

Czech University of Life Sciences Prague

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Diploma Thesis

**Contribution of fairtrade labeled coffee to better living
standard for certified coffee farmers in Ethiopia**

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

DIPLOMA THESIS ASSIGNMENT

Rebecca Ashame, BA

Economics and Management

Economics and Management

Thesis title

Contribution of fair trade labeled coffee to better living standard for certified coffee farmers in Ethiopia

Objectives of thesis

The aim of this thesis is assessing the adoption of fair trade coffee production in Ethiopia by giving emphasis on the evaluation of the contribution of fair trade labeled coffee to better living standard for certified coffee farmers.

In addition to that determining whether fair trade certified farmers are better off economically and assessing the limitations or constraints of fair trade coffee production In Ethiopia .

Methodology

This thesis has two parts: a literature overview and a practical part.

The literature overview summarizes important resources addressed in the field of cooperative movement and fair trade coffee production . Materials for the literature overview acquired from sources in libraries, different periodicals, and web resources.

The methodology of the practical part of the thesis consists of survey research for the local coffee farmers or producers who are members of the coffee cooperative and those that are not and by conducting interviews with leaders of local cooperative society. Survey and questionnaire is analysed by standard methods of survey and interview analyses.

The proposed extent of the thesis

60 – 80 pages

Keywords

Fair trade , Coffee, Ethiopia, Cooperatives

Recommended information sources

- Bäckman, T. (2009). Fairtrade Coffee and Development – a field study in Ethiopia.
Jena, P.R., Stellmacher, T., & Grote, U. (2012). The Impact of Coffee Certification on Small-Scale Producers' Livelihoods: Evidence from Ethiopia.
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Ronchi, L. (2006). Fairtrade and Market Failures in Agricultural Commodity Markets.
Tadesse, E. (2016). The Effect of Fair Trade on the Coffee Sector: A Comparative Study of Ethiopia and Kenya.

Expected date of thesis defence

2019/20 SS – FEM

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Declaration

I declare that I have worked on my diploma thesis titled " Contribution of Fairtrade labelled coffee to better living standard for certified coffee farmers in Ethiopia " by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on April 6,2020

Acknowledgement

I would like to thank my thesis advisor Ing.Pavel Kotyza, *Ph.D* for the useful comments, remarks and engagement through the learning process of this master thesis , he consistently allowed this paper to be my own work, but steered me in the right the direction whenever he thought I needed it.

Furthermore I would like to thank the management of Yirgacheffe Farmers Cooperative Union for their willingness and cooperation during the data collection . Also,my gratitude goes to the participants in my survey, who have willingly shared their precious time during the process of data collection. Finally I must express my very profound gratitude to my parents and friends for providing me with unfailing support and continuous encouragement throughout my years of study and through the process of researching and writing this thesis.

Contribution of Fairtrade labelled coffee to better living standard for certified coffee farmers in Ethiopia

Abstract

Coffee is one of the world's most traded commodity but as the commodity price has fluctuated in recent years it is increasingly hard for coffee farmers to survive on their crops. Fair Trade labelled products have become increasingly popular worldwide in recent years. Fairtrade Labeling Organization International (FLO) claims to contribute to development by increasing profits to farmers and empowering producer communities. This thesis evaluates the economic impact of fairtrade to improve the living condition of small scale farmers in southern Ethiopia . A field study in Gedeo zone Ethiopia has been done for the purpose. A qualitative research approach has been used in a survey with coffee farmers and cooperative managers. Findings show that fairtrade certification of cooperatives has benefited and has a moderate impact on small-scale coffee farmers and it brings economic benefits to farmers. The average price of coffee offered by the cooperatives is 17.68ETB/kg approximately 0.56\$/kg which is relatively high. In addition to that farmers receive dividend from surplus and premium that is to be invested in the community, and the cooperatives offer trainings which would enhance their production capacity. But issues like political unrest (ethnic violence) in the region, inadequate capital and nontransparency of management restricts the economic development .

Keywords: Coffee cooperatives, Ethiopia, Small scale farmers, Fairtrade

Zlepšování životní úrovně producentů kávy v Etiopii prostřednictvím Fair trade certifikace

Abstrakt

Káva je jednou z nejvíce obchodovaných komodit na světě, ale protože ceny komodit v posledních letech kolísaly, je pro zemědělce kávy stále těžší uživit se jen vlastní produkcí. Zároveň však v posledních letech roste celosvětově popularita výrobků, které jsou označeny jako Fair Trade. Organizace Fairtrade Labelling Organisation International (FLO) tvrdí, že certifikací pomáhá zvyšovat zisk a posiluje tak producenty a zemědělská družstva. Tato práce hodnotí ekonomický dopad Fair Trade vedoucí k zlepšování životních podmínek drobných zemědělců v jižní Etiopii. Pro tento účel byla provedena terénní studie v etiopské oblasti Gedeo. Studie stojí na kvalitativním přístupu a výzkumu mezi spolupracujícími zemědělci a manažery farem. Zjištění dané studie ukazují, že Fair Trade certifikace zemědělských družstev má mírný dopad a přináší drobným zemědělcům ekonomické výhody. Průměrná cena kávy produkovaná těmito družstvy je poměrně vysoká a dosahuje 17,68 ETB / kg přibližně 0,56 \$ / kg. Krom skutečnosti, že farmáři dostávají prémii z přebytku, jež znovu investují do místních komunit, získávají také školení, která pomáhají zvyšovat jejich výrobní kapacitu. Hospodářský rozvoj však dále omezuje problémy jako jsou politické nepokoje (etnické násilí) v regionu, nedostatečný kapitál či netransparentnost řízení [KP1].

