimum fair-trade price designed to cover the cost of sustainable production. The minimum price acts as a floor price that protects farmers from unexpected downturns in the market and offers them stability and security of income. In comparison with the conventional coffee that is sold depending on the international market, there is no any consideration even if markets fall. While for certified coffee, the buyers' pays the minimum price as a guarantee agreed for specified period. In principle, the fair-trade minimum price is always above the market price in the international coffee market. If the price drop fair-trade price, remain fixed. Hence, this condition enables farmers to produce coffee consistently without thinking much about the price fluctuation of the international market and this stabilizes the local coffee market.

However, due to various problems that face the primary cooperatives, they are not exploiting well the existing market opportunity and the payment is low. The payment for social development premium that added on the floor price (0.10 USD) is based on the volume of coffee supplied to the fair-trade market. For example, the document of the cooperatives showed that, for instance Riga Damu the social development premium payment for 2008 is 68,302.36 birr and the highest for 2009 is 97, 302, which is insignificant in comparison to the needs for social development projects. In most cases, various projects carried out by adding the two or three years fair-trade premiums payments or adding money from other sources. Hence fair-trade scheme guarantees farmer at least for sometime (for specific agreed period) sustainability of the coffee market, from unexpected dawn turn. This is good opportunity for farmers to exploit the existing market opportunity.

Regarding social development, as criteria cooperatives are required to utilize the fair-trade premium properly on social development projects. The extra premium 0.10 USD per kilogram should be spent on social projects that the certified cooperatives' general assembly agreed on. The premium earmarked to finance projects benefiting the whole community. According to the FLO principles, the premium money is meant to improve the situation of local communities in health, education, and other services. However, the decision on what to allocate is up to the producers' organization. The only requirement put forward by FLO is that the premium be

managed transparently and the members of the cooperatives take those decisions on its use democratically. However, as a rule of the fair-trade it should address community's development problems like pure water, schools, clinics etc.



Community Potable Water project under construction from fair-trade social development premium and the cooperative clinic at Bereda (photo by author)

During fieldwork, it was observed that some of the ongoing social development projects and the completed one, both at Bereda and at Mulisa Haqa (Harew) PAs. Both cooperatives are in their third year of fair-trade certification. During these time, they have built animal (veterinary) clinic at Harew (for Riga Damu cooperative) and the ongoing water wall projects at Bereda (for Tuti Kanisa Cooperative) and the renovation of the old elementary school is planned and the necessary preparation has been made with the payment of the 2009/10 social development premium at Bereda PAs.

However, regarding the veterinary clinic, some farmers still complain, about the location and even the construction of the clinic as opposed to the principle of FLO. During FGD, participants expressed their dissatisfaction with the location and suggested that instead the money should be spent on water wall project or clinic. They explained that the clinic was constructed while they were not come to common consensus and their needs were not prioritized. However, in general the cooperatives have used the fair-trade premium to invest in community development projects that often benefit not only the members but also the entire community.

4.3 Physical, Financial, and Social Constraints

Most literatures on cooperatives business activities revealed that cooperatives are business enterprises and as such, they are expected to meet business standards and behavior, if they had to succeed. As voluntary economic association, cooperatives face variety of problems (Milford, 2004).

Regarding this point the cooperatives that are the focus of this study, they face many problems in order to carry out their daily business operations. To begin with, one of the major problems that they are facing is lack of financial capital. Most cooperative management emphasized that adequate financial resources is very crucial in the day-to-day activities of the cooperatives. Cooperatives face shortage of capital finance because; first, the majority of the coffee collected by the cooperatives is in the form of *janfal* in order to keep the quality of the coffee that take sometime to process and send to the union. Second, they pay to farmers in accordance with the existing market price on delivery. These conditions gradually reduce the money in their hand that hinders them to collect more coffee in the market. On the other hand, the majority of the coffee collected by the private traders was in the form of cleaned coffee bean, which has relative advantage to immediately send the collected coffee to the wholesaler and return the money for the next purchase that means the turnover is immediate than cooperatives.

