

Indira Gandhi National Open University
Department of Rural Development Study

**Impact of Fair-trade Certification on Socio-Economic Condition of
Coffee Farmers and Cooperatives in Ethiopia**

The Case of Bule Hora and Abaya District Borena Zone
Oromia Regional State Ethiopia

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Studies of Indira Gandhi National Open University**

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By

Dessalegn Jenna

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DECLARATION

I hereby declare that the Dissertation entitled “**IMPACT OF FAIRTRADE CERTIFICATION ON SOCIO-ECONOMIC CONDITIONS OF COFFEE FARMERS AND COOPERATIVES IN ETHIOPIA IN ETHIOPIA THE CASE OF BULE HORA AND ABAYA DISTRICTS, BORENA ZONE, OROMIA REGIONAL STATE**” submitted by me for the partial fulfillment of the M.A. in Rural Development to Indira Gandhi National Open University, (IGNOU) New Delhi is my own original work and has not been submitted earlier either to IGNOU or to any other institution for the fulfillment of the requirement for any course of study. I also declare that no chapter of this manuscript in whole or in part is lifted and incorporated in this report from any earlier work done by me or others.

Place: Addis Ababa ,Ethiopia

Signature

Date:

Enrolment No. 109100684

Name: Dessalegn Jenna Gurmu

Address: Addis Ababa, Ethiopia

E-mail: dessalegnjena@yahoo.com

Tel: (+251) 911-234332

(+251) 911-143969

Fax: (+251) 114450490

P.O BOX: 1394 CODE 1110

CERTIFICATE

This is to certify Mr. Dessalegn Jenna Gurmu, student of M.A. (RD) from Indira Gandhi National Open University; New Delhi was working under my supervision and guidance for his Project Work for the Course MRDP-001. His Project Work entitled “**IMPACT OF FAIRTRADE CERTIFICATION ON SOCIO-ECONOMIC CONDITIONS OF COFFEE FARMERS AND COPERATIVES IN ETHIOPIA IN ETHIOPIA THE CASE OF BULE HORA AND ABAYA DISTRICTS, BORENA ZONE, OROMIA REGIONAL STATE**” which he is submitting, is his genuine and original work.

Place:

Signature

Date:

Name

Address of the Supervisor

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LIST OF ACRONYMS

ATO	Alternate Trade Organizations
CBE	Commercial Bank of Ethiopia
DBE	Development Bank of Ethiopia
ECX	Ethiopian Commodity exchange
EAFCA	East Africa Fine Coffee Association
FDRE	Federal Democratic Republic of Ethiopia
FGD	Focused Group Discussion
FLO	Fairtrade Labeling Organizations International
FLO-Cert	Fairtrade Labeling Organizations-certification
FOB	Free On Board
FT	Fairtrade
lb	Pound
ICA	International Cooperative Alliance
ICO	International Coffee Organization
IGNOU	Indira Gandhi National Open University
IFTA	International Fair Trade Association
IOF	Investor Owned Firm
masl	meter above sea level
MCC	Mennonite Central Committee
NYC	New York Coffee Price
NGO	Non-Governmental Organization

OCFCU	Oromia Coffee Farmers Cooperative Union
OCPA	Oromia Cooperative Promotion Agency
PRAT	Participatory Rural Approach Technique
SCAA	Specialty Coffee Association of America
SNNPRS	Southern Nation and Nationalities Peoples Regional State
UN	Unite Nations
USA	United States of America
USAID	United States Agency for International Development

GLOSSARY OF LOCAL TERMS

Birr	Official currency of Ethiopia
Debo	Communal labor exchange
Dergue	The Marxist style military government ruled from 1974-1991
Enset country	Root and tuber crop used as staple food for southern part of the
Equeb	Local rotating credit group
Iddir	Local self help association
Jigii	Traditional work groups to support each other on farm activiti
Magalata	News paper used to declare proclamation of Oromia regional state
Negarit gazeta	News paper used to declare proclamation of Ethiopia
Teff	A kind of cereal crop used for food in Ethiopia
Woreda	Equivalent to district
Zone	An administrative unit above district but below region

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ABSTRACT

Coffee stands next to oil among the international pivotal commodities in generating income. It is also the first priority for Ethiopia in fetching the lion share of foreign currencies. About 25% of the population in Ethiopia is directly or indirectly dependent on coffee. More than two million coffee farmers are directly dependent on coffee and derive their livelihoods from it. But the volatility of the coffee price has been challenging the coffee producers together with climate changes. Mean while, the coffee farmers all over the world in general and coffee farmers in Ethiopia in particular, have been hit by coffee price falls over the last several years. Specially, during the last eleven years, the coffee farmers in Ethiopia had been strongly hit by coffee crisis, which highly affected the economic, social and cultural base of every household.

Fair trade is one of the remedies to combat the prevalent coffee price falls and coffee crisis that occurs frequently at interval of times. The vulnerable coffee farmers of Ethiopia, particularly in Oromia Regional State became Fairtrade certified through the Oromia Coffee Farmers Cooperative union in 2002 during sever coffee crisis, in order to mitigate the risk of coffee price and to rescue coffee farmers from distraction of the family.

Therefore, the aim of this study is to examine the impact of Fairtrade certification on socio-economic condition of households in study areas. The study was conducted on six cooperative societies located in Bule Hora and Abaya districts of Borena zone, Oromia Regional State. Two of the six cooperatives are non-certified. All these cooperative societies are the members of the Oromia Coffee Farmers Cooperative Union, through which their coffee is supplied to international market.

The comparison was made between Fairtrade certified and non-certified cooperative societies, in this study. The necessary data was collected from the households, cooperative societies and OCFCU, analyzed and interpreted to reach a conclusion.

The study revealed that, Fairtrade certification has positive impact on Socio-economic condition of certified coffee farmers and cooperative societies, especially it played vital role in provision of social services to coffee farmers and cooperative societies. However, there are challenges, the members and cooperative societies facing to reap the benefit of the Fairtrade .Non-compliance of Fairtrade standards, low productions and productivity, narrowness of the Fairtrade market to absorb all certified products, indebtedness to banks, low participation of members and poor performance of cooperatives due to inefficient management of cooperatives structure. As the result, the study revealed that there is no significant difference between certified and non-certified cooperatives in economic well being of households. But, remarkable achievement is observed in social services.

The study concluded with the following recommendations for further solution, that the FLO standard and criteria needs attention to look into, to cope according to the specific situation of each country. OCFCU should give due attention to investigate why the fairtrade benefit is not significant in livelihood of households. The coffee farmer's linkage with agricultural research and agricultural offices should be bridged for technological transfer, in order to boost coffee production. The organizational structure of cooperative societies requires professional back-up and capacity building program in order to meet the objectives of the cooperatives and Fairtrade certification to attain the intended goals. Because of the dynamism nature of coffee price and rapid change in economic development of the coffee sector continuous assessment is required. The problems and opportunities may attract the attention of further researchers to solve the problems.

CHAPTER ONE

1. INTRODUCTION

1.1. Background

Ethiopia is the birthplace of coffee, which is known as "Coffee Arabica". Coffee plays a vital role in the country's economy even today. It accounts for approximately 60% of Ethiopia's export revenue and is one of the few sources of international exchange (Worku, 2008). About 25% of Ethiopian population depends on coffee related business directly or indirectly for their livelihood (Tora, 2009).

In the year 2003, world's coffee prices fall by 50 percent. As a result, Ethiopian small-scale coffee farmers who were dependent on international coffee price were in a vulnerable condition and exposed to poverty and hunger (Global Exchange, 2011).

Fairtrade was created with an objective of regulating market and bringing more advantages to the coffee producer's. Furthermore, the organization aims to create an equitable and stable trading system through establishing a fair price for goods and direct market access for farmers (Tora, 2009).

In order to protect farmers against such price fluctuation in Ethiopia, Oromia Regional State, the Oromia Coffee Farmers Cooperative Union (OCFCU) Ltd. was established in 1999 to take advantage of Fairtrade and organic coffee certification aiming to improve the income of coffee farmers, to improve and maintain the quality of coffee production on a sustainable basis, and to stabilize the local market

and assist coffee producing communities in the provision of social services beyond the economic opportunities (OCFCU Ltd., 2011).

1.2. Problem Statement

It is a general truth that, the prices of coffee historically have the tendency of volatility and long-term declining trend. In 2003 the prices fell in real terms to their lowest level, in the last 30 years causing serious problems for coffee farmers and workers throughout the world. The global supply was estimated to be about 8% percent above demand and has accordingly the lowest possible prices worldwide. The oversupply was often influenced by the governments to boost export earnings. Sometimes the governments were encouraged by IMF and the World Bank to produce more without taking the potential of catastrophic prices fall in to consideration (Global Exchange, 2011).

Ethiopia had been hard hit by that price slump. Income of many households whose livelihood depends on coffee was dropped drastically affecting many. School dropouts were prevalent; health care was not in place, food supplies and social life practices dropped to their lowest levels. As a result the Ethiopian Coffee farmers had faced a sharp increase in poverty and hunger (Global Exchange, 2011).

One of the strategies to tackle the coffee price was fair trade market because fair-trade market guaranteed a minimum price 1.26/lb during coffee price crisis (Global Exchange, 2011). The fair payment was invested in a house hold basic needs, community social services, environmental sustainability and economic independence.

The Oromia coffee farmer's cooperative union identified that fairtrade market guarantees the minimum price during coffee price crisis for small scale coffee producers affiliated to it as member. Since 2002 Oromia coffee farmers' cooperative union has been remaining

fairtrade certified with currently 28 member primary cooperative societies located in different coffee growing zones of the Oromia regional state (OCFCU Ltd., 2011).

Therefore, the aim of this study is to make critical assessment of the impact of Fairtrade certification, on socio-economic conditions of Fairtrade certified primary cooperative societies and their members, in Bule Hora and Abaya Districts, Borena Zone, Oromia Regional State, Ethiopia.

1.3. Objectives

1.3.1 General Objective

The overall objective of this research is to assess the impact of fairtrade certification on socio-economic conditions of the Fairtrade certified primary cooperative societies and the coffee farmers in those fairtrade certified primary cooperative societies that are found in Borena zone.

1.3.2 Specific Objectives

1. To study the impact of fairtrade standards of selected member primary cooperative societies and their members.
2. To study the social impact of fairtrade on the member farmers and their primary cooperative societies.
3. To study the economic impacts of fairtrade sales on member farmers and their primary cooperative societies.

1.4. Research Questions

1. What are the socio-economic impacts of fairtrade certification on livelihood of coffee farmers and primary cooperative societies?
2. What is their condition in relation to those which are not certified?
3. Do certified farmers and cooperative societies feel that they now receive a fair price than not certified cooperatives?
4. Are the cooperative societies and their members familiar with the fair-trade Standards and Criteria?
5. What are the impacts of social premium on members, cooperatives and community?

1.5. Scope and Limitation of the Study

The study is limited only to the selected Districts and fair-trade certified cooperatives societies and fair-trade non-certified cooperative societies in the Oromia Regional State Borena Zone Bule Hora and Abaya Districts. Due to limited duration of research time, research constraints and large number of cooperative societies under the study, the possibility of incorporating the other fair-trade certified cooperative societies from other regions was impossible. The core concern is to look in to improvement of livelihood of coffee farmers, as the result of fair-trade certification.

The study is furnished by the Oromia Coffee Farmers Cooperative union the umbrella organization of the cooperative societies under study.

1.6. Structure of the Paper

The paper is organized into six chapters. The introductory and problem statement part with the essence of topics of discussion, falls under chapter one. Chapter two explores literature review with theoretical and practical justifications of fair-trade certification. The study area and research methodology is discussed thoroughly under chapter three. Data analysis ,demography and socio-economic conditions of the research area comes under chapter four and the fair-trade certification socio-economic impact and the main research findings is demonstrated in chapter five and finally ,conclusion and recommendations of the research is summarized under chapter six.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Cooperative Development in Ethiopia

Ethiopia has been experiencing traditional Cooperative for a very long time as short term Cooperatives called “Debo” and “Jigii” and as long term Cooperatives called “Equeb” and “Iddir” (Worku, 2008).

The development of the first modern cooperatives organizations in Ethiopia was at the beginning of 1950’s for the purpose of improving the living conditions, providing social services and offering all the citizens an equal opportunity to contribute to the economic and social progress of the country. Nevertheless, as they were subjected to state control, they were not able to register significant performance in terms of democratic management and autonomous power (United Nation, 2011).

In 1960s, during imperial regime, two cooperative acts were adopted. These are the decree No 44 of the 1960, called the “farm workers Cooperative” (Federal Negarit Gazeta, 1960) and the 1966’s cooperative society proclamation No. 241/66 (Federal Negarit Gazeta, 1966) However they could not enhance the democratic and autonomous development capability within the cooperatives, while the latter has contributed to the today’s proclamation NO. 147 / 1998 (Sisay, 2010).

