

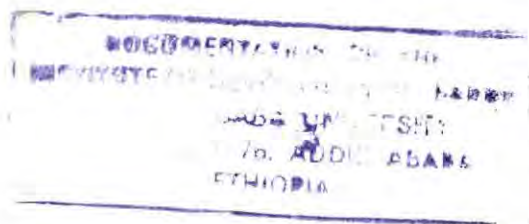
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**OPPORTUNITIES PERFORMANCE AND  
 CONSTRAINTS OF COFFEE FARMERS'  
 COOPERATIVE UNIONS IN ETHIOPIA:  
 THE CASE OF KAFA FOREST COFFEE FARMERS'  
 COOPERATIVE UNION IN SNNPRS**

26255

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*A Thesis submitted to the School of Graduate Studies of Addis Ababa University in partial fulfillment of the requirements for the Degree of Master of Arts in Development Studies (Rural Livelihoods and Development)*



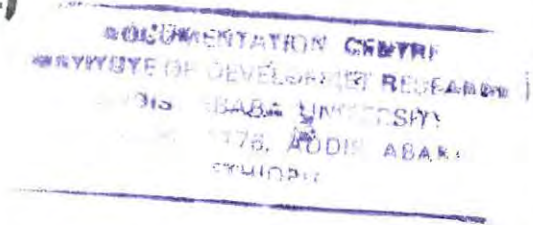
**July 2007**  
**Addis Ababa**

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# ADDIS ABABA UNIVERSITY SCHOOL OF GRADUATE STUDIES

## INSTITUTE OF DEVELOPMENT RESEARCH (IDR)



### Title

**Opportunities, Performance and Constraints of Coffee Farmers' Cooperative Unions in Ethiopia: The case of Kefa Forest Coffee Farmers' Cooperative Union in SNNPRS.**

BY

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DEVELOPMENT STUDIES

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## **Acknowledgements**

Above all, I would like to thank and give praise to the Almighty God for all His provisions and care throughout my life. My sincere gratitude and thanks go to my advisor Yigremew Adal (Ass. Prof.) for his scholarly advice and insightful guidance of this study. His unique resourcefulness in cooperatives and critical comments on the structure and contents of the thesis have substantially contributed for the completion of the work. My professors Dr. Workneh Negatu and Dr. Abdulhamid Bedri deserve special appreciation for their invaluable advice while selecting and articulating the research topic.

I would also like to extend my great thanks and appreciation to Mr. Gerard Kiers (former Chief Technical Advisor to the KDP) and Mr. Christian Graziani (present Chief Technical Advisor to the KDP) for encouraging me to undertake this study in the Kafa Zone and for covering a great deal of the study expenses during my stay in the Graduate school as a self-sponsored student. Before articulating the research topic and writing a full fledged proposal, I made repetitive visits and preliminary discussions with the primary cooperative leaders at the Woreda level and the KFCU leaders at the Zone. The expenses associated with these activities were covered by the GTZ. I am extremely indebted to the GTZ and Ato Kinfe Mamo, Project coordinator of the GTZ, for facilitating such assistance.

During my fieldwork, I got a lot of support from many people. I would like to use this opportunity to thank them all. Particularly, I am indebted to Ato YesheWalul Tesemma for allowing me to participate in a cooperative workshop held at Bonga. I am also thankful to Development Agents (who were also my enumerators) Eminu G/Mariam, Tilahun Asfaw and Alemayehu Haile who facilitated my access to the primary coffee cooperative members. I also greatly acknowledge coffee farmers of the study area who were the main sources of the data gathered.

I am extremely indebted to my dearest brother Daniel W/Michael without whose incessant support and encouragement, this study could not have been accomplished. I would also like to thank my brother Addis Mengistu who provided me with accommodation throughout my study period. I am grateful to Fikadu Adane, Alemayehu W/Michael, Dr. Genet Kochito, Kifle Telga, Ashenafi Duresa, Yordanos Lisanu and Dr. Solomon Tamiru for their financial support and spiritual encouragement.

I am very much beholden to my former high school instructors Birhan Hailu and Philmon Hadaro for their help in running the SPSS program and in editing the final thesis respectively. My sincere thanks also go to Woineshet Wolde, Betehlehem Woube, Haimanot Etsubdink and Getenesh Mamo and her family for their support and encouragement in one way or another.

My last but not least words of thanks go to the administrative staffs of the IDR, AAU. I specially appreciate and thank those staffs at the IDR documentation center for their patience and helpfulness.

## List of Acronyms

|                |                                                                                     |
|----------------|-------------------------------------------------------------------------------------|
| <b>AAU</b>     | Addis Ababa University                                                              |
| <b>CBD</b>     | Coffee Berry Disease                                                                |
| <b>COPAC</b>   | Committee for the Promotion and Advancement of Cooperatives                         |
| <b>EPRDF</b>   | Ethiopian Peoples' Revolutionary Democratic Front                                   |
| <b>FAO</b>     | Food and Agricultural Organization                                                  |
| <b>FDRE</b>    | The Federal Democratic Republic of Ethiopia                                         |
| <b>GOs</b>     | Governmental Organizations                                                          |
| <b>GTZ</b>     | German Technical Cooperation (Deutsche Gesellschaft Für Technische Zusammenarbeit). |
| <b>ICA</b>     | International Cooperative Alliance                                                  |
| <b>IDR</b>     | Institute of Development Research                                                   |
| <b>ILO</b>     | International Labor Organization                                                    |
| <b>ISO</b>     | International Organization for Standardization                                      |
| <b>KDP</b>     | Kafa Development Programme                                                          |
| <b>KFCU</b>    | Kafa Forest Coffee Farmers' Cooperative Union                                       |
| <b>LDCs</b>    | Least Developed Countries                                                           |
| <b>masl</b>    | meters above sea level                                                              |
| <b>MDGs</b>    | Millennium Development Goals                                                        |
| <b>MoA</b>     | Ministry of Agriculture                                                             |
| <b>MoARD</b>   | Ministry of Agriculture and Rural Development                                       |
| <b>NGOs</b>    | Non- Governmental Organizations                                                     |
| <b>OSSREA</b>  | Organization for Social Science Research in Eastern and Southern Africa             |
| <b>OGRMBPS</b> | Omo-Gibe River Basin Development Master Plan                                        |
| <b>PPP</b>     | Public- Private-Partnership                                                         |
| <b>SCs</b>     | Service Cooperatives                                                                |

|               |                                                            |
|---------------|------------------------------------------------------------|
| <b>SNNPRS</b> | Southern Nations Nationalities and Peoples' Regional State |
| <b>SOS</b>    | Save Our Soul                                              |
| <b>SSA</b>    | Sub-Saharan Africa                                         |
| <b>SUPAK</b>  | Sustainable Poverty Alleviation in Kafa                    |
| <b>UNDP</b>   | United Nations Development Program                         |
| <b>UNRISD</b> | United Nations Research Institute for Social Development   |
| <b>USAID</b>  | United States Agency for International Development         |
| <b>USDA</b>   | United States Department of Agriculture                    |
| <b>VOCA</b>   | Volunteers in Overseas Cooperative Assistance              |
| <b>ZOFED</b>  | Zonal Office of Finance and Economic Development           |

## ***Abstract***

*Due to the drastic decline of coffee prices in the world market, many smallholder farmers in Ethiopia switched to growing khat (chat), and some others cut the trees giving shade to the coffee plants to produce fuel wood. To reverse the catastrophe, export targeted coffee farmers' cooperative unions were established. This study attempts to assess the opportunities and examine the performance and constraints of Coffee Farmers' Cooperative Unions in Ethiopia by taking the case of KFCU in Kafa zone of the SNNPRS. Four cooperatives were purposively selected out of twenty-six primary cooperatives that constitute the KFCU. The study employed combinations of qualitative and quantitative methods of data collection to generate relevant information. The findings of the study showed that due to the constraints it encountered, the union is not able to exploit the opportunities and thus ends up with the low level of performance. The study argues that in a hastily established cooperative society like the KFCU where the basic principles of cooperative are not ingrained, the opportunities presented are rhetorical articulations. In line with this, it was indicated that, among others, lack of education and training, lack of democratic control which is manifested by external interference and weak organizational strength are the impediments to the union's activities. The study concluded that low level of performance shall not lead to abandon the union but save it through a closer examination of those causes of failure. It further emphasized, despite the failures of many cooperatives, one should not forget that there are also many success stories both in the North and in the South. It is thus recommended that, among others, launching education and training programs, avoiding external interference and enhancing legitimate government support, establishing an independent Advisory Board to the Union's Board of Management are the gateways to future success.*

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# 1. INTRODUCTION

## 1.1 Background

People work together to achieve common goals. This has been evident, for instance, in Ethiopia through informal institutions such as *Iddir*, *Iqub*, and *Debo*. Meanwhile, formal cooperative movements emerged first in a capitalist society at Rochdale in England in 1844 (Alemayehu, 1993) and were introduced to SSA by colonial governments often for the purpose of promoting the production of cash crops by peasants (Hussi *et al*, 1993). In Ethiopia, the genesis of modern cooperatives traced 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 (MoARD, 2002; Wegenie, 1989).

After the 1974 revolution, the military regime opted for the socialist ideology. This gave a wider scope for the emergence of cooperatives. The fact that they are the requirements of the socio-economic system was included in various policies of the government. Wegenie (1989) indicated that during the regime, cooperatives received preferential treatment in the supply of agricultural inputs and also enjoyed lower land tax and disproportionate support from the then Ministry of Agricultural Extension and Cooperatives. Dessalegn (1992) noted that in the Derg regime, Peasant Associations, Producers' Cooperatives and Service Cooperatives were established virtually by government fiat, and in the process of the "socialization" of agriculture. Thus they were used as prime instruments in channeling government directives and implementing new "socialist" policies.

The contexts of development strategies and policies have been changed since 1991. With the introduction of the EPRDF led government, a transition was made from centrally planned to "market oriented" economy. Though inconclusive, unlike the development policy of the socialist regime, the EPRDF regime is said to have created an opportunity to improve the socio-economic and political environment through the process of democratization, decentralization, privatization and market liberalization.

In line with the above policy measures, a new, relatively democratic cooperative proclamation was enacted. The proclamation provided that the establishment of cooperatives shall be on the basis of the fundamental cooperative principles. The principles include voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among cooperatives, and concern for community (Proc. No. 147/1998). Following the proclamation, a number of agricultural cooperatives were established in the country. One of them was coffee farmers' cooperatives union.

The establishment of coffee farmers' cooperative unions in Ethiopia is substantially associated with and a response to the drastic coffee price decline in the international market. The unions were thus permitted to buy their members' produce and directly export to the international market.

KFCU, one of the four coffee farmers' cooperative unions in Ethiopia (Kafa, Sidama, Oromiya and Yirgachefe), was established in March, 2004 with a broad vision of making smallholder coffee farmer members economically self-sufficient and food secure through an efficient and

effective business oriented cooperative union (KFCU, 2006). Since its establishment, the union is engaged in collection, processing and exporting of its primary cooperative members' produce.

With the above background, the study attempts to assess the opportunities, and examine the performance and constraints of the Kafa Forest Coffee Farmers' Cooperative Union.

## **1.2 Statement of the Problem**

The importance of cooperatives in carrying out coordinated and comprehensive development efforts is indispensable in Ethiopia where farm holdings are small, application of modern technology is very low and production is mainly of subsistence nature with low marketable surpluses (Zerihun, 2003).

In Ethiopia, studies have shown that cooperatives were a threat, a source of insecurity and burden. For instance, Dessalegn (1992) revealed that only a few weeks after the Ethiopian government announced the mixed economy policy, a greater majority of cooperatives were dissolved by their own members. Of course the rapid expansion of cooperatives, without adequate preparations and without a full consideration of their basic principles and potential for economic viability, led to many problems and failures (Hussi *et al*, 1993).

Following the collapse of socialism in Ethiopia, many people distrusted cooperative societies. They considered cooperatives as features of socialism and suggested that they should be done away with as the country moves to the market economy. Regardless of this sentiment, cooperatives can help facilitate the development process if organized with the consent and full acceptance of those who would benefit from the effort. Thus, to enable cooperative societies actively participate in the "free market" economic system, the FDRE provided the cooperative

societies proclamation No. 147/1998. The proclamation stipulates that the establishment of cooperatives shall be on the basis of the fundamental cooperative principles.

The enactment of the proclamation No. 147/1998 facilitated the establishment of a number of cooperatives, among which, coffee farmers' cooperative unions are at the forefront. One of the salient problems that initiated the establishment of coffee farmers' cooperative unions in Ethiopia was the drastic decline of coffee price in the world market. The coffee price in the world market reached the lowest level in 30 years in 2001. According to GTZ (2004) report, due to the persistent low world market price for coffee, many smallholder farmers in Ethiopia switched to growing Khat. Some others cut the trees giving shade to the coffee plants, to produce fuel wood. This, coupled with the fact that coffee production takes place in remote areas where the infrastructure is poor and standard of living and education levels are generally low (Milford, 2004), exacerbated the problem.

Coffee farmers' cooperative unions were thus considered as a panacea to relieve the catastrophe inflicted on the Ethiopian coffee growing farmers. The government and the NGOs facilitated a direct access to the international market so that coffee cooperative unions are able to export their produce. This enabled the unions to bypass the narrow and rigid national auction system. A campaign to introduce Ethiopian coffee as organic and the growing demand for organic coffee abroad has also played substantial role to penetrate the international market.

However, since the move towards the production and marketing of organic coffee by coffee farmer cooperative at the international level is a recent phenomenon, and that coffee cooperative unions are relatively recent establishments, it seems that no substantial attempt was made to assess the opportunities presented and to examine the performance achieved and the constraints

encountered by coffee cooperative unions in Ethiopia. It is worth mentioning at this juncture that a closer examination of the opportunities, performance and constraints of coffee farmers' cooperative unions ahead, is of paramount importance in taking preventive actions and corrective measures, and in exhaustively exploiting the existing opportunities.

The main purpose of this study is therefore, to assess the opportunities and to examine the performance achieved and the constraints encountered of coffee farmers' cooperative unions in Ethiopia, in the face of, among others, the growing concern for quality, capacity building, access to credit services and organizational strength on the one hand, and the growing demand for organic coffee in the international market on the other, by taking the case of Kafa Forest Coffee Farmers' Cooperative Union.

### **1.3 Objectives of the Study**

#### **1.3.1 General objective**

The overall objective of the study is to assess the opportunities, to examine the performance and constraints of coffee cooperative unions in Ethiopia with specific reference to Kafa Forest Coffee Farmers' Cooperative Union.

#### **1.3.2 Specific objectives**

The specific objectives are:

1. To assess the opportunities presented to KFCU;
2. To examine the performance of KFCU since its establishment;
3. To examine the constraints hindering the performance of KFCU and
4. To identify whether KFCU is operating in accordance with the basic principles of cooperatives.

## **1.4 Significance of the Study**

The importance of coffee farmers' cooperative unions in improving the livelihoods of coffee producing farmers in Ethiopia is getting momentum from the government as well as donors and the NGOs. Currently, the issue of coffee farmers' cooperative unions has got substantial coverage on the mass media. In view of this, the study would enlighten and contribute its part in filling the knowledge gap in light of the opportunities, performance and constraints of coffee farmers' cooperative unions. The outcome of the study would help policy makers in designing appropriate policies that would improve the livelihoods of coffee growing farmers in Ethiopia. The study result could also be useful for the KFCU to overcome the problems constraining its performance. It would also give an insight to researchers for further enquiry.

## **1.5. Description of the Study Area and Profile of the KFCU**

### **1.5.1. Description of the Study Area.**

#### **1.5.1.1. Location**

KFCU is found in the SNNPRS, Kafa Zone, which is located in the Southwest of Ethiopia. Kafa Zone, where KFCU is situated, comprises ten woredas. The woredas are Chena, Cheta, Decha, Bita, Gesha, Gewata, Gimbo, Menjiwo, Saylem and Tello .KFCU is found in the Gimbo Woreda of the Zone. Bonga, the capital of Kafa zone, is located 440 kilometers Southwest of Addis Ababa and 105 kilometers South of Jimma (ZOFED, 2003).

Kafa is bounded by Oromiya region on the Northwest, North and Northeast; Dawro zone on the East and Southeast; South Omo on the South; Bench Maji zone on the Southwest and Sheka Zone on the West. Its grid reference points that Kafa lies between 6° 15' North to 8° 08' North latitude and 35° 30' East to 36° 46' East longitude.

### **1.5.1.2. Climate**

The zone has three conventional climatic zones based on altitude and temperature. These are Dega (cold zone), 2500-3000 masl, Woinadega (semi cold zone), 1500-2500 masl and Kolla (hot zone), 500-1500 masl. Kafa zone has abundant rainfall throughout the year, with mean annual rainfall ranging between 1600 – 2200 mm and average annual temperature varying from 16°C to 20°C. The zone has abundant rainfall distribution nearly throughout the months of the year. This provides Kafa with the opportunity to grow crops twice a year (ZOFED, 2003).

### **1.5.1.3. Physical Features**

According to OGRBMPS(1994), the zone has two physical characteristics – the high and the lowlands. The highlands occupy two thirds of the area. The highlands are characterized by undulating and rolling plateaus between 1500 – 2100 masl, with slopes in the range of 10-30%. According to the master plan study, the area has high rainfall and quite a long growing period ranging between 300 – 360 days annually. Conversely, the lowlands occupy about one-thirds of the total area with relatively lower rainfall and higher temperature. The report further indicates that the lowlands lie between 600 – 1500 masl, with variable slopes in the range of 15 – 45 %. Although the crop growing periods of these areas are reported to be more than 90 days, they are indicated to have little agricultural potential. According to OGRBMPS, Nitosols and Acrisols form major soil type. This is actually reflected in the land use where there is well-drained soil with moderate natural fertility, predominant for cultivation, forestry and ease of working.