Thus, financial position is one of the major means of competition between private traders and cooperatives. Cooperatives management committees reported that delayed payment for their coffee by the union creates problem to collect more coffee in the market. Most of the time payments delays for sometime; a week or even more that creates gaps in local market to collect coffee. One of the management committee explain this fact as fallow

As anyone could see, the market for coffee in these days is more of competition. You need financial capital and the money should circulate timely as the market requires. Nevertheless, this does not happening for cooperatives. Our potential to collect more coffee from the members and earn more profit is limited by lack of money. We always borrow money from both the Union and the Oromiya Cooperative Bank and collect coffee and send to the union. However, the payments always delay. For example, last year, so to speak, it was the Union that made the business because the payment for our coffee surprisingly delayed for two months. Our business sized by shortage of money while the private traders took over the local coffee market. We complained several time but the Union replied that it is the result of bureaucracy of the government banks.

This condition repeatedly mentioned as one of the major problems by farmers and cooperative managers. Financial capacity is one of the important means of competition in the local coffee market. In this regard, the private traders are well aware of the financial position of the cooperatives. Whenever the cooperatives face lack of finance to collect coffee they stepped in by reducing the price, sometimes this also occurs among cooperatives (collecting coffee from others' cooperatives members). There is a common trend, in relation to this, *'let's wait until the money in their hand run out'* is the saying goes on the part of private traders just to seize the opportunity to take over the market for a while.

Another major problem mentioned by farmers and observed during fieldwork was lack of transportation and poor road condition that seriously hamper the activities of cooperatives. Especially those roads that connect the local areas are in a very poor condition. Surprisingly, farmers made these roads manually. In addition to this, all roads including the main road are dry season's road. During rainy season, or in occasional rain, it is difficult for trucks to move. These conditions according to the cooperative managers are the major reasons that cause to raise the cost of transportation from time to time. Moreover, there is no formal transportation for people in local areas; people use trucks or lorry to move from place to place even that are available more on market days. Proper public transportation so to speak is only available in the main road. Thus, people are forced to walk on foot up to 30 and 40 KMs. FGDs with the farmers revealed that all of them have no access to transport their product either to the buying station or to the main market. They transport their product to such stations using pack animal. Lack of adequate transportation in local areas is barrier to supply coffee to the central market on time.

Lack of proper coffee processing machine is also another major serious problem mentioned by farmers. Currently they are using diesel grain mill for pulping dry coffee cherries. The grain mill is ineffective in comparison with the proper hulling machines in terms of quality and saving time. The grain mill only hulls but it does not separate the coffee beans from its pulp. Thus, it requires additional labor for sorting the beans from its pulp. due to this; the cooperatives employ women in the area for sorting the coffee bean from its pulp manually. Lack of proper hulling machine has direct impact on the coffee price according to the cooperatives managers, because coffee price depend on its quality it require proper hulling machine in order to maintain the quality. In most cases, the coffee sent to the

Union is graded as fourth or fifth and most farmers suggested that proper coffee hulling and quality grading machine should be available in their vicinity. Because, if such kinds of services available in the nearby they can easily control and assure the quality of their coffee and able to get better prices without wastage of their time and money. One of the management committee who is tired of the coffee quality checking process at ECX quality check said that

It is very disappointing that sometimes after we brought coffee here (ECX coffee quality checkpoint) our coffee could be rejected for export. This is mainly the reason that not all farmers have the same awareness about maintaining the quality of coffee. Some farmers still bring mixing unripe and ripe coffee cherries in order to increase the weight of the coffee. At the time of collecting by cooperatives, it is difficult to distinguish such problems especially if it is dried cherries. This poses a problem at such time that would waste our time and money. If we have, the various qualities checking machine near our vicinity we will not have much problems in detecting the quality and make a correction measure right on time.

For farmers one of the few ways of adding value is by processing the coffee so that its quality can be proven right on their own locality. Coffee that has been pulped with the proper pulping machine would have better grades and there by fetches good price.

During field work and discussion with the farmers and cooperative managers revealed that cooperative service activities are weak such as clearing, and storage, packaging, lack of capital fund for credit and transporting were identified as major problems. Cooperatives are run not by full time recruited staffs who dedicate their time and effort to the task of cooperative societies instead elected members who have low educational background and managerial skill, no professional accountant and proper office managements.