As a result of proclamation No. 138/1978, Different types of cooperatives were created during the socialist government regime, i.e. from 1974 to 1991 which greatly played role in the creation of different types of cooperative societies throughout the country. However, since these cooperatives were managed in accordance with the socialist style,

the majority of the multipurpose agricultural co-operatives, especially producers' cooperative were non-profitable as their existence were maintained to government subsidiaries (United Nation, 2011).

However, currently the enhancement of agricultural cooperative society proclamation of the 1994 and 1998 created fertile ground for restructuring and strengthening all types of cooperative members, indeed they improve the participation of society to operate efficiently in forming viable organization (Sisay, 2010).

Proclamation 147/1998 of the government of Ethiopia created enabling environment for the formation of higher level cooperatives (unions, federations and eventually cooperative league). Using this opportunity for the first time, primary cooperatives societies were allowed to be grouped together to increase their bargaining power in the market to sell and purchase products.

2.1.1 Cooperative Development in Oromia Regional State

Oromia Cooperative Promotion Bureau and at present Agency was established by proclamation No 15/1997 (Magalata Oromia ,1997) and amended by proclamations 27/99, 87/2005, 117/2006 and 144/2009 to support cooperative movement with the mission of organizing, promoting and providing regulatory services for different types of cooperatives based on the interest and benefit of members. The objective is also to access members with modern technologies so as to facilitate the growth of small scale production sectors through cooperative development.

The activities of Oromia Cooperative Promotion Agency (OCPA) have been to create conducive environment for establishment of primary cooperatives, Unions and Federation, by formulating cooperative development strategies that is viable to

cooperative movement. Moreover, it renders services like auditing and inspection, preparing policy framework, viable projects and availing market information and encourages research/studies under its own mandate.

According to OCPA strategic plan, the main goals stated were strengthening cooperatives in Oromia Regional State under four strategic objectives,

1. Organizing and promoting cooperatives those having capacity to satisfy the need of their members and controlled by them members,

2. Capacitating cooperatives' participation in economic development activities of the country,

3. Enabling them for better Financial administration and

4. Strengthening regulatory activities. The implementation of strategies was chosen in regard to relevance with economic program, social impact, technical achievability, legal acceptability and political priority of the country. Accordingly, the efforts were exercised and the organizing achievements were enjoyed.

Since 1997, 11,321 primary cooperatives societies with the total membership of 1.72 million and total capital of 1.02 billion Birr has been established under different types products and services, in Oromia Regional State (OCPA, 2012). About 31% of these cooperatives are multipurpose cooperatives, which are meant for input supply, output marketing and provision of credit. On the other hand, there are cooperatives operating in coffee marketing, saving and credit and mineral producer cooperatives. There are also cooperatives which are involved in production and processing of vegetables, Fish and milk, in the region to maximize their negotiating power.

About 113 unions with the total membership of 3,938 cooperative societies with the total capital of 975.69 million birr were established in the last one decade. These union are involved in multipurpose activities, coffee, fruit and vegetable, forestry, milk processing, grain marketing, grain bank ,sugar cane, saving and credit ,consumer and many others (OCPA Annual Report, 2011).

2.1.1.1 Business and Market Development by Cooperatives in Oromia

Market linkages were established with Ethiopian processors and traders for products like wheat, sugarcane, haricot beans and pulses. As a result of these linkages farmers have obtained higher prices and guaranteed market for their products; agreements have led to quality improvements which should continue to increase future prices to farmers (USAID, 2005).

The evaluation report of USAID in 2005 also showed that the linkages that are being developed at the national level, unions have begun to cut out the traders as middlemen at the international level and deal directly with foreign market. Initial contacts with international buyers for Niger seed, beans, chickpeas and sesame was made and also contact was also made through coffee unions with coffee buyers in USA, and Europe through exhibition and trade fairs during coffee crisis and this is promissory to day to sell coffee through fair trade and organic market. In this process, coffee unions obtained authorization to sell directly to foreign coffee buyers in the name specialty coffee, instead of through domestic auction system.

Coffee being the Ethiopia's largest export crop and means to link rural farmers to consumers of worldwide though smallholder farmers have been undeserved even marginalized. This was true for smallholder coffee farmers in Oromia region. To help

coffee farmers to get access to price information, capital and transportation as well as necessary skills in production, processing and supply of coffee. Then the Oromia Coffee Farmers Cooperative Union (OCFCU) was established in June 1999 to shoulder the responsibility of connecting the coffee farmers with international market to get better price for their product. In fact, it was a groundbreaking initiative in the history of coffee farmers of the country. The Union is also the largest and icebreaker of coffee Fair Trade producer in Ethiopia (OCFCU, 2011).

As a result of the relentless effort of promoting and facilitating growth, processing and supply of high quality organic Arabica coffee, some 28 cooperative societies were selected among the eligible cooperatives to comply with FLO standards. Hence, this compliance has increased market access enabling member farmers obtain the premium price.

2.2 Fair Trade Development

Over fair trade's history there have been many and varied definitions of Fair Trade. However, the widely accepted definition is as follows: "Fair Trade is a trading partnership, based on dialogue, transparency and respect, which seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the south. Fair-trade organizations (backed by consumers) are engaged actively in supporting producers awareness raising and campaign for changes in the rules and practices of conventional international trade (FINE, 2001).

2.2.1 Historical Background

Fair trade traces its origin back to 1946 when a volunteer, named Edna Ruth Byler for Mennonite Central Committee (MCC), visited an MCC sewing class in Puerto Rico. She discovered how talented the women were in creating beautiful lace and on the contrary how they lived in extraordinary poverty despite their hard work. She started carrying these pieces to sell back to the United States and returning the money back to these groups in Puerto Rico directly. Her project grew into Ten Thousand Villages that led to the opening of the first fair trade shop in 1958 and is the largest fair trade retailer in North America now (Fairtrade Federation, 2011).

In the late 1970s, entrepreneurs from the USA and Canada who defined their businesses with the producers at heart began to meet regularly to exchange ideas and network. This informal group evolved into the Fair Trade Federation and formally incorporated in 1994. In 1989, the World Fair Trade Organization (formerly IFAT) was founded as a global network of committed fair trade organizations, with an aim to improve the livelihoods of disadvantaged people through trade and to provide a forum for the exchange of information and ideas (Fairtrade Federation, 2011). From its early days, because of the efforts of consumers, entrepreneurs, non-governmental organizations (NGOs), and other communities fair trade continues to move forward across the globe.

The Goals of Fair trade:

- To improve producers' livelihood and well-being by improving their access to market, reinforcing their organizations, paying them a better price and providing continuity in the trading relationship.

- To create development opportunities for disadvantaged producers, especially women and indigenous people, and to protect children from being exploited during production.
- To raise awareness among consumers of the negative effects on producers of international trade so that they exercise their purchasing power positively.
- To set an example on how to partnership in trade through dialogue, transparency and respect.
- To campaign for changes regarding rules and practices of conventional international trade.
- To protect human rights through promoting social justice, sound environmental practices and economic security (Moore, 2004).

2.2.2 Fairtrade Standards and Certification

The first-fair trade certification system was established under the name Max Havelaar in 1988 in Holland in order to benefit large group of producers from alternative trade. Max Havelaar had secured a two percent market share within three years. Moreover numerous other-fair trade certification systems had been established across Europe.

For all the national certification initiatives Coffee served as a flagship product. It was in 1997 that 17 national fair-trade certification initiatives came together to form Fair-Trade Labeling enforcement. Organization institution, 'FLO' in order to establish harmonized standards, monitoring and Fair-Trade is based on partnership between so called Alternative Trade Organization (ATO) such as Twin Trading, Oxfam, and Equal

Exchange, Consumers in developed world and producers in third world countries (Ponte, 2001).

Since 2000, fair trade sales and consumer awareness have increased enormously, because of expansion of the range of fair trade products. From its initial focus on coffee, fair trade product certification has expanded to tea, chocolate, sugar, vanilla, fruit, wine, and much more. In 2002, the first World Fair Trade Day was celebrated to increase consumer awareness and to build up connections among fair traders and interested citizens around the globe. In 2006, IFAT reported that total fair trade sales topped \$2.6 billion (Fair-trade Federation, 2011).

Standard setting is a huge industry in fair trade movement. There are two different Fair-trade standards.

1. One of the standards is set to smallholders that work together in co-operatives or other organizations in a structure which is democratic.
2. The other set applies to workers, who are paid decent wages by their employers, guaranteed the right to join trade unions, ensured health and safety standards and provided adequate housing where relevant (Fair-trade Federation, 2011).

These standards deal with:

- Creating opportunities for economically disadvantaged producers;
- Transparency and accountability;
- Capacity building;
- Promoting Fair Trade
- Payment of a fair price;

- Gender equity
- Working conditions
- Child labor
- The environment (More, 2004).

There are different organizations behind fair trade these are:

- **Fair-Trade Labeling Organization International (FLO):** Develops and reviews fair trade standards. In addition, it assists producers in gaining and maintaining certification and capitalizing on market opportunities on the fair trade market.
- **FLO-CERT:** is an independent certification company which is owned by FLO that inspects producers and traders to ensure they comply with Fair Trade standards.
- **Fair Trade labeling initiatives:** These are national organizations that market Fair Trade in their country in addition they so license companies to use the Fair Trade Mark on products in their country.
- **Fair-Trade producer networks:** These are on the other hand associations that Fair Trade certified producer groups may join. Using these networks, Fair Trade producers can influence decisions that determine their future.
- **Fair-Trade marketing organizations:** These are national organizations that market and promote Fair Trade in their country, similar to labeling initiatives.

Fair Trade International directly licenses companies in these countries to use the FAIRTRADE Certification Mark (Fairtrade International, 2011).

2.2.3 Fair Trade and Coffee Cooperatives

Cooperatives are an essential part of the Fair trade movement as a result the majority of Fair trade producers are members of various cooperatives. The goals of cooperatives are very similar to the goals and standards of fair trade; these are; providing support for small farmers by being democratically run, returning profits to the producers, and providing technical training (Suber, 2005).

Moreover, Cooperatives provide a structure for farmers seeking to become Fair Trade certified through their support to farmers and collective power. Several cooperative principles meet Fair Trade standards, mainly, “freedom of association for farmers and workers, and democratic decision-making processes; and removal of unnecessary middlemen that decrease producer income (Suber, 2005).

2.2.4 Fair Trade Movement in Ethiopia

Millions of farmers in Ethiopia were badly hurt by the coffee crisis because coffee export earnings dropped from \$330 million (70 % of GDP) to \$165 million (30 % of GDP) between 1999 and 2004. There was one group partially shielded from the economic devastation: those participating in a differentiated market with attributes such as shade-grown, fair trade, or organic, could earn their living (Tora, 2009).

With the objective of mitigating the risk of coffee crisis the four coffee farmers’ cooperative unions were established one after another.

- Oromia Coffee Farmers Cooperative Union
- Sidama Coffee Farmers Cooperative Union
- Yirgacheffe Coffee Farmers Cooperative Union
- Kaffa Forest Coffee Farmers Cooperative Union

Oromia Coffee Farmers Cooperative Union which is selected for this research is the first established fair trade certified cooperative union in Ethiopia (OCFCU, 2011). And it is also the largest union today comprising 197 primary farmer cooperatives societies (United Nations, 2011).

2.2.5 Fairtrade Experience in other countries

Among the fair trade certified products, coffee is the best established item. Currently 231 producer groups are certified by Fair Trade Labeling Organizations International (FLO), representing more than 50% the FLO certified groups (FLO et al., 2007). Coffee is also a commodity with a strong South-North production –trade flow, as practically all of the world’s coffee is produced in the South, while coffee trade and consumption are largely dominated by the North (Taylor, 2005).

Earlier research has suggested that Fair Trade improves the producer’s resilience to adverse shocks, reduce livelihood vulnerability , and improves organizational skills of small scale coffee producers , laborers, and their associations (Bacon et al., 2005).

According to Fair Trade’s mission statement, Fair Trade aims to elevate the socio-economic conditions of coffee production by requiring that coffee is produced by democratically organized cooperatives of small farmers, with transparent procedures of decision- making. To reduce producer’s vulnerability to volatile coffee prices Fair Trade

stipulates price premium, improved market ability, flexible credit arrangements, and long term trade contracts. A special role for promoting wide-scale well-being in coffee growing commodities is given to the Fair Trade premium for social development (FLO, 2005).

The Nicaragua small- scale coffee producers were organized under cooperatives in the 1980s (Enriquez, 1997). They were poor, but because of Fair Trade movement they began to gain wider significance in Nicaragua, after the inception of FLO in 1997 (Levi and Linton, 2003). In 2004, about 5.3 million pounds of Fair Trade labeled coffee was exported from Nicaragua, representing 3% of the green coffee exported from the country. About half of the Fair Trade labeled coffee was also organically certified (CERTEX et al., 2007).