#### **1.5.1.4. Demographic Characteristics**

The population of Kafa was estimated to be 789,818 in July 2004 (ZOFED, 2003). Of this total, about 92.5 % were estimated to live in the rural areas, while 7.5% was estimated to dwell in the towns. The female male proportion was 50.9 % female to 49.1 % male. The average population density was 64.9 persons per square kilometer. The same source points out that the Kafa household was indicated to exhibit population growth of 3.31 % per annum. If this trend of population growth holds, Kafa is expected to be inhabited by 1,692,084 people by the year 2018.

#### **1.5.1.5. Economic Characteristics**

According to the CSA (1994) population census, about 92.5 % of the total population resides in the rural areas. The people depend on agriculture. The land use data shows that about 56% of the total area in Kafa is arable, whereas 29.0 % is forest and bush lands followed by about 14 % land under settlements and other purposes. Maize, sorghum, enset, finger millet, barley and wheat are the major crops grown. Coffee and teff are also widely grown mostly for cash. Cattle, sheep, goats, poultry, donkeys, horses and mules are the major livestock kept by the farmers.

#### **1.5.2. Profile of the Union**

The KFCU was established in March, 2004 by 17 member primary cooperatives representing 4,267 farmers engaged in the production and processing of coffee in Kafa zone. It was established with the mission of making smallholder coffee producers economically self sufficient and their households food secure through a privately owned and democratically controlled coffee producers' cooperative union. The union had an initial capital of Birr 200,000. In 2006, the number of members of primary cooperatives had reached 26, embracing 6,632 farmers and the union's capital had reached to Birr 897,849 (KFCU, 2006).

According to Dempsey's (2006) assessment, member farmers are engaged in producing coffee Arabica on 164, 059 hectares of land. Besides the broad mission, the union has, *inter alia*, the cardinal objective of creating and maintaining a producer buyer linkage, export members' coffee, provide saving and credit service and promote high quality coffee production and processing.


## **1.6. Organization of the Study**

The study is organized into five chapters. Chapter one is an introductory part, which presents the general background, statement of the problem and objective of the study. Significance of the study, description of the study area and profile of the union are also included in this chapter. Chapter two is devoted to the methodology while chapter three reviews both theoretical and empirical literature related to the study. Chapter four offers detailed analysis of the findings of the study. The last chapter, chapter five, summarizes and concludes the study by providing some recommendations.



# Map of the Study Area



 **Kafa Zone**



## **2. METHODOLOGY**

### **2.1. Area Selection**

Kafa Forest Coffee Farmers' Cooperative Union (KFCU) is found in the Southwestern part of Ethiopia in the SNNPRS. KFCU was selected primarily because of the researcher's familiarity with the area (Kafa zone), the language, the culture and the people. Secondly, Kafa zone is the home of many forest coffee (organic coffee) varieties and nowadays organic farming is getting an attention from around the world in terms of health, sustainable agriculture and livelihoods improvement. For instance, the demand for Kafa Forest Coffee is rising and the area has attracted the attention of NGOs and scholars both from Ethiopia and abroad.

### **2.2. Data Sources**

Both primary and secondary data were used. Primary data were generated by conducting key informant interviews, focus group discussions, group interviews and household survey. The sources of secondary data were the reports of governmental organizations such as Ministry of Agriculture and Rural Development, different offices of Kafa zone relevant to the study such as Agriculture and Rural Development Department. Moreover, secondary data were gathered from the performance reports of the KFCU. The study also used secondary data from the organizations like GTZ and Farm Africa.

### **2.3 Methods of Data Collection**

According to Kothari (1990), the method selected should be such that it suits the type of enquiry that is to be conducted by the researcher. This factor is also important in deciding whether the data already available are to be used or the data not yet available are to be collected. To meet the objective of the study, both qualitative and quantitative methods of

data collection were used. The qualitative approach has employed key informant interview, focus group discussions, and group interview. It is important to distinguish between focus group discussion and group interview. Morgan (1997:2), for instance, differentiates between the two in such away that group interview involves interviewing a number of people at the same time, the emphasis being on questions and responses between the researcher and participants. Focus group discussions, however, rely on interaction within the group based on topics that are supplied by the researcher. The methods were used based on their suitability to answer the research questions. For instance, key informant interview was used to gather data on the performance and particularly on the constraints.

### **Focus Group Discussions**

The number of focus groups was six for members (Beha and Chiri – two for each; Kejaraba and Michiti one for each) and two for the non-members. The non-members were contacted from Chiri and Michiti primary cooperatives. The number of participants in a focus group ranges from five to six and all the discussions were recorded and latter transcribed. The rationale for including non-members in the discussion was to observe the impact of cooperatives on member and non-member coffee farmers.

Focus groups were arranged from individuals who were believed to have experiences and/or opinions about the research questions under enquiry. Moreover, with the aim of accommodating different views, an attempt was made to organize groups consisting of individuals from different Kebeles under a given primary cooperative.

### **Key Informant Interviews**

Key informant interviews were conducted with seven selected informants; two from the NGOs which have a link with the union, two experts who are working in the area of cooperatives in the Zonal Agricultural and Rural Development Department, two from primary cooperative members and one from the KFCU employees. The key informants were selected based on their capacity to provide meaningful insight into the research questions and their deeper understanding of some of the issues related to the research topic.

### **Group Interviews**

Group interviews were conducted with the management committee members of the four primary cooperatives and with cooperative organizers of one of the Woredas where two of the selected primary cooperatives are found.

### **Household Survey**

While defending the thesis proposal of this study, a question was raised on the importance of the household survey. Some argued that the research topic could be handled by referring to the secondary sources and by conducting focus group discussions and key informant interviews with the pertinent bodies. Later on, however, I was advised to conduct a household survey on reasonably specific issues, which may not be revealed, by focus group discussions and key informant interviews.

Perhaps it could be possible to undertake the study using qualitative data from the primary sources and that of quantitative from the secondary sources. Meanwhile, some of the methods of qualitative data collection may not reveal certain aspects of the enquiry. According to Mwanje (2001), for instance, focus group discussion does not pickup the full range of beliefs and

behaviors of a particular topic, especially if the topic is deemed sensitive according to the local standards. Moreover, some participants may dominate others during the discussion. Thus, an attempt was made to capture individual member's response by conducting a household survey. To enhance validity, the combination of methods was also employed through triangulation.

## **2.4 Sampling Procedure and Sample Size**

Out of 26 primary cooperatives with a total of 6632 members that constitute the KFCU, the survey samples were drawn from the four purposively selected primary cooperatives, namely, Beha, Chiri, Kejaraba and Michiti. Members for focus group discussions and group interviews were also contacted from these cooperatives. The selection criteria were based on proximity, access to transport, the possibility to contact experts in the area and the discussion I had with the primary cooperative chairman and the union manager during my preliminary visit. Accordingly, Kejaraba was selected due to its proximity to Bonga (the capital of Kafa zone) and the discussion I had with the chairman of the cooperative during the preliminary visit. Michiti and Beha were selected because of access to transport. Easy access to experts was the reason for the selection of Chiri. Moreover, number of members and potentials of coffee production were additional criteria used to select the cooperatives.

**Table 2.1 Number of members in the selected cooperatives and the size of survey samples drawn.**

| <b>Name of the cooperative</b> | <b>Total members</b> | <b>Number of Samples drawn</b> | <b>%</b>    | <b>Remark</b> |
|--------------------------------|----------------------|--------------------------------|-------------|---------------|
| Beha                           | 335                  | 37                             | 11          | *             |
| Chiri                          | 144                  | 16                             | 11          | *             |
| Kejaraba                       | 219                  | 20                             | 9.1         |               |
| Michiti                        | 226                  | 21                             | 9.3         |               |
| <b>Total</b>                   | <b>924</b>           | <b>94</b>                      | <b>10.2</b> |               |

*\*Sample size increased slightly because members are relatively heterogeneous in their activities*

As indicated in Table 2.1, 94 (10.2%) of the total members of the selected cooperatives (924) were drawn. Next to the selection of primary cooperatives, lists of members in the respective cooperatives were prepared from the cooperatives' registry. Then, simple proportionate random selection using lottery method was employed. It should also be noted that the four primary cooperatives were selected to represent the union and hence were not treated separately in detail.

## **2.5 Data Collection Instruments**

Interview guides were used for key informants, group interviews and focus group discussions. Structured as well as semi-structured questionnaires were administered to collect survey data. The instruments were pre-tested and adjusted.

## **2.6 Methods of Data Analysis**

Both qualitative and quantitative techniques of data analysis were used to describe and analyze the research questions. The data collected were summarized and analyzed using statistical tools such as frequency and percentage. The study employed SPSS software to process and cross tabulate the data.

### **3. LITERATURE REVIEW**

#### **3.1 Conceptual and Theoretical Framework**

##### **3.1.1 Cooperative defined**

The International Cooperative Alliance (ICA), the apex organization that represents cooperatives worldwide defines a cooperative as 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 enterprises (ICA, 2004). This definition emphasizes that cooperatives are independent of government and not owned by anyone other than the members.

Based on the definition of ICA, the ILO (2004) further elaborates cooperatives as associations of persons, which does not only mean individual people but also 'legal persons', organizations that may themselves have members. They are united voluntarily, and so people should be free to join or leave. This means that village or neighborhood associations that include all people in an area, whether or not they want to be members, are not really cooperatives. Cooperatives are distinguished from shareholding firms by their democratic nature, with voting rights being assigned by person rather than by size of shareholding (ibid).

Another definition is the one articulated by the USDA in 1987. USDA defines a cooperative as a user-owned, user- controlled business that distributes benefits on the basis of shareholding (Zeuli and Cropp, 1980:1). According to Zeuli and Cropp, this definition signifies what is generally accepted as the three traditional or primary cooperative principles; 'user-ownership', 'user-control' and 'proportional distribution of benefits.' In this study the ICA definition is adopted because of its comprehensiveness.

### **3.1.2 Why Cooperatives**

To the extent that they are member-owned and member-controlled businesses, well operated cooperatives can demonstrate a number of characteristics that can make them a positive factor in rural development (Hussi *et al* 1993). Cooperatives are crucial to increased competitiveness, economies of scale and credit opportunities, innovation and member education (Milford, 2004; Tadesse, 2005). Similarly, Zerihun (2003) asserts that cooperatives can help reduce individuals' risk through pooling risks at the level of the cooperative enterprise.

Cooperatives, especially agricultural cooperatives, provide their members with the advantages of economies of scale. By combining their resources, producers can obtain needed goods and services more efficiently and market them in larger volumes, thus giving them a stronger bargaining position in dealing with traders and processors (Hussi *et al*, 1993). Cooperatives could also serve their members in an organized manner by providing agricultural supplies and bringing their produces to the market (Zerihun, 2003).

According to Turtianen and Pischke (1986) cited in Milford (2004), 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 if each one acts alone. Hence a cooperative is the best way for farmers to capture the profit that exists in selling their produce directly to an international trader, instead of the middlemen. However, cooperatives' potential can be fully realized if they are integrated into the development process, without undue interference of governmental authorities and donor communities. In this connection, Hussi *et al* (1993) concluded that associations which are intimidated or cajoled by either government or donors to take on a role in a particular development scheme as a channel for government services, are not being given an opportunity to fulfill their economic and human potential.

Despite the rationale behind the importance of cooperatives, cooperation in cooperatives is not easy to achieve. Tadesse (2005), for instance, argues that cooperation is not an easy task because of the problems that arise from, *inter alia*, prisoners' dilemma, free-riding and tragedy of the commons. Similarly, Le Vay (1983) cited in Milford (2004) asserted that cooperatives, particularly agricultural cooperatives, are believed to have conflicting objectives; they have both an economic and social character. Many of these objectives cannot be simultaneously enforced, and conflict will arise among the members, who have different preferences. Le Vay goes on arguing that within a democratic organization where everyone has an equal say, it might be difficult to agree upon a common strategy, since cooperatives are complex structures combining a number of different groups whose interest may not always harmonise.

### **3.1.3 Values and Principles of Cooperatives**

#### **3.1.3.1 Cooperative Values**

According to ICA (2004), cooperative identity asserts two groups of cooperative values. The first group of cooperative values consists of values that directly underlie the organizational structure of the cooperatives. Such values include self-help, democracy, equality, equity, self-responsibility and solidarity. The second group of cooperative values embraces the ethical values of honesty, openness, social responsibility and caring for others. In the tradition of cooperatives, cooperative founders, leaders and members believe in these ethical values and try to bring them to their cooperative organization.

#### **3.1.3.2. Cooperative Principles**

Cooperatives are specific type of organizations that must meet some peculiar criteria. Such criteria are commonly known as cooperative principles. Cooperative principles are guidelines by

which cooperatives put their values into practice. ICA adopted seven fundamental cooperative principles to guide the activities of international cooperative movement. The principles are also enshrined in the cooperative societies' proclamation No. 147/1998 of the FDRE. These include voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among cooperatives; and concern for community (ICA, 2004).

#### **a) Voluntary and Open Membership**

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibility of membership, without gender, social, racial, political, or religious discrimination.

#### **b) Democratic Member Control**

Cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives (cooperatives which are usually established by persons who live or work within a given area) members have equal voting rights (one-member, one-vote) and cooperative at other levels are organized in a democratic manner.

#### **c) Member Economic Participation**

Members contribute equitably to, and democratically control, the capital of their cooperative. Members 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 transaction with the cooperative; and supporting other activities approved by the membership.

#### **d) 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 in terms that ensure democratic control by their members and maintain their cooperative autonomy.

#### **e) Education, Training and Information**

Cooperatives provide education and training for their members, elected representatives, managers and employees so that they can contribute effectively to the development of their cooperatives. They inform the general public, particularly the youth, about the nature and benefits of cooperation.

#### **f) Cooperation among Cooperatives**

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.

#### **g) Concern for Community**

While focusing on members' needs, cooperatives work for the sustainable development of their communities through policies accepted by their members.

### 3.2 Review of Related Literature and Ethiopia's Experience with Cooperatives

It was argued by some scholars that cooperatives, especially agricultural cooperatives, give rise to inefficiencies. For instance, based on the economic efficiency of the Irish dairy cooperatives over 1961-1987, Boyle (2004) investigated that cooperatives are thought to give rise to inefficiencies because of lack of control and resource allocation. Boyle associates the reason for the inefficiency, such as price inefficiency, with the fact that the Irish dairy cooperatives pay more than their marginal product.

Meanwhile, Birchall (2003) argues, agricultural cooperatives play a crucial role in breaking the poverty cycle. According to Birchall, in Bangladesh, dairy cooperatives enabled poor farmers to break out of the poverty trap. In this regard, a dairy cooperative known as "milk vita" in Bangladesh was able to increase its members' earning by ten-fold in 2002, just after the government withdrew and left the union to be administered by an independent board of directors and a genuine farmer owned cooperatives. Birchall also indicated that government owned and backed cooperatives were not successful; for example, in Nepal, where after nearly forty years of government sponsored pseudo-cooperatives, a new cooperative act allowed genuine cooperative movement to emerge so that the number of dairy cooperatives increased from 4 in 1991 to 661 in 1995.

For the samples of 89 US grain marketing and farm supply cooperatives over 1988-1992, Ariaranthe *et al* (1997) found that while most cooperatives could improve efficiency by increasing their scale, the potential gains were relatively small. They also argue that cooperatives with a more diversified output mix are more technical, scale and overall efficient compared to specialized cooperatives. This is inconsistent with Alemayehu's (1993) assertion on the Ethiopian case where multi-purpose cooperatives have their own problems. Alemayehu argues,

administration of several functions will be difficult and complicated where training and skills are lacking. He goes on arguing that misuse of funds will be inevitable if there is no proper bookkeeping or when the cooperative leadership is corrupt. In Kenya, for instance, many peasants who were members of multi-purpose marketing cooperatives have wasted much time waiting hours to deliver their products and collect their pay at different places. Besides, marketing of exportable crops such as coffee requires careful handling to meet international standards, which can be done by a single purpose cooperative instead of a multipurpose.

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; could not bring about structural changes; and failed to develop into viable and self-managed institutions capable of extending sustainable services to their members (Yigremew, 1996). In this connection, a study by Hussi *et al* (1993) on sub-Saharan African countries pointed out that cooperatives were found lacking business experience, had poor accounting and internal control systems, they were undercapitalized, had low degree of member participation, financial problems, lack of technically and administratively efficient management.

In sub-Saharan African countries, the interventionist policy of governments was counterproductive. For instance, the 1987 Kenyan cooperative policy has tended to reduce member participation and control, and thus impaired the flexibility required for running of the cooperatives as business enterprises. Contrarily, though insufficient to address the African case, the great majority of business activities implemented through cooperatives have produced positive result in Niger due to the fact that identification and planning of activities are undertaken by the members themselves (*ibid*).

In Ethiopia with predominantly peasant economy, under-developed infrastructure, very limited government capacity, etc., cooperatives could have been a very valuable options to resort to (Yigremew, 1998). Nevertheless, Yigremew (1998,1999) revealed that Ethiopia's experience with valuable rural organizations, such agricultural cooperatives, has become a missed opportunity. Cooperatives, particularly agricultural cooperatives, Yigremew argues, were created by government fiat not based on the peasants' consent; they had been dominated by government rules and orders; they were used to carry out unpopular government functions like collection of obligatory grain quota and obligatory contributions; government and party control has created corrupt and unscrupulous leadership unaccountable and unresponsive to the demands and needs of the peasants. Similarly, Befikadu and Tesfaye (1990) identified that after the 1975 land reform, most of the agricultural marketing cooperatives in Ethiopia took place through the state-led cooperatives, and the government controlled the prices; urban dwellers were offered low consumer prices for agricultural products but farmers were left with much lower incomes than the open market would have given them.

In Ethiopia, studies have shown that cooperatives were a threat, a source of insecurity and burden. This was witnessed by the response of most cooperative members following the announcement of the mixed economy and the ultimate overthrow of the Derg regime. In connection to this, Dessalegn (1992) revealed that only a few weeks after the Ethiopian government announced the mixed economy policy, a greater majority of cooperatives were dissolved by their own members. Dessalegn points out; for instance, in Wollo the first enterprise to be dismantled were the large-scale model cooperatives. In Jimma region, some of the cooperatives were fairly prosperous from marketing coffee, but all of them were dissolved long before the EPRDF led transitional government came to power. The exceptions were half a dozen

enterprises in the Wonji area of the country for they were out growers producing cane sugar to the Wonji urban market.