The benefit of the social premium, however, is dependent on the volume of coffee supplied to the fair-trade or specialty market. However, as the cooperatives' managers explained that the ability to exploit the existing market opportunity is much dependent on the cooperatives financial resources and the coffee processing facilities.

The other important constraints to be mentioned are lack of education on cooperative value and fair-trade. Though the union fair-trade technical team claim that they educate the member farmers about fair-trade, field observation revealed that farmers do not have full concept about it. Despite the failure of the union adequately educate about fair-trade, the other

constraint is low level of formal education among the cooperative management committee and member farmers.

The development of sustainable member based cooperatives critically depends on the members having a basic understanding of their cooperatives activities. In recognition of this, the ICA (2004) incorporated education and training as one of the basic principles of cooperatives societies. Lack of education and training is therefore, one of the impediments constraining the performance of cooperative societies. In this case recruiting new members is very weak by the cooperatives. The discussion held with the farmers how they are recruited as a member, noted that instead of education of cooperative value by the cooperatives the majority of the members join cooperatives through the influence or agitations through the neighbor, friends. Because the immediate benefit directly witnessed from the close neighbor, families, and neighborhood.

4.4 The Influence of *Khat* on Coffee Production

Currently demand and the price of coffee both at domestic and international market is relatively better than before as farmers noted. However, as most management committee of the cooperatives and DAs note that *khat* has become one of the most lucrative businesses in the area. Because of this, it has considerable influence on the production of coffee. The prices of coffee became better for the last two years especially this year. Du to this for long period of time farmers was trying to shift their land to *khat*. Even there are farmers who up rooted some of their coffee farm for *khat* production. Most farmers explained they are begun to be attracted by the lucrative business of *khat* because the economic benefit became more visible in the study area than coffee.

It is apparent that *khat* is both socially and economically one of the most important cash crop in Hararghe Highlands. Just like any other areas of Hararghe, in the study area its production and consumption is also an old practice. It is associated with every aspects of their life. It helps to carryout agricultural activities; facilitate social gatherings, engagements, weddings, mourning and important means of pastime and recreation in the local areas. Due to this, the cultivation for both domestic consumption and for marketing increased from time to time. Thus, farmers show increasing interest in its production.

According to the discussion held with farmers and DAs, *Khat* has relative advantage than coffee; it requires similar environment and cultivation practice. Besides, it demands less labor input in comparison with coffee cultivation. Moreover, it is pest, disease resistant and it is more drought resistant in comparison with coffee. On the other hand, coffee plant is very sensitive to water shortage, if it does not get rain at the usual time it will not bear fruit. In terms of productivity, the product of coffee is not consistent each year, if it is good one year it would be less in the next year. Whereas, *khat* comes to production relatively with short period, within two to three years and it can be harvested in average twice a year and in most cases, it can be easily intercropped with other food crops.

The marketing of *khat* also efficient in comparison to coffee marketing that took some time starting from processing to marketing. The fact that it is perishable and has to be consumed within 24 hours after it has been harvested; the marketing of *khat* is very efficient with highly organized private marketing network involving relays of drivers that convoy the fresh leaves from collecting points in the local area to the major towns like Aweday.

Due to for local consumption and for export, most farmers emphasized the economic significance of *khat* production. *Khat* production and marketing has become more attractive and the economic benefit is practically immediate than any other cash crop including coffee. Due to this, recently special emphases have given by farmers for its production. Some farmers have been gradually shifting their coffee land to *khat*.