In 2003-2004 the prices fell in real terms to their lowest level in 100 years causing serious problems for coffee farmers and workers throughout the world (Daviron and Ponte, 2005). During these years of coffee crisis, successful Nicaraguan Fair Trade certified cooperatives were able to pay a significantly high price of coffee to their members than the mainstream market (Joni and Anja, 2009).

In the case of Costa Rica, the producer members of the nine co-operatives selling to the Fair Trade market through Coocafé received a stable and often higher price for every quintal of coffee they brought to their co-operatives. Of the Fairtrade premiums earned in this manner, 30% are invested in capitalization funds and the remaining 70% are allocated to a producers fund for distribution to producers by the primary level co-operatives. Over the ten years of operation, the producer's fund has distributed US\$ 1 260 000 of Fair Trade green coffee export revenues to some 4 000 affiliated small coffee producers and their families. Although this already represents a substantial supplement

to producer incomes, the direct impact of Fairtrade on producers can be further traced via the financial support offered by the remaining 30% of premiums and by Fair Trade market activities other than green coffee export (Loraine, 2002).

The Fair Trade is found to be guarantee minimum price of particular product, when market price falls below cost of production, and rescues the producers from social and economic crisis, during a period of hardship. According to Imhoff and Lee (2007), the guaranteed floor price paid to producers through Fair Trade results in more stable incomes and is consequently one of the most important direct benefits that accrue to coffee producers (Raynolds et al., 2002). The study in Bolivia showed that Fairtrade also gave higher returns to producers than other organizational arrangements available in their study area in Bolivia (Valerie, 2009).

Fairtrade is an important aspect of development which influence, market relations, institutional development, economic development, social development, gender equity, poverty reduction mechanisms and sustainable development. Though, the outcomes are diverse and complex, most studies found significant impact on social and economic aspects of development. Fostering sustainable commercial Organizations is an important contribution of Fair Trade networks. Both the enactment of partnership and the achievement of development goals require continuous commitment, a variety of strategies and cooperation with other actors, such as government and non-governmental organizations (Becchetti, 2008).

CHAPTER THREE

3. THE STUDY AREA DISCRPTION AND RESEARCH

METHODOLOGY

3.1 Research Area Description

The research was conducted in two districts of Borana zone of Oromia Regional State. Oromia is one of the nine regional governments in the Federal Democratic Republic of Ethiopia. It is bordered by Afar, Amhara and Benshengul Gumz Regional Governments in the north, Benshengul Gumz, SNNRS and Republic of the Sudan in the west, Kenya in the south, and Somale Regional State in the east. Geographically, it is located approximately between 4⁰ and 10¹ N and 35⁰ and 45¹ E.

Being the largest regional state in the country, it has a total area of about 353,690 km² which makes up about 32% of the country's land area(ONRS 2002). The total population of 27,158,471 makes the population density of 95.44 persons per km². The region is characterized by altitude ranging from less than 1500 meters in rift sub region to over 4000 meters above sea level (masl) to the east of the rift system. About 52% of the land area of this region is found below or equal to 1500 masl. While the remaining area lies above 1500 meters. The land below 1500 masl is often used for grazing, while the higher altitudes are used for production of different crops, including coffee.

It is estimated that the region has about 321,100 ha. of coffee land in which about 745,740 farmers are engaged and from which it produces 433,100 tons of green coffee(OAB,2011). Major coffee production systems in the region are forest coffee,

Sami forest, garden and plantation. From these, the region supplies the world with five types of best quality coffee.



Figure 3-1 Coffee cherry

Borana Zone is the most southern zones of Oromia Regional State in Ethiopia. It is bordered by Kenya in south, by South Nations and Nationalities peoples' Regional state in west, Somali Regional State in the east and Guji zone of Oromia region in the north. The largest area of this zone is semi arid where life of the rural communities is based on pastoral mode of livestock production. The study areas are located in the north mid and high land parts of this zone where mixed farms are practiced.

The Zone has a total population of 926,489 of which 487,024 (50.6%) are male. Having an area of 45,434.97 square kilo meters, Borana has a population density of 21.18 persons per square kilo meter. Borana zone is known by its Livestock resource and high quality Yirga Chaffee coffee production.

3.1.1 Specific Locations of Research Area

Abaya and Bule Hora are the two districts of Borana administrative zone where the study was carried out. Abaya is located on the extreme north of Borena Zone. It is bordered with Sidama zone of SNNPRS in the north, Southern Omo in the west, Gelana district of Oromia National region in the south and Gedeo zone of SNNPRS in the east. Guwanguwa, a small town found at 366 km from Addis along the main highway to Moyale, is its capital. The total area of the district is 5177 square kilo meters with a total population of 118,370, the male accounting for 48%. 5,179 households in the district are organized into 33 cooperative societies.

Bule Hora district is the other area covered by the study. It is found immediate south of Abaya district, and bordered in North by Gedeb district of SNNPRS , Gelana district of Oromia in north west, Melka soda district of Oromia, in the east, Dugda Dawwa district of Oromia in south and Burji and Amaro districts of Southern Nations and Nationalities of peoples Regional State (SNNPRS).

The total land area is of Bule Hora district is 6,021 square kilometers with a total population of 264,489, of which 133,730 (50.0%) is male. Bule Hora, the district capital town is 470 km away from Addis Ababa on the main highway to Moyal, a small town on the Kenya and Ethiopia border.

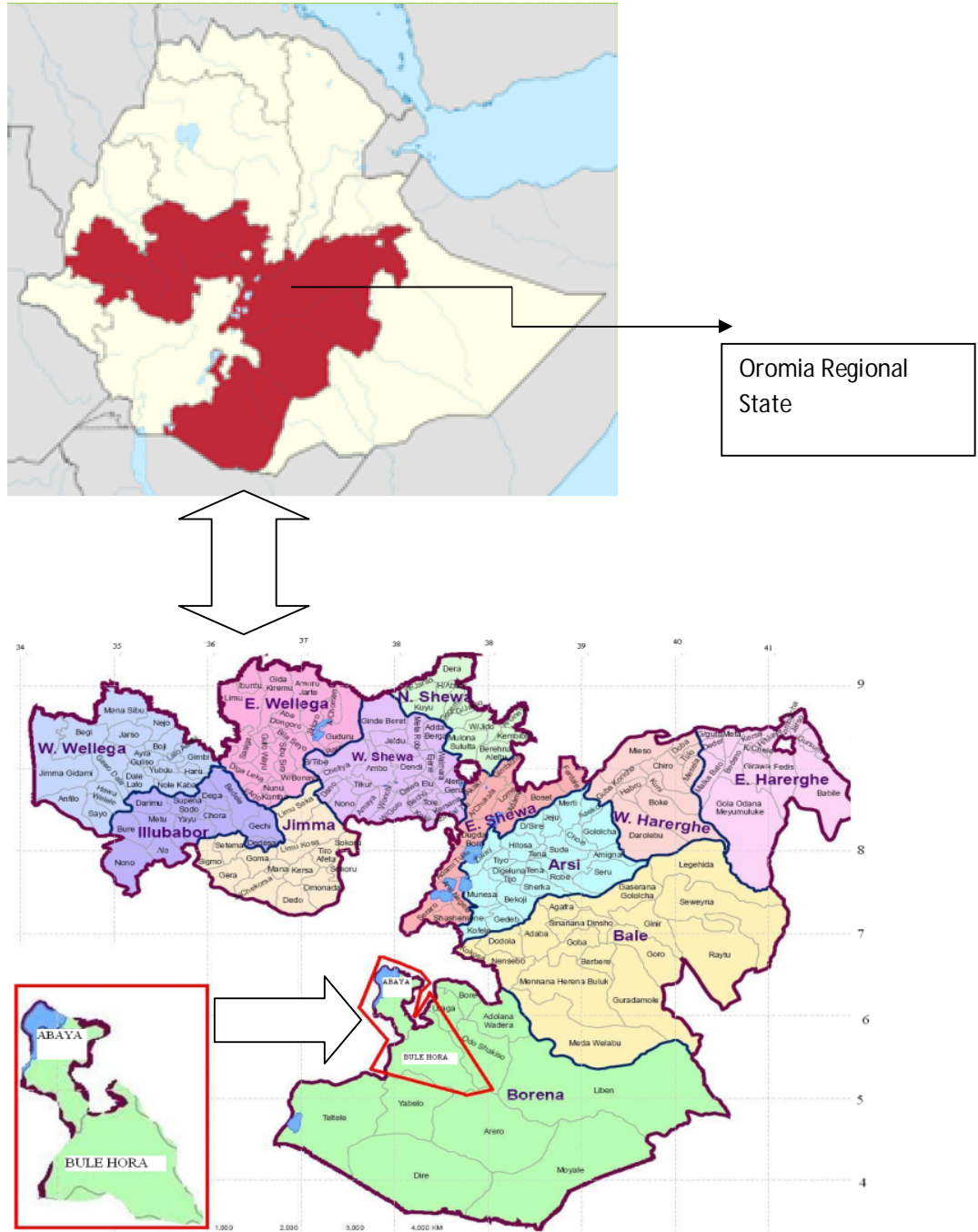


Figure 3-2 Location of Research Area

3.1.2 Geology and Climate

Abaya district is composed of plain land and Lake Abaya in the low land area where livestock production is the main stay of the rural communities. Agro ecologically most of the area is characterized as mid altitude and low land with 70% and 30% respectively. The elevation range varies between 1200m and 2060 masl. The majority of this district is steeply hill. Average annual temperature range is between the minimum 10° c to the maximum 24°c, while the average minimum and maximum annual rainfall is 900 and 1200mm, respectively. The district receives rain in three distinct seasons: March to June, September to October and January.

Bule Hora district consists of the usual three climatic zones. The low land makes about 70% of the land area while mid and high altitude together makeup 30%. The maximum and minimum annual temperature of Bule Hora district is 28⁰ c and 16⁰ c respectively. The altitudes vary from 900m in the low land to 2150 masl. in the high land.

3.1.3 Vegetation and Wild life

Abaya district as a whole is rich in indigenous trees species, which also serve as shade trees for coffee production. Among known trees are Girawa (*vernonia amygdalina*), Birbira (*Millettia ferruginea*), Bisana (*Croton macrostachyus*), wanza (*Cordia africana*, sholla (*Ficus sycomorus*), are some of the perennial indigenous trees. Adey Abaa (*Salvadora persica*), bamboo and coffee are common tree species grown in the highland part of the district. Among exotic plant species, Eucalyptus is grown largely.

In the mid altitude areas mixed farming system, farmers keep livestock such as cattle, sheep, goats, and poultry. As the system is mixed, farmers cultivate perennial crops like Coffee and Enset. Annuals like Teff, Maize, Barley, and Wheat are also grown as main

food crops. Moreover, production of fruits and vegetables like Bananas, Sweet potato, Sugar cane, Cassava, Mango, Cabbages, Avocado and Papaya is practiced around homesteads.

In the low land pastoral areas, acacia and bushes with grasses are found scattered, decreasing in density from time to time. The fauna and flora in Bule Hora, particularly in mid and higher altitudes are almost the same with that of Abaya. In Bule Hora, however, one can find 'Tikur inchat' (*Pygeun africana*), 'Tid' (*Ceder juniperus*) and 'zigib' (*Olive olea*), in addition to those mentioned in Abaya. In the low land areas of both districts Agam (*Carisa edulis*) is common. Maize, Wheat, Barley, Haricot bean, and long cycle Sorghum are main food crops here. Coffee is the main cash crop in both districts. In the same way, most of the wild lives are common to both districts. Among many wild animals, Hyena (*crocuta*), Antelope, Impala, Pigs, Lion, Fox, Columbus monkey, Monkey, Apes, Snakes and Skunk are equally abundant in both districts. In addition to these, Zebra, Giraffe, Buffalo, Kudus, etc. are found in the low land of Bule Hora District. As regards to Birds species, Eagles, Hawks, Pelican, Flamingo are not rare around Lake Abaya.

3.2 Research Methodology

The research area selected is one of the zones where the first Fairtrade certified cooperative societies are found. It is believed to be where the impact of fair-trade can be seen, as to the Oromia Coffee Farmers Cooperative Union's management. There are eight Fairtrade certified cooperative societies in the Borena zone of which four certified cooperative societies were selected. It is 50% of the cooperatives certified, which is reasonable number for the sampling, to assess the impact of socio-economic condition of

the household under the study. Therefore, in order to come up with reasonable research findings, various approaches were used.

Primary and Secondary data were collected using questionnaires already prepared to serve the purpose. The primary data was collected through the household's survey and primary cooperative societies identified for this research, through questionnaire, interview and Focused Group Discussion (FGD) employed. The secondary data was collected from the selected primary cooperative societies and the Oromia coffee farmers' cooperative union. Various methodologies were applied according to condition and place to realize and substantiate this research with adequate evidences.