Studies have shown that the top down approach pursued by the past regime exhibited a failure story in cooperative movement in Ethiopia. Additional investigation by Zerihun (2003), for instance, indicated that a government imposed agricultural cooperative in Meki-Batu of the Oromiya region left the members in miserable situation by exposing them to severe food shortage and consequently hunger. However, the Meki-Batu people were able to reverse the catastrophe after they have established an irrigation cooperative union in 1999 in accordance with the principles of the cooperative society proclamation No. 147/98.

Ethiopia's experience with cooperatives, particularly agricultural cooperatives, is traced back to the 1960s with the promulgations of Farm workers' society decree. The country embraced the idea of modern cooperatives long after such institutions had been established in many countries in Africa and elsewhere in Asia. For instance, the first cooperative ordinance in Kenya was issued by the colonial administration in 1931 while in 1945 peasants were permitted for the first time to market surplus farm products through their own societies (Gyllström 1998:43). Moreover, the legal foundation upon which the cooperative movement in Tanzania was laid in 1932, when the first law was enacted to make provision for the registration of cooperative societies (Westergaard, 1970:124). During the Imperial regime, the development and promotion of modern types of agricultural cooperatives had been initiated by the government. It was in the first, second and third five year development plan (1960-1974) that the concept and modalities of agricultural cooperative societies have emerged. Decree No. 44/1960 known as "The Farm workers' decree" and the proclamation No 241 of 1966, "cooperative society proclamation", were the legal cornerstones for the promotion of agricultural cooperatives (Haile, 1999). However, Subramani

(2005) indicated that the legal frameworks of the 1960 restrict membership only to farm workers while that of the 1966 confines extension of services to a few rich farmers. In spite of the decree and the proclamation provided, the performance of cooperatives was very low during the Imperial regime. Haile (1999) mentions the feudal system and what he calls the “antidemocratic elements” as the main causes to the low level of performance.

Given the role of agriculture in the socialist transformation of the country, agricultural cooperatives have become just government institutions. Hence all issues of cooperativization have become government initiatives and concerns. The MoA was the main central government agency designated for the establishment and promotion of all agricultural cooperatives. A main department was established within the then MoA to exclusively deal with these cooperatives and its functions included organizing, supervising, auditing, facilitating credit services and education and training (Yigremew, 2005).

Elements of compulsion enforcing the people to join communes (Welbas) and to involve in collective farming activities, which was against the underlying principles of cooperatives, was a peculiar feature of the Derg regime (Subramani, 2005). Just after the 1974 revolution, the military regime enacted proclamation No 71/1975, a proclamation to provide for nationalization of rural land. The rural land reform policy in line with the socialist line of development triggered the establishment of cooperatives (Yigremew, 1999; Haile, 1999). Accordingly, the military government enacted proclamation No 138/1978 which led to the establishment of cooperatives in line with socialist ideology. All but financial saving and micro loan cooperatives were made to be obliterated (MoARD, 2002).

Proclamation No 85/1994 of the Transitional Government of Ethiopia lays fertile ground for the re-appearance of the once lost cooperatives as crucial agents of economic transformation. A more comprehensive proclamation consistent with the socio-economic policy of the country was enacted in 1998. It was believed that proclamation No 147/1998 would enable cooperative societies in the country to competitively participate in the free market economy (ibid).

The preamble of proclamation No 147/1998 stresses that it has become necessary to establish cooperative societies which are formed by individuals on voluntary basis and who have similar needs for creating savings and mutual assistance among themselves by pooling their resources, knowledge and property. It is a comprehensive legislation by which cooperative societies shall be organized and managed. KFCU has formulated its own by-law based on cooperative societies' proclamation No. 147/1998. The by-law has been ratified by the cooperative bureau of the SNNPRS. The framework of the by-law includes particulars such as objectives and activities of the union, the rights and duties of members, the powers, responsibilities and duties of management bodies, requirements necessary for membership, conditions for withdrawal and dismissal from membership, allocation and distribution of profit, etc. It is in this context that the present thesis situates its line of argument.

## 4 DISCUSSIONS AND FINDINGS OF THE STUDY

### 4.1 Demographic and Socio-Economic Characteristics

Table 4.1 below shows that 4.25% of the respondents fall in the age group of 15 to 25 years, implying that the participation of youth in the cooperatives is insignificant; while 28.7% lie in the age group of 26 to 35 years. The majority of the respondents, that is, 31.9% were of the age group 36 to 45 years whereas 18% constitute of the age group 46 to 55 years. 11.7% lie in the age group 56 to 63 years while the remaining 5.3% belong to the age group 64 and above.

**Table 4.1 Age of the respondents**

| Age group          | Male      | Female    | Total     | Percent    |
|--------------------|-----------|-----------|-----------|------------|
| 15-25 years        | 1         | 3         | 4         | 4.25       |
| 26-35 years        | 23        | 4         | 27        | 28.72      |
| 36-45 years        | 26        | 4         | 30        | 31.9       |
| 46-55 years        | 17        | -         | 17        | 18         |
| 56-63 years        | 10        | 1         | 11        | 11.7       |
| 64 years and above | 5         | -         | 5         | 5.31       |
| <b>Total</b>       | <b>82</b> | <b>12</b> | <b>94</b> | <b>100</b> |

*Source: Survey data, 2007*

A quick review of the respondents' age group while the researcher was in the fieldwork evoked a question regarding the results. According to an expert in the zonal cooperative desk and cooperative organizers in the Woreda cooperative desk, substantial portion of the membership in the KFCU is occupied by farmers who are of the age group 36 to 45 years, followed by those of age group 26 to 35 years. This is because farmers belonging to these age groups are land holders who have coffee trees while those who belong to the age group 15 to 25 years are the youth most of whom are landless and school attendants. Those who are of age 64 years and

above are elders far from economic activities and dependent on relatives and previously accumulated wealth, such as livestock, for their livelihood.

**Table 4.2 Educational status of the respondents**

| <b>Educational Status</b> | <b>Male</b> | <b>Female</b> | <b>Total</b> | <b>Percent</b> |
|---------------------------|-------------|---------------|--------------|----------------|
| Illiterate                | 21          | 1             | 22           | 23.4           |
| Literate                  | 16          | 2             | 18           | 19.1           |
| Grade 1-6                 | 21          | 5             | 26           | 27.7           |
| Grade 7-8                 | 21          | 3             | 24           | 25.5           |
| Grade 9-12                | 3           | 1             | 4            | 4.3            |
| <b>Total</b>              | <b>82</b>   | <b>12</b>     | <b>94</b>    | <b>100</b>     |

*Source: Survey data, 2007*

In terms of educational status, 23.4% of the respondents were found to be illiterate while 19% could read and write without attending formal schooling; 27.7% attended grade 1 to 6; and 25.5% grade 7 to 8 while 4.2% were found to have an education level of grade 9 to 12. The fact that 23.4% of the respondents were illiterate; and 19.1% could only read and write implies illiteracy is rampant among the KFCU members. With regard to marital status, 96.8% of the respondents were found to be married; 2.1% were divorced while 1.1% (one individual) was single.

**Table 4.3 Ethnicity and Religion of the respondents**

| <b>Ethnicity</b> | <b>Frequency</b> | <b>Percent</b> | <b>Religion</b>       | <b>Frequency</b> | <b>Percent</b> |
|------------------|------------------|----------------|-----------------------|------------------|----------------|
| Kafecho          | 87               | 92.6           | Orthodox<br>Christian | 89               | 94.7           |
| Amhara           | 3                | 3.2            | Muslim                | 2                | 2.1            |
| Others           | 4                | 4.3            | Catholic<br>Christian | 3                | 3.2            |
| <b>Total</b>     | <b>94</b>        | <b>100.0</b>   | <b>Total</b>          | <b>94</b>        | <b>100</b>     |

*Source: Survey data, 2007*

The Survey result reveals 92.6% of the respondents were of the Kafecho ethnicity while the rest 3.2% were found to be of the Amhara and 4.3% other ethnic groups. In terms of religion, majority of the respondents (94.7%) subscribe to the Orthodox Christianity followed by the Catholic Christianity followers (3.2%) and the rest 2.1% were found to be the followers of Islam religion.

**Table 4.4 Main occupation of the respondents**

| <b>Occupation</b>       | <b>Frequency</b> | <b>Percent</b> |
|-------------------------|------------------|----------------|
| Farming                 | 91               | 96.8           |
| Farming and Petty Trade | 2                | 2.1            |
| Others                  | 1                | 1.1            |
| <b>Total</b>            | <b>94</b>        | <b>100.0</b>   |

*Source: survey data, 2007*

The survey result indicated that 97% of the respondents were engaged in farming activities while the rest 3% rely on both farming and petty trade. According to the survey result, the production of coffee, teff, maize honey, barely, sorghum, were the dominant, economic crops grown both for marketing and own consumption. 87% of the respondents leveled coffee as their main source of income while 8% considered teff as the leading income generating activity whereas the rest 5% reported maize as their main source of income. The survey result indicated the significance of coffee for the livelihood of farmers in Kafa.

## **4.2 An Assessment of the Opportunities Created to the KFCU**

### **4.2.1 The Legal Framework**

It is not possible to meaningfully develop even a part of the cooperative sector or related rural organizations unless there is a conducive environment for their operation. The existence of clear government policy and a supportive legal framework are essential prerequisites for creating such environment (Hussi *et al*, 1993:91). Hussi *et al* noted that the importance of a conducive policy and legal framework to facilitate the development of sustainable, efficient and effective rural organizations cannot be overemphasized. Similarly, Esman and Uphoff (1984) contend that broad-based strategies of rural development, which can improve productivity and distribute its benefits more equitably among the rural majority require a range of supports viz., public investment in physical and social infrastructure, technologies suitable to the circumstances and capabilities of small holder farmers and the rural producers and most importantly suitable policy environment. True, a policy environment that is supportive of and responsive to the interests of rural constituencies, including the poor, is of paramount importance.

It is therefore plausible to assert that putting in place conducive policies and an appropriate legal framework is one of the ample opportunities for the proliferation of agricultural cooperatives in general, and coffee cooperative unions in particular. In this regard, long after the 1991 political reorientation in Ethiopia, cooperative societies proclamation No 147/1998 has been formulated. The proclamation enshrines, among others, the basic ICA principles of cooperative societies (article 5 of the proclamation) . It is believed that the proclamation No. 147/1998 is a comprehensive and relatively democratic to potentially address the needs and aspirations of members of the cooperative society in Ethiopia.

The Derg regime was blamed for its interventionist policy which gives government authorities a high degree of control over rural organization and which compromises the self-reliant character of such organizations (Dessalegn, 1992; Yigremew, 1999). In contrast to the Derg regime, the legal framework laid in the EPRDF regime is judged to be relatively democratic and assumed to have paved a conducive environment for the development of cooperatives. For instance, during the fieldwork, cooperative experts and the NGO representatives working on cooperatives were of the opinion that the legal framework is workable and somehow conducive. Unlike the Derg regime, which was blamed for its inappropriate legal framework, they associate the disappointing performance of cooperatives, particularly the KFCU with the people and/or authorities engaged in implementing the legal provisions in the current regime. Here, the dichotomy lies between the defective legal framework of the Derg with aggressive government authorities to channel the socialist ideology provisions versus the relatively conducive legal provisions with lukewarm government officials and cooperative leaders at the different levels of the cooperative bureaucracy.

Therefore, it should be taken into consideration that appropriate legal provisions such as the proclamations and the by-laws are necessary but not sufficient conditions for the development of efficient cooperative. Conversely, the inappropriate legal framework is not solely responsible for the unsatisfactory performance. In relation to this, Hussi *et al* (1993) revealed that the unsatisfactory performance of cooperatives is, however, not only explained by inappropriate policy and legislation but also by a variety of internal constraints.

With the aforementioned justifications and the underlying rationales of the legal framework for cooperative development, we can talk of the opportunities presented to the KFCU at this juncture. The 1998 cooperative societies' proclamation No.147/98 has established rules, guidelines and

principles which are relatively democratic and comprehensive. The principles enshrined in the proclamation are also consistent with the ICA cooperative principles. If exploited exhaustively and implemented properly, these principles are the cornerstones for the better performance of the KFCU. Based on the proclamation, the KFCU has formulated its own by-law and internal regulations which can provide an ample opportunity for the KFCU to undertake economically and socially viable activities.

#### **4.2.2 Endowment of the Area with Coffee Varieties**

Ethiopia, located in the Northeastern horn of Africa, is naturally endowed with the ecological set up favorable for coffee production (Brutawit, 2006). Coffee Arabica is one of the most notable gifts of Ethiopia to the world, and the term 'coffee' is derived from 'Kafa' a region in the Southwestern part of the Ethiopian highlands, where it was first discovered (MoARD, undated). Kafa is one of the regions in Ethiopia most famous for its quality coffee. The region is endowed with a wide diversity of genetic coffee varieties leveled as forest (organic) coffee (Brutawit, 2006).

MoARD (undated) also reveals that the forest coffee system of Kafa is covered by heterogeneous species of overhead shade trees where the coffee types are genetically heterogeneous which offer a wider diversity for selection and breeding. In line with this, Dimpsey and Campbell (2006) reveal that the area grows a wide variety of highly differentiated, exemplary coffees, most of which are shade grown without chemical inputs by smallholder farmers.

According to the forest resource survey conducted by SUPAK (2004), Kafa zone's highland altitude ranges between 1500 and 3000 masl. The study states a range of 1500 to 2000 masl as the optimum altitude within which coffee production performs best. Nevertheless, according to

the Farm Africa's (2006) base line study, the favorable altitude can go up to 2500 masl. In this respect, Farm Africa reports, 35% of the altitude within Decha woreda, 84% within Gimbo woreda and 96% within Gewata woreda of the Kafa zone can be considered as optimum for highland forest coffee production. Moreover, most of the CBD resistant varieties originate from this zone (Farm Africa, 2006) and the region is still the home of many forest coffee varieties (GTZ, 2004).

#### **4.2.3 The Growing Demand for Organic Coffee in the International Market**

Ethiopia's range of coffee varieties and unique flavours, its traditional, organic, shade-grown and bird – friendly production by small-scale farmers, provide the country with a comparative advantage in the international coffee market (Dimpsey and Campbell, 2006). Increasingly for exports, the driving force for higher prices of coffee is the expanded international demand for specialty coffee (Milford, 2004; Dimpsey and Campbell, 2006). Although there is no universally accepted definition for specialty coffee, from a commercial standpoint, specialty coffees are those with a particular characteristic or set of characteristic that bring higher sales prices (Dimpsey, 2006:2). Different analysts agree that there is no deficit in demand to Ethiopian coffee provided that quality and consistency are guaranteed (Scanagari, 2005; Kotecha, 1999; Westlake, 1998).

True, wild Arabica coffee from the forests of Kafa zone has found a unique place in the international coffee market and it is part of the specialty market (GTZ, 2004). Moreover, the researcher has observed during the fieldwork a number of German coffee dealers visiting the forest coffee covered area of the Kafa zone and negotiating with the KFCU to arrange the purchase of organic coffee. The union has also so far secured market access from countries like Japan, the Netherlands and Germany. However, an interview with the KFCU manager reveals, there is a mismatch between supply and demand, the latter exceeding the former.

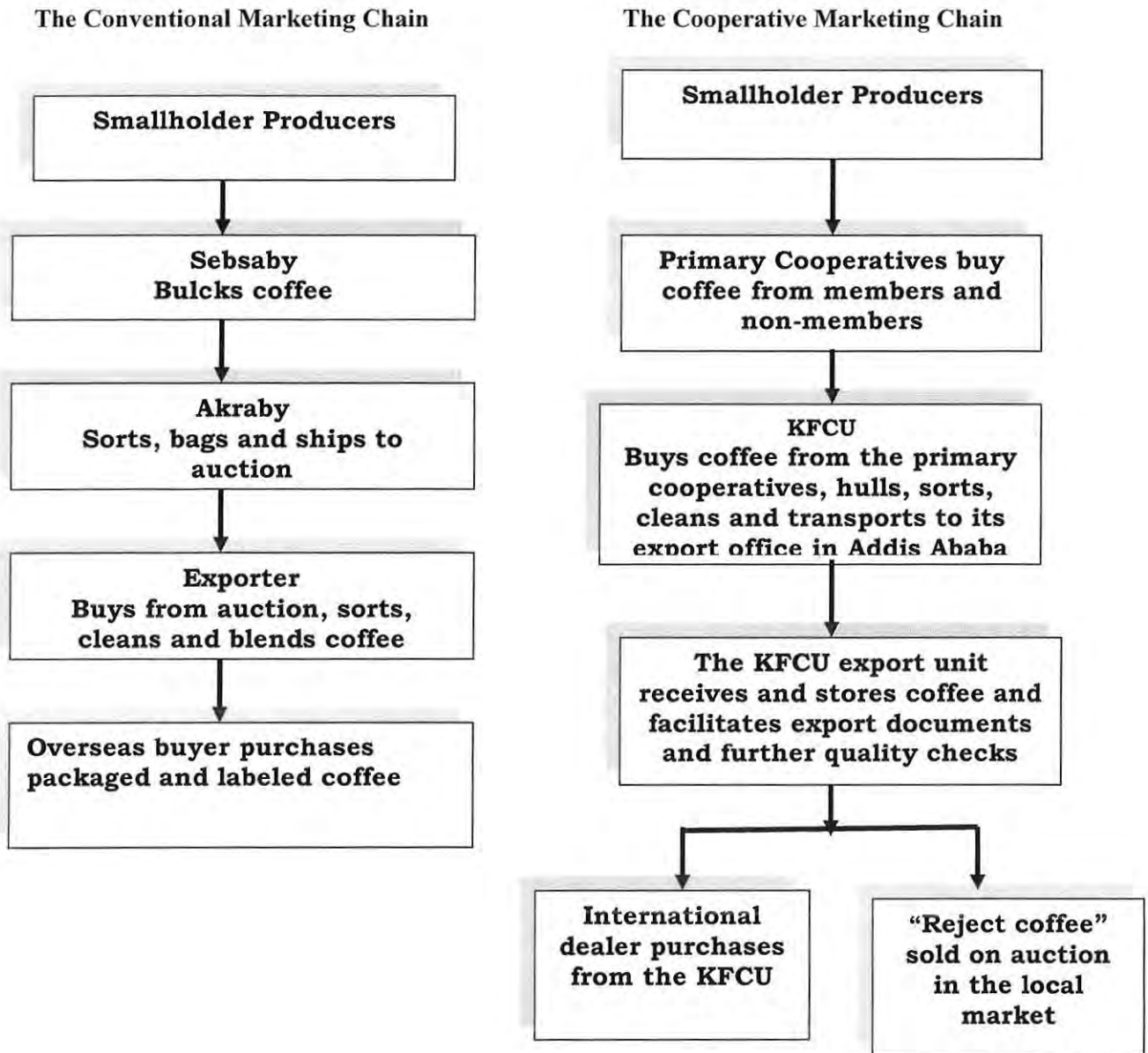
#### **4.2.4 The Marketing Channel**

Prior to the establishment of coffee cooperative unions in Ethiopia, coffee farmers were required to channel all coffee sales through local traders known as *akrabis* and *sebsabis*. Besides, exporters and international buyers were prohibited from buying from farmers directly. All coffee had to pass through the one of two auction centers in Addis Ababa or Dire Dawa. The rigid procedures of the national auction system through which most private exporters must still purchase their coffee, had inflicted a devastating damage on the smallholder coffee farmers. The government and the NGOs such as VOCA and Oxfam recognized the serious problems that the coffee farmer cooperatives faced, especially in terms of delayed payments from the private traders and the drastic decline in the international coffee market price. Following the catastrophe, the Ethiopian government permitted coffee producing farmer cooperatives (the unions) sell directly to buyers abroad without going through the rigid auction system. The NGOs like VOCA and Oxfam have also played their role in introducing Ethiopian organic coffee to the international market under the scheme of ‘specialty market’.