The issue of *khat* and coffee production creates hot debate among farmers in relation to the economic significance in comparison to coffee. Though there are reports by OCFCU and others since 2001 with the international coffee crisis that the Hararghe farmers are shifting their coffee land to *khat* production, according to the observation, the interviews made with the farmers there has not been a major change except few to be mentioned. Farmers still maintained their coffee farm. However, there are farmers who have uprooted some of their coffee land for *khat* cultivation. Discussion with the farmers on the field revealed that there is no as such major shifting of coffee land due to the crisis in coffee market. Though, the cooperative promotion officials said that farmers wants to cultivate more *khat* motivated by its current market opportunity and they are also concerned that in the future if something will not be done all farmers turn in to *khat* production. Abdi one of the farmers in Bereda, who saw the advantage of *khat* production and change some of his land explained that;

I had about four' timad (about half a hectare) of coffee land while some of my land occupied by khat. When I saw for long that the coffee unable to fetch significant contribution to our life I was became desperate and I should do something about it. There was even time that coffee by itself unable to support basic needs as it used to be. The price was unreliable. In contrary the market for khat became more lucrative, even for domestic consumption sometimes become too expensive. Therefore, I decided to shift some amount of the land of coffee for khat. I uprooted about 20 kataras (rows) and replaced it with it. Now it has been three years since I have started to enjoy the product. At least with good price I can earn twenty thousand birr per year only from khat. Its market became more reliable especially during the dry season but during summer, the production becomes in abundance and the price will decline.

For anyone, who arrives in the area as a guest starts to talk about their economic life *khat* production in comparison with coffee would be the main agenda. One of the famous *khat* varieties that are spreading fast in the local area is known as *Hamercot*, almost caught farmer's attention. Because of its high demand for export in *Aweday*, it becomes important cash crop. It was once common *khat* varieties in the adjacent *woredas* and towns of *Qooboo* and *Deder* but now it is spreading in the local areas in *Mellka Bello*.

Many of my informants commented that, the price of coffee that reached 35 birr only reached this year. However, they have never received better price for their coffee like this before. Thus, comparing the price of *khat*; let alone the expensive one *Hamercot*, the common type in the area its kilo (kilo type of *khat* by standard of *Aweday khat* market) is getting expensive and more than 35 birr, which is by far better than the current price for coffee in the area. Besides this it can be collect twice or three times a year. Farmers commented that they have been producing coffee for generations but they are still in poverty. Farmers hope that they will overcome poverty through *Hamercot*, not through the production of coffee.

Farmers usually explain the reliability of coffee and *khat* cultivation in the following manner;

In time of difficulty, a farmer whose income is dependent on khat, if he misses his supper, surely he will get his breakfast at least; because there is always someone at his door knocking for khat in the morning. However if we consider a coffee farmer, who is found to be in a similar situation, instead he would be forced to search for someone to borrow money.

In addition to this, there are always success stories in relation to *khat* business that stanches from the local area to the main *khat* market at *Aweday*. The success stories focuses on that

farmer, bought lorry or pick-up (Isuzu), establish grain mill, bought water pump, establishing and engaging in other business in major towns are some of the common success stories that motivate farmers to engage more in *khat* cultivation.

In terms of consumption, almost everyone in the study area consumes *khat* every day surprisingly coffee consumption is insignificant in comparison with *khat*. Coffee is drunk occasionally especially in the morning along with breakfast; even that is not taken as black coffee as in the other areas rather it is consumed much with milk. Moreover, the market of *khat* is highly organized business and there are even some incentives by the traders for farmers to produce more *khat* in order to secure the supply. In Bereda during fieldwork, it was observed that there was a farmer who received expensive flameless lamp (*locally known masho*) for a farmer who performs well in *khat* production. This in turn creates initiation to cooperative managers that they should do the same to their members with various incentives in order to give more emphasis to coffee production and maintain quality.

Despite the economic significance of *khat* production, farmers confirm that they still maintain their coffee farm and there has not been major shift of coffee land. Because in order to replace coffee by *khat* it takes time and it is not easy simply to shift what has been practiced for long. The discussion held with farmers regarding on this issue; Shame a coffee farmers at Mulisa Haqaa said that;

Earlier every farmer produces khat in his garden in small amount that could be consumed for domestic purpose part of daily consumption in small amount. Its price was not attractive as today to produce more for market. Instead, coffee has been the major economic activity for long and majority of the land were covered with coffee tree than that of khat. In addition to this, it is very difficult for a farmer to replace coffee-land to khat production in short period of time; no matter how much attractive the business of khat in terms of market price; farmers still maintain the majority of their coffee with the hope that the price for their coffee will increase.