3.2.1 Sampling

Purposive sampling was applied to select research areas and the primary cooperative societies for the research since it has good reasoning for representation of the whole certified cooperative societies.

The cooperative societies under research have faced the coffee crisis before joining the Fairtrade and currently enjoy the benefit of Fairtrade. It is my conviction that the impact of Fairtrade can be clearly observed in this area because of the more number of the cooperatives, their long duration of membership. In line with this, four fair-trade certified primary cooperative societies and two non-certified primary cooperative societies were selected from pioneer cooperatives societies. Accordingly two pioneer Fairtrade certified and one non-certified primary cooperatives societies were selected from Bule Hora district, and two pioneer Fair Trade certified and one non-certified primary cooperative societies were selected from Abaya district of Borena Zone Oromia Regional State. Twenty one households from each cooperative society were selected, using stratified sampling for data collection.

3.2.2 Data Collection

Questionnaire is selected to be appropriate for data collection. In order to get adequate information for accomplishment of the research “structured” type of questionnaires was used. The questionnaire format was developed for all target groups under the study as instrumental for collection. Necessary data from those of the selected fair-trade certified primary cooperative societies and not fair-trade certified primary cooperative societies and their selected member farmers of both the cooperatives societies have been collected according to the format developed as source of primary data. Any necessary secondary data was also collected from Primary cooperative societies, the Oromia Coffee Farmers Cooperative Union, appropriate government organizations located in the research areas, Oromia Regional State and appropriate Federal Government Offices.

Apart from the questionnaire, Interview was also employed during data collection. Interview was used during Focused Group Discussion (FGD) and with executive committee members while collecting secondary data from primary cooperative societies. The interview was also used at the Oromia Coffee Farmers Cooperative Union, with management, experts in charge of Fairtrade certification and coffee export.

3.2.3 Data Processing and Analysis

Both qualitative and quantitative data analysis techniques are used, depending on the nature of data collected, in order to reach at conclusion.

In qualitative data analysis the data collected by employing questionnaires, interviews, and discussions from key informants and focus group discussion are grouped and then checked for validity and reliability. To take maximum care, outliers will be avoided and

clearly described when necessary. This means, if some ideas stand out from the average respondents, the issue will be analyzed and presented if necessary, otherwise that data will be avoided altogether. Since the objective of using both qualitative and quantitative approach is to solidify the data collection processes where one cancels the weakness of the other, the analysis also will be done in reference to the other. That is qualitative analysis clarifies or cross checks the quantitative data.

In the quantitative data analysis, tabulations, percentages, comparisons, ratings, averages, frequencies of events, mean, median, proportions, are applied together with descriptive statistics. When both qualitative and quantitative analysis is applied together with literature reviews, the conclusion can be sounder and its validity and reliability will increase.

CHAPTER FOUR

4. DATA ANALYSIS AND INTERPRETATION

4.1 Socio-economic and Demographic Characteristics

For the purpose of analysis of the socio-economic background of the households: age, sex, marital status, family size, and education level of the households were surveyed. The study was conducted on six cooperatives and 126 members 21 from each of the cooperatives with the objective of assessing the impact of fair trade certification on the socio-economic condition of the coffee farmers.

4.1.1 Sex categories of Surveyed Group

Table 4-1 Sex Composition of the Surveyed House hold

Name of cooperative	Male	Female	Total Respondents
Negale Gorbitu	19	2	21
Homa	20	1	21
Guwangwa	21	0	21
Kilenso Mokonisa	20	1	21
Kilenso Rasa	20	1	21
Buda Magada	21	0	21
Total	121	5	126

Source: Surveyed data 2012

The sex composition from the survey shows that there are only 5 females heading the households who are the members of the cooperatives societies, representing only 3.97% of the respondents while 96.03% of the respondents are male. One can recognize that there is gender inequity in the socio-economic sector of the country. This is good indicator to understand how much the females are deprived from the acquisition of assets and participation in economic and social development.

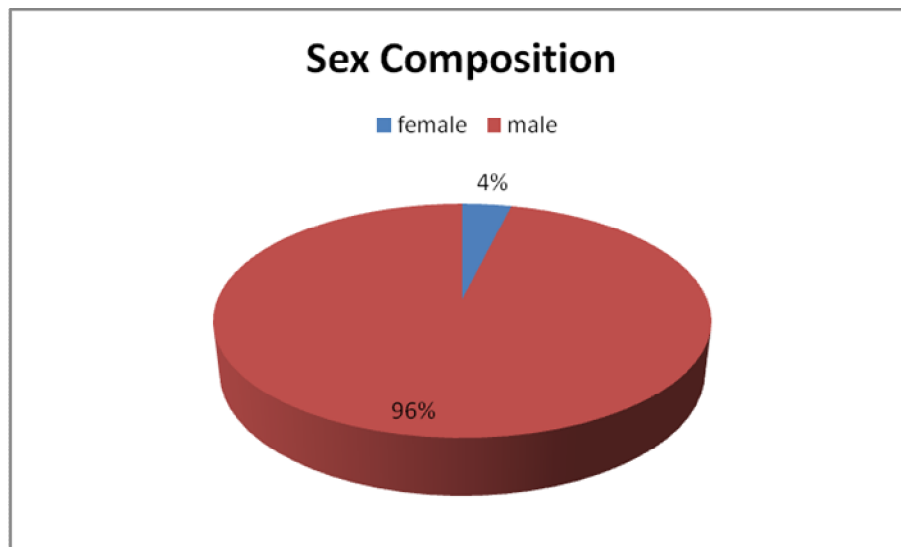


Figure 4-1 Sex Composition in percentage

4.1.2 Age Distribution

The age of the respondent was surveyed during data collection to analyze the distribution of the age in order to look in to the composition of the members for perpetuity or the sustainability of the cooperative societies. The data shows that, the participation of the new generation in cooperative membership is low.

Table 4-2 Age Distribution

Name of co-ops	Total Respondents	<20	21-30	31-40	41-50	51-60	60+
Negale Gorbitu	21	0	1	11	6	3	0
Homa	21	0	3	8	3	4	3
Guwangwa	21	0	0	1	4	8	8
Kilenso Mokonisa	21	0	0	3	9	9	300
Kilenso Rasa	21	0	1	8	5	5	2
Buda Magada	21	0	2	7	4	5	3
Total	126	0	7	38	31	34	6

Source: Surveyed data 2012

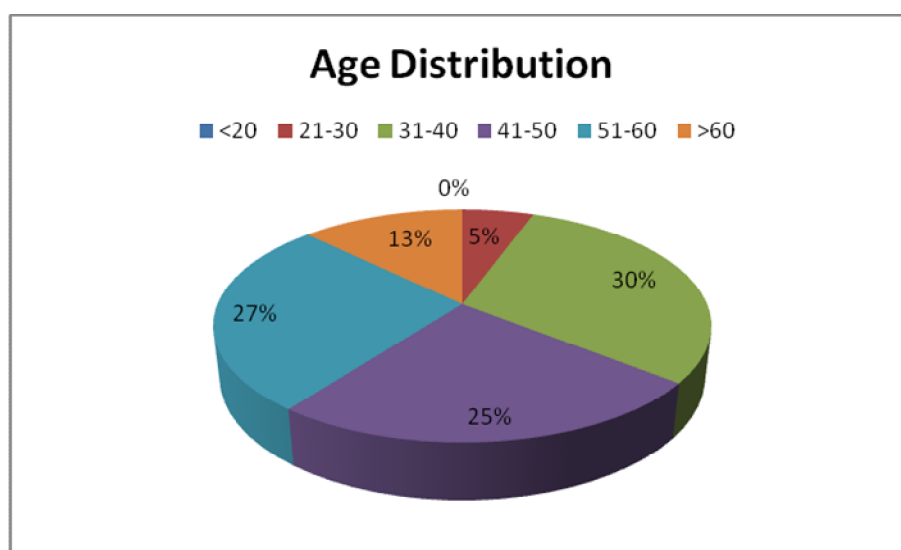


Figure 4-2 Age Distribution in percentage

4.1.3 Surveyed Group Family Size

The family condition was taken in to consideration during data collection. The size of the family is alarming in comparison to the farm size, the livelihood of households and meager resource of each household. The data reveals that 63% of the respondents head about 10 family members and 31% of the respondent are with the family size of 15.

Table 4-3 Family Size

Name of cooperative	Total Respondents	0-5	6-10	11-15	16-20	>20
Negale Gorbitu	21	3	17	0	1	0
Homa	21	4	10	6	1	0
Guwangwa	21	3	14	4	0	0
Kilenso Mokonisa	21	3	7	10	1	0
Kilenso Rasa	21	2	3	8	5	3
Buda Magada	21	5	12	3	0	1
Total	126	20	63	31	8	4

Source: Surveyed data 2012

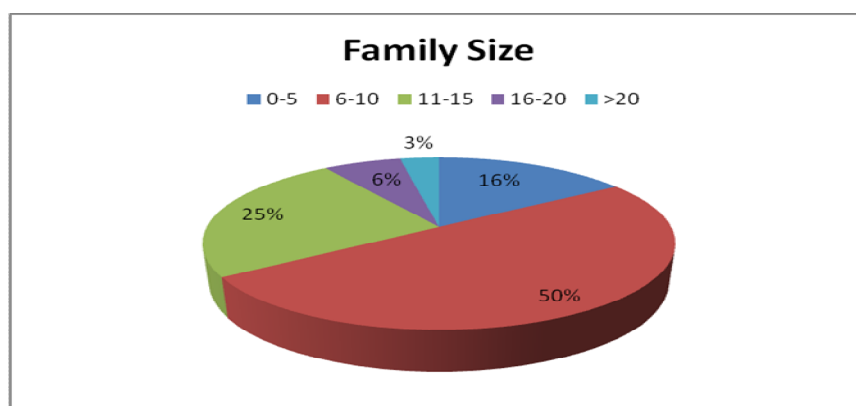


Figure 4-3 Family Size in Percentage

4.1.4 Educational Level

The educational background of the majority of the surveyed respondents falls below six grade. This is because of lack of schools at their vicinity and enforced to remain coffee farmers. The remarkable number of respondents are found completely to be illiterate due to similar reason.

Table 4-4 Educational Level

Name of cooperative	Total Respondents	Illiterate	1-4	5-6	7-8	9-10	11-12	>12
Negale Gorbitu	21	4	4	4	5	2	1	1
Homa	21		5	7	3	5	1	
Guwangwa	21		15	2		4		
Kilenso Mokonisa	21	14	7					
Kilenso Rasa	21	2	6	5	5	1	2	
Buda Magada	21	3	7	6	3	1	1	
Total	126	23	44	24	16	13	5	1

Source: surveyed data 2012

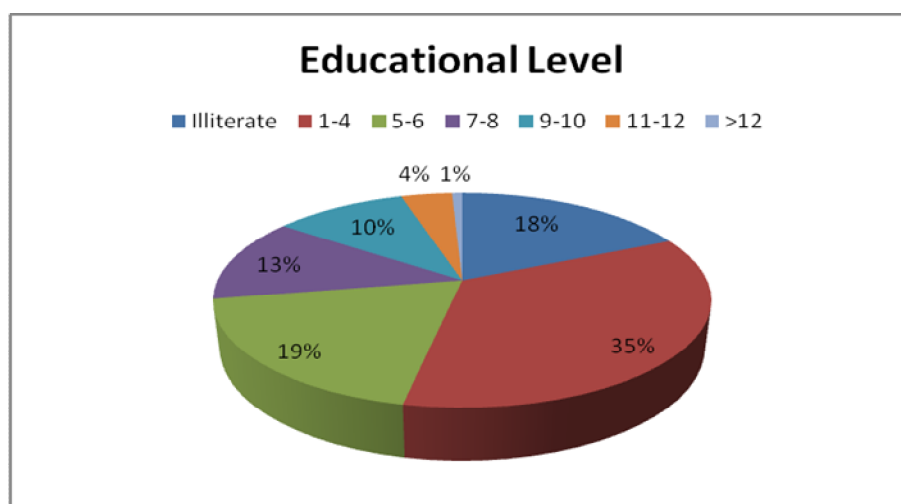


Figure 4-4 Educational Level in Percentage

4.2 Coffee and Livelihood of the Coffee Farmers

Coffee is every thing for the coffee farmers. Their livelihood is directly or indirectly dependent on coffee ,as coffee contributes about 75% to their livelihood (Worku, 2008). They sell coffee and disburse on food, clothes, shelter ,school fee ,medical treatment , tax obligation and other basic necessities. They are always vulnerable to coffee crisis, as the coffee price is very volatile, due to different factors, like over production of coffee product in high coffee producing countries, consumers preference and shift of their consumption. Rather ,the Ethiopian coffee farmers are more affected than other coffee farmers ,because of low production and productivity and lack of awareness to diversify their product in line with market demand. Despite, this fact the coffee farmers have organized themselves under the primary cooperative societies in their localities to minimize the risk of coffee prices, and further affiliated to the secondary level cooperative to capture better price through direct business to international market.