The government has officially removed the requirements for cooperatives to sell coffee through the national auction system in 2001 (Dimpsey and Campbell, 2006). The cooperative’s value chain stands in stark contrast to the rigid and narrow auction system that other private sector operators in Ethiopia must use for export. Like other coffee cooperative unions in Ethiopia, the KFCU has benefited from this opportunity, particularly at the outset of the union’s establishment. However, latter on, the union has not been in a position to exploit the opportunity presented in this respect due to a number of problems which were dealt within the ‘constraint’ section.

In principle, it has been argued that the cooperative marketing channel empowers farmers with far more control over coffee processing and distribution of income than the conventional marketing channel. According to the Oxfam's (2002) report, in the conventional market chain, some coffee farmers in the Oromiya state, for instance, received 27% to 54% of the coffee export price. This is an indication that the substantial amount of benefit in the conventional market is accrued to the middlemen than it does to smallholder farmer, and hence the cooperative marketing channel is an opportunity for smallholder coffee farmers in Ethiopia in general, and the KFCU in particular, in avoiding the effect of the middlemen.

Fig. 4.1 Conventional Marketing chain versus the Cooperative (the KFCU) Marketing Chain.



Source: Myers, 2004 (for the conventional marketing chain) and own construction (for the KFCU marketing chain)

As depicted in the figure above, unlike the conventional marketing channel, there is an integration of smallholder coffee farmers in the cooperative marketing channel. Through the cooperative marketing chain, theoretically, a close link is created between smallholder coffee farmers and the international market which has paved the way to niche and specialty marketing opportunities. However, the sustainability of the cooperative channel largely depends on sustained institutional and capacity building schemes for the primary coffee cooperatives and the union. The path to success lies on the union's capacity to increase its competitiveness in the face of volatile price of coffee in the international market.

As indicated in the channel, ultimately the members' produce complying with the quality standard is sold to the international dealers while that portion of coffee considered substandard, which is also called "reject coffee", is sold in the domestic market through an auction. It was learned during the fieldwork that the procedures of sorting out and selling the reject coffee in the domestic market has been one of the areas of confusion, lack of trust and transparency and misunderstanding among the members, the primary cooperatives and the union.

#### **4.2.5 Support from the External Agents such as the NGOs**

Channeling assistance for developing and strengthening rural organizations through the NGOs, or at least involving them in the process, have been the objective of various donor agencies. These agencies include some international organizations and official bilateral aid agencies, but specifically international and national NGOs (Hussi *et al*, 1993). It has been argued that the NGOs and other agencies could play a vital role not only in the areas of infrastructural development and technological assistance, but also in assisting and promoting rural organizations such as cooperatives, in institutional and human resource development. Hussi *et al* also reveal

that the NGOs can serve as intermediary organizations, filling the gap between the local people and various organizations providing the assistance.

Similarly, Esman and Uphoff (1984) contend that external assistance in the form of training facilities for the leaders, members and staffs of local organization is indispensable. They further argue, however, that any assistance extended to local organizations should involve a local organization component. It is to mean, in the process of the provision of any support to the rural organizations such as the cooperatives, the organization should not be made to remain passive recipients of the “external assistance” and command.

The discussion above reveals that the indispensability of external agents such as the NGOs in promoting cooperatives is indisputable, provided that, priorities are given to the local initiatives and preferences. Thus providing an intensive level of support and advice tailored to member farmers’ need, among other things, is one of the ample opportunities for agricultural cooperatives to undertake their social and economic activities.

The policy reorientation of the EPRDF in line with the “free market economy” is said to have created a conducive environment for external agents such as the NGOs, donors and international organizations to work freely to promote cooperative development in Ethiopia (Myers, 2004). Myers reveals that now a days there is an inclination towards cooperatives both by the Ethiopian government, the NGOs and the UN organizations. For instance, COPAC, comprising of the UN organizations, works to promote cooperative development initiatives through policy coordination, information exchange, advocacy and other services.

It is true that support from external agents such as the NGOs is an opportunity for the KFCU. In this regard, some of the NGOs assisting agricultural cooperatives such as the VOCA, Oxfam, and

SOS – Sahel have created a link with the union. Moreover, bilateral organizations such as the GTZ and KDP have been supporting the KFCU, in the area of capacity building, technical assistance, financial support, etc. Currently, the GTZ has designed a project known as the “PPP” aimed at developing and introducing a scheme for sustainable coffee production and marketing channel thereby maintaining international quality standards and conserving the natural forest. According to the GTZ (2004) “PPP” project document, two areas are selected from Ethiopia. These are the Mana district from the Oromiya state and the Kafa zone from the SNNPRS. Moreover, currently, the GTZ is supporting the KFCU, among others, by providing office facilities, laboratory equipment for quality test (though not functioning due to skilled manpower shortage), arranging tours and visits to the customers from abroad, such as the Germany, to the area.

In general, sustained and demand-driven external assistance is crucial for the development of agricultural cooperatives such as the KFCU. Esman and Uphoff (1984) contend that in extending any kind of support and in establishing successful local organizations that can make an effective contribution to broadly based rural development requires a sustained effort; such institutions cannot be imposed or brought forth by standardized, centrally imposed blueprints, but must evolve inductively from the specific experience, needs, and preferences of their members. Furthermore, reasonable provisions must be made to accommodate the social learning and adjustments in structure and procedures that are essential to the elaboration of successful institutions.

### **4.3. Performance of the KFCU**

According to Myers (2004), cooperative performance is measured by performance indicators such as member participation and membership growth, profit and dividend payments, service provided to members, training and sale and purchase of products. In addition to these indicators, Zeuli (2004) cited in Myers (2004) incorporates the short and long term impacts on health, education and food security of participating members as cooperative performance indicators. Likewise, it is also believed that the achievement of a cooperative in enhancing organizational strength is one of the governing factors to ensure cooperative performance in terms of the aforementioned indicators.

To analyze the performance of the KFCU in this study, member participation and membership growth, education and training, provision of basic services and access to resource, organizational capacity, export (sales in volume and value), profitability and change in the living standard of the members were used as indicators.

#### **4.3.1. Member Participation and Membership Growth**

##### **4.3.1.1. Motivation to and Perception about Membership**

Cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions (ICA, 2004). In an attempt to examine member participation in the KFCU as a measure of performance, questions related to the issue were administered to the sample household members. Moreover, to enhance validity, ideas such as voluntary membership were raised during the focus group discussion.

Respondents from the selected primary cooperatives of the union were asked about the motivating factors for joining their primary cooperative, and hence the KFCU. The responses are presented in the following table.

**Table 4.5 Members' motivation for joining the KFCU**

| Response category                                          | Name of the cooperative |           |           |           | Total      | Percent    |
|------------------------------------------------------------|-------------------------|-----------|-----------|-----------|------------|------------|
|                                                            | Beha                    | Chiri     | Kejaraba  | Michiti   |            |            |
| Motivated by the dividend distributed by the union         | 17                      | 10        | 11        | 12        | 50         | 43.5       |
| To get access to credit                                    | 9                       | 4         | 7         | 6         | 26         | 22.6       |
| Agitated by cooperative leaders and cooperative organizers | 8                       | 4         | 7         | 6         | 25         | 21.7       |
| Better prices offered by the union                         | 4                       | 1         | 2         | 2         | 9          | 7.8        |
| Motivated by peers and neighbors                           | 2                       | -         | 1         | 2         | 5          | 4.4        |
| <b>Total multiple response</b>                             | <b>40</b>               | <b>19</b> | <b>28</b> | <b>28</b> | <b>115</b> | <b>100</b> |

*Source: Survey data, 2007*

By far the most relevant motivating factor for members to join the KFCU was the dividend distributed by the union (43.5%). Next came accessing credit services (22.6%) followed by agitation by the cooperative organizers and the cooperative leaders (21.7%). The remaining responses were associated with better prices offered by the union (7.8%) and motivation by peers and neighbors (4.4%). Unlike the Derg regime which comprised elements of compulsion enforcing the people to join cooperatives (Subramani, 2005), membership in the KFCU is voluntary and open. This does not mean, however, that coffee farmers in the area are not agitated and advised, for instance, by the cooperative organizers, to become a member. Though there are such elements of motivation, farmers are free to accept or reject the agitation and advice. Focus group discussions held with the selected members of the union in the primary cooperative also indicated that membership is voluntary and open and that there is no compulsion element. It is up

to the individual farmer's interest to reject or accept the agitation of cooperative promoters and cooperative leaders.

As shown in table 4.5 above, the most important motivating factor for membership is the dividend. For coffee farmers who were experiencing a drastic decline in the world market coffee price (Milford, 2004), the policy provision by the government in this regard compelled them to stare at the short term benefit which could relieve them from the catastrophe. It is worthwhile to draw a parallel at this juncture between the motivating factor of membership in this realm and what prompted the establishment of SCs during the civil war (1977-78) in Ethiopia. According to Alemayehu (1993), in many regions of the country, the urgencies for establishing SCs were prompted by an acute shortage of basic goods, particularly salt, during the civil war of (1977-78). Similarly, it can be argued, based on the KFCU members' responses, that the short term demand to acquire better prices and the dividend, and their keen interest to get relieved from the severe problems caused by coffee price decline persuaded them to join the union. In both cases, membership is prompted not by envisaging the long-term benefits or demerits of cooperatives societies, rather it is driven and persuaded by the short-term benefit. Though indispensable are such factors as dividend, access to credit, better prices for the KFCU members, they alone cannot indicate the performance of the union. These indicators, however, should have emanated from deeply instituted cooperative principles. It is only when the principles are deeply ingrained that the union can possibly sustain in the future.

An attempt was also made to capture members' perception about their membership. A felt need by the members for an association (a union in our case) is indispensable in bringing about autonomous and self-sustained cooperative institutions. In order to ensure enhanced cooperative performance, perception is one of the crucial factors. Though important are such reasons as credit

services and agricultural inputs, these resources alone cannot serve the intended purpose unless they are augmented by members' feeling of ownership and concern. The following table shows the respondents' feeling after being a member of the KFCU.

**Table 4.6 Respondents' feeling after membership**

| Name of the cooperative | Respondents' feeling |                   |                 |                 |                               | Total            |
|-------------------------|----------------------|-------------------|-----------------|-----------------|-------------------------------|------------------|
|                         | Very good            | good              | bad             | very bad        | can not judge/<br>indifferent |                  |
| Beha                    | 18 (19.1%)           | 14 (14.9%)        | -               | 1 (1.1%)        | 4 (4.3%)                      | 37 (39.4%)       |
| Chiri                   | 13 (13.8%)           | 3 (3.2%)          | -               | -               | -                             | 16 (17.0%)       |
| Kejaraba                | 10 (10.6%)           | 7 (7.4%)          | 2 (2.1%)        | -               | 1 (1.1%)                      | 20 (21.3%)       |
| Michiti                 | 13 (13.8%)           | 6 (6.4%)          | -               | -               | 2 (2.1%)                      | 21 (22.3%)       |
| <b>Total</b>            | <b>54 (57.4%)</b>    | <b>30 (31.9%)</b> | <b>2 (2.1%)</b> | <b>1 (1.1%)</b> | <b>7 (7.4%)</b>               | <b>94 (100%)</b> |

*Source: Survey data, 2007*

Respondents were generally optimistic about their membership with 57.4% rating it as very good, 31.9% as good (89.3% combined). In contrast, only 2.1% rated it as bad and 1.1% very bad (3.2% combined) while 7.4% of the respondents could not judge their membership either negatively or positively. Respondents were further asked to reason out their responses about their feeling.

**Table 4.7 Justifications for respondents' feeling after being a member**

| <b>Reason category</b>                                                              | <b>Frequency</b> | <b>Percent</b> |
|-------------------------------------------------------------------------------------|------------------|----------------|
| Dividend                                                                            | 35               | 30.97          |
| Easy access to credit                                                               | 34               | 30.08          |
| Increased bargaining power against private domestic traders                         | 29               | 25.66          |
| Encouraged to improve coffee quality                                                | 3                | 2.65           |
| Inconsistent services and lack of genuine leadership (for bad and very bad ratings) | 12               | 10.62          |
| <b>Total multiple response</b>                                                      | <b>113</b>       | <b>100</b>     |

*Source: Survey data, 2007*

As shown in Table 4.7 above, those reasons associated with positive attitudes of the respondents were dividend payment, constituted about 31%, access to credit (30%) and 25.6% of the response was attributed to increased bargaining power of members against the private domestic traders while about 2.6% held the view that they have been encouraged to improve the quality of coffee they produce after their membership. However, 10.62% of the respondents are of the negative view (rated their membership as very bad and bad) about their membership because of inconsistent services and lack of genuine leadership.

As it can be observed from the respondents' response, the reason for the positive attitude of the respondents is largely linked to the dividend payment, which is followed by the opportunity for credit access. The dividend, not only prompted coffee farmers in the area to join the union, but also remained one of the most important factors persuading members to hold a positive attitude towards their membership. This was also witnessed during the group discussion conducted with the selected coffee farmer members. However, members' attitude towards dividend has declined after their membership (see Tables 4.5 and 4.7). This could be associated with the deviation of

the divided distribution from the members' expectation, especially two years after the union's establishment. For instance, the dividend has declined by 25% in 2005 while there was no dividend distribution at all in 2006 (see Table 4.14)

What is interesting here, however, is the fact that the bargaining power of member farmers against the private domestic traders has increased. Before the establishment of the KFCU, coffee farmers in the area were forced to sell their produces at a price set by the domestic traders. This was reversed after the KFCU's establishment whereby the members have got an option to resort to. In this respect, it was observed during the fieldwork that coffee price set by the domestic private dealers was almost equal to the price offered by the primary cooperatives.

With regard to the bargaining power of coffee farmers against the private domestic coffee dealers, focus group discussion participants of one of the primary cooperatives, for instance, have the following to say:

Before the establishment of the union, we were captives of private domestic coffee traders; we surrender our coffee at a lower price set by the traders. Now a days, however, the scenario is reversed. The very existence of our union has increased our bargaining power against the local private traders. There are instances where the private traders offer prices even above that the cooperative does.

Both the cooperative organizers, NGOs representatives and the key informants agree, though the KFCU is far behind in undertaking activities as per the cooperative principles, its physical existence has played a crucial role in regulating coffee market in favor of coffee producing farmer members. This consolidates the view that cooperatives give the members a stronger bargaining position in dealing with traders and processors (Hussi *et al*, 1993; ICA, 2004).

### 4.3.1.2. Member Participation

The principles on which cooperatives are based, and on which they are distinguished from other forms of business organization, point to a concern with democratic control by the members who actively participate in setting policies and making decisions (Birchall, 2003; ICA, 2004). Member participation is encouraged by the fact that activities are need-based and produce benefits for members (Hussi *et al* 1993). Hussi *et al* argue that organizations created by the government for the sole purpose of ensuring input delivery or marketing of a cash crop may collapse for both social and economic reasons, if they did not have a genuine social basis and a viable business objectives in the first place. It is therefore, of at most importance to ensure the maximum participation of members in such group activities as cooperatives at the outset of their establishment.

In connection with participation, the respondents were asked about the participation in their respective primary cooperative meetings. 98% of the respondents confirmed that they participate while the remaining 2% responded do not participate in any meetings of their primary cooperative and/or the union. Questions were also administered to those who participate on the meeting to express the degree of participation.

**Table 4.8 Degree of participation by the respondents**

| <b>Response category</b>      | <b>Frequency</b> | <b>Percent</b> |
|-------------------------------|------------------|----------------|
| Never miss the meetings       | 30               | 32.6           |
| Mostly attend the meetings    | 22               | 23.9           |
| Attend the meetings sometimes | 40               | 43.5           |
| <b>Total</b>                  | <b>92</b>        | <b>100</b>     |

*Source: Survey data, 2007*

As shown in Table 4.8 above, 32.6% of the respondents claimed they never missed the meetings held so far while 23.9% said they mostly attend it. Whereas 43.5% of the respondents reported they participate in meetings related to cooperative sometimes. Those respondents who participated in the meetings were also asked questions of multiple responses as to how they participate. Accordingly, out of 133 total multiple responses, 70 (52.6%) were associated with participation by voting while 31 (23.4%) responses were linked to members' participation only by attending discussions. 28 (21%) did get the chance to evaluate executive committee members while only 4 (3%), who are also executive committee members, participated in planning.