Whenever farmers asked about the economic significance of coffee, they tended to exaggerate that it is *khat*, that it became economically more viable. The compliment 'The price for coffee is discouraging'. 'farmers are replacing their coffee land to *khat*', is the common answers with the hope of something will be done to increase the price for their coffee. In addition to this, farmers explained that for long they were not benefiting from their coffee. Even they tended to view coffee as a business that benefits much government instead

of farmers. One of my informants Sule explained that coffee is much beneficial to government revenue but *khat* is to farmers he further note that in the following way

You see we do not even allowed to sale our coffee at black market or any other places in a better price than what we receive now. Coffee trading changed a lot. The black market of coffee totally illuminated and controlled by governments that were once prevalent in the area. We cannot sale a kilo of coffee bean to the black market. However, the case for khat is different, that it could be sold anywhere.

The coffee price has been improved since the last two years, before that the price was not that much attractive, as a result proper care was not given. One of the manifestations of lack of proper care is, attempt were not made to replace old coffee on time or pruned, during fieldwork, it was observed that there were even abandoned old coffee trees. Most coffee trees are mother coffee or first generation coffee trees replacing or planting new coffee trees only gained attention currently. Further more coffee tended to be valued in terms of coffee stem than its productivity, a farmer who has about four hundred stem coffee tree is considered as rich. Due to this, proper attentions were not given to its productivity.

Currently with the relative improvement of the price of coffee both at domestic and international market initiated covering of additional fields with coffee. As one of the DAs explained, farmers' old coffees are not timely stumped even most coffee nursery sites established by government are not functioning well because farmers do not need much new coffee plant and almost non-functional. Covering additional new coffee tree in the mountains and hills gained momentum only in this year as a plan but not practically implemented. Thus, these problems are hampering coffee production and affecting cooperatives not to exploit the existing market opportunities.

Chapter Five

5 Conclusion and Recommendations

5.1 Conclusion

Poverty among small-scale coffee producers in rural areas is widespread. General low levels of income, poor infrastructure and information are problems that the coffee farmers are faced with. Due to the characteristics of the international coffee market, since price levels fluctuate greatly, made the situation difficult for coffee producers. In addition to this, small-scale coffee farmers' exposed to local intermediaries using their power as moneylenders and coffee purchasers to decrease the producers' price level and thereby their incomes.

To this end, the agricultural cooperative as an organizational form has several advantages that, in a third world countries like Ethiopia, may contribute to social and economic development. The potential benefits lie in the co-operative's ability to improve competition, increase innovation, make use of economies of scale, and empower the poor by increasing their social capital and their participation in their organization.

It is widely believed that Farmers cooperatives established based on the basic principles of cooperatives and farmers' willingness would have positive result in achieving their economic and social objectives. Cooperatives in general and coffee farmers' cooperative in particular plays crucial role in improving the living conditions of small-scale farmers who lack bargaining market power at national and international level. Cooperatives have a substantial potential on improving the general economic welfare and overall quality life for their members. The first major role at the local level is regulating the local coffee market through competition. Economic theories indicate that cooperative at least tended to move market toward perfect competition. One of the main positive economic impact of the establishment and existence of cooperatives in local market in the study area is competitive yardstick effects. The local market once totally dominated by the private merchants who tries to maximize profit by any possible means began to give relatively fair price in order to compete with the farmers' cooperatives.

Thus, the existence of cooperatives improved the local coffee market by enhancing competition. Because of this farmer's income also increased by getting better price for their coffee and through increasing returns in the form of dividends to member of the cooperatives. Dividend is one of the good aspect and direct benefits from the cooperative activities for their member. The first and second dividend that returns to members (70%) encouraged farmers to produce quality coffee and attracting other farmers to join cooperatives.

In addition to this, cooperatives provide information on coffee price to local farmers daily through contacting their union. This condition made them to decide price for their product and their position is changed from price taker to setting floor price for their coffee in accordance with the national and international market conditions in their locality. Cooperatives also helped shorten the coffee value chain by cutting some of the intermediaries and gain access to high value export market through their union. Further, more, since cooperatives collect coffee from members and non-members, then it serves as an alternative market channel where they can choose to sale their coffee to the cooperative or private traders based on relative price.

Apart from marketing of member products, cooperatives also provide their members with crucial service. These services include agricultural input supply, output marketing, storage, credit provision, health, education and milling service to their members and generally to the community. In this regard, the cooperatives playing substantial role in providing social service not only for their members but also for the whole community as well.

Producing quality coffee is a determinant factor to capture the additional market value. Training regarding quality coffee production and other technical matters are inadequate and still producing and processing quality coffee are major problems that hinders to exploit the existing market opportunity. Farmers still lack the basic knowledge of how to maintain the quality of the coffee according to the required international standards and there is no mechanism to control the quality of the coffee at local level. This evident that in most cases coffee sent to the union ranked as four or five at ECX quality grading and prices is determined based on the quality of the coffee at the national auction. Thus, this condition is one of the major problems not to exploit the market value to their potentials.

Apart from direct economies benefits, cooperatives offer an effective opportunity to build community's social capital and play important role in social development as a grass root level.

Cooperatives are an opportunity to exercise participatory democracy through democratically owned self-help organization. As community institutions, cooperatives develop, decision making to the community level, and build social capital, community spirit and pride. Shared spirit of cooperation and empowerment also help the local community to solve their common problem by themselves.

The study found out that FLO is working closely with farmers cooperatives, and practically connect small-scale farmers with global coffee markets. Thus, stabilizes and secures price fluctuation. It also provides information about the coffee market and quality coffee production via the Union. Extra premium payments above the market price for social service projects are also one of the main benefits. However, it is observed that the cooperatives do not exploit the existing market opportunity due to various constraints. Thus, the benefits in this regard remain too small in comparison with the financial resources needed to build social infrastructure since the fair-trade premium payment is based on the amount of coffee supplied to the international market.

Theoretically speaking the principles and goals of Fair-trade sounds good however, these principles and objectives are still hardly understood by the beneficiaries (coffee farmers). Even the cooperative management committee barely understands what fair-trade means and the criteria to be certified and to maintain the certification. Only those officials in the Union are well aware with these principles, goals and terms of fair-trade. In principle, the cooperatives are supposed to channel, educate their member farmers about cooperative value, and fair-trade but they are not performing well in this regard. One of the major problems at the local level is that elected officials instead of professional managers run cooperatives. Low educational background of the management committees and dependence on occasional external training are also among the major barriers hindering the success of cooperatives. Any benefit whether from cooperative activities or fair-trade social development projects, considers as the good will of or a kind of charity from the Union. Farmers do not seem understood well their coffee as part of specialty coffee market. Due to this, farmers considers the Union managers as hero who stands for their voice.

There is a growing demand for 'fair-trade' certified coffee in the global specialty market and Harar's coffee by virtue of its natural endowment and its variety, is parts of the international specialty coffee market. However, the cooperatives are not exploiting the opportunity to their

potentials. Among others, lack of adequate coffee pulping machines in the farmers' locality, lack of adequate financial loan service, low level of education among the management committee and lack of infrastructure especially road and the spread of *khat* cultivation in alarming rate in the coffee growing areas are mentioned as constraints to the successful operation of the cooperatives.

All the cooperatives under investigation were established after 1991 under the new reformed free market economy to enable small-scale coffee farmers to participate in free market economy. However, the main difference from the earlier regime is that cooperatives established based on the basic principles of ICA and member recruitment is voluntary: there is no forced conscription unlike the past regime and this is one of the good aspects of cooperative organization in the studied area. However, it is difficult to conclude that cooperatives as autonomous member owned and controlled business organizations. The *woreda* cabinet members are still very influential in the affairs of the cooperatives. Such kind of interventions made some of the members consider cooperatives as government institutions as it was in the past.