The Oromia coffee Farmers cooperative union which was established with the objectives of direct selling of member's coffee to international market for better price, has been playing pivotal role in disseminating market information and selling the member's coffee at better price to improve their living standard and mitigate the market risk. The efforts made and activities undertaken since the last one decade are demonstrated in this study.

Special emphasis is given to the cooperatives and respondents specific conditions under this study . Income of respondents, size of coffee farm , coffee production, the effect of fall of coffee price, the role of Fairtrade certification and challenges of households in coffee production and marketing are thoroughly investigated.

4.2.1 Household Income of Surveyed Farmers

Coffee is the sole source of income for the majority of members of the six cooperative under consideration. It has therefore a direct determinant effect on the livelihood of the farmers and their families. The members of the six cooperatives covered by the study have 11,720 ha of land under coffee from which they produce about 6,549 tons of green coffee per annum. Farmers' annual income which is largely from coffee production and marketing varies from less than 3,000 to slightly greater than 28,000 birr a year. As can be seen from table 4.1, 3.15% of the surveyed households fall in the group whose annual income is less than 3000.00 birr.

Moreover, the same table shows that more than half (57.10%) of the surveyed households' income is less than the average income of birr 22,500 per year, while only a quarter of the households earn higher income than the average, which itself can be said lower. The survey results, however, indicate that the farm households are entirely dependent on income from coffee production and selling.

Further more the table reveals that 21.43% of the surveyed households have no other source of income other than coffee. In addition to this, additional 60.32% of these farmers receive annual income of less than 6,000 birr from non coffee economic activities. This indicates that the very life of the farmers in the surveyed areas and their dependents is subject to the condition of their coffee production. It is also clear from the table that a few farm households (5.55%) in the six cooperative earn annual income greater than 16,000 birr from non coffee production related activities per year.

Table 4-5 Annual total Income of Surveyed Households: in '000'birr

No.	Name of cooperatives	Total respondents	Income groups					
			<3.0	3.1-9.0	9.1-15	15.1-21	21.1-31.0	31.1-45
1	Negale Gorbitu	21	2	6	3	3	4	3
2	Homa	21		5	2	5	5	4
3	Guwangwa	21		8	2	2	6	3
4	Kile/ Mokonisa	21		2	2	1	10	6
5	Kilenso rasa	21	2	6	3	2	5	3
6	Buda magada	21		3	4	5	8	1
	Total	126	4	30	16	18	38	20
	% age	100	3.17	23.8	12.7	14.28	30.16	15.87

Source: surveyed data 2012

Table 4- 6 Annual Income of Surveyed households from Coffee: in ‘000” birr

No	Name of cooperatives	Total respondent	Income groups				
			<0.5	5.1-15	15.1-25	25.1-35	35.1-45+
1	Negale Gorbitu	21	8	5	2	3	3
2	Homa	21	5	5	5	2	4
3	Guwangwa	21	2	5	5	5	4
4	Kile/ Mokonisa	21	2	3	7	5	4
5	Kilenso rasa	21	4	6	5	3	3
6	Buda magada	21	3	3	5	7	3
	Total	126	24	27	29	25	21
	%age	100	19.05	15.87	5.56	8.73	14.29

Source: surveyed data 2012

Table 4-7 Income from Non-coffee Activities: in ‘000’ birr

No.	Name of cooperatives	Total respondents	Income groups				
			<1	1-4	4.1-8	8.1-12	12.1-16 ⁺
1	Negale Gorbitu	21	3	16	1		1
2	Homa	21	3	10	3	2	3
3	Guwangwa	21	7	6	5	2	1
4	Kile/ Mokonisa	21	0	14	7		
5	Kilenso rasa	21	9	5	3	2	2
6	Buda magada	21	5	11	3	2	
	Total	126	27	62	22	8	7
	%age	100	21.43	49.2	17.4	6.3	5.5

Source: surveyed data 2012

4.2.2 Challenges of Small scale Farmers in Coffee Production

As is the case in many rural areas, the sample Farmer households in the study areas expressed their feelings of problems prevailing in their locality. As a matter of fact the discussion with the focal groups in all the surveyed cooperatives reveals that they have somehow similar challenges though, the severity of each problem varies from one person to the other in the same cooperative or other o cooperative.

- Poor infrastructure and associated rural road/ transportation is a bottom felt common problem of members in one cooperative and that of another cooperative. The situation of rural roads (villages to district town) is generally poor around/in all the surveyed farm households. In almost all cases, coffee is brought to pulping stations and nearby towns on draught animals or human’s back. In the case of roads that connect district towns to the zone town of Borana, transportation cost is

not only very costly, but full of risk of life Therefore; the problem of transportation is felt by most respondent households in all the surveyed areas.

- Effect of change of climate: This was explained in terms of late /or absence of rain, untimely rain, which has directly reflected by decrease in productivity or total instability of coffee production. Farmers know that coffee normally do not continuously give yield from year to year. According to views of some households, the change in climate has disturbed this natural sequence and farmers cannot make expectation of next year. Some respondents during discussion indicated that their income from coffee has been decreasing since recent years.
- Poor saving culture of farm households: Many farmers during the group discussion admitted that the households' saving culture in all the surveyed rural areas is poor. Over consumption during harvest and deficiency during slack period is not uncommon. This combined with low income from the only crop coffee, as some farmers put, has limited improvement in the farm households. Moreover, not less than 26% of respondent indicated that their communities suffer from lack of income to afford the family various expenses.
- Shortage of skill and knowledge is prominent and widely observed in all the sampled households: Improved coffee production practices, like weeding, hoeing, caring for coffee field is found to be the most challenging in all farm households in the survey area. Coffee production practices, harvesting and processing technique in all over the surveyed cooperatives is generally poor due to limited skill and lack of knowledge. The potential benefit of good and/or improved coffee plants handling has theoretically been understood by many respondents, but has never been practiced by the majority. 34% of the respondent claim that appropriate

harvesting and storing of the product is very important since unless coffee is properly harvested and stored or dried, it does not bring better price. As one of the respondents of Kilenso Mokonisa, honestly explained, pruning coffee trees is just equal to wounding own child.

- Weakness of cooperatives to timely collect cherry from farmers. A few respondents, but in the entire surveyed cooperative, indicated that their cooperative sometimes lack enough capital to receive coffee from them. According to their opinion, this will force them to leave their cherry until it overripe, which sometimes cause deterioration in their product quality. This also, as they said, exposes them to private local buyers.

4.2.3 Fall in Coffee Price

The price of has a direct and determinant effect on the very lives of the surveyed coffee farm households. It is the largest part of income of these farmers and according to data from the survey the number of farmers who have no other source of income other than is not negligible. Until recent years price of coffee, like that of all other crops was usually decided by local merchants. Farmers were just price takers. This had been causing a tremendous damage to living conditions of coffee producers.

Work (2008), in this study indicates that previous study undertaken by Gresser and Tickell in (2002) assessed all developing countries, including Ethiopia. This indicates that coffee price fall has a global effect, not only on the producers, but also on the nation as well. The study indicates that the fall in coffee price had been severe from 1997 and 2003, in which the annual income of farmers from coffee sales fell from 320USD to 60USD in kaffa region, Ethiopia. According to this study coffee price fall occurs at the same time all over the world.

As indicated in International Coffee Organization coffee export estimate report dated 6/4/2012, coffee exports are vital contributors for foreign exchanges earnings. The same data indicate that for Ethiopia, it accounts for 33%, the highest of all coffee exporters. As shown in the table below the world's foreign exchange earnings has been decreasing with larger amount the decrease in coffee supply due to price decrease.

Table 4- 8 World Coffee Supply and Price Tendency from 1999-2010

Coffee year	Value in billion USD	Supply in million bags	USD cent/Lb FOB
1999/00	8.7	89.4	74
2000/01	5.8	90.4	49
2001/02	4.9	86.7	43
2002/03	5.5	88.2	47
2003/04	6.4	88.8	55
2004/05	8.9	89.0	76
2005/06	10.1	87.9	87
2006/07	12.5	98.4	96
2007/08	15.0	96.1	118
2008/09	13.5	97.4	105
2009/2010	15.4	93.4	125

Source: World Coffee Organization report dated 6/4/2012

The decline and fluctuation of coffee price in the world has had negative impact on not only coffee farmers in Ethiopia, but also the nation as a whole. To minimize the effect of coffee price fall on the producers the government of Ethiopia was not indifferent to the

problem. The organization of the primary coffee farmers into higher forms of cooperatives, that is, unions was taken as an option. In Oromia it led to the establishment of Oromia Coffee Farmers Cooperatives union in 1999, on the belief that their bargaining power would be improved through the union

4.2.4 The Surveyed Coffee Farmers Cooperatives and their Roles in Coffee Business

Cooperatives in Ethiopia were established according to the contemporary cooperative proclamation and Directives of the cooperative under the guidance of the government. The cooperatives surveyed during the research were established at different times. Some of them were established during Dergue regime and some of them were also established after falling of the Dergue. Kilenso Mokonisa, Kilenso Resa, Guwangua, Homa, Negele Gorbitu and Buda Megada cooperative societies established in 1978, 1977, 1978, 1995, 1995 and 2006 respectively.

Table 4-9 Basic Data of Cooperatives Surveyed

No.	Name	District	Year of Registration	Year of FLO Registration	Membership		
					M	F	Total
1	Negalle Gorbitu	Abaya	1995	2002	806	52	858
2	Homa	Abaya	1995	2002	742	47	789
3	Guwangwa	Abaya	1978	NA	754	55	809
4	Kilenso Mekonisa	Bule Hora	1978	2002	1887	91	1978
5	Kilenso Rasa	Bule Hora	1977	2002	1868	114	1982
6	Buda Megada	Bule Hora	2006	NA	657	37	694

Source: Surveyed Data 2012

The cooperative societies which were established under Proclamation No.138/1978 during Dergue were restructured and re-registered under Proclamation No.147/1998. Three of the cooperatives were re-organized under the new cooperative Proclamation in

line with market economy in 1998. The rest were basically established under the new proclamation. Most of the pioneer members were withdrawn and new members have joined ,after restructure. When the Degure regime fail down the former cooperative structures were also weakened but not dissolved. The Federal Republic of Ethiopia and Regional States in collaboration re-organized the cooperatives under new directives in light of the free market economy. The effort however, haven't brought radical changes in cooperative movement in the country.

It is mandatory for the Coffee farmers to fulfill the following criteria to be the member of the aforementioned cooperative societies.

- Functional similarity or involvement in the same activities
- Living in the same area of operation
- Pay registration fee as decided by General Assembly
- Pay membership fee (share capital
- One should attain the age 14 years and above

Most of the current members of the cooperative societies are those who joined it during its establishment in 1977 After the restructure new members were increased but not significantly compared to the population in the area..

The farmers complain that with their poor financial capacity and low level of skills in the management of the institutions, they could not easily compete with private investors and succeed. Currently they face stiff competition from the investors especially coffee traders who uses all opportunity to collect maximum benefits at the expense of farmers.

4.2.5 Benefits of Cooperative Societies

Being the major part of agribusiness, they play a major role in agribusiness. Coffee farmers own and operate the coffee business. They are involved in production, processing as well as in marketing. Their leading role is helping members in marketing their products. In this regard cooperatives shield members from the treacherous marketing activities of local merchants. This has been an absolutely important role for coffee farmers where coffee price has been unstable in the last few years.

The competitions with local traders are very tough even for the cooperatives themselves. Local coffee merchants lobby farmers by providing them with interest free loan with aim of drive the cooperatives out of market. Therefore, cooperatives have done much to improve their bargaining power by reorganizing themselves into higher form of cooperatives. This has enhanced their capital base and management efficiency whereby they could provide better services and better profits in the form of dividends to members. In general, cooperatives where the study was conducted have realized the following benefits for their members.

1. Stabilized coffee market by offering better price for member producers, adding value to their product by processing and supplying to better price markets and sharing 70% of their profits to members in the form of dividends. In the last six years of business operation, the six cooperatives have received a total of birr 15,538,000 second payment from the union only. Coffee cooperatives, therefore, have done a live saving work by protecting members from inappropriate local competition and mischievous activities which had disabled farmers to cover their household cost of living.