Moreover, asked whether they know their cooperative has its own by-law, out of the 94 sampled population, 62 respondents (66%) reported they know their cooperative has its own by-law while the rest 32 (34%) claimed they don't know the existence of the by-law. Out of 62 respondents who claimed that they do know their cooperative has its own by-laws, only 19 respondents (30.6%) have participated directly or through their representatives in drafting the by-laws while the remaining 43 (69.1%) did not.

Although maximum member participation is considered one of the pillars of agricultural cooperatives (Hussi *et al*, 1993; Birchall, 2003; ICA, 2004), the performance of the KFCU in this respect has been very low. The results of the sample survey show that members' degree of participation in setting policies and making decisions is very low. It was argued, active and consistent members' participation is deemed necessary in realizing members' control over their cooperative. Such crucial aspect of cooperatives is, however, very limited and rather confined to supplying coffee and looking for the dividend.

### 4.3.1.3. Membership Growth

Membership growth inspired by the heart-felt needs of the members themselves can be one of the indications of the performance of a given association viz., a cooperative society. It should also be noted that an increase in number of members, without the basic principles of cooperatives ingrained, can hardly be considered as performance.

Though there were data inconsistencies and unavailability of reliable data for some primary cooperatives of the KFCU, it can be, however, understood from the available data that there is an increasing trend in number of members of the KFCU. According to the data compiled by the Farm Africa (2006) for 20 primary cooperatives of the KFCU (which comprise 87% of the union's membership) operating in three Woredas, the general increase in number of members is exhibited.

**Table 4.9 Membership growth**

| Woreda       | No. of primary cooperative | Number of members |            |             |             |            |             |             |            |             |
|--------------|----------------------------|-------------------|------------|-------------|-------------|------------|-------------|-------------|------------|-------------|
|              |                            | 2004              |            |             | 2005        |            |             | 2006        |            |             |
|              |                            | Male              | Female     | Total       | Male        | Female     | Total       | Male        | Female     | Total       |
| Gimbo        | 8                          | 848               | 383        | 1231        | 1140        | 473        | 1613        | 1247        | 406        | 1653        |
| Decha        | 7                          | 1241              | 102        | 1343        | 1774        | 313        | 2087        | 2934        | 415        | 3349        |
| Gewata       | 5                          | 489               | 206        | 695         | 654         | 212        | 866         | 412         | 103        | 515         |
| <b>Total</b> | <b>20</b>                  | <b>2578</b>       | <b>691</b> | <b>3269</b> | <b>3568</b> | <b>998</b> | <b>4566</b> | <b>4593</b> | <b>924</b> | <b>5517</b> |

*Source: Farm Africa, 2006*

As it is shown in Table 4.9 above, membership has exhibited an increasing trend. During the establishment of the union in 2004, the number of members of the twenty primary cooperative of the KFCU was 3269. This has increased by about 40% in 2005 and reached 4566. In 2006, the

total number of members was 5517 which increased at a rate of 21%. Though there is an increasing trend in membership since the union's establishment, the rate of increment has declined from 40% in 2005 to 21% in 2006.

Farm Africa (2006) indicated that out of 13,053 coffee producer farmers in the three Woredas of the zone, only 5517 (42%) became members of their nearby primary cooperative supplying coffee to the union. Although there is an increase in membership in absolute terms, substantial numbers of coffee farmers are still non-members and hence membership growth in relative terms is very low. An attempt was made to contact non-members through focus-group discussions. Some non-members claimed they decided not to join the union because of the scars they experienced during the Derg regime. Whereas, most of the participants in the discussion said they opted not to join the union because they have observed that the management committee of the nearby primary cooperative is partial and the activities of the union are not transparent. Moreover, the non-members argue that now a days there is no difference between the price offered by the cooperative and the market price set by the domestic private coffee traders. They reveal that the price offered by the latter sometimes exceeds the one which is offered by the former. The difference, according to the non-members, is the dividend whose distribution can not predicted for sure because the union's profitability, as it stands now, is uncertain.

#### **4.3.2 Education and Training**

Provision of education, training and information is one of the fundamental principles of cooperative societies adopted by the ICA. According to ICA (2004), cooperatives provide education and training for their members, elected representatives, managers and employees so that they can contribute effectively to the development of their cooperatives. Moreover, cooperatives inform the general public, particularly the youth about the nature and benefits of

cooperation. In connection with this, the respondents were asked whether they have been given education and training on cooperatives since the establishment of the KFCU.

**Table 4.10 Provision of education and training**

| Name of the cooperative | Education and Training given |                   | Total            |
|-------------------------|------------------------------|-------------------|------------------|
|                         | Yes                          | No                |                  |
| Beha                    | 7 (7.5%)                     | 30 (32.3%)        | 37 (39.8%)       |
| Chiri                   | 2 (2.2%)                     | 14 (15.1%)        | 16 (17.2%)       |
| Kejaraba                | 6 (6.5%)                     | 14 (15%)          | 20 (21.5%)       |
| Michiti                 | 5 (5.4%)                     | 15 (16.1%)        | 20 (21.5%)       |
| <b>Total</b>            | <b>20 (21.5%)</b>            | <b>73 (78.5%)</b> | <b>93 (100%)</b> |

*Source: Survey data, 2007*

As indicated in the Table 4.10 above, only 21.5% of the respondents have got an access to education and training while the majority (78.5%) has not been given any education and training about cooperative. Those respondents who have got the chance of education and training (21.5%) were also asked about the type of education and training provided. Accordingly, 77% of the education and training were confined to the coffee quality while the remaining (23%) is on debt collection and cooperative principles. Moreover, in the focus group discussions held with the selected members, some individuals who have participated in the training complained that the training was very shallow. It was a kind of orientation held most often for two days.

Nevertheless, a group interview with the four primary cooperatives' executive committee members revealed that all of them were given a short term training (ranging from 2 to 8 days). The committee members, however, invariably complained at their union that it is not able to arrange continuous education and training programs by creating a link with NGOs and other governmental institutions operating in the area. The executive committee members further argued, education and training provided so far were not as per the demand and pre-set programs

of the primary cooperatives nor do they have the strength to deeply ingrain into their organization. Education and training programs were conducted whenever the sponsoring organization wishes to do so.

Education and training programs are not only substantially lacking in the KFCU but also are confined to and biased in favor of the management committee members. According to one of the key informants, education and training is highly lacking both at the primary cooperatives and the union levels. The key informant argues, very limited education and training opportunities obtained were confined to the executive committee members of the primary cooperative and the union leaders. The key informant's argument is also consistent with most of the focus group discussion participants.

#### **4.3.3. Provision of Basic Services and Access to Resources**

Well organized and managed rural organizations such as cooperatives, can provide very crucial services adequately and efficiently (Yigremew, 1999). The performance of membership organizations could be evaluated, among other things, by their ability to provide necessary services. The services could be input supply, output marketing, storage, credit provision, health, education and milling services to their members and/or the community. A closer examination of the KFCU in this respect reveals that the union's service provision is largely confined to output (coffee) marketing. A key informant interview with the cooperative desk experts for instance, showed, such services as health (including veterinary services) and education (school) used to be provided during the Derg regime became now non-existent. Meanwhile, according to the KFCU's 2005/2006 (1998 fiscal year of Ethiopia) performance report presented to the General Assembly on January 2007, there is an attempt to revitalize such and other institutions rendering social services to the members and to the community at large.

To examine the credit services extended to the members, respondents were asked whether they had obtained credit from their primary cooperatives (through the union) for the last twelve months.

**Table 4.11 Respondent's access to credit service for the last 12 months**

| Name of the cooperative | Has the respondent obtained credit |                  | Total            |
|-------------------------|------------------------------------|------------------|------------------|
|                         | Yes                                | No               |                  |
| Beha                    | 4 (4.3%)                           | 32 (34.4%)       | 36 (39.7%)       |
| Chiri                   | 3 (3.2%)                           | 13 (40.0%)       | 16 (17.2%)       |
| Kejaraba                | 2 (2.2%)                           | 18 (19.3%)       | 20 (21.5%)       |
| Michiti                 | 3 (3.2%)                           | 18 (19.4%)       | 21 (22.6%)       |
| <b>Total</b>            | <b>12 (12.9%)</b>                  | <b>81(87.1%)</b> | <b>93 (100%)</b> |

*Source: Survey data, 2007*

As it can be observed from Table 4.11, only about 13% of the respondents were able to get credit services while the remaining 87% claimed they were provided no credit service for the last twelve months. This is also in line with the view of focus groups who complained both their primary cooperative and the union for being failed to timely provide credit services. The members explained their primary cooperative and the KFCU did neither avail credit to conduct timely purchase of their coffee nor provide credit services during the non marketing seasons where they badly need money to meet their immediate demands such as celebrating holidays, paying taxes, and children's school fees.

Out of the 87% of the respondents who did not get credit services from their cooperatives, 78% said they resorted to the Omo microfinance operating in the area. The rest claimed relatives and friends (13.6%), some other money lenders (6.2%) and *Idir* (2.5%) were their alternative sources. The fact that relatives and friends, other money lenders and *Idir* were the alternative sources of

members for their immediate needs signifies the importance of informal institutions and the role of social capital in the rural settings of the Kafa people. The respondents were also asked about the special benefits accrued to them but not to the non-members as a result of their membership.

**Table 4.12 Special benefits provided to the members but not to the non-members**

| Response category                                         | Frequency  | Percentage |
|-----------------------------------------------------------|------------|------------|
| Dividend                                                  | 69         | 54.8       |
| Access to credit                                          | 21         | 16.7       |
| No special benefit provided                               | 11         | 8.7        |
| Motivated to improve coffee quality because of membership | 16         | 12.7       |
| Agricultural input on discount                            | 9          | 7.1        |
| <b>Total multiple response</b>                            | <b>126</b> | <b>100</b> |

*Source: Survey data, 2007*

Table 4.12 above shows, well above half of the respondents (54.8%) associate dividend as the special benefit accrued to them because of their membership while credit service (16.7%), motivation to improve coffee quality (12.7%), and provision of agriculture inputs on discount (7.1%) were other special benefits accrued to them whereas 8.7% of the respondent held the opinion that there were no special benefits accrued to them.

It was discussed in section 4.3.1.1 that the most important factor motivating coffee farmers to join the KFCU through their primary cooperatives was the dividend. It was also learnt during the focus group discussion and my own observation in the field that what automatically comes to the members' mind when they think of the union is the dividend distribution. This is not without a reason. Now a days, private domestic coffee market price and the price offered by the coffee cooperatives is almost the same or sometimes the price set by the former even exceeds the price

offered by the latter. Moreover, coffee farmers in the area have the chance to opt for other sources such as the Omo microfinance and the Woreda Rural and Agricultural Department for their credit and agricultural inputs needs. This is vividly evident from table 4.12 where 54.8% of the respondents attach the dividend as special service provided because of their membership. This is consistent with the members' response about the factor that motivated them to join the primary cooperatives of the KFCU (see table 4.5). Here, by dividend, it is referred to the 2004-2005 dividend distribution. There was no dividend distribution in 2006 (see table 4.14) because the union encountered a net loss.

Although the respondents' claim that access to credit (16.7%) and agricultural inputs (7.1%) and encouragement to improve the quality of their produce (12.7%) were special services provided to the members, these services have been diminishing since 2005/2006. Moreover, the provision of basic facilities such as mesh wire is very scanty. This problem was witnessed invariably by all focus group discussion participants of the four primary cooperatives. They blamed their cooperative and largely the union for their failure to provide the mesh wire so that they could have dried the cherry coffee on the raised bed and supplied a sun dried coffee of a better quality.

Likewise, warehouse service provision to the members is inadequate. For instance, in Chiri, it was observed that the office of executive committee members was also used for storing coffee. Besides, activities such as purchasing, "quality check", routine discussions among the executive committee and the members are held in a highly confined store of the cooperative which is inconvenient to undertake such activities. In Beha primary cooperative, the majority of members were dissatisfied with the current location of the warehouse. According to the development agent and cooperative desk experts working in the area, out of the four kebeles (Beha gona, Ermo, Awasho qofra and Awasho olla) constituting the Beha primary cooperative, the two adjacent

kebeles (Awasho qofra and Awasho olla) supply more than 80% of the coffee to the cooperative. Whereas, the warehouse is located nearer to Beha gona and Ermo, which supply relatively insignificant proportion of coffee to the cooperative. The majority of focus group discussion participants expressed their dissatisfaction with the location and proposed that the warehouse be located somewhere nearer to the major coffee supplying Kebeles. Their proposition is also consistent with Alemayehu's (1993) recommendation that cooperatives should have the discretion to choose their supply centers and alternate marketing channels.

The survey result indicated that all of the respondents have no access to transport their produce to the buying station. The result shows that 71% of the respondents transport their produce to the buying station using pack animals while 29% reported that they use own labor to transport the produce. According to the survey result, an individual member walks (on foot) 6 km on average, the maximum distance being 13 km while the minimum 0.5 km to reach the buying station. In focus group discussions, some members who walk relatively longer distances to reach the buying station of their primary cooperatives complained about transportation problem.

Though the members' problem in this respect needs to be recognized, it could not be treated separately. On the one hand, such kinds of infrastructural activities are undertaken to benefit the whole population of a given area (not only members of a given cooperative society). On the other hand, huge finance is needed to launch such an infrastructure. According to key informants' interview, the problem of access to transport could be appreciated though, in the short term, the focus should be on the other problems such as lack of education and training and credit services. The distances are relatively shorter and could be manageable if other problems are solved.

On the basis of the above discussion, it appears however, that the performance of the primary cooperatives and hence the KFCU in terms of providing basic services and making an access to resources is low. The union is not able to extend sustainable services for its members. This is one of the peculiar characters of agricultural cooperatives in LDCs (Yigremew, 1996). Cooperatives in LDCs have often failed to meet the needs and aspirations of their members, and achieve their over ambitious objectives.

#### **4.3.4. Organizational Capacity**

As a study by Hussi *et al* (1993) on African countries' rural organizations pointed out, the ambitious development goals of developing countries with a predominantly agricultural economy needed well functioning rural organizational systems capable of providing the different services to the farmers. Likewise, KFCU, one of the secondary coffee farmers' cooperative unions in Ethiopia, was established with the ambition of strengthening its coffee farmer members' bargaining power in international marketplace and returning a higher share of market price to the producers.

According to the KFCU's (2004) by-laws, the union has the General Assembly at the apex as the ultimate decision making body. Accountable to the General Assembly is a nine member Managing Board composed of delegates from the KFCU members. The Management Board elects its chairperson and secretary and it is also responsible for the overall strategic and policy issues, examination and follow-up of budget, work programs and performance appraisal reviews. The Management Board reviews loan requests of union members and nominates the General Manager, who in turn gets confirmed by the General Assembly. The General Manager charged with running the day-to-day operations of the union, reports to the Management Board. There are

also other organs of the unions (hired workers) responsible for the different functions of the union that report directly to the General Manager.

It is under the above organizational structure that the union was established. While establishing the union, the urgent need of both the government and the NGOs was to reverse the catastrophe inflicted on coffee farmers due to a drastic coffee price decline. It was a hastily created organization without first building the necessary organizational capacity based on the principles of cooperative establishment. One of the key informants in this regard has the following to say:

... KFCU did not come into existence through the natural process of growth; it was created by the government and the NGOs who primarily focused on output marketing than on the whole process that would create organizational strength to the union. Now a days, the union has no organizational capacity to undergo its activities. I am very pessimistic about the sustainability of the KFCU in the future. The key informant concludes, after all, is it a charity or member owned and member managed business organization?

It was also observed during the field work that there were replacements, reshuffles and cut in employment in the union. Recently a consensus was reached between the Board of Management and the zonal Agricultural and Rural Development Department and get ratified by the General Assembly. The consensus was that now a days the union's organizational structure is inefficient, extravagant and weak. Thus the union has failed to live up to the expectation of its members. The fact that the union was created without laying basic organizational foundation which would enable it to deliver necessary services effectively and efficiently, compelled it to engage in corrective measures than progressive tasks.

Moreover, as it was attempted to describe at the beginning of this sub-topic, the General Manager and the hired workers of the union are hierarchically under the Board of Management, which is constituted from coffee producing farmer members. As clearly indicated in the by-laws of the

union, the Board of Management is responsible for monitoring, evaluating and appraising the whole activities of the employed workers. Now it is important to raise one crucial question at this juncture. Is it feasible for a Board of Management drawn from coffee farmer members to lead relatively professional hired employees (ranging from college diplomas to a university degree) under such rapidly created union? A senior cooperative expert from the department of the Zonal Agricultural and Rural development answers this fundamental question. On the cooperative workshop organized by the KDP at the Bonga town in February, 2007, the expert in his presentation boldly came up with the conclusion that the Board of Management has no capacity to monitor and lead the union's employees. Rather the reverse has been taking place. That is, the employees have been dictating the Board of Management from below. In the words of the presenter:

" ... ተቀጣሪ ሠራተኞች ከሥር ሆነው ቦርዱን ያሸሩታል።" In this respect, a recent study by Shaw (2006) shows that in a cooperative with weak organizational strength, Board of Management can become disempowered. Shaw argues, when this happens, the absence of democratic control will prevail and appointed managers and/or employees can take control by manipulating Board of Directors (Board of Management in the KFCU's case) who have a poor grasp of the business.

From the discussion above it appears that the performance of the KFCU in terms of building organizational capacity to undertake its activities is very low. This is mainly attributed to the fact that KFCU is established hastily without adequate preparation and without a full consideration of the basic cooperative principles. This coincides with Alemayehu's (1993) finding in his assessment of "Ethiopia's Experience with Rural Cooperatives (1975-1990)" where urgencies for

establishing cooperatives which were prompted by an acute shortage of basic goods without envisaging the long-term benefits or demerits resulted in poor organizational system.