Klíčová slova: zemědělská družstva producentů kávy, Etiopie, drobní zemědělci, Fair Trade

Table of content

1 Introduction	1
2 Literature Review	4
2.1 Cooperative movement and Fairtrade	4
2.1.1 Cooperative Movement.....	4
2.1.2 Fairtrade History	5
2.1.3 Pillars of Fairtrade.....	7
2.1.4 How Fairtrade works?.....	10
2.1.5 Fairtrade Labelling Organizations International (FLO).....	10
2.1.6 Benefits of Fairtrade	11
2.2 Coffee and Cooperatives in Ethiopia	12
2.2.1 History of Cooperatives in Ethiopia	12
2.2.1.1 Formal Cooperatives.....	15
2.2.2 The Legal Framework of the Current Ethiopian Cooperative System	16
2.2.3 Types, Trends, Current Status and Distributions of Modern Cooperatives.....	18
2.2.4 Impacts of Cooperatives in Ethiopia.....	18
2.2.5 Coffee as a global commodity	22
2.2.6 Coffee in Ethiopia	23
2.2.7 Ethiopia Commodity Exchange	23
2.2.8 How Fairtrade certification works in Ethiopia?.....	25
2.2.9 The Cooperative Unions	25
2.2.9.1 Yirgacheffe Coffee Farmers' Cooperative Union (YCFCU)	26
3 Objectives and Methodology	27
3.1 Objective	27
4 METHODS	27
4.1 Location, Time	27
4.2 Gedeb woreda.....	28
4.3 Selection of cooperatives	29
4.4 Questionnaires and interviews for members and leaders	29
4.5 Target population and sample size	30
4.6 Sample description	31
4.6.1 Age and Gender distribution.....	31
4.7 Processing of primary data.....	32
4.8 Limitations	32
5 Results and Description	34
5.1 Living condition of coffee farmers.....	34

5.1.1	Financial status.....	34
5.1.2	Other Income	35
5.1.3	Selling price	36
5.1.3.1	Satisfaction with selling price.....	37
5.1.3.2	Income growth.....	38
5.1.4	Management of Premium.....	39
5.2	Other Findings.....	40
5.2.1	Knowledge about cooperatives	40
5.2.2	Motivation to join a cooperative	41
5.2.3	General meetings	42
5.2.4	Benefits for members of cooperative.....	44
5.2.5	Main coffee distribution channel	45
5.2.6	Market information sources	46
5.2.7	Gender equality.....	47
5.3	Challenges the cooperative and members face	48
6	Discussion.....	50
7	Conclusion.....	52
8	Reference.....	54
9	Appendix	58
9.1	Questionnaire for farmers.....	58
	SECTION 1: GENERAL QUESTIONS.....	58
	SECTION 3: OTHER INCOME.....	63
	SECTION 4: SAVINGS AND LOAN	64
	SECTION 5: SOCIAL CAPITAL.....	64
9.2	Interview Questions for Cooperative heads	70
9.3	Photos from Field study	71

List of pictures

Figure 1 Map of Gedeo zone	28
Figure 2 Age distribution of respondents	31
Figure 3 Gender distribution of respondents	31
Figure 4 Access to other income	34
Figure 5 New York stock exchange coffee price versus YCFCU selling price	36
Figure 6 Farmers satisfaction with the selling price	37
Figure 7 Income growth of cooperative members after certification	38
Figure 8 Where farmers learned about the possibility to join a coffee marketing cooperative..	40
Figure 9 Motivation of Farmers to join a cooperative	41
Figure 10 General meeting held in a year	42
Figure 11 Farmers participation in general meetings	43
Figure 12 Benefits to cooperative members	44
Figure 13 Distribution channels	45
Figure 14 Main market information sources	46

List of tables

Table 1 Yield contribution to total export and growth rates	33
Table 2 Market information relation with age distribution	46

List of abbreviations

AISCO - Agricultural Input Supply Corporation

ATO – Alternative Trade organization

COFTA - Cooperation for Fairtrade Africa

CSA – Central Statistical Agency

EPRDF - Ethiopian People's Revolutionary Democratic Front.

FDRE - Federal Democratic Republic of Ethiopia

FINTRAC - Financial Transactions and Reports Analysis Centre of Canada

FLO – Fairtrade Labelling Organizations International

FLO CERT – Fairtrade Labelling Organization Certification

FTA- Fair Trade Africa

ICA- International Coffee Agreements

IFPRS - International Food Policy Research Centre

ICO - International Coffee Organization

ILO -International Labour Organization

NYBOT – New York Board of Trade

NYSE – New York Stock Exchange

PC- Primary Cooperatives

SACCOS - Saving and Credit Cooperation

USAID - United States Agency for International Development

YCFCU – Yirgacheffe Coffee Farmers’ Cooperative Union

1 Introduction

Ethiopia is known as the origin of Arabica coffee. Coffee is profoundly established in both the local economy and culture of the country. Even though coffee is a traditionally worldwide traded cash crop with emerging markets emerging, many developing countries relying on coffee such as Ethiopia are struggling with their coffee production and marketing. Early in the 2000s, a historic world market price decline hit millions of coffee farmers hard, especially smallholder coffee producers in Africa and Latin America (Ponte, 2002). Due to the unsteadiness of coffee markets and poor production infrastructure and services most small scale coffee producers in developing countries have fall in to low-input low-output cycles and structural poverty. In the recent past, due to the exchange between increasing poverty of coffee smallholders in major producer countries and growing demands for healthier and environmentally friendly produced coffee in larger consumer countries, certification of agricultural cooperatives has progressively gained wider acceptance globally (Petit, 2007; Stellmacher and Grote, 2011). Particularly Fairtrade certification is expected to significantly contribute to better living condition of smallholder coffee farmers by enhancing their income through premium prices and stabilizing it.