Table 4- 10 Dividend paid to Cooperatives Surveyed

Year	Negelle Gorbitu	Homa	Kileenso Mokonisa	Kilenso Rasa	Guwanguwa	Buda Magada
2006	57,120	91,075	105,714	71,842	20,160	
2007	202,212	290,070	505,866	381,563	73,343	
2008	431,411	477,214	824,023	485,290	32,155	
2009	600,199	774,912	927,526	649,457	241,383	217,927
2010	1,397,018	1,448,160	2,703,382	2,083,490	79,014	366,492
	2,687,960	3,081,431	5,066,511	3,671,624	446,055	584,419
Grand total	15,538,000					

Source: OCFCU Annual Report 2006-2010

2. Have played role to introduce modern coffee processing technologies, which would otherwise impossible for individual farmers. This has contributed to the improvement in quality member coffee and hence could generate better income.
3. Cooperatives in the surveyed area are also creating jobs. For of the six cooperatives, namely kilenso Mokonisa, kilenso Rasa, Homa and Negele Gorbitu, Guwanga and Buda Magada have wet processing mills in which they deploy over 200 seasonal works, in addition to their office and coffee processing mills works which are 80 in total.
4. Development of social services in the rural communities is the other outstanding contribution of cooperative. Four of the above mentioned cooperative societies are well admired not only by their members, but also by the surrounding non member households for the development of social services. These cooperatives are FLO certified and receive Fair trade premium which is amounting

Br.13,671,147 in the last five years, as a rule must used for improvement of social infrastructure in the member farmers. These cooperatives have overcome the school problems for their children by building primary and secondary schools in their areas. They have made potable water for their members and reduced the problem of water related diseases.

Because the FLO membership requires compliance with certain quality standards and production process as well as environmental considerations, the four cooperatives have played in improving the coffee production and processing technology of their members. In general the cooperatives could change the unhappiness many of their members used to feel in the way they were treated with private traders in selling their own products.

4.2.6 Current Challenges of the Surveyed Cooperatives

The performance of the cooperatives in the surveyed area can be much better relatively to the majority of cooperatives in Oromia or elsewhere in the country. Despite this, according to the information gathered during the sampling, the cooperatives are sometimes faced with internal and external problems. Most of the problems cited in all the cooperatives surveyed are common to all, and have been affecting their performance. Shortage of capital to collected members coffee is the common and critical problem, because all the cooperatives have poor capital. As the respondents explain, credits are not easily accessed by primary cooperatives. On the other hands cooperatives have not developed the culture of saving and forming enough own capital for smooth operation of their business.

In appropriate (un-sincerely) competition from local rivalry is very strong in all the surveyed cooperatives according to their response. The coffee traders appoint satellite agents at each coffee purchasing stations paying more than or equal to what cooperatives pay and attempt to drive out the cooperatives from the market to monopolize the market.

Unfairly raising the price red cherry to divert members from their cooperatives regardless the quality is one of the technique to avoid cooperatives from the coffee market. The competition is also reflected in securing loans from financial institutions.

Most of the surveyed cooperative societies have been indebted to Development Bank of Ethiopia and Commercial Bank of Ethiopia, since the last several years. In order to discharge their loan obligation, they have been repaying from dividend and other sources to the banks, to secure their assets and to maintain their relation with the banks. As the consequence, there was no much trickle down to the members.

According to the information from the focal persons discussions, coffee price instability is the other major challenge that often exposes cooperatives to bankruptcy, as the coffee price sometimes suddenly falls, to the extent that cooperative are forced to sell at price much lower than the price they paid to members. Some of the surveyed cooperatives, example some members of kilesa Mokonisa indicated that intervention of local authorities in their business is another challenge that they experienced in the last few years.

Most respondents in all the six cooperatives also say that the low productivity of members coffee itself is a challenge to cooperatives, because sometime cooperatives fail to get enough coffee from members so as to supply enough coffee to central market or their union to get a meaningful profit from the business. Added to these are problems of lack of enough wet processing mills, insufficiency of members' awareness are some challenge met by all the surveyed cooperatives.

Lack of awareness of the member is also one of the challenges. One of the critically important issues co-ops face as they undergo this transformation is member commitment. Member commitment is critical because it is a measure of how well a coop is able to differentiate itself from an investor-owned firm (IOF). The greater is the coop's

ability to differentiate itself from an IOF, the easier it is for the co-op to retain its market share as borders breakdown and as multinationals move into markets they have traditionally ignored.

In short, member commitment is a sort of glue that allows membership and business volume to be maintained even as trade becomes more fluid and barriers to reorganization are broken.

4.2.7 Role of Oromia Coffee Farmers Cooperative Union (OCFCU)

Oromia coffee farmers' cooperatives union (OCFCU) is an apex coffee farmer's organization that was established with 34 coffee farmers' primary cooperatives in 1999. Initially it was as an option to save coffee farmers in Oromia which were severely hurt by the then drastically coffee price fall.

The objective was to help coffee farmers in the region to bring the properties and knowledge of members together and jointly solve problems that a member cooperative alone is unable to solve. The union is also established with the aim to enhance the self confidence of members and increase production and productivity.

In line with its, objectives, the Oromia Coffee Farmers Cooperative Union has been striving to avoid the middlemen from the coffee supply chain, in order to pay back the lion share of coffee sales to the coffee farmers. It has privileged to by-pass the auction, due to production specificity exported through the union. The coffee exported needed to be traceable, as per the FLO standard to meet the interest of the consumers Fairtrade certified products.

It was observed that ,the union has shorten the supply chain by cutting collectors and suppliers from the supply chain and replaced the cooperative societies, to deliver their

product through the second window, other than Ethiopian Commodity Exchange (ECX).

In this case, the farmers enjoy the coffee income more than three times.

Below is the chart depicts coffee trade chain under cooperative business and the supply of coffee through ECX auction.

Coffee Supply Chain

Ethiopian Commodity Exchange window

Cooperative Trade Chain Window

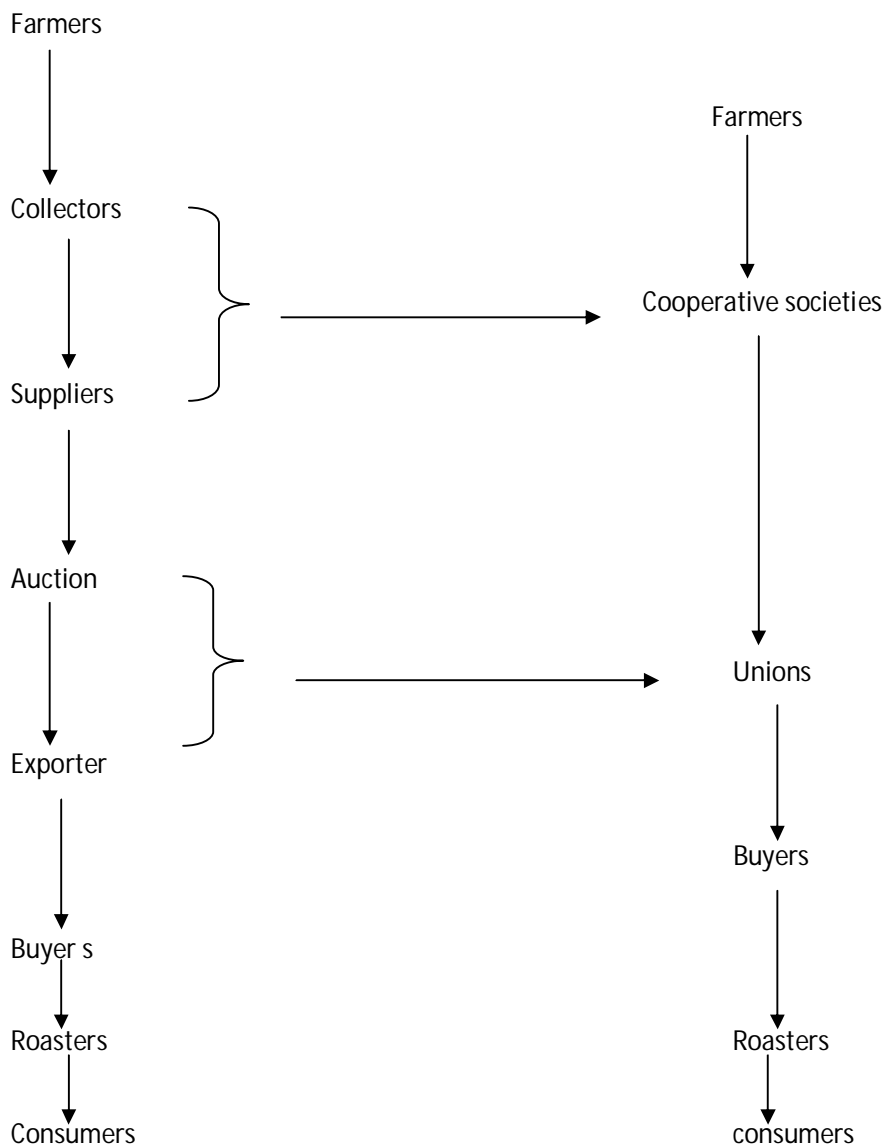


Figure 4-5 Coffee Supply Chain

Since its establishment the union has been playing a pivotal role in coffee market stabilizing and enhancing members' income from coffee. At present it has expanded having 217 primary coffee farmers that serve more than 200,000 farm households.

The Union is currently representing coffee producers to export their coffee and sell at better price. With cooperative experience in international markets, the Union focused on the importance of quality production, traced to origin with substantial buyers monitoring and involvement with coffee growers. Hence, it has succeeded in quality coffee exporting over the last decade. It collects members' coffee, stores, process and export worldwide. Facilitating the certification of members under Fair Trade, Organic and UTZ, access to fair price market for members' produces have been granted. Most importantly members relieved from the pressure from local coffee traders because they supply sell to the union for which they later share 70% of the profit. The union undertakes various valued adding process and these products are of unique quality since due caution is given to the whole processes from tree to cup. In this regard, the Union controls overall activities associated with coffee producing, harvesting, processing, storing and direct exporting. Business performance records of the union reveals members' coffee export by the union and its sales value as well as net surplus has been surprisingly increasing.

Table 4- 11 Volume, Value of sale and profit Generated by the Union in the Past 10 Years

Year	Volume of Sale (in ton)	Growth In %	Value of Sales (in Birr)	Growth in (%)	Net Surplus (in Birr)
2001	126		2,271,157		289,184.86
2002	375	198%	7,679,344	38%	2,181,624.92
2003	967	158%	18,796,130	45%	5,819,096.00
2004	2432	151%	,011	41%	7,020,447.00
2005	2691	11%	67,207,845	48%	5,468,002.66
2006	3182	18%	86,644,278	29%	6,865,844.00
2007	3248	2%	102,725,628	9%	13,933,097.29
2008	3599	11%	136,392,056	33%	23,423,228.08
2009	5329	48%	270,496,542	98%	44,758,339.00
2010	4889	8%	295,733,293	9%	61,168,915.00
Average	2684	59	103,325,528	76	17,092,777.88

Source: OCFCU Annual Reports 2001-2010

Above all, members' bargaining position in the international market has been strengthened earning back a higher share of market price to producers. These in turn enabled farmers to achieve growth of scale thereby enabling them take control of their

economic future. Equally impressive is the fact that the cooperatives are returning substantial dividends over the initial market prices to farmers.

The union distributes 70 percent of the net profit back to member farmers as dividends and allocates 30 percent for capacity building, investment on fixed asset, social services and reserve. Hence, on average 9.4 million Birr per year has been returned to primary cooperatives from coffee they sold and share they bought for continuous ten years. The dividend returned by cooperatives has grown on average by 99% yearly.

As a result, lives of the members have been meaningfully changing. Most of them received dividends which they used to cover their thatched-roof house with corrugated iron sheets. Other Union members invested dividends back into their coffee ventures, started new businesses or paid for their children's education.

Table 4- 12 Dividend paid for members in the past 10 years

Year	N/r of coops received	Total dividend paid	Annual Growth in %
2001	8	262,855	
2002	20	1,527,137	481%
2003	22	3,208,053	110%
2004	30	3,580,761	12%
2005	85	2,270,598	-37%
2006	78	2,485,947	9%
2007	110	6,966,548	180%
2008	101	11,716,614	68%
2009	120	31,478,157	169%
2010	140	42,818,241	36%
Average		9,408,112.70	99%

Source: OCFUCU annual report 2001-2010

The virtual organizational structure of Oromia Coffee Farmers Cooperative Union (OCFCU) coupled with its efficient management has resulted in improved coffee quality and overall operation. Coffee growers have been benefiting more from their produce since the inception of the Union. Managing coffee processing, marketing and its commercialization has become modernized and standardized. Hence, the Union has been able to achieve sound level of growth in a short period of time which further has inspired the cooperatives members to increase their capacity through helpful services they receive.

With regard to building capacity of farmers' cooperatives, OCFCU has been an overwhelmingly positive force. The member cooperatives managerial capacity has been improving year after year by trainings of cooperative leaders. It supports the improvement in production and quality of members produce by helping establishment of different coffee processing machineries, warehouses, material assets and knowledge and skill with its customers in the global market.