### 4.3.5. Export Performance and Profitability

#### 4.3.5.1 Export Performance

KFCU has been engaged in export business since its establishment in 2004. The performance of the union in the export market for the last three years is presented in the following table.

**Table 4.13 Volume and value of coffee exported (2004-2006)**

| Year         | volume (in kg) | % growth | value (in Birr)  | % growth |
|--------------|----------------|----------|------------------|----------|
| 2004         | 139,463        | -        | 1,813,019        | -        |
| 2005         | 204,630        | 46.7     | 3,274,080        | 80.6     |
| 2006         | 186,300        | -9       | 2,775,870        | -15.2    |
| <b>Total</b> | <b>530,393</b> | <b>-</b> | <b>7,862,969</b> | <b>-</b> |

*Source: Compiled and computed from the union's annual reports*

As indicated in the Table 4.13 above, the union exported 139,463 kg of unwashed coffee during the first year of its operation, earning revenue of Birr 1,813,019. In 2005, it exported 204,630kg of coffee and generated Birr 3,274,080 while the export volume declined to 186,300kg in 2006 with a parallel decline in the value to Birr 2,775,870.

A surge in the volume of coffee supply by 46.7% in 2005 was also accompanied by 80.6% increase in the value of export. The very likely reason for a dramatic rate of increase both by volume and value in the year 2005 can be attributed to the motivation of non-members to join the union. They were motivated by the previous year (2004) dividend distribution and the relative stability of the union augmented by increased external support.

Unlike what is registered in 2005, the export performance of the 2006 is characterized by a 9% decline in volume and a 15.2% decline in value. According to the union's 2006 performance report, the weak performance in the export market is attached to the delay in the purchase of members' produce associated with the "reorganization" of the union. Moreover, it seems that the decline in the volume of the produce is associated with the lack of timely purchase and timely provision of credit services to the members (see section 4.4.5). As a result, members resort to the private coffee dealers in order to meet their immediate needs.

#### **4.3.5.2. Profitability of the Union**

Cooperative societies' proclamation No.147/1998 of the FDRE stipulates that the society shall deduct 30% of the net profit obtained and allocate for reserve, for the expansion of work and for social services (Article 33/1 of the proclamation). After the prescribed amount is deducted, the remaining net profit (the dividend) shall be divided among the members; the division shall be made on the basis of the shares the members have in the society and on the amount of goods offered for the sale to the society or goods purchased from the society by members of the society (Article 33/2 of the proclamation). The by-law of the KFCU in this respect is consistent with the provision of this proclamation.

Accordingly, the union has distributed net profit two times ever since its establishment. The following table presents total net profit and its distribution since 2004.

**Table 4.14 Net profit and dividend distribution**

| Year         | Net profit     | % growth | Dividend       | % growth |
|--------------|----------------|----------|----------------|----------|
| 2004         | 460,954        | -        | 322,668        | -        |
| 2005         | 346,530        | -24.8    | 242,571        | -24.8    |
| 2006         | -              | -        | -              | -        |
| <b>Total</b> | <b>807,484</b> | <b>-</b> | <b>565,239</b> | <b>-</b> |

*Source: Compiled and computed from the union's annual reports.*

As Table 4.14 above shows, the union declared a net profit of Birr 460,954 in 2004 whereas in 2005 the net profit was Birr 346,530. The profit was diminished by about 25%. Likewise, the dividend disbursed to the members declined from Birr 322,668 in 2004 to Birr 242,571 in 2005, at the rate of 25%. It was indicated in table 4.13 that the volume of coffee sold in 2005 was increased by 46.7% with an increase in value by 80.6%. However, the increase in volume and in value of the coffee exported was not accompanied by a parallel increase in the net profit, rather the profit had declined. According to an interview with the union's General Manger, this was mainly due to the variation of coffee price in these two consecutive years. In 2004, primary cooperatives bought their members' produce at Birr 40 to Birr 60 per 17kg (Feresula) where as the price offered in 2005 was between Birr 90 to Birr 110 per 17kg (Feresula). The variation in prices caused the net profit move opposite to the value and volume of coffee supplied.

The year 2006 was the year of confusion and dissatisfaction for the KFCU members. As indicated in table 5.14 above, no dividend was disbursed in this year. The members at the primary cooperative level were not informed about the reason why this was happened. Moreover, there were inconsistencies between the union's report and the audit report of the SNNPRS' Cooperative Agency on the union concerning profit. For instance, on the union's 2006 budget year report made to the General Assembly in January, 2007, it was declared that the union had

achieved a net profit of Birr 145,924.79 in the transaction it made from June, 2005 to November 2006. However, the report did not get approval by the SNNPRS' Cooperative Agency auditors.

Unlike the union's audit report, the SNNPRS Cooperative Agency's audit report revealed that the union encountered a net loss of Birr 992,434.83 in the transaction it made from June, 2005 to February, 2007. According to the audit report of the SNNPRS' Cooperative Agency, the loss is caused, among other things, by inefficiency, extravagancy and lack of transparency in undergoing coffee transaction. Thus, the profitability of the union for the brief periods of coffee transaction it made was not only declining but also the union began incurring a loss just two years after its commencement.

#### **4.3.6. Change in the Living Standards of the Members**

To the extent that they are member-owned and member-controlled business, well-organized cooperatives can demonstrate a number of characteristics that can make them a positive factor in rural development (Hussi *et al*, 1993). Esman and Uphoff (1984) noted, cooperatives have an instrumental value to mobilize individual resources under a single organization. This could enable people make collective effort to satisfy common needs and resolve common problems. The indispensability of member-owned and member controlled cooperatives, particularly agricultural cooperatives, in improving the living standard of the rural poor in this regard, is not compromising. In view of this, the respondents were asked whether or not their living standard has improved after their membership.

**Table 4.15 Members' response to change in their living standards after KFCU establishment.**

| Name of the cooperative | Living standard improved |                          |                     |                    |
|-------------------------|--------------------------|--------------------------|---------------------|--------------------|
|                         | <i>Yes improved</i>      | <i>Slightly improved</i> | <i>Not improved</i> | <i>Total</i>       |
| Beha                    | 17 (18.1%)               | 11 (11.7%)               | 9 (9.6%)            | 37 (39.4%)         |
| Chiri                   | 11 (11.7%)               | 3 (3.2%)                 | 2 (2.1%)            | 16 (17.0%)         |
| Kejaraba                | 7 (7.5%)                 | 8 (8.5%)                 | 5 (5.3%)            | 20 (21.3%)         |
| Michiti                 | 13 (13.8%)               | 4 (4.3%)                 | 4 (4.3%)            | 21 (22.3%)         |
| <b>Total</b>            | <b>48 (51.1%)</b>        | <b>26 (27.7%)</b>        | <b>20 (21.3%)</b>   | <b>94 (100.0%)</b> |

*Source: Survey data, 2007*

Asked whether their living standard has improved as a result of the KFCU's establishment, 51% of the respondents reported that it has improved. The other 28% claimed it has improved only slightly whereas 21% said their living standard has not improved at all.

It is evident from Table 4.15 above that the living standard of the majority of the sampled household members has improved after their membership in the union. Before the critical analysis of the "achievements" in this respect, let us first discuss about the indicators of the achievement as responded by the sampled population. Accordingly, those who responded their living standard has improved or slightly improved (79% combined) were further asked about the indicators of the improvement (achievement).

**Table 4.16 Indicators of improvements in the living Standard of the respondents**

| <b>Response category</b>                                             | <b>Frequency</b> | <b>Percentage</b> |
|----------------------------------------------------------------------|------------------|-------------------|
| Increased livestock number                                           | 56               | 33.3              |
| Able to send children to school                                      | 27               | 16.1              |
| Changed a house from thatched hat to corrugated steel sheets roofing | 24               | 14.3              |
| Better clothing and better diet                                      | 23               | 13.7              |
| Access to health services                                            | 19               | 11.3              |
| Buy household furniture and utensils                                 | 12               | 7.1               |
| Renovated the existing house                                         | 7                | 4.2               |
| <b>Total multiple response</b>                                       | <b>168</b>       | <b>100</b>        |

*Source: Survey data, 2007*

As indicated in Table 4.16 above, 33.3% of the respondents were able to increase their livestock number after their membership in the KFCU. 16% have got the opportunity to send their children to school; 14.3% have changed their house from thatched hat to corrugated steel roofing while the remaining respondents were able to have an access to better clothing and better diet (13.7%). Some were able to use health services (11.3%) and are able to buy household furniture and utensils (7.1%). Lastly 4.2% of the respondents were able to renovate their existing house.

Furthermore, 40% of the sampled population claimed that they were able to resume some of the undertakings they used to cease because of the drastic decline in coffee price besides the fact that they had no other remunerative sources of income. Some of the activities halted before the establishment of the KFCU and resumed after its establishment, according to the respondents, were building a house of steel sheet roofing, buying livestock and pack animals and sending children to school.

Meanwhile, a closer examination of the achievements aforementioned arouses at least two important questions.

1. Who is credited for (or what factors cause) the achievements?
2. How is the sustainability of the achievements?

A critical analysis of these questions would help us reasonably examine the performance of KFCU in this regard.

Following the drastic coffee price decline in the international market, coffee farmers in Ethiopia had encountered severe crisis destroying their livelihoods. The government and the NGOs came up with the idea of establishing coffee unions as a remedy to reverse the catastrophe. Coffee producing farmers in Ethiopia have thus got an opportunity to supply their produce to the international market through the unions.

Accordingly, KFCU was established with the direct support from the government and with the involvement of NGOs such as VOCA Ethiopia, from its very inception. Coffee farmers thus far, were able to access international market (also called specialty market) via the union. As a result, the farmers were able to fetch better prices and secure a patronage fund (dividend) from the sale, particularly in 2004/2005 budget year.

According to a key informant contacted on the issue, the achievement in this respect is entirely attributed to the external agents such as the government and the NGOs. The key informant argues that the union did not come into existence through the natural process of growth; rather it is created hastily as panacea for immediate problems. Thus lack of capacity is evident; it doesn't seem a competitive business organization but a "charity" created by the government. Members are not active participants on the affairs of the union. They are passive entities looking for the

assistance from the government. In the midst of all these problems, the key informant concludes, the union would never sustain in the future and there isn't as such any achievement brought about inherently by the KFCU's own effort. In connection to this, Esman and Uphoff (1984:286) also suggest the following:

Establishing successful local organizations that can make an effective contribution to broadly based rural development requires a sustained effort; such institutions cannot be imposed or brought forth by standardized, centrally imposed blueprints, but must evolve inductively from the specific experience, needs and preference of their members.

Moreover, focus group discussion participants in one of the primary cooperatives complained about the delay of the 2006 dividend distribution. The group members invariably express their recent dissatisfaction in the following manner:

In the beginning of the union's establishment, our government made us happy; we had got reasonable prices for our coffee; dividend distribution was timely. Now a days, however, we are not clear with the activities of the union. We don't know why the 2006 dividend distribution is still late. The union declares neither profits nor losses. At the beginning of the KFCU, we were made to be rich whereas now we have the speculation that we are going to be made poor.

The key informant interview and the focus-group discussion clearly reveal that there is passivity and an entire dependence of the members on the external agents such as the government and any benefit accrued to the members is attributed to the external agents. It was not from a concerted effort of the union. Under the ongoing circumstance, the sustainability of the union is also compromised.

Nevertheless, table 4.16 above reveals that coffee farming is the most important income generating activity. It is considerably linked with and responsible to the living conditions of

coffee farmers in the area. Focus groups in this realm argued that their life is highly attached to coffee and all valuable assets they own are substantially from the coffee sale. According to the focus groups, whatever impact on coffee has a direct bearing on their living condition. It is argued this has emanated from the established fact that Ethiopia's economy in general, and the estimated 15 million people in particular, depend on coffee (UNDP, 2005). UNDP estimated that the loss of income in 2003 amounted to about US\$200 per household; while for every \$ 2 in aid received by Ethiopia in the same year, \$1 was lost through lower coffee prices. This picture holds true for coffee growing farmers in Kafa who substantially depend on coffee crop for their livelihood.

#### **4.4. Factors Constraining the Performance**

##### **4.4.1. Lack of Education and Training**

The development of sustainable member-based cooperatives crucially depends on the members having a basic understanding of their cooperatives' activities. This can be realized, among others, through education and training. In recognition of this, the ICA (2004) incorporated education and training as one of the basic principles of cooperative societies. The lack of education and training is therefore, one of the impediments constraining the performance of cooperative societies.

It was revealed that the performance of KFCU in providing the necessary education and training to the members and the executive committee members was very limited. Education and training programs were shallow orientation which could not ingrain into the institutional system of the primary cooperatives of the union. A workshop organized by the KDP (2007) on some of the salient problems constraining the performance of the primary cooperatives and hence the union, it was revealed that because of lack education and training, members do not clearly understand

their rights and responsibilities enshrined in the cooperative legal framework in general, and in the by-laws of the union, in particular. As a result, members were not able to defend their rights and protect abuses and embezzlements on their resources.

In confirmation with the KDP (2007), one of the key informants contend that the educational status and the intensity of training provided to the KFCU members are so lower that the members have not been in a position to interpret the by-laws. Thus they are not able to understand the principles of cooperatives and to protect their assets from abuse and embezzlement. Hussi *et al* (1993) argued that in the cooperative societies with illiterate members, as is the case in most rural cooperatives in SSA, it is difficult to protect the interest of the members. Thus, Hussi *et al* came up with the conclusion that the most effective way to protect the interest of members is to provide them with the knowledge needed to monitor and steer the activities of their societies. Thus member education in this respect becomes increasingly important as cooperative societies (associations) evolve into genuine member-controlled organizations.

In the sample survey conducted, respondents were asked whether they have been given training on the cooperative and cooperative related activities since the establishment of the KFCU.

**Table 4.17 Has training been given on cooperative and cooperative related activities**

| <b>Response category</b> | <b>Frequency</b> | <b>Percent</b> |
|--------------------------|------------------|----------------|
| Yes                      | 20               | 21.5           |
| No                       | 73               | 78.5           |
| <b>Total</b>             | <b>93</b>        | <b>100.0</b>   |

*Source: Survey data, 2007*

As Table 4.17 shows, the lion's share of the respondents (78.5%) declared that they were not given any training on cooperative and cooperative related activities. While only 21.5% said they did get training opportunities by and/or through the facilitation of the union. The survey result is

thus inconformity with the view of the key informants and the outcome of focus group discussions. The focus group discussions revealed that lack of education and training is rampant among members of the KFCU. It should also be recalled from the previous section about the type and the intensity of training which was most often shallow and a kind of orientation.

Besides lack of education and training by the union, the education members acquired from the formal schooling is also very low (*see Table 4.2*). As Table 4.2 shows, 23.4% of the respondents are illiterate whereas 19.1% are those who could only read and write with no formal education. The majority of the respondents are of grade 1-6 (27.7%) followed by those who are of grade 7-8 (25.5%) while the remaining 4.3% are of grade 9-12. In a union with considerable number of illiterate members, it is difficult to realize democratic control by the member and involve in international business route like the coffee market.

During the fieldwork, an attempt was made to compile the education level of committee members (Chairman, Vice Chairman, Secretary and Cashier). It was found that the executive committee members have better educational level than the ordinary members.

**Table 4.18 Educational level of primary cooperative executive committee members**

| Name of the cooperative | Educational level      |                       |                        |                       |
|-------------------------|------------------------|-----------------------|------------------------|-----------------------|
|                         | <i>Chairman</i>        | <i>Vice chairman</i>  | <i>Secretary</i>       | <i>Cashier</i>        |
| Beha                    | 10 <sup>th</sup> grade | 9 <sup>th</sup> grade | 8 <sup>th</sup> grade  | 6 <sup>th</sup> grade |
| Chiri                   | 7 <sup>th</sup> grade  | 2 <sup>nd</sup> grade | 6 <sup>th</sup> grade  | 7 <sup>th</sup> grade |
| Kejaraba                | 10 <sup>th</sup> grade | 7 <sup>th</sup> grade | 10 <sup>th</sup> grade | 5 <sup>th</sup> grade |
| Michiti                 | 6 <sup>th</sup> grade  | 6 <sup>th</sup> grade | 10 <sup>th</sup> grade | 6 <sup>th</sup> grade |

*Source: compiled from an interview with the executive committee members, 2007*

It is believed that with adequate training, the leaders with the above educational profile can carry out their duties and responsibilities. However, most of the committee members are dropouts who left school long ago. This associated with lack of attempt to upgrade the knowledge and understanding of the executive committee members by providing skill upgrading education and training courses on cooperatives, hindered their ability to understand and participate in the affairs of their organization. According to the KDP (2007), because of the lack of timely education and training among the primary cooperative leaders of the KFCU, there is no proper information exchange among the cooperative leaders (including the union) and staff members. What is even worse is lack of education and training, especially among the ordinary members, triggered the situation of elite capture where elected members and external agents overrule cooperative principles. Besides, lack of education and training, the failure of cooperative organizers to properly channel relevant and consistent information to the members has exacerbated the problem. In a workshop organized by the KDP at Bonga, one of the primary cooperatives member expressed his dissatisfaction with the organizers in the following manner:

Organizers (*adarajoch*) came to visit us different times. There was mismatch in the advice and education they provide us. What was approved and allowed by one organizer on the same issue, was disapproved and prohibited by the other. This created misunderstanding and confusion.

It seems that such confusions and misunderstanding, resulted from inconsistency in channeling information, has a contagious effect on implementing the basic cooperative principles. It impedes the performance of the union in general, and those of the primary cooperatives, in particular.

#### **4.4.2. Lack of Loyalty and Commitment**

Loyalty and commitment of cooperative members, cooperative leaders and external organs, such as the government, is of paramount importance in enabling the members to meet their common economic, social and cultural needs and aspirations. However, this aspect of cooperative value is lacking at all levels of the primary cooperatives and the KFCU. According to a group interview held with the cooperative organizers, for instance, cooperative desks at both the Woreda and the Zonal level , which are structurally sub sections of the agricultural and rural development departments, are stifled with people who were transferred from other offices due to, among others, inefficiency, and lack of vacant positions resulted from structural change. According to the interviewees, the loyalty and commitment of these people to provide the necessary support to the cooperative activities is very low. On the one hand, they were not equipped with the basic skills to handle the cooperative business, while on the other, they were not psychologically ready to commit themselves for such an activity.