5.2 Recommendations

Cooperatives potential to improve the lives of its members much depends on its survival and success. Thus, it is expected that cooperatives are able to cope up with the competition both at the local and international levels. In order to be successful as a competitive business organization they must meet some required standards. Thus, based on the finding of the study the following solutions are recommended;

Since the price of coffee at national and international determined by its quality, cooperative should improve the quality of the coffee they supply. In order to supply quality coffee they need proper coffee processing machine at their respective locality. Thus, they should invest on proper coffee processing machine instated of pulping with grain mill. Most facilities used to control the quality coffee are found at Addis Ababa, this is a reputedly mentioned major problem for cooperatives in order to check the quality right away, instead of after being shipped to Addis, coffee sometimes rejected due to its quality that would cause financial loss for cooperatives and farmers.

Producing quality coffee also depends on consistent training for members instead of inadequate occasional training by NGOs and other institution. Therefore, farmers need consistent relevant training uniformly to all members in order to produce quality coffee in accordance with the international quality demand.

Since cooperatives cannot be successful with low level of formal educational background of its members, there should be a means to provide their members with formal education including consistent education on the values of cooperatives and fair-trade.

At least the managers of the cooperatives should be educated instead of elected officials among the members. Unlike the Union who hires professional managers, the cooperatives are run by elected officials among the members who lack managerial skills. Hence, hiring professional managers are common and good for the competence of the cooperatives business.

As Farmers noted, the financial position of the cooperatives or easily access to financial loan can also ease the stiff competition between private merchants who try to exploit the opportunity by reducing the price for coffee below the market price. There should be adequate financial loan services available to farmers in their vicinity so that they can collect coffee from all their members.

The basic principles of the ICA (2004) (cooperatives are autonomous voluntary self help organization democratically run by their members) are crucial to the success of the cooperative business. From the experience of Cooperative activities in Ethiopia in the past, the inadequate or the absence of the above basic ICA principles are major points that facilitate their failure. Therefore, unnecessary intervention by various government officials should be minimized so that the members fully exercise their democratic and economic right at local level through their organization.

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Appendices

Questioner guides to cooperative management members.

Name of the Cooperative _____

Date of Establishment _____

Current Members _____ Male _____ Female _____ total _____

Name _____ Age _____ Sex _____

1. On major problems that necessitated establishment of cooperatives
2. On member recruitment
3. On coffee marketing
4. Current challenges
5. On cooperative value and fair-trade
6. Participation and precipitations towards cooperatives by members
7. Economic and social benefit from cooperative activities
8. Social service provided.
9. Training and education

Questioner guide for member farmers

Name _____ age _____ sex _____

Educational background _____

Name of the cooperative _____

Date of establishment _____

Family background-----

1. Challenges of producing coffee as livelihoods
2. On coffee production, harvesting ,processing and marketing
3. On major challenges producing coffee
4. On Economic benefit from cooperative and fair-trade
5. On general coffee price before cooperatives established
6. Social service provided
7. Government intervention

Check list for group discussion with the heads of the cooperatives

1. On advantages and benefits of cooperatives
2. On participation in cooperatives affairs
3. On advantage of being member to cooperatives
4. On concept of fair-trade and fair-trade social development premium

Checklist for FGD with member farmers

1. On the significant coffee production as livelihood
2. On major problems that necessities the establishment of cooperative
3. On perception and participation towards cooperative
4. On fair-trade concept and social development premiums
5. On advantages of being organized
6. On benefits from cooperative and fair-trade

Cooperative Society

Type of work _____ coffee drier

Accountability _____ Industry manger

Terms of Reference

1. Draws coffee from socking tanks
2. Confirms the availability of adequate mesh wire and drying tables
3. Separates the defected coffees from normal coffees at sorting stage.
4. Allows the coffee to be exposed to recommended sun light.
5. Covers the coffee, while there is storage sun light
6. Makes sure that any defected beans are avoided
7. Checks whether the coffee is dried, and reports to the industry manager to test the moisture content.
8. Makes the coffee to be stored in the warehouse.
9. Performs any job, which is instructed by his immediate boss.

Employee name _____

Employer name _____

Signature _____

Signature _____



YUUNIYEENII WALDAA GAMTAA OMISHTOOTA BUNAA OROMIYAA
 Finfinnee, Itiyooophiyaa
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 አዲስ አበባ - ኢትዮጵያ
OROMIA COFFEE FARMERS COOPERATIVE SOCIETIES UNION
 Addis Ababa, Ethiopia

467-3256/57 Fax (251-11) 467-3262 P.O.Box 1394 Code 1110 E-mail: cofunion@ethionet.et Website: www.oromiacoffeeunion.org


Lakk 291/00
 ቁጥር
 Ref.No.
 05/05/00
 Guyyaa
 ቀን
 Date

WHG Tuuta Kannisaa
Bakka Jirtanitti

Dhimmi:- FLO Bara 1998/99 argatan beeksisuu ilaala

Bara 1998/99 akka dhyeessi buna keessamitti, FLO waldaa keessaniif kan qoodame Qarshi
 68,303 (Kuma jaatamii saddefi dhibba sadiifi sadii) akka ta'e ni beeksisna.



Nagaa Wajjin

Dassaalemny Janaa
 //Aanaa ManaJeraa



YUUNIYEEN WALDAA GAMTAA OMISHTOOTA BUNAA OROMIYAA

Finfinnee, Ittiyoophiyaa

የኦሮሚያ ቡና ገበሬዎች ሕብረት ሥራ ማህበራት ዩኒየን
አዲስ አበባ - ኢትዮጵያ

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Lakk ቁጥር 1196/99
Ref.No.

Guyyaa 07/12/99 ቀን
Date

Waldaa Hojii Gamtaa ----- *Tute kamisa* -----
Bakka Jirtantii

Dhimmi :- Waldalee Miseensaa Feer treed (fair trade) ta'aniif qabxii guutamuu qaban hubachiisu ilaala.

Waldaalee miseensa Yuuniyeen Waldaa Gamtaa Omishitoota Buna Oromiyaa ta'an keessa Waldaan keessan miseensa feer treed (Fair Trade) ta'uun maallagaa gurgurtaa buna gama feer treed gaggeeffamaa turee irra ittiifayadamtoota ta'uun proojektota tajaajila hawwasumma babalisuu waldalee keessan keessattii hojjetama jira . waldaleen miseensaa feer treed ta'an inmo miseensummaa ittii fuufu kan danda'uu ulagalee feer treed guutuu yoo danda'ee dha.

Kanaafuu , itti fufinsa miseensuma feer treed mirkaneesuuf ulaagalee FLO guutuun barbaachisaa waan ta'eef. ulagalee guutamuu qabaan waraqaa fuula ---- xalayaa miiteestuu kana waliin qabsifne waan isinii ergineef akka hojii irra olchitan cimsinee ni beeksifna.

Nagaa Wajjiin

G.G
Wajjira D/W/H/Gamtaa Godina *B/H...* tiif
B/J
Wajjira D/W/H/Gamtaa Aanaa *M/B...* tiif

Dassaaleny Janaa
//Aanaa Mansieraas

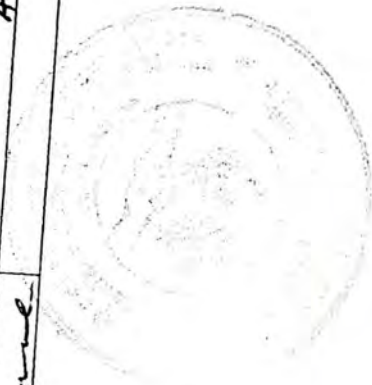
Duba Kariya

Farmers Cooperative Society

List of Premium Committee

Karee been freed,

Sr No	Name	Sex	Name of Cooperative	Position	Remark
1	Xa's Ra'uf	Shire (male)		Secretary	
2	Hamad Alalash	male		member	
3	Amad Rivee	"		member	
4	Carlii Sheeky	Female		Chair man	
5	Tava Kabing	Female		Chair man	



DECLARATION

I, the undersigned, declare that this is my original work, has not been presented for a degree in any other university and that all sources of material used for the thesis have been duly acknowledged.

Name----- SISAY TULU

Signature----- 

Place and Date of Submission:

Addis Ababa University

June 2010

Confirmation

This thesis is submitted for examination with my approval as a university advisor.

Name----- Signature----- Date-----