Networking of Cooperatives is the other assistance of the union to its members. The Union has been able to be networked with inspecting and certifying bodies. Accordingly, it has established networks with Fair Trade Labeling Organization International, Specialty Coffee Association of America (SCAA) and Eastern Africa Fine Coffee Association (EAFCA). In fact, all the cooperatives are operating under the Fair Trade principle. Hence, the Union has been selling Fairtrade registered cooperatives coffee since 2002. The Fair trade coffee of the Union is still on sale in many Fairtrade roasters and retailers in many coffee consuming countries.

As a result of the continuous effort of promoting and facilitating growth, processing and supply of high quality organic Arabica coffee, some 28 cooperatives could comply with FLO and organic standards. This compliance has increased market access for members coffee, enabling them obtain the premium price.

The premium from Fair Trade of course, has helped for the expansion of social services such as primary schools and additional classrooms, clinics with medical equipment and supply potable water facilities, and bridges. These infrastructures, which were impossible without the fairtrade premium, assisted the community to offer all social and economic services to their resident. The purchase of a hulling machine to reduce the costs associated with the grinding of dry coffee beans and the purchase of pulping machine, which have increased the quality of the products and many more, was also achieved as a result of the revenue from coffee. As well, the Union invests in the promotion of coffee in order to extend its sales to new markets.

Table 4- 13 Premium OCFUCU Received from Fair Trade Sales in the past 10 years

Year	Total paid (Birr)	Maximum (Birr)	Minimum (Birr)	Beneficiary Cooperative
2004	884,332	297,944	2,221	11
2005	1,673,812	462,340	16,098	11
2006	2,722,422	542,152	44,174	11
2007	2,345,288	240,596	44,174	28
2008	4,714,508	418,521	28,066	28
2009	7,350,992	694,411	17,417	28
2010	8,959,910	1,158,880	20,674	28

Source: OCFUCU annual report 2004-2010

In general the union which was established to protect coffee farmers in Oromia by stabilizing coffee market has achieved undeniable progress. Today it is playing a leading role in improving members' living standards, and rural infrastructures. It is playing role in improvement in the coffee sector of the country. It is taking part in national development efforts and employment creation.

CHAPTER FIVE

5. IMPACT OF FAIRTRADE CERTIFICATION

5.1 Fair trade Coffee Certification

Certifying coffee as fairtrade is paramount important to reduce the risk of coffee price which is volatile and which hit the small coffee producers around the world. It is also one of the key options to help the farmers and to guarantee minimum price not to fall below cost of production. It is alternative market segment to make trade fair, so as to enable the coffee farmers get decent price and become self –reliant instead of looking for aid. The value captured outside the producers is extremely high and therefore, maximizing the return to the farmers is considered to be in the heart of the fair-trade certification. On the other hand, Fairtrade certification encourages environmental sustainability which the life of coffee farmers directly and in directly based on. During the coffee crisis campaign and advocacy , that had been conducted all over the world by Oxfam International in collaboration with coffee producers, it was indentified that , the giant coffee traders reap almost the lion share of the coffee value, while the little portion of the coffee value goes to the marginalized coffee producers.

This section therefore, explores the coffee value chain for fairtrade certified coffee under cooperatives , the benefits of certification, procedures , challenges in certification and that discourage the coffee farmers to take the advantages set fully out of the fairtrade certification. Finally, it briefly describes the impact of the certification in observed cooperative societies.

5.1.1 Procedure of Fair trade Certification

Coffee Certification Processes Coffee is certified under different schemes with corresponding criteria and responsibilities. The discussion is, however, only focused on fairtrade coffee certification. As described in the literature review, the certification process requires both the coffee producing farmers and the buyers to fulfill the conditions as set out by the certifying bodies. The coffee farmers need to fulfill both the social requirements like democratic institutions, open and transparent cooperative management, awareness creation of the members, focus on social development activities. On the production side, the farmers are required to keep the quality of coffee production, sustainability, and environmental protection, health and cleanness of the processing plant, health and cleanness of the coffee processors, fair and minimum wages for the employee of the cooperatives.

On the reciprocity, the buyers, also required to pre-financing to the coffee farmers to the maximum of 60% of the agreed purchase price and enter into an agreement to buy coffee from the coffee farmers at fixed price for relatively longer terms of trading partnership in order to keep the farmer confident in their coffee production.

5.1.2 The Challenges of the Fair-trade Certification in Ethiopia

The study reveals that, the standards set by the FLO, for the small coffee producers is one of the major challenges to fulfill the certification criteria and reap the full benefit of the certification scheme. The reason is, the standard has been set for all coffee producers of three regions Latin America, Africa and Asia, without taking the specific condition of the countries. Of course, the there is attempt to cope with dynamism of coffee marketing, but with the issue of the standards, it remains the challenge. The organizational structure

of cooperatives in the country has a lot of challenges from establishment to operation. The cooperatives are not equipped with professional managers, who can understand and implement the certification activities according to the standard set. Most of the cooperatives lack basic data and essential documents which can be point of evaluation during certification. The cooperative leaders, members and employees have no basic ideas about the philosophy of Fairtrade, but enjoy its economic benefits and social services.

On the other hand, the Fairtrade movement, certification and its economic and social advantages is not understood by policy makers and public at large, which can make a difference through creating conducive working ground for the producers. The coherence between cooperative principles and Fairtrade standards is not tight.

The shortage of skilled manpower coupled with the corrupt nature of cooperatives is one of the key obstacles in addition to lack of infrastructures and finance. As noted earlier, the current cooperatives are the extension of the former ones. Even some of the executive members are drawn from the previous cooperatives structure.

During the case study, the key informants underlined that the nature of the cooperatives structures as closed and non-transparent to the wider members. They also believe that the current cooperatives have no much difference to the previous ones. Everything about the cooperatives is decided by consultation of the government sectors responsible for its management and organization. It might have either positive or negative impacts.

Although there is dilemma as described by the key informants, on the viability of cooperatives under the current heavy indebtedness to the Development Bank of Ethiopia (DBE) and Commercial Bank of Ethiopia (CBE). Due to frequent coffee price drop and poor performance, the cooperatives have remained indebted. This has damaged their

customer relation to the extent of loan prohibition. The challenges are summarized as below:

- There is no any mechanism to make price demarcation between certified and non-certified members at grass root level, as the coffee market segment and destination is unknown.
- The participation of cooperative leaders, cooperative members, employees and stakeholders, in certification process is low, because of lack of awareness and their ambitious expectation.
- The majority of the cooperative societies under study are dire in debt burden since the past ten years due to coffee crisis and poor performance. Therefore, in order to secure their fixed assets from foreclosure of the banks any income or dividend they get from OCFCU is repaid for their outstanding loan in the banks. Because of this, in most of the cooperative societies the income didn't go to their members.
- Almost all certified cooperative societies under the study have performed the coffee business under capacity. Meanwhile, the coffee product which they delivered to OCFCU was very little. Therefore, the premium and dividend they received from the OCFCU is market. The commitment of the cooperatives is very low to improve their performance in supply chain. to the extent of the product they delivered to the
- It is big challenge to adopt the Standard and criteria of FLO in most of the cooperative societies, due to technological and developmental disparity in producing countries, while the same standard is applicable to all country, regardless their specific conditions.

- Because of demand and supply, all Fairtrade coffee is not sold through Fairtrade market. The leftover coffee is sold through conventional market for nominal price. This is due to narrowness of fair-trade market and low level of consumers' awareness.

The potential importance of cooperative societies has been lost, and their objective of market stabilization has been tempted. As the result, it is observed that, when the cooperatives delay in starting to buy coffee, the intermediaries get into the picture and buy coffee at lower prices, but when cooperatives start, they push the price even higher than the cooperatives. Because of technical incapability, some times, the processing plant of red coffee cherries is stopped and private processors enjoy this opportunity to buy at lower price, in order to maximize their profit on the expense of the poor coffee farmers.

5.1.3 Fair trade Certified Cooperative Members

The Fairtrade coffee certification has been facilitated by the Oromia Coffee Farmers Cooperative Union (OCFCU), since its establishment. OCFCU has taken this initiative, as to enable the members' ripe benefit from their coffee product, through selling at better price. However, the standards for the certification are one of the key challenges to get certification for all the member cooperative societies. Therefore, the certification is carried out according to their level development, fulfillment of necessary documents and readiness of each cooperative society. So far, there are only 28 primary cooperative societies that are certified for fair-trade according to the documents and information produced from the OCFCU. Kilenso Mokonisa, Kilenso Resa, Homa and Negele Gorbitu cooperative societies are among the Fairtrade certified cooperative societies in the Oromia Regional State.

The study revealed that most of the cooperative members do not clearly understand what fairtrade certification means. In addition, the cooperative executives also said that they do not have much knowledge of the process.

Though, they are told by supervisors, to act in line with the criteria set by the FLO, their attainment in reality was found un-satisfactorily. As indentified during the survey out of 126 households surveyed of fair-trade certified, only 20 (15.87%) responded that they know about fair-trade certification while the rest could not tell what it means. The majority only know the name. Some of the standards required by the FLO that become bottleneck to the current Ethiopian situation are described by OCFCU are;

- Annual audit report of the cooperative societies and unions
- Un attainment of Minimum National average wage for the employees of the cooperatives
- Lack of Provident fund for the staff
- Protective clothing and safe working environment
- Ability to produce action plan and budget
- Lack of environmental protection mechanism to avoid pollution
- Lack of awareness about health and safety
- Low level of women participation
- Lack of proper record keeping in some cooperatives etc.

Within their current conditions the cooperatives hardly achieve the standards. As the consequence, only eligible cooperative societies with strong management have remained

certified. Even though, the current status shows quite low in comparison to the number of OCFCU's existing members, the application has been submitted to FLO-Cert for more cooperatives to be certified. The certification cost which is so far has been covered by OCFCU is not also undermined, as most of the cooperative societies can not cover it, contributes to minimal number of certified cooperatives. Concerning Fairtrade certification all relevant costs associated with verification, inspection, supervision, follow-up and audit, is currently covered by OCFCU.

5.1.4 Benefits from Fairtrade Coffee to the Farmers

The study has indicated that, because of Fairtrade certified cooperative societies have benefited much better than the non-certified cooperative societies and their members in areas of social services. When looking at the supply chain of the coffee, one can clearly understand the difference.

The coffee farmers deliver the coffee to their cooperative societies and receive the proceeding intact.



Figure 5-1 Coffee Processing Activity by farmers

The cooperative societies process the coffee and deliver the coffee on time to OCFCU. OCFCU pays the coffee price to respective cooperative societies, which is significantly higher than the value of the product. There is high possibility of generating net profit in this process. Then, OCFCU reprocesses, cleans, organizes, packs and exports the coffee to designated market.



Figure 5-2 Coffee Processing Plant

The coffee is exported to different target markets, under fairtrade, organic, double – certified (Fairtrade plus Organic) and conventional (regular) condition. The double certified coffee fetches higher price with additional premium.

The remarkable volume of coffee is sold through Fairtrade market. On every sales of coffee to Fairtrade market the premium of \$0.05-\$0.20/lb is charged, which is used for social infrastructures.

Table 5- 1 FLO Premium the Surveyed Cooperatives received in the past five years

No	Name of cooperatives	Fair trade premium received					
		2006	2007	2008	2009	2010	total
1	Negale Gorbitu	542,152	418,521	659,194	843,137	1,556,235	4,019,239
2	Homa	344,050	299,456	353,189	612,639	1,647,597	3,256,931
3	Kilenso mokonisa	525,739	367,737	694,411	525,906	1,858,618	3,972,411
4	Kilenso rasa	459,747	322,751	416,631	413,236	1,227,381	2,839,746
	Grand Total						

Source: OCFCU data 2006-2010

The conventional coffee is just sold depending on the international market and there is no any consideration even if market falls, while for Fairtrade certified coffee, the buyer is obliged to pay the minimum price set by FLO to guarantee the coffee producers not to drop below cost of production. If the price falls, fair-trade price remains fixed but if international coffee price rises, the buyers negotiate with the producers and exporters on new prices. The traceability of the coffee is maintained along all levels of supply chain for conformity of fair-trade certification, as it is compulsory in Fairtrade market. Apart from Fairtrade premium, the price of coffee that OCFCU obtains is, much higher than the New York Coffee price (NYC) and other exporters in the country. This is due to traceability and Fairtrade certification.

However, significant difference has not been revealed in terms of economy between certified and non-certified due absence of mechanism to differentiate the proceedings of coffee sold through FLO from conventional sales. The social premium only is separately maintained in accountancy. This might have over shadowed the economic benefit of Fairtrade.