Moreover, most of the executive committee members at the primary cooperative level are also working in different positions of their respective Kebele Administration. The following table presents the responsibilities in Kebele Administration of the Chairman, the Vice Chairman and the Secretary in the four primary cooperatives from which the study sample was drawn.

**Table 4.19 Responsibilities of the primary cooperative leaders in Kebele Administrations**

| Name of the primary cooperative | Responsibilities in Kebele Administration |                                       |                                  |
|---------------------------------|-------------------------------------------|---------------------------------------|----------------------------------|
|                                 | Chairman                                  | Vice chairman                         | Secretary                        |
| Beha                            | Head, public mobilization                 | Chief speaker, kebele council         | -                                |
| Chiri                           | Chief speaker, kebele council             | Judge, kebele social court            | Secretary of land administration |
| Kejaraba                        | -                                         | Member, kebele administration cabinet | Land administrator               |
| Michiti                         | Land administrator                        | Head, kebele information affairs      | -                                |

*Source: Compiled from an interview with the primary cooperative leaders, 2007*

As indicated in the Table 4.19 above, most of the primary cooperative leaders are also administrators of the Kebele within which their cooperative is found. According to a group interview with the primary cooperative leaders, they commit substantial portion of their time to the Kebele administration activities. Cooperative activities are held usually when there is coffee purchase. Priority is given to the Kebele administration activity whenever it overlaps with the activities of the cooperative. In a cooperative workshop organized by the KDP (2007) at Bonga, it was revealed that cooperative activities are substantially discarded and discriminated in favor of other undertakings and that the commitment of cooperative leaders, cooperative organizers, and the government, toward the promotion of cooperatives is very low. Unless all the parties involved in different hierarchies of the cooperative remain loyal and committed to serve the interest of members, it will be difficult to achieve common goals.

Moreover, in all of the four primary cooperatives of the KFCU where focus group discussions were conducted, the participants invariably assert that their leaders are not loyal (honest) to

promote the interest of members. The groups argue that priority is given to the executive committee members in extending credit services and in purchasing the produce.

Contrary to the ICA (2004) cooperative principle which states that members contribute equitably to, and democratically control, the capital of their cooperative, the meager finance obtained through credit or from other sources is primarily appropriated by the committee members. Moreover, according to one of the focus groups, the committee members are always in quarrel with each other. The focus groups argue that the source of quarrel and dispute among the executive committee members is most likely conflict of interest aroused while everybody in the committee attempts to pursue his own interest, for instance, during "quality check" and credit disbursement.

In one of the group discussions, one of the participants of the discussion came up with the idea that in a cooperative where everybody pursues his/her own interest, it is naive to expect loyalty and commitment. In such an institution, the participant contends, there is a dividing line between what is meant by 'mine' and what is meant by 'ours'. Most often he concludes, priority is given to 'mine' than to 'ours'. It can be deduced from the insight of the group discussion participant that in "group activities" where everybody pursues his/her own interest, it is difficult to achieve common goals and that the outcome of such group activities, for example, cooperatives, would result in a sub-optimal level of performance. Thus, to achieve common goals in group activities such as cooperatives, it is important to establish harmony and common understanding that emanate from the basic principles of cooperative society.

In order to capture members' response on whose interests the cooperative leaders promote, respondents were asked to express their feeling.

**Table 4.20 whose interest the cooperative leaders promote**

| <b>Name of the cooperative</b> | <b>Interest of the members</b> | <b>Interest of the government</b> | <b>Their own interest</b> | <b>Do not know</b> | <b>Total</b>       |
|--------------------------------|--------------------------------|-----------------------------------|---------------------------|--------------------|--------------------|
| Beha                           | 10 (10.6%)                     | 3 (3.2%)                          | 13 (3.8%)                 | 11 (11.7%)         | 37 (39.4%)         |
| Chiri                          | 3 (3.2%)                       | 1 (1.1%)                          | 11 (11.7%)                | 1 (1.1%)           | 16 (17.0%)         |
| Kejaraba                       | 4 (4.25%)                      | 5 (5.4%)                          | 9 (9.6%)                  | 2 (2.2%)           | 20 (21.2%)         |
| Michiti                        | 5 (5.3%)                       | 2 (2.1%)                          | 12 (12.7%)                | 2 (2.1%)           | 21 (22.3%)         |
| <b>Total</b>                   | <b>22 ( 23.4%)</b>             | <b>11 (11.7%)</b>                 | <b>45 (47.9%)</b>         | <b>16 (17.0%)</b>  | <b>94 (100.0%)</b> |

*Source: Survey data, 2007*

As shown in the Table 4.20, out of 94 sample population, 48% reported that their leaders pursue their own interest while 23.4% of the respondents held the position that the leaders promote the interest of the members. 17% of the respondents claimed they don't know whose interest their leaders promote. The remaining 11.7% adhere to the view that their leaders promote the interest of the government.

Consistent with the focus group discussion, a great majority of the respondents held the view that their leaders are against members' interest. Moreover, the fact that 11.7% of the respondent held the opinion that their leaders serve the interest of the government signifies the persistence of negative government intervention in the affairs of the cooperative.

All in all, we can come up from the discussions above that in a cooperative without a strong institutional set-up and without clear assignment of duties and responsibilities geared towards the interest of members, it is difficult to ingrain loyalty and commitment. The absence of loyalty and commitment in turn, causes a number of problems that could constrain the performance. Tadesse (2005), for instance, argues that cooperation is not an easy task because of the problems that arise from, *inter alia*, prisoner's dilemma, free riding and the tragedy of commons which is also in line

with the views of one of the focus-group discussion participants who mentioned, 'it is difficult to maintain loyalty and commitment in a cooperative where everybody pursues his/her own interest than the interest of the group.'

#### **4.4.3. Government Intervention**

Studies revealed that government intervention on the affairs of cooperatives resulted in failure story. Hussi *et al* (1993), for instance, argued, in SSA, the interventionist policy of governments was counterproductive reducing member participation and control. This has impaired the flexibility required for running of the cooperatives as business enterprises. Meanwhile, there were two contradictory strands of ideology mixed in cooperative policies. According to UNRISD (1975) cited in Yigremew (2005), government involvement was viewed with skepticism and a healthy independence from government had been advocated. This strand of ideology is also consistent with the ICA (2004) principle that cooperatives are autonomous, self-help organizations controlled by their members. However, according to the second ideological strand, government involvement and assistance is looked up on as a necessary condition for the promotion of rural cooperatives. Hussi *et al* (1993) argued against the second ideological strand in that it has tended to alienate the members from the cooperatives. It has not proved to be an effective deterrent against mismanagement and misappropriation of members' funds. Now a days, however, the working principles of cooperatives adhere to the first ideological strand.

With regard to the KFCU, there was a general consensus among key informants, focus group discussion participants, cooperative organizers and the NGOs representatives operating in the area that there was negative intervention by the government in the affairs of the union and the primary cooperatives. The intervention takes different forms. For instance, one is appointing and transferring cooperative leaders without the consent and consensus of members. One of the key

informants argued that demoting and promoting cooperative leaders should not have been the duty of the government. This would not bring about positive change on the institution. The emphasis should have been on launching strong and transparent institutional system and realizing the autonomy and independence of the institution. Demoting and promoting, the informant further argues, may bring about a change on those who are being demoted or promoted, not on the institutional system of the cooperatives.

Moreover, on a workshop organized by the KDP (2007), the participants unanimously agreed that government intervention is rampant. Government agents appoint and transfer the cooperative leaders. They also seal offices and warehouses of the primary cooperatives without members' consent. They compel cooperatives to provide credit services for the non members. The fact that primary cooperatives are forced to provide credit services to the non-members not only consolidates Yigremew's (1998) finding that cooperatives during the Derg regime were used to carryout unpopular functions; which is against one of the ICA principles, Autonomy and Independence, but also it is an indication that such kinds of unpopular functions are persistent until to date.

Besides the aforementioned aspects, negative intervention by the government was manifested, for instance, in terms of misappropriating cooperatives' assets such as building a house on the cooperatives' land and using cooperatives' offices for Kebele Administration activities, which is in violation to the cooperative proclamation NO.147/1998 of article (32). The article states the asset and fund of a society shall not be divided for the members or any other party. One of the key informant revealed that such kinds of malpractices are difficult to reverse because the Kebele Administrators, who in most cases are leaders of the primary cooperatives, are themselves immersed in such practices. Nevertheless, it is also undeniable that there are some aspects of

positive government intervention, as revealed by the key informants, in the areas such as providing auditing services and training. Regardless of such kinds of positive intervention, however, it could be argued that the strength of one of the elements of negative intervention to spoil all the positive contributions is so intense that it can easily erode the positive contributions of the government.

#### **4.4.4 Favoritism and Embezzlement**

According to ICA (2004), honesty, openness, social responsibility and caring for others are the ethical values of cooperatives. The lack of these values in voluntarily organized institutions such as cooperatives involving business activities is a repercussion constraining the institution's performance. In an organization involving group membership, it is plain truth that lack of honesty and openness will trigger favoritism and embezzlement.

There is a widely held belief among the members, cooperatives organizers and experts working on cooperatives that favoritism and embezzlement is widespread among the primary cooperatives of the KFCU. This is manifested in delivering credit services and "classifying" coffee quality. Favoritism and embezzlement was exacerbated, among others, by lack of transparency and the existence of loop-holes triggering such a malpractice among the cooperative leaders. In primary cooperatives of the KFCU, for instance, there is no scientific standard to determine coffee quality. Coffee quality is determined by the Development Agents and/or by the executive committee members, simply through physical observation. Moreover, there is no transparent system in place, to make those who are engaged in coffee quality determination, accountable. This has created a loop-hole for the executive committee members to alter coffee quality in favor of their relatives.

Focus-group discussion members and the key informants invariably agree that there is favoritism and discrimination among the executive committee members. It is on the basis of kinship relation and the level of wealth. One of the key informants expressed his dissatisfaction on being a member of his cooperative because of favoritism, in the following manner:

If a person who has a relative in the management committee is favored, if the poor and the rich are not treated equally, why did I become a member? I am pondering over my membership and may withdraw in the future.

It is clear that the above key informant's blame stands in a stark contrast to the justifications provided for the importance of a cooperative in the literature which state that member owned member-controlled cooperatives are crucial to equal access to credit (Milford, 2004; Tadesse, 2005) and reduce individual's risks through pooling risks at the level of the cooperative enterprise (Zerihun, 2003); and also in conformance with the Le Vay (1983, cited in Milford, 2004), which argued that it is difficult to achieve economic and social objectives among the members who have different pursuit and preferences.

Because of the difference in preferences and the attempt to benefit their respective relatives in the cooperatives, the other key informant from one of the primary cooperatives argues, the management committee members are always in quarrel to each other; dispute and misunderstanding is rampant. The key informant then draws a parallel between a quarreling family and his cooperative management committee members:

If a husband and a wife are engaged in a frequent quarrel and disputes in a family, they cannot properly nourish and bring-up their children, rather they will put them into desperate and hopelessness. The same holds true for our management committee members. Because they are in a frequent quarrel and dispute, we, the members are left aside; what do we expect from a cooperative without harmony among its leaders?

It can be understood from the key informant's view that it is hardly possible to meet the needs and aspirations of members in a cooperative where every member of the management committee pursues his/her own interest.

In a focus group discussion held in one of the cooperatives selected for this study, every opportunity such as credit service is first appropriated by the management committee. Moreover, the participants revealed that credit extended for the members is being embezzled by some of the leaders, especially the cashiers. In one of the cooperatives, for instance, a cashier misappropriated the credit extended to the members, to undergo his own coffee transaction, in order to prosper above his fellow members. This was also witnessed by the group interview conducted with cooperative organizers. Such kind of embezzlement is clearly in violation to one of the core values of cooperatives, that is, solidarity.

While discussing government intervention, it was revealed that, among others, members' asset, such as land, was misappropriated by the Kebele Administration and its leaders, who are also leaders of their primary cooperative. Such an embezzlement act as discussed was against the provision of proclamation No. 147/1998 of the FDRE.

#### **4.4.5 Lack of Credit Service and Capital**

It was indicated that cooperatives play crucial role in providing basic services to the members. One of these services is the provision of credit. Milford (2004) and Tadesse (2005), for instance, revealed, cooperatives are crucial, among others, in creating opportunities for credit services. Lack of credit, therefore, can be considered as one of the impediments constraining cooperatives' performance.

It was found that the performance of KFCU was hindered by the lack of timely credit services. The outcome of all of the group discussion, the key informants, and the group interviews conducted with the primary cooperative leaders unanimously confirm that lack of credit is retarding the union in general, and the primary cooperatives in particular, in coffee business. Focus group participants, in this respect bitterly blame their primary cooperatives and the union for their failure to provide timely credit services. They stress that credit services are not only lacking but also the provision of meager finance obtained through credit is not timely.

The focus groups, for instance, argue that the union neither conduct timely purchase of their coffee nor provide credit services during the non-marketing seasons where members need money to meet their immediate demand. As a result, they resort to the private domestic traders. The response of members contacted for the sample survey complies with the focus groups' argument.

**Table 4.21 what the respondents did when cooperatives failed to buy the produce on time**

| <b>Response category</b>                            | <b>Frequency</b> | <b>percent</b> |
|-----------------------------------------------------|------------------|----------------|
| Sell it to the private coffee dealer at lower price | 55               | 59.8           |
| Keep it until the cooperative buys                  | 23               | 25.0           |
| Sell it to the cooperative on credit                | 9                | 9.8            |
| The cooperative buys coffee on time                 | 4                | 4.3            |
| Other                                               | 1                | 1.1            |
| <b>Total</b>                                        | <b>92</b>        | <b>100.0</b>   |

*Source: Survey data, 2007*

The Table 4.21 above indicates, about 60% of the respondents sold their coffee to the private domestic traders whenever their cooperatives failed to buy the produce timely, whereas 25% said they stored it until their cooperative buys (expecting dividend); the remaining respondents reported they sold it to their cooperative on credit (9.8%) and 4.3% declared the cooperative conducted timely purchase.

It was discussed that KFCU's role in regulating coffee price in favor of the members is of paramount importance. According to the union's manger, who is also one of the key informants, private domestic dealers closely monitor the time when the union is short of finance to buy members' produce. They accordingly set much lower prices because they realize that coffee farmer members at this situation have no options to resort to in order to meet their immediate needs. The implication here is that lack of capital compels members to surrender their product to the private domestic coffee dealers at lower prices, which not only decreases the income they earn but also deters the attachment they have with their cooperatives. Lack of capital is a peculiar feature of agricultural cooperatives in LDCs. Studies have shown that cooperatives in LDCs (which also holds for the KFCU), are undercapitalized (Hussi *et al* 1993; Federal Cooperative

Agency, 2002) and failed to develop into viable and self-managed institutions capable of extending sustainable services to their members (Yigremew, 1996).

Besides the lack of capital and credit services, the diversion of meager finance obtained through credit to other purposes than the purpose it was intended to. was rampant. According to the key informants' interview, for instance, it is usual that the credit extended to the primary cooperatives is diverted to the non members to buy oxen.

#### **4.4.6. Lack of Incentive and Support to Improve the**

##### **Quality of Coffee**

According to the ISO (9000:2001), quality is defined as the degree to which a set of inherent characteristics fulfill the requirements. It is on the basis of the fulfillment of these requirements that the international market responds (in terms of price) to the produce of coffee cooperative unions in Ethiopia in general, and the KFCU in particular. 'Quality' was thus, selected as one of the variables of analysis not only because it has a bearing on coffee market at the international level but also domestic prices offered by the cooperatives and private traders have link to quality.

In considering quality problem as one of the impediments hindering the performance of KFCU, it is of great importance to identify the source of the problem. Is the problem associated with the lack of knowledge of coffee farmer members and/or linked to the disincentive to improve the quality? Respondents, in this regard, were asked whether they know factors affecting coffee quality.

**Table 4.22 Do the respondents know factors affecting coffee quality**

| <b>Response category</b> | <b>Frequency</b> | <b>Percent</b> |
|--------------------------|------------------|----------------|
| Yes                      | 90               | 96.8           |
| No                       | 3                | 3.2            |
| <b>Total</b>             | <b>93</b>        | <b>100.0</b>   |

*Source: Survey data, 2007*

As Table 4.22 shows a greater majority (96.8%) of the respondents reported that they know those factors deteriorating the quality of the produce while the rest (3.2%) said they have no knowledge about those factors deteriorating the quality of coffee. Furthermore, those respondents who reported that they have the basic knowledge about factors affecting coffee quality were also asked to describe the factors. According to the respondents, the factors lie within the categories of picking immature coffee, exposing coffee to moisture, contact to alien materials, failure to dry coffee on raised bed, mishandling while transporting, storing the produce in poly-propylene bag which has no sufficient aeration, etc. Then these factors were cross-checked vis-à-vis those factors articulated by the Zonal Agricultural and Rural Development Department as hindrances to coffee quality. It was found that the respondents' knowledge on the factors deteriorating coffee quality was in a strict compliance with the descriptive standards articulated by the Agricultural and Rural Development Department. The result of focus group discussions was also in conformance with the survey results. Focus groups revealed that they have the knowledge accumulated over years on those factors affecting coffee quality.

Thus, it is the lack of incentive and support to improve the quality which is constraining the performance. Focus groups complained that their endeavor to improve the quality was not captured by the difference in dividend distribution. Moreover, the focus groups unanimously

expressed their dissatisfaction in that coffees of different grades are deliberately mixed up by the purchasing committee with the consent of the primary cooperative leaders and the union. This increased the volume of "reject coffee" during the stringent quality check at Addis Ababa, i.e., before export. Increased volume of reject coffee means inconvenience and loss to the union and to members of the primary cooperatives. As it is indicated in the export performance, (Table 4.13), the union has sold 530,393 kg of clean coffee to the export market from the year 2004-2006. Whereas according to the KFCU's report (2006), 215,134kg of "reject coffee" was sold at lower prices in the domestic market since the union's commencement of coffee business. This is clearly the quality gap created, among others, by the lack of incentive and support given to the members, which is also manifested by the mismatch between demand and supply for the union's produce in the international market.

The fact that KFCU lacks clear and agreed upon mechanism to determine coffee quality has created a loop-hole for favoritism and embezzlement. One of the key informants from the primary cooperative complains:

...There is no clear and transparent mechanism to identify coffees of different quality. In a number of instances, members who supplied less quality coffee fetched better prices than those members who supplied better quality coffee because of the loop-holes. This discouraged us not to exert an effort to improve the quality, which is also a dangerous situation to the union as whole.

In a group interview held with one of the selected primary cooperatives' management committee members, it was indicated that the committee members stopped classifying coffee in terms of grades (grade 1 up to grade 3 in their context) after they have learnt that quality is not captured

by the dividend. What is done in this particular cooperative is "rejecting or accepting" only on the basis of physical observation.

The discussion above, therefore, reveals that members have the basic understanding of those factors constraining coffee quality. However, due to lack of incentive provided by the union to improve the quality and the absence of transparent mechanism to determine the quality of coffee, members now a days are discouraged to exert an effort to enhance the quality. This has resulted in an increased volume of "reject coffee" and reduced income with a parallel decline in the volume and value of coffee exported.

## **5. SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Summary**

The main objective of this study was to assess the opportunities presented, to examine the performance achieved and the constraints encountered of coffee farmers' cooperative unions in Ethiopia, by taking the case of KFCU. Accordingly, the study pointed out, the legal framework of the FDRE, specially the provisions of cooperative societies proclamation No 147/98, which consists of the basic principles of the ICA, as an ample opportunity for the KFCU to undertake economically and socially viable activities. However, it was argued that putting in place an appropriate legal framework is a necessary but not sufficient condition for the proliferation of the union. It was also revealed that endowment of Kafa with different varieties of organic coffee and the suitability of the ecological set up of the area for coffee production, associated with an ever increasing international market demand was another opportunity.

Moreover, the marketing channel which allows coffee producing farmer cooperatives to sell their produce directly to buyers abroad without going through the rigid auction system was considered an opportunity for the KFCU. Besides the government's support in permitting direct access to the international market, it was indicated that the involvement of some of the NGOs in providing technical and financial support was another area of opportunity for the union.

With regard to performance, it was found that members' participation in the affairs of their cooperative was not only low but also confined to supplying coffee with the primary purpose of benefiting from the dividend distribution. The performance of KFCU in terms of membership

growth exhibited an increasing trend though, the rate of increment was found to be declining. Furthermore, it was explicitly indicated that KFCU's performance in terms of membership growth was insignificant when compared with the number of coffee farmers in Kafa zone.

The study pointed out that one of the basic ICA principles of cooperative societies, that is, education and training, is not only lacking both at the primary cooperatives and the union levels but also the limited access to it was biased in favor of the cooperative leaders. Likewise, the study also concluded that the performance of KFCU in terms of providing basic services such as credit to its members was very low. Furthermore, the union's achievement in terms of strengthening its organizational capacity was found not only low but also sustainability of the union, as it stands now, is under question.

It was argued moreover, that the union did not come into existence through the natural process of growth; rather it was created by the external agents with the primary objective of end product marketing than on strengthening its overall institutional system, which in turn compelled the union's Management Board to be dictated by the hired employees from below.

Better price offered and dividend distributed to the members during the commencement of the union's operation, stimulated non-members to join the union so that the performance of the union in terms of export (both of volume and value) increased in the subsequent year. However two years after its commencement, that is, in 2006, the union exhibited a sharp decline both in volume and value of the produce exported. It was also found that the profitability of the union for the brief periods of coffee transaction it made was not only declining but also the union began incurring a loss just two years after its commencement. The study revealed that the achievement of the union for two consecutive years since its establishment, in terms of improving members'

living standard, was largely attributed to the external agents such as the government and the NGOs.

It was identified that lack of education and training, lack of loyalty and commitment, negative government intervention, favoritism and embezzlement, lack of credit services and capital and lack of incentive and support to improve the quality of members' produce i.e., coffee, are the most important impediments constraining the performance of KFCU. Because of lack of education and training, for instance, the KFCU members in general, are not able to clearly understand their rights and responsibilities enshrined in the cooperative legal framework and thereby protect abuses and embezzlements on their resources. Likewise, the study revealed that the performance of KFCU is constrained by the lack of loyalty and commitment, for instance, among the cooperative leaders and the government. Other impediments hindering the performance of the union are government intervention which is manifested by appointing and transferring cooperative leaders, compelling the primary cooperatives to provide credit services to the non-numbers, etc. Moreover, favoritism and embezzlement, for example, during providing credit services and classifying coffee quality, lack of credit service and capital, specially during the non- marketing period where members badly need money to meet their immediate demand, and finally absence of incentives and support to enhance the quality of coffee which resulted in increased volume of the reject coffee which also in turn created a wider gap between demand and supply where the former exceeds the latter.

## **5.2 Conclusion and Recommendations**

In LDCs in general, and in Ethiopia in particular, there is evidence of cooperative renaissance. In Ethiopia, for instance, there are attempts by the government and the NGOs to revitalize cooperative societies which were ones made to be obliterated. The provision of relatively democratic and comprehensive cooperative societies' proclamation by the government is one of such attempts.

To this end, it was argued that the provision of relatively democratic legal provisions would enable cooperative societies exhaustively exploit the existing opportunities. Contrary to this expectation, the KFCU does not seem to have adequately addressed the existing opportunities. This is witnessed by the low level of performance in terms of the variables discussed so far. The opportunities presented to the KFCU thus far remained rhetorical articulations.

It is argued that coffee cooperative unions can distribute profits otherwise retained by the middlemen and allow member farmers to benefit from economies of scale and innovation. In a union where the basic principles of cooperative societies are not instituted, how could these be achieved? Moreover, how do members and Board of Management exercise their rights and responsibilities under such circumstances? As the case of the KFCU indicated, in a cooperative society where the basic principles of cooperatives such as education and training are not ingrained, members can become disempowered and that when this happens, the absence of democratic control can lead to external interference, embezzlement and favoritism.

Furthermore, the findings of the study indicate that lack of organizational strength has impeded the union's capacity to self-manage its activities and thereby address the needs and aspirations of

members. Because of this and other constraints explained in the discussion, the union has failed to defend its rights and voice its members' concern.

Coffee transaction has an international dimension which requires basic skills of handling such a business. Mesfin (2004), for example, indicated that competitions become stiff and knowledge intensive as the stages of production and/or service provision of a given institution advances further. This entails the need for competent Board of Management of the union with basic skills to monitor its activities.

In general, the KFCU is endowed with ample opportunities to bring about meaningful changes in the life of coffee farmer members. Nevertheless, due to the constraints it has encountered, the union is not able to exploit the opportunities. As a result, it has ended up with the low level of performance. However, low level of performance shall not lead to abandon the union but save it through a closer examination of those causes of failure. Despite the failures of many cooperatives, one should not forget that there are also many success stories both in the North and in the South. Craknell (1996) revealed that cooperatives occupy an important place, with for instance, 60% of Italian wines, being cooperatively produced and a major share of India's milk marketed through dairy cooperatives. Likewise, 97% of Denmark's milk, 100% of Finland's potato, 70% of Swedish grain, 73% of Canada's forest products and 77% of Burkina Faso's cotton are all marketed through cooperatives (Choi, 2004). The picture is more or less similar for the remaining Scandinavian countries and some other countries in Europe such as Portugal, Greece and Germany.

The constraints faced by the KFCU, strong though they may be, are ones that could be overcome, if close attention is given to the implementation of the following recommendations. It is also

important to underline that some of the recommendations were drawn from the respondents themselves and thus reflect their needs and aspirations.

It has been noted that education and training programs are the cornerstones for cooperative development. In a cooperative union like the KFCU where illiteracy rates were rampant among the members, it becomes very important to launch basic literacy and numeracy training programs to enable members to understand the basic information concerning their cooperatives' activities.

Education and training programs in general, can be provided in two forms:

- a. Designing an appropriate package of literacy and numeracy programs especially for those who cannot read and write. This would enable members to read and understand legal provisions such as the proclamations and the by- laws. Such kind of programs could be handled by the extension workers.
- b. The other form of education and training program should focus on the cooperative principles and on the basic skills of handling the coffee business. Such a program should range from an ordinary member to the Board of management. This program could be conducted by the hired workers of the union and experts from the zonal and the woreda cooperative desks. The government, the NGOs and other relevant institutions could involve in facilitating the program. It should also be noted, however, that such initiatives must not be at the expense of the union's and its primary cooperatives' autonomy.

Members, cooperative leaders and those institutions which have a link with the KFCU should commit themselves to realize the independence and autonomy of the union. To this effect, it is recommended that the cooperative desks at the Zonal and Woreda level should be restructured as independent institutions. This would not only enhance the commitment and

sense of belongingness among the staffs of the desks but also would minimize, if not eliminate, undue interferences by the government.

External interference such as undue government intervention tends to create a situation of dependency and reduce members' feelings of ownership which again has an adverse effect on their level of participation. Thus, it is imperative that government's involvement should be geared to the legitimate supports such as facilitating timely credit services, education and training, legal services so that the provisions under the legal framework of cooperatives could be practicable. It should be noted once again that though the initiatives and supports by the government and the NGOs are crucial, they have to be tailored in such a way that maximum member participation is realized and the cooperatives' independence and autonomy is not compromised.

Until the union builds its capacity, it is worthwhile to form an independent Advisory Board consisting of experts drawn from GOs, NGOs and bilateral organizations operating in the area, so as to assist the Board of management. The duties and responsibilities of the Advisory Board should also be clearly stated and defined.

An appropriate mechanism should be devised by the concerned parties such as the NGOs, the government and the union to avail timely credit services for the members, specially during the non-marketing periods where the latter need finance to meet immediate needs.

Quality has emerged as one of the most important factors for competing in the coffee market. This calls for the need to give a closer attention to quality with a simultaneous effort to boost the quantity. Besides the effort to reinforce the accumulated knowledge of coffee farmer members on coffee quality, there has to be clear and transparent incentive mechanism that

rewards the effort exerted towards improving the quality of the produce. One of the mechanisms can be, for instance, launching a transparent system where efforts exerted towards improving the quality are reflected in the dividend sharing system.

Finally, it was discussed that Kafa is the home of organic coffee varieties which are shade grown. However, the linkage between conservation of coffee varieties and coffee farming was not discussed in this study. Thus in order to ensure sustainability, further research is recommended on the nexus between the conservation of coffee varieties and forest trees giving shade to coffee plant ,and coffee farming activities by the KFCU members and the non member coffee farmers in the area.

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# Annex 1

## Questionnaire

### Addis Ababa University School of Graduate Studies Institute of Development Research

The basic objective of this survey is to collect relevant data and thereby assess the opportunities and examine the performance and constraints of Kafa Forest coffee farmers' cooperative union. The questionnaire is designed for a research purpose. Dear respondent, I kindly request your cooperation in filling out the questionnaire. I also confirm you that all your responses will be kept confidentially.

Date \_\_\_\_\_

Name of the cooperative \_\_\_\_\_

Enumerator's code \_\_\_\_\_

Woreda \_\_\_\_\_

Kebele \_\_\_\_\_

Starting time \_\_\_\_\_

Ending time \_\_\_\_\_

1. Name of the respondent \_\_\_\_\_

2. Sex

1) Male      2) Female

3. Age

1) 15-25 year   2) 26-35 year   3) 36-45   4) 46-55 year

5) 56-63 year   6) 64 year and over

4. Educational status

1) Illiterate    2) Literate (read & write)    3) 1-6      4) 7-8

5) 9-12      6) 12 and above

5. Marital Status

1) Single      2) Married      3) Widowed    4) Divorced

6. Ethnicity

1) Kafecho 2) Amahara 3) Other \_\_\_\_\_

7. Religion

1) Orthodox Christian 2) Protestant Christian 3) Muslim

4) Catholic Christian 5) Other

8. What is your main occupation?

1) Farming 2) Petty trade 3) Farming and petty trade 4) Other specify

9. Which farming activity is the major source of your income?

| <b>Activities</b> | <b>Rank (1-3)</b> |
|-------------------|-------------------|
| Coffee            |                   |
| Maize             |                   |
| Bean              |                   |
| Barley            |                   |
| Honey             |                   |
| Teff              |                   |
| Other             |                   |

10. What is the means of transport to deliver your coffee to the buying station of your cooperative?

a) Car b) Pack animals c) Human labor 4) Car and pack animals  
5) Car and human labor

11. How long is the distance from your home to the buying station of your cooperative?

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## II. Membership and perception about cooperatives

12. What (who) motivated you to become a members?

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13. How did you find getting organized in cooperative?

- 1) Very good 2) Good 3) Bad 4) Very bad 5) Cannot judge/indifferent

14. What is the reason for any of the answer in # 13?

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15. Has your livelihood improved as a result of your membership in coffee cooperative?

- 1) Yes improved 2) Slightly improved 3) Not improved

16. If yes improved or slightly improved 'for # '15' compare and contrast your living standards before and after your membership?

| No. | Your living standard before membership | Your living standard after membership |
|-----|----------------------------------------|---------------------------------------|
| 1   |                                        |                                       |
| 2   |                                        |                                       |
| 3   |                                        |                                       |
| 4   |                                        |                                       |
| 5   |                                        |                                       |

17. Have you been given credit services from or through your cooperative during the last 12 months?

- a) Yes b) No

18. If 'No' for # '17', what were (was) your alternative sources of credit?

- 1) Iddir 2) Money lenders 3) Relatives and friends 4) Others, specify \_\_\_\_\_

19. In contrast to your non-member neighborhood, what special services do you get from your membership?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

### III. Questions related to Participation

20. Do you participate in cooperative meetings?

- 1) Yes      2) No

21. If 'Yes' for # '20', how often?

- 1) Never miss it      2) Mostly attend it      3) Attend sometimes

22. If 'Yes' for # '20', how do you participate? (multiple responses possible)

- 1) By voting    2) participate in planning    3) Attending meetings and discussions only  
4) Evaluating cooperative leaders and employees    5) Other mechanism, specify

23. Whose interest do you think your cooperative leaders promote?

- 1) Interest of the members
- 2) Interest of the government
- 3) Their own interest, irrespective of the members' interest
- 4) I don't know
- 5) Other, specify \_\_\_\_\_

24. Do you know that your cooperative has its own by-law?

- 1) Yes      2) No

25. If 'yes' for # '24', have you participated directly or through your representatives in drafting the by-law?

- 1) Yes      2) No

**IV. Training and Issues Related to some Constraints**

26. Have you ever been given training on cooperative and cooperative related activities?

- 1) Yes      2) No

27. If 'Yes' for # '26':

| No. | Type of training | Date, training conducted | Place of training | Duration of the training | Organizer (sponsor of the training) |
|-----|------------------|--------------------------|-------------------|--------------------------|-------------------------------------|
| 1   |                  |                          |                   |                          |                                     |
| 2   |                  |                          |                   |                          |                                     |
| 3   |                  |                          |                   |                          |                                     |

28. Were there plans being halted because of lack of income associated with a drastic coffee price decline and resumed due to the establishment of your cooperative?

- 1) Yes      2) No

29. If yes for # '28', what were the plans?

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30 .What did you do when your cooperative fails to buy your coffee on time?

- 1) Sell it to the domestic private coffee dealer at a lower price
- 2) Keep it until my cooperative buys it
- 3) Sell it to my cooperative on credit
- 4) My cooperative buys my produce timely
- 5) Others, specify \_\_\_\_\_

31. If your response is '1' for # '30', what was/were your reason(s)?

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32. Do you know about some of the factors affecting coffee quality?

1) Yes      2) No

33. If 'Yes' for # '32', what are the factors?

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34. In general what is your proposition for the better achievement and sustainability of your Cooperative?

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## **Annex 2**

### **Checklist for Focus Group Discussions (with members)**

Issues related to the following lists were raised during the discussion.

1. Motivating factor for joining the cooperative
2. The existence of compulsion element to be a member
3. Attitude towards cooperative
4. Living condition before and after the establishment of the union
5. Education and Training
6. The interaction between private domestic coffee dealers and the cooperative
7. Provision of basic services such as credit
8. Provision of basic facilities such as mesh wire and warehouse
9. Government support
10. Loyalty and commitment
11. Malpractices such as favoritism
12. Timely purchase of members' produce
13. The importance of coffee for the members living
14. Factors deteriorating coffee quality
15. Suggestion for future action

### **Checklist for Focus Group Discussions (with non-members)**

16. The reason for not becoming a member
17. Special benefit accrued to the members but not the non-members
18. General outlook on the KFCU.

### **Annex 3**

#### **Interview Guide for the key Informants**

An interview with the key informants was guided by the following list of points

1. Appropriateness of the prevailing legal framework to undergo cooperative activities
2. Initiation for the KFCU 's establishment
3. Achievements after the KFCU establishment
4. Training and Education
5. Social services provided
6. Member participation
7. Organizational strength of the union
8. Volume and value of members' produce exported and the profitability of the union since its establishment
9. The gap between supply and demand
10. Government intervention
11. Favoritism and embezzlement
12. The impact of private domestic coffee dealers on the union
13. Classification of coffee quality.

## **Annex 4**

### **Interview Guide for Group Interview**

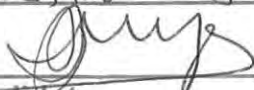
The Group interview focused on the following issues

1. Training and education
2. Loyalty and commitment of cooperative leaders
3. Responsibilities of the primary cooperative executive committee members in their respective Kebele Administration
4. Favoritism and embezzlement
5. Provision of credit services
6. Classification of coffee quality.

## Declaration

I, the undersigned, declare that the thesis 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.

Declared by:

Mesfin Mengistu  
  
Candidate

Confirmed by:

Yigremew Adal  
  
Advisor