Certification is an instrument to add value to a product. It addresses a growing worldwide demand for healthier and more socially- and ecologically-friendly products and is based on the idea that consumers are motivated to pay a price premium for products that meet certain precisely defined and assured standards (Grote et al., 2007; Wissel et al., 2010). Being able to label a product as 'organic' or 'Fairtrade' and to protect the label from counterfeiting is considered a valuable marketing advantage in today's consumer markets. The price premiums are intended to be used to promote socio-economic change and/or environmental sustainability in the areas of production. In this context, voluntary product certification standards such as Fairtrade are promoted as critical devices to make small-scale farmers in developing countries less vulnerable to volatile 'free' world market prices and to enhance their market integration in order to increase their socio-economic situation.

Each certification concept works on different standards and principles, defined with a set of criteria and indicators that serve as a measurement for verification. The Fairtrade concept

essentially consists of a set of social standards following several internationally recognized conventions - particularly those of the International Labour Organization (ILO) - but also considers some basic environmental concerns. Fairtrade certification can only be granted to smallholder coffee producers who have organized themselves in farmers organizations (cooperatives/associations) “which are able to contribute to the social and economic development of their members as well as their communities and are democratically controlled by their members” (FLO, 2007). The certification process begins with a written application by the producer organization to FLO-CERT. The producer organization will then be physically inspected against Fairtrade standards by a regionally based FLO-CERT inspector. If the application is accepted, a certificate usually valid for one year is issued to the organization. This certificate can be renewed following re-inspection (FLO, 2007).

In recent years certification of agricultural products in Ethiopia increasingly gained attention of international certification agencies and standard holders, governmental and non-governmental development agencies, and private companies supplying to specialty markets. The overwhelming majority of certification activities in Ethiopia focus on coffee (Coffee Arabica) which is both the backbone of the countries’ economy and income source for millions of Ethiopian smallholders and a resource with considerable high potential to be marketed as a specialty gourmet product on the worlds’ major coffee markets. Coffee certification in Ethiopia is mainly undertaken within cooperative systems being historically rooted in local Agricultural Service Cooperatives established in the 1970s by the then military Derg government. Since the 1990s, the ruling coalition in Ethiopia, the EPRDF-led government, promoted restructuring of cooperatives in the coffee sector and formation of coffee cooperative unions as umbrella associations. These unions are legally allowed to by-pass the national coffee auction system since 2001 and the Ethiopian Commodity Exchange (ECX) since 2009, to directly sell to international exporters (McCarthy, 2001; Petit, 2007; Stellmacher, 2007; FDRE, 2008). There are currently 12 coffee cooperative unions operative in Ethiopia, of which the Yirgacheffe coffee farmers’ cooperative union is the second largest in terms of members and production volume.

Coffee is a global commodity, with trade networks spreading worldwide. International exchange markets in New York and London largely determine coffee prices, making it difficult for producing countries, except for major producers such as Brazil and Vietnam, to influence world price formation. The international nature of coffee marketing and sales directly exposes coffee producers in developing countries to international price fluctuations. By building

solidarity between consumers and producers, fair trade programs aim to bring greater economic stability and empowerment to farmers.

This study therefore intends to analyse the contribution of coffee certification on small-scale coffee producers in Ethiopia to a better living conditions and to evaluate the extent of financial benefit as well as to assess the challenges faced by cooperative members.

This paper is organized as follows. The next section provides an overview of the Cooperative movement and Coffee market worldwide and particularly in Ethiopia. The research method and study area are introduced in the third section, followed by analysis of selected coffee cooperative in the fifth section. The sixth section discusses how fairtrade certification and cooperative activities have affected coffee farmers. At last conclusions and recommendations are presented .

2 Literature Review

2.1 Cooperative movement and Fairtrade

The co-operative and Fairtrade movements have each played important roles in challenging the inequalities and exploitative practices of market driven supply chains dominated by multinational corporations. An emphasis on competition and efficiency at the expense of long-term sustainability and capacity building by multinational corporations has contributed to environmental degradation and migration out of rural areas. In contrast, the Fairtrade and co-operative movements have endeavoured to empower and inform both producers and consumers and have often worked together to this end (Nilsson, 2001).

In the western world cooperative firms take a strong position in various business sectors. For example, in the agricultural sector, farmers' cooperatives in the European Union and North America make 30-70 percent of the market. All types of cooperatives can be found almost everywhere in the world; however, their strength is not what it used to be (Nilsson, 2001).

2.1.1 Cooperative Movement

Cooperatives have evolved significantly over the last 200 years and are of increasing importance to economies and societies throughout the world irrespective of their level of socioeconomic development. Yet, cooperatives are peripheral to contemporary scholarly analyses. Moreover, they are treated as inefficient and relatively ineffective organizational types whose presence is typically transient and of some importance in times of crises and to marginal socioeconomic participants. Even those with a sympathetic eye consider cooperatives to be of marginal importance. It is therefore of some consequence to discuss the significance of cooperatives over historical time and the extent to which they are both efficient and effective economically and socially. (Cropp, 2005; Emelianoff, 1948).

In general, a cooperative comprises a voluntary network of individuals who own or control a business that distributes benefits based on use or ownership where ownership is largely weighted equally across individual members. Benefits are generated by, for example, a share of surplus or profits, improved working conditions and benefits, lower prices, higher quality of product, product type and variety that better serve members' preferences, and better access to credit.

Members control the cooperative based on one member, one vote, with a guaranteed platform to exercise voice. Members invest in the cooperative and thus have a financial stake in the organization. Unlike the typical private business, in the cooperative financial risk is more narrowly distributed amongst users or workers, whereas in the private business, ownership and financial risk need not fall on the shoulders of users or workers. In some jurisdictions, the risks to cooperative owners are restricted by limited liability protection afforded by the law.

There are various types of cooperatives which dominate, least important of which, quantitatively at least, is the workers' cooperative (Cropp, 2005; Emelianoff, 1948). It is only in the workers' cooperative, however, that the overall position of the worker is definitively different from what exists in the traditional private sector firm. However, in the emerging multi-stakeholder cooperative it is possible for the nonworkers' cooperative to incorporate significant components of the substance of the workers' cooperatives into their corpus.

2.1.2 Fairtrade History

The roots of the Fairtrade movement lie in the mid twentieth century, when it was first promoted as a trading model through which to protect marginalized and economically disadvantaged producers. By providing them with market access, it aimed to improve incomes, thus raising their standard of living. The first Fairtrade products were sold in the United States when Ten Thousand Villages was founded in 1946 by Edna Ruth Byler. Byler was a businesswoman who, after travelling to poverty-stricken Puerto Rico, introduced the concept of development through trade by buying handicrafts from poor communities and selling them at a 'fair' price (FLO, 2011).

From the late 1950s onwards, Alternative Trade Organizations (ATOs) and World Shops grew in popularity in both North America and Europe. Such organizations include Oxfam (UK), which set up a trading company in 1964 to market Christmas cards and other products through the increasing number of Oxfam shops, as well as by mail order. As the volatility of commodity prices became a recognized problem for producers, ATOs became increasingly concerned with the unequal North-South trade relations that were keeping people in poverty. (FLO, 2011).

In 1989, the members of the International Coffee Organization failed to agree a replacement for the quota system of the existing International Coffee Agreement. This was followed by prices falling to record lows between 1990 and 1992. A new agreement was not reached until 1994 but it did not set out to regulate coffee prices (ICO, 2009).

Fairtrade changes the way trade works through better prices, decent working conditions and a fairer deal for farmers and workers in developing countries. Fairtrade's approach enables farmers and workers to have more control over their lives and decide how to invest in their future. As a leader in the global movement to make trade fair, Fairtrade supports and challenges businesses and governments and connects farmers and workers with the people who buy their products. (FLO, 2011).

Fairtrade Africa (FTA), established in 2005, is the independent non-profit umbrella organisation representing all Fair-trade certified producers, i.e., over 932,000 producers across 32 countries, in Africa (Fairtrade Africa, 2011) Fairtrade Africa works through primary structures such as product groups, country partnerships and regional networks, which enable members to have a strong voice in the governance and management. (Fairtrade Africa, 2011). Fairtrade Africa is owned by its members, who are African producer organisations certified against international Fairtrade standards producing traditional export commodities such as coffee, cocoa, tea, cotton, bananas, mangoes and non-traditional commodities including Shea butter and tea (FTA, 2013).

It operates four regional networks: Eastern and Central Africa Network (FTA-ECAN) based in Nairobi, Kenya; West Africa Network (FTA-WAN) based in Accra, Ghana and Southern Africa Network (FTA-SAN) based in Cape Town, South Africa. The organization also has a new network in North Africa and the Middle East region whose regional office is soon to be established. The Fair-trade Africa secretariat is in Nairobi, Kenya and has 50% ownership of the Fairtrade system (FTA, 2013) Similarly, according to Fairtrade Africa, (2013), the Cooperation for Fairtrade in Africa (COFTA) is an organized. social movement, established in 2004 by regional African producers, with the aim of eliminating poverty through the fair distribution of profits during international trade. COFTA's head office is in Nairobi, Kenya and its main goal was to give a voice to African producers with a business plan based on network & member development, market access, advocacy & lobbying, and organizational growth and development. Owing to the ratification of more Fairtrade recognized producers in the region COFTA has become a continental Fairtrade Network. In 2009 COFTA begun work with Fair Trade producers to nurture the growth of 10 countries networks and initiatives in Kenya, Tanzania, Uganda, Rwanda, Ethiopia, South Africa, Swaziland, Zimbabwe, Senegal and Egypt. The aim of those country networks is to provide a forum for cooperative support, conducting needs assessments among members, and developing a database of producers and their product within an area World fair trade Organization, (2011). COFTA claims that the success of the wider

Fairtrade community's goals relies upon the creation of support networks for all members, and the continued maintenance of such relationships. COFTA has expanded to its current size of 70 member organizations and businesses in 22 countries, with importers buying in Europe, North America and the Pacific Rim (Ibid). COFTA traded goods begun as predominantly handcraft produce, but have now broadened to include coffee, tea, vanilla, honey, dried fruit, juices, textiles producers.

2.1.3 Pillars of Fairtrade

According to Stenn 2013 Fairtrade is a model that takes on many forms as it is realized within diverse global environments though Fairtrade itself is a concept, universally applied, to define a type of economic activity. The role and influence of the four players that support Fairtrade: institutions, consumers, producers, and government. Fairtrade is made up of four pillars. The first pillar is the Fairtrade Institution which creates the guidelines for Fairtrade production and educates consumers on the benefits of engaging in Fairtrade. The following pillar is the consumers who rationally determine ethical choices to support Fairtrade. The third pillar is the producers who choose to engage in the Fairtrade model and enjoy varying degrees of success from doing so. Governance and civil society represent the previous pillar. This last pillar expands the concept of Fairtrade out of its narrow, membership-defined existence, and into the broader realm of trade policy and globalization (Stenn, 2013)

Pillar I - Fairtrade Institution

The few large Fairtrade institutions that make a pillar I of Fairtrade are important influencers and promoters of justice. They form the communication bridge over which producers and consumers engage, sharing in goods and stories. They also set the guidelines, standards, and meaning of Fairtrade that are applied to producers and taught to consumers. Collectively these institutions represent a global Fairtrade movement, building equitable and sustainable trading partnerships and creating opportunities to alleviate poverty. There is no universally accepted definition of Fairtrade though most institutions are, in general, agreement with the definition developed together and approved by the members of the informal working group.

Fairtrade guidelines vary as do the definition of Fairtrade itself and institutions' mission statements. How different institutions can all claim to support Fairtrade, when there is no single

agreed definition nor method to do this, is what helps to make Fairtrade a more significant model of justice. (Stenn, 2013)

Institutions were being challenged by producer groups who demanded more autonomy after decades of compliance with imposed guidelines, and new producer groups who wanted global market access. Within the Fairtrade institutions themselves, there were disagreements about which Fairtrade should serve, small producers or large markets. The meaning of “fair” in the Fairtrade institutional model relayed on guidelines used to achieve sustainability, strength, empowerment, improvement, and promotion. The primary focus of Fairtrade institutions is to improve the lives of the most disadvantaged people in developing countries through market access. Many Fairtrade participants questioned the appropriateness of Fairtrade certifiers enabling large corporations that did not embrace Fairtrade values but wanted access to the brand, to be such prominent Fairtrade participants. The issue of corporate power made others in the Fairtrade industry uncomfortable as they feared that large corporations would influence Fairtrade institutions to cause changes that affect the basic principles of Fairtrade. (Stenn, 2013)

Many Fairtrade participants questioned the appropriateness of Fairtrade certifiers enabling global corporations that did not embrace Fair Trade values but wanted access to the brand, to be such prominent Fairtrade participants. The issue of corporate power made others in the Fairtrade industry uncomfortable as they feared that large corporations would influence Fairtrade institutions to make changes that affect the fundamental principles of Fairtrade.

Despite the growth and success of Fairtrade, many farmers were incapable to sell all their Fairtrade certified products as Fairtrade. There was not enough market demand. Feasibly the Fairtrade coffee did not meet the flavour or production demands of global clients, or in other cases, the customers merely were not there. (Stenn, 2013)

Throughout 2010 and early 2011 FLO had been negotiating with large groups of Fairtrade farmers who required greater representation in Fairtrade, more autonomy over their community spending, and higher earnings.

Pillar II - Fairtrade Consumers

Pillar two, of Fairtrade’s four pillars, brings the examination and understanding of the Fairtrade consumer. Consumer participation remains an integral part of the Fairtrade experience. Without the consumer, there was no Fair Trade. Consumers who supported Fairtrade were often labeled socially responsibly, ethical, green, and eco-friendly. Therefore, the products that were being

marketed towards them. Fairtrade products were coming to consumers from many other avenues. Some originated in local independent coffee roasters who sold steaming cups of retail-priced Fairtrade lattes and cappuccinos. Other Fairtrade products were found at a growing number of green festivals, cultural bazaars, eco selling events, and church sales. (Stenn, 2013)

Pillar III— Fairtrade Producers

Many of Fairtrade's disadvantaged producers exist in an environment of involuntary unemployment with no benefits, education, training, and unable to realize their own transaction costs. A transaction cost is a price of participating in a market and includes developing, marketing and selling a product. Poverty leaves producers vulnerable to exploitation. Coyotes or middlemen, for example, revive rural agricultural areas to purchase farmers,' goods quoting market prices that are often considerably lower than the actual market value. (Stenn, 2013)

Producers are incapable to verify these prices and even if they did, they have no choice but to sell their product to the middleman at his price or not sell their product at all. Poverty and unfair trading practices are not the only drawbacks that producers from disadvantaged countries face. Many are targeted for Fairtrade or development projects because of other challenges. Producers find that Fairtrade provides access to them to not reasonable more adequate wages but services and education as well. These outcomes are consistent with Fairtrade intuitions focus on sustainability, empowerment, and improvement. (Stenn, 2013)

Pillar IV— Government

It presents two possible ways of approaching a goal such as economic growth in the developing world, in order to develop a broader understanding of an issue. Taking a realization-focused comparative of Fairtrade helps to develop a broader understanding of the underlying economic development philosophies and approaches that shape our world today. Fair Trade operates within the Free Trade structure. Free Trade, also known as liberalized or conventional trade, enables participants to trade across national boundaries with little regulatory interference. Free Trade favours open, unrestricted markets with few tariffs or quotas and includes the principles of David Ricardo's theory of comparative advantage and the laws of supply and demand. Comparative advantage means that every country would produce the commodities for which it was best suited in terms of resources, climate, transportation, capital, and labour. (Stenn, 2013)

A country would produce these commodities in excess of its own requirements and exchange the surplus with imported goods from other countries, which it was not well suited to produce or could not produce at all.

2.1.4 How Fairtrade works?

Fairtrade is a simple way to make a difference to the lives of the people who grow and create the things we love. It's all about making trade fair. Small-scale farmers and workers are among the most marginalized by the global trade system. At Fairtrade, they are at the heart of everything. Unique among certification schemes, producers have an equal say in how Fairtrade is run and are included in all our decision-making. (FLO, 2011).

For farmers and workers, Fairtrade means: Prices that aim to cover the average costs of producing their crop sustainably – a vital safety net when market prices drop , the Fairtrade Premium – an extra sum of money paid on top of the selling price to invest in business or community projects of their choice ,decent working conditions and a ban on discrimination, forced labour and child labour ,access to advance credit ahead of harvest time and being able to plan more for the future with more security and stronger relationships with buyers. (FLO, 2011). Consumers are a vital part of Fairtrade. Every Fairtrade product chosen, or campaign supported enables farmers and workers to invest in their lives and take more control of their future. A product with the FAIRTRADE Mark means the producers and businesses have met the stringent Fairtrade social, economic and environmental standards. (FLO, 2011).

According to a 2015 Globe Scan study of consumers in 15 countries, more than 50 percent of consumers are familiar with the FAIRTRADE Mark and of those, 80 percent say they have a more positive perception of brands that carry it.

2.1.5 Fairtrade Labelling Organizations International (FLO)

Fairtrade Labelling Organizations International (FLO) was established in Germany in 1997 to “unite labelling initiatives under one organization and harmonize standards and certifications” (FLO, 2011).

The Fairtrade certification mark was launched to improve the visibility of the label and to simplify procedures for both producers and exporters. FLO was split into FLO and FLO-CERT

in 2004. FLO sets the standards for Fairtrade and FLO-CERT inspects and certifies producers, and audits traders (FLO, 2011).

The fundamental idea of Fairtrade is to help producers improve their quality of life. By setting a minimum price for their products, it would help the producers to cover production costs and to live better off economically. The minimum price can act as a safety net when world market prices are below sustainable levels for the farmers.

FLO's vision is "A world in which all producers can enjoy secure and sustainable livelihoods, fulfil their potential and decide in their future" (FLO, 2011). Fairtrade also offers a Fairtrade premium on top of the Fairtrade price. The premium goes towards social projects such as schools, roads and water wells. The producers democratically decide how it should be used. In order to be certified with Fairtrade, producer organizations need to apply to FLOCERT.

The certification is given to cooperatives or producer organizations and not directly to individual farmers. FLO-CERT certifies new producer organizations and audits the existing ones. There are several qualitative standards that need to be met with regards to organizational structure, traceability, management, and marketing (FLO-CERT, 2011).

Applying for certification incurs certain costs, including a first-year fee and an annual fee charged by FLO-CERT. The fees depend on the structure of the producer organization and on the number of individual producers within the organization.

2.1.6 Benefits of Fairtrade

According to O'Nions Fairtrade benefits producers worldwide in the following ways.

Better living conditions: Fairtrade creates better living conditions for the workers and their families as well as for the society because of the premium that creates positive externalities.

Environmental sustainability: Farmers are encouraged to engage in sustainable forms of production with respect for the environment, and avoid toxic pesticides. Access to international markets: Farmers get access to international traders who are usually suspicious of any unknown trading partner. They provide producers with contacts and mobilize them to get a better understanding of, and status on, international markets.

Empowerment of women: There is an example of a women's cooperative in India where the women own their own plots of land and thereby strengthen their income and position in the family.

Long-term investments: Examples are investment in pension schemes, life insurance, income diversification and more. **Anti-discrimination:** The aim is to promote equal rights amongst ethnical groups. All the cooperatives are democratically ruled.

Community solidarity: There are often spill over effects to other farmers in the area and solidarity for disadvantaged farmers can increase.

Ensuring labour rights: Workers take an active role in their workplace; they are more involved when doing business, they are aware of their rights and some are members of a trade union.

Stronger business: Fairtrade enables stronger business organizations to develop, ensuring quality products and better access to international markets.

2.2 Coffee and Cooperatives in Ethiopia

2.2.1 History of Cooperatives in Ethiopia

History of cooperation in Ethiopia started centuries ago in the forms of “Equb” and “Edir”. These were traditional cooperative associations which voluntarily involved communities with common objectives. “Equb” was an association of people with the objective to mobilize resources, especially finance, and distribute it to members on rotating basis. Similar objectives had so called “jigie” and “wonfel” – traditional associations aimed on mobilizing labour resources to overcome seasonal labour peaks. The “Edir” functioned as social and economic insurance for the members in case of death or accident (Bernard et al., 2010; Emanu, 2009).

Edir is one of the traditional forms of cooperatives still operating almost in all parts of Ethiopia, urban and rural. It is similar with burial cooperatives or organization that mainly stand for performing burial ceremonies, to condolence, and to offer assist financially and labour with the deceased family member to overcome difficulties arise due to occurrence of death in members family (Tadesse 2016). Almost the majority of the people especially heads of particular family are members’ of Edir and also obliged to be a member in order to be assisted in case of death .The main objective for the establishment of Edir is to help a family in case of bereavement. Such a family requires personal, material and financial support from all the Edir members based on the rules and regulations stated in the by law of the traditional society (Edir). If a person is going to get this assistance, he/she must fulfil the membership criteria set by the traditional society. Edir gets its legal personality from ministry of justice or regional justice bureau by

paying registration fee. The member's participation is very high in Edir because its foundation is based on the willingness of every member (Tadesse 2016).

Ekub is other form of traditional cooperative or traditional self-help group in Ethiopia. Ekub is a financial form of traditional cooperative formed voluntarily. It is a rotating saving and credit type association whose members make regular contributions to a revolving loan fund. The formation of "Ekub" is based on classes of people who have identical (similar) earning or income. Unlike saving and credit cooperatives, it does not bear interest on the money saved (collected). The person who has got the money on his turn basis solves his immediate economic and social problem. Unlike saving and credit cooperatives, it does not bear interest on the money saved (collected). To minimize risk in an Ekub, personal guarantee should be given by payee to the traditional society when he/she takes taking the money from the Ekub members (Tadesse 2016).

Many people use this form of traditional cooperative as a means of financial solution to their economic problems. Ekub is somewhat is like the modern saving and credit cooperatives. Therefore, there is a chance that this traditional form of cooperative could be changed into modern cooperative societies with some adjustments on their operation and making them to have legal bases. The amount of money which is now used for immediate problem solving could be changed into sustainable and continuous problem-solving system of modern cooperative by convincing and promoting the Ekub members. This alleviates the temporary nature of Ekub.

Debo/ Wenfal/ Lefenty is a form of traditional cooperative or mutual help group is an important form of traditional cooperatives in Ethiopia. This is mainly a cooperative formed at the rural area of the different parts of the country where most of the people are farmers. Debo is a system of farmer's cooperation during the time of farming, weeding, harvesting, trashing, and house construction etc (Tadesse 2016).

Debo/Wenfale/Lefenty does not have a system of administration like the other form of associations; it is based on equivalent labour or material contribution (Ox) by each farmer. It is a mechanism by which all farmers are helping each other on turn basis. Since each type of work is being done in time, the productivity per farmer can be increased. Generally, these three traditional forms of associations which are the values and customs of our society should be

brought to modern form of cooperatives so that they can contribute to the economic and social development of the people of Ethiopia.

According to Tadesse some of the special features of Traditional Cooperatives in relation to Modern Cooperative. are as follows:

- Established on the felt needs of members and voluntary membership
- Democratic control and administration
- Fair and equal compensation
- Equal contribution
- Equal participation of each member.
- Serve their members
- Cultural development and other development activities
- Political neutrality
- Equal opportunity to all members

They can be organized at working place, living area bases. Therefore, traditional form of cooperatives can be the bases for modern cooperatives. They can have management committee and serve on honorary base, have by-laws, different books of accounts, and have accounts in near-by banks, conduct annual meetings, election and even amend their by- laws. Especially Edir can have office, store houses and hired employees

According to Tadesse some of the advantage and limitations of traditional cooperatives are discussed below.

Advantages of traditional cooperatives

- Indigenous way of solving members problems
- No need of external expert's assistance (to be established, formulate by-laws, keeping of books of accounts, managing employees etc.)
- Strong and autonomous
- (No appropriate authority)
- Serve only members & members' faith in their organization is high
- Strong participation of members
- Management committees of Edir are loyal and corruption is a rare phenomenon.
- Edirs participate in social and economic activities like assisting orphanage, constructing roads, schools, cleaning the surroundings, night guard of their localities, etc,

Limitations of Edir

- Traditional organization like Equb is far from the concept of present value of money.
- It has no continuity for long time & most of them are established for specified period and then dissolved.
- Mostly hasn't any legal documents and sometimes ends with conflict.
- Some of the leaders delay the money paid to the member and use the money for usury purpose in the between.
- In some Ekub the chairman's and secretary's contribution is paid by members and favoured to take the first and second chance.
- Members forced to drink during the time of gathering to draw the chance to create income for the one hosting the meeting.

Limitations of Edir

Most of the Edir are still stick to only for death time assistance, while there is an ample opportunity to help a member before death. Also, even though the chance to start saving and credit and consumer activities is there, only a few of them are practicing it. The chance to bring young leaders on these organizations is small. Some of its obligations needed to be meeting by its members are becoming challenging.

Formal Cooperatives

The history of formal cooperative societies in Ethiopia dates to imperial regime – they were introduced during the reign of Haile Selassie in 1960s. However, they were few and mainly established by coffee and sesame producers as well as Savings and Credit Cooperative SACCO (Lemma, 2008). Emergence of many cooperatives was observed after the socialist Derg regime came to power in Ethiopia in 1974. Proclamation No. 31/1975 called Public Ownership of Rural Lands abolished private ownership of lands and made "... all rural lands...the collective property of the Ethiopian people" (Teka, 1988). The Derg saw cooperatives as an instrument for planning and implementation of socialist policies and coops had to operate according to socialist principle where production and marketing were done collectively, and farmers used their land resources under communal tenure. Coops were also established to mobilize community support for the ruling party (Emana, 2009). According to Teka (1988) peasant associations in the second part of 1980s contained about 66 percent of the total rural Ethiopian population. However,

associations of that time cannot be considered as cooperatives from modern point of view, because they did not fulfil almost any basic principles of modern cooperatives.

After the fall of the Derg regime and liberalization cooperatives could not maintain their objectives of supplying subsidized production. Due to this most of them were abolished by members. No attention was given to cooperative societies during the transition period in 1991 – 1993, until in 1994 a new birth to cooperatives in Ethiopia was given. The Proclamation No. 85/1994 called the Agricultural Cooperative Society Proclamation was adopted and then amended by the Proclamation No. 147/1998. This legislation “created a fertile ground for reorienting and strengthening all types of previously established cooperatives as well as for the formation of new cooperatives” (Lemma, 2008).

2.2.2 The Legal Framework of the Current Ethiopian Cooperative System

The new era of the cooperative movement in Ethiopia started with a new Agricultural Cooperative Society Proclamation No 85/1994 in 1994 (Abebaw and Haile 2013). This proclamation states that “the government sets convenient conditions for the peasants living in rural areas to be organized freely and willingly to jointly solve their economic and social problems through pulling their resources.” Unlike the past two regimes, the EPRDF government opened a legal space to organize cooperatives voluntarily, democratically and within a market setting.

Though this proclamation (No. 85/1994) helped to reorganize farmers on a voluntary basis to establish new cooperatives or to reorganize and strengthen the old ones, the organizers had a hard time to change peoples’ attitude towards cooperatives due to the bad image of the cooperatives of the Derg regime (Holmberg 2011). As further indicated by this same source, the initiators started with demonstration projects where the members started sharing dividends after a year that somehow helped to promote the benefit of the cooperatives to change the attitude towards them. Like the past two regimes, the first cooperative society proclamation (No 85/1994) of EPRDF was also only targeting the agricultural cooperatives and lacks enough details. Hence, the government enacted the second proclamation (No. 147/1998) in 1998. This proclamation outlined the layers of organizational structure of the cooperatives into primary cooperatives, unions, federations, and cooperative leagues that can foster broader growth of the movement (FDRE 1998 and Kodama 2007).The proclamation also specified related organs of

the cooperatives that include members, a general assembly, a special resolution, and a management committee with clear roles and responsibilities. Besides, it indicated the possible formation of an appropriate authority, such as a government organ established at federal, regional, or a local bureaus level can organize and register cooperative societies, provide training and other technical assistance, and conduct research on cooperative societies.

Proclamation No. 147/1998 also emphasised on the payment system, i.e., that the cooperative unions should deduct 30% of the net profit and divide the remaining 70% among member cooperatives, while the member cooperatives, in turn, pay 70% of their profit to cooperative members as dividends. Furthermore, the proclamation mandated every cooperative society to have bylaws that should be formulated and accepted by the members themselves (FDRE 1998).

While Proclamation No. 147/1998 is the backbone of the current cooperative society and cooperative movement in the country, there was (minor) amendment to this proclamation through Cooperative Society Proclamation (Amendment) No. 402/2004 in 2004. The amendment mostly aimed at strengthening membership incentives by improving their rights, for instance by allowing a cooperative society that faces shortage of capital to sell certain shares to a person who is not a member without contradicting the principle of the cooperative. This further opens a room to mobilize capital, although not yet implemented (Alemu, 2011).

Following the legal framework and strong promotion, several cooperative societies were established both in rural and urban areas. The Ethiopian government has also been formulating different development policies and strategies that support and strengthen cooperative movements, particularly since 2002 (FCA,2014). As a result, currently more than 60 thousand primary cooperatives with more than nine million members exist and own a total capital of more than 11.3billion Ethiopian Birr (FCA,2015).

Nevertheless, the revolution of new cooperative was not without criticism mainly, due to the strong involvement of the government from the viewpoint of the Western concepts of cooperatives and civil society (Kodama ,2007), which is still true. As reported by Ruben and Heras (2012), most (74%) of cooperatives in Ethiopia are initiated by government or non-government organs. Indeed, the long hand of the government in cooperatives is largely due to its development strategy that aims to extend cooperative services such as the supply of production inputs throughout the country

2.2.3 Types, Trends, Current Status and Distributions of Modern Cooperatives

Despite the existence of modern cooperatives in all the sectors throughout Ethiopia, Proclamation No. 147/1998 underscores, specifically targeted sectors, including Agricultural, Housing, Industrial and Artisans Producers, Consumers, Savings and Credit, Fishery, and Mining Cooperative Societies (FDRE 1998). This proclamation, in fact, allows individuals to be organized according to their interests, if their targets are to overcome social and economic problems in the “free-market economy”. Consequently, some of the traditional associations, such as Idir (particularly in big towns and cities), have also been legally registered under this proclamation. Regardless of the socioeconomic focus of the proclamation, the modern cooperatives have currently been involved in the area of environmental and natural resource management to overcome related problems in their vicinity. While several cooperative types are listed in the FCA database, a slight inconsistency in record keeping (regarding the type and number of cooperatives at regional and federal levels) has been observed. This is mostly, due to the existence of some overlapping among some categories and unclear definition of a “type” that has not been used uniformly across regions. The FCA data show that in the categorization of cooperatives by type, “type” is sometimes defined based on specific products (e.g. coffee, fish, etc.), and sometimes based on general activities that cooperatives undertake. For instance, a broad category, agricultural product marketing can overlap with specific product types, such as milk and milk products, coffee, fruits and vegetable producing cooperatives. Similarly, multipurpose cooperatives are also mainly engaged in cereal production and marketing. Currently according to the database from Federal cooperative association (FCA 2019) there are 89,478 cooperatives with 21,045,370 members. From the total members 14,299,941 are men and 6,745,429 are women. There are 388 cooperative unions and 16,712 primary cooperatives under them.

2.2.4 Impacts of Cooperatives in Ethiopia

In Ethiopia, the agricultural sector generally accounts for about 46% of the Gross Domestic Product (NBE 2019) and is dominated by smallholder farmers who remain important for economic development and poverty reduction. Yet, agricultural land degradation and deforestation, drought and unreliable weather, poor infrastructure and market imperfection are among important problems constraining the agricultural sector and rural livelihood development. Agricultural cooperatives, among others, are premeditated to overcome these constraints through

rendering many services such as input/output marketing, expanding financial services in rural areas, purchasing agricultural machinery, equipment and implements and leasing them to farmers as well as establishing small agro processing industries (FDRE 1998). They are also expected to establish various social institutions to provide different social services. Based on the existing literature and data obtained from the FCA, some examples of the economic, social and environmental impacts of agricultural