5.1.5 The Impact of Coffee Certification on the Livelihoods of the Coffee Farmers

The main objective of the study was to assess the difference brought about by the introduction of fair-trade coffee certifications. Based on the prices fall as a fundamental trigger for weak and marginal coffee farmers who changed their coffee field to other crops, pulled out their children from school, and faced the challenges in their life, the study set out to the coffee producing area of Borena zone Bule Hora and Abaya Woreda.

As the study indicates almost all the coffee farmers faced the worldwide coffee crisis. They also felt hopeless and lost confidence in coffee production but have kept on managing coffee farm since they have no other alternatives. Coffee is favored not only by the farmers but also by the very nature of the topography of the land and the weather condition because coffee is environmental friendly.

The introduction of fair-trade is to protect the vulnerable coffee farmers from the fluctuation of coffee prices and market risk which leads to coffee crisis. In order to see the impact of Fairtrade certification four cooperative societies were selected, while the other two were drawn from non-certified cooperative societies. In line with this, the impact of economic condition is analyzed as below:

The impact of fair-trade certification in social condition of the households in research areas significantly improved. While, the economic well being of the house hold has not seen differently from the non-certified coffee. Of course, the contribution of fair-trade to the price stability of coffee price in the country is remarkable. It is believed by OCFCU officials that the fairtrade certification and its high price is the cause for high price for Ethiopian coffee because of promotion conducted across the globe.

The non-certified farmers and even private processors and exporters are benefited eventually.

The change was observed from the data analyzed ,that the majority of the farmers have built new corrugated houses, started side business and expanded their coffee farms, because of stable coffee price and additional income they earn in the form of dividend from the primary cooperative societies and from OCFCU every year.



Figure 5-3 new corrugated house vs. old house

With regards of social condition, tremendous social services have been constructed in their areas from social premium. Remarkable numbers of schools, clinics, potable water, roads, processing plants, grain mills and some others that can address the problem of the coffee farmers have been constructed since the time of their membership.



Figure 5-4 School Constructed by fairtrade premium

Table 5- 2 Social Infrastructures Constructed by FLO Premium for surveyed cooperatives

Cooperatives	Social Services Development in the Area					
	Schools	Kindergarten	Clinics	Clean Water	Office	Total
Negalle Gorbitu	2	1	2	1		5
Homa	5		1	1	1	8
Guwangwa						0
Kilenso Mokonisa	6		1			7
Kilenso Rasa	4		1			5
Buda Magada						0
Total	17	1	5	2	1	25

Source: Surveyed Data 2012



Figure 5-5 Potable water point constructed by fairtrade premium



Figure 5-6 all weathered Road Constructed by fairtrade premium

Further more, the coffee price risk has been mitigated, fair-trade minimum price has guaranteed the coffee farmers to withstand the fluctuation of coffee price. Sustainable coffee market has also developed through linkage of FLO system.



Figure 5-7 Clinic Constructed by fairtrade premium

CHAPTER SIX

6. CONCLUSION AND RECOMMENDATION

6.1 Conclusion

The main objective of this study is to see the socio-economic impact of Fairtrade certification in coffee cooperative societies and their members in the selected research areas. The study focuses on benefits gained, improvements of livelihood of households and provision of social services.

Fair-trade coffee certification is believed to contribute to the well being of the poor coffee farmers through economic and social transformation. This thesis attempted to proof whether the benefit expected from Fairtrade certification is exercised in the selected members and cooperative societies. In order to identify the impact, important data of the tier levels was analyzed. The comparison is also made between fairtrade certified and non- fraitrade certified cooperative societies in selected areas.

The cooperative societies in the study areas were established twenty five yeas ago on the basis of communism oriented cooperatives principles with objectives of providing the cooperative members with consumer goods and to source out their coffee products through centralized market to fulfill the quota of the Government. It was identified that the cooperatives had no an opportunity to sell their product to target markets freely, in order to get better price which can improve their living standard .

Since the last fifteen years the cooperative societies had been restructured according to the Cooperative Proclamation No.147/1997, which paved the way to liberalized cooperatives market economy. On top of that, the cooperative societies had got an

opportunity to form secondary cooperatives through which they could penetrate International market to sell their products at better prices. However, due to volatility of global coffee prices, the cooperative members have been tempted by coffee crisis frequently since the last several years.

Despite of coffee crisis the coffee farmers all over the world generally and Ethiopian coffee farmers specifically have been hit by coffee crisis. As the result, the coffee farmers were affected and their economic and social conditions were jeopardized. The school dropout was prevalent, social and cultural ceremonies were damaged due to unaffordable economic situation. It was the time when the significance of Fair-trade Labeling Organization International (FLO) global movement was recognized both by coffee farmers and international community. The FLO guarantees the minimum floor price not to drop below the cost of production.

The Fair Trade movement has in a short time greatly improved the well-being of small-scale coffee farmers and their families. The benefit of Fairtrade certification was clearly understood by the Oromia Coffee Farmers Cooperative Union(OCFCU) which is the umbrella of the coffee cooperative societies in Oromia Regional State, that were affected by coffee crisis .

The Oromia Coffee Farmers Cooperative Union facilitates the market outlet for all member cooperatives societies which are affiliated to it and conducts market promotion all over the globe to identify a target market where the members can be benefited. The importance of Fairtrade was discovered during market promotion and coffee crisis campaign between 2000 and 2002 during the early years of the beginning of the coffee crisis.

The Oromia Coffee Farmers Cooperative Union facilitates the training on Fairtrade principles, conducts supervision and follow up and invites the auditors on time from FLO-Cert for Fairtrade certification affiliated cooperative societies of which Killenso Mokonisa, Killenso Resa, Negelle Gorbitu and Homa are among the Fairtrade certified cooperative societies.

The fairtrade certification has paved the way to new market segment and enabled the members to earn better income than conventional market. Despite of this, the livelihood of the members has slightly improved. On the other hand the social services in the selected cooperative societies have significantly improved, because of construction of different infrastructure by fairtrade premium which is paid on each fair-trade sale through fair-trade market.

The contribution of fair-trade certification in socio-economic development, environmental sustainability and other related issues significantly indicates positive impacts. The coffee cooperatives and coffee farmers have got good impression of fair-trade market and dichotomy between niche and conventional coffee markets. Furthermore, maintenance of the traceability of the coffee, along the supply chain, due to fair-trade certification proved the improvement of the coffee quality. By virtue of this fact, the coffees have been identified for specialty market which is sold at higher price. The specialty concept has evolved nationwide and great emphasis has been given at all levels of Government structures and by those involved in coffee industry, including coffee producers, processors and exporters.

As the study reveals, the coffee cooperatives could able to sell their coffee products to international market at better price. The middlemen have been avoided and the lion share of coffee sales goes to the coffee farmers. Out of the net profit generated at primary and

secondary levels seventy percent (70%) is paid to the members as dividend. In addition to that, paramount fairtrade premium is paid when coffee is sold through fair-trade market, which used for improvement of social services of coffee farmers.

However, because of deep-rooted poverty of coffee farmers, low level of production and productivity, small sized coffee farm, undiversified farm system, large family size and indebtedness of the cooperative societies which obliged them to pay the creditor banks from the second payment/dividend every year overshadowed the significance of the dividend and fair-trade premium. In spite of these and other factors like lack of mechanism to calculate dividend for certified and non-certified cooperative societies, significant change has not been achieved.

The result of the comparison made between fair-trade certified and non-certified cooperative societies and their members, doesn't show significant difference in terms of economic growth and living standard of household. However, there is significant impact on the areas of social services, like Schools, Health posts, Water development, and different social infrastructures in rural areas, which all members of community are benefited from the services without any discrimination.

In general, farmers associated with certified cooperatives relatively received higher and more stable prices for the coffee they sold through their Fairtrade certified cooperatives. It was identified that the farmers have enjoyed the second payment or dividend on top of their coffee sales.

In regard to social services, fundamental change has been brought in the researched area for Fairtrade certified cooperative societies' members. It is observed that thousands of children who didn't get an opportunity to go to the school, because of lack of schools at vicinity and un ability to cover cost of living, currently are enrolled in the school. In the

area of health, due to establishment of health posts in the area, the community members are getting medical advice and treatment. Women and children are also given special medical service and advice at clinics. Potable water development is prevalent in the area, as data collected and explained in focused group discussion. There are more other community development projects constructed and in use. A wet-coffee plant had been established, a health center had been built feeder roads were constructed, grain mills were installed, bridges were constructed, Kindergarten and offices were also constructed.

As the main objective of this research is, to evaluate the Fairtrade certification impact on socio-economic condition of members and cooperative societies, any necessary data was collected and analyzed, in order to come up with appropriate findings. Eventually, the research indicated that there is no significant difference between certified and non-certified members and cooperative societies in terms of living standard except in social service development the areas.

6.2. RECOMENDATIONS

Ethiopia is agrarian country and that agriculture plays vital role in the economy of the country. It also employs the largest proportion of the rural population. Coffee being one of the commercial commodities represents the livelihoods of many small farmers who could not even feed themselves.

Therefore, any programme or intervention to improve the livelihoods of the farmers requires careful identification of the root cause of problems that leads to food insecurity and then devise appropriate course of actions. In this regard, the study conducted at Bule Hora and Abaya districts Borena zone, on the impact of coffee certification helps to spotlight areas that require genuine intervention to the policy makers and executers.

1. Any effort made collectively or severely in agriculture sector is to alleviate poverty and the poor farmers live better life in the subsequent future. Therefore, It is wisdom to identify the core problems prevalent in the sector, that should be internalized by the farmers themselves seek a remedy together with them make them more responsible to participate and develops sense of ownership of what is done in their areas.
2. There are varieties of cooperatives that are encouraged to be established in agricultural and non-agricultural sectors with the aim of improving the quality of life of the members and beneficiaries from their consolidated efforts. can benefit from them. Mean while, almost the farmers in the coffee areas have been organized in cooperatives, with expectation of better market for their product and better services in getting consumer goods , farm tools and inputs. But except

coffee marketing, the other services are not in place. This calls for reconsideration and attention of the organizing body (OCPA) the cooperatives to function at full capacity.

3. It is clear that, cooperatives are autonomous organizations. The cooperative principles and proclamations also substantiate that, the cooperatives are free and fair to perform their duties and discharge their responsibilities. Practically, this is apparently implemented, as explained in focused group discussion. The decision of the cooperatives is not implemented without the endorsement of the organizing office. It is not bad to assisting in decision making in line with the bye-law and cooperative proclamation. But, full-fledged guardianship leads to dependency syndrome and makes the cooperatives lose their confidence and timely activities can lag behind. Therefore, there should be clear demarcation, the extent of interference in decision making of the organizing body and other claimants to cooperatives.
4. One of the challenges in Fairtrade certification reported is unattainment of FLO standards, due to its very nature of Global content. It requires a kind of revision or restatement of the standards, so as to enable, the producers to meet the criteria. It calls for the attention of OCFCU and OCPA to address the issue to FLO-Cert.
5. The impact of Fairtrade certification on economic condition of the coffee farmers was found insignificant, because of different factors. One of the reasons is low production and productivity. More coffee product sold through Fairtrade market, the coffee farmers can more benefited. The fewer products are sold, the less income is generated. This requires attention of agricultural researchers, to find way out of vicious circle of low production and productivity of coffee farmers.

6. Oromia Coffee Farmers Cooperative Union should thoroughly look into, why the impact of Fairtrade certification is not significantly manifested in the livelihood of coffee farmers, and why there is no difference between certified and non-certified members and cooperative societies. It is clearly seen that, high price is paid for the coffee sold through Fairtrade market, regardless of social premium. However, the dividend payment doesn't have special mechanism, so as to differentiate certified and non-certified cooperatives to distribute their fair shares. This might have overshadowed the impact of Fairtrade.
7. The cooperatives and members surveyed have responded that, most of them have no idea about fair-trade standards and certification procedures. Without the participation of beneficiaries in the process and acknowledgement and consideration of the benefit gained, the fair-trade can not be successful. This calls for due attention OCFUCU and OCPA to train and create awareness for fair-trade certified cooperative members.
8. Fairtrade is a new idea that introduced to the country during coffee crisis as the remedy for coffee farmers to guarantee minimum price when the coffee price dropped to its minimum level in the last thirty years. Of course, this is main idea of fair-trade certification .But; other important components are incorporated as generic principles that address the problems of environmental issues, democratic administration, gender inequality, child labor and conducive working environment. But it is not well compelled by Government and public at large to officially exercise in the country. The cooperative Agency, the ministry of agriculture and OCFUCU should take the initiation to bring the issue to platform.

9. Proper handling of records and documentation for organization is crucially important for correct decision making. Wrong handling of documentation leads to wrong decision making. We understood that the cooperatives lack proper handling of documentation. While the data collected from the cooperatives is the base for our research findings. In order to it avoid ambiguity in data collection, the cooperative societies must properly their records and documents. The promoters and Development Agents must pay due attention the cooperatives handle their documents properly for their personal consumption and for further researchers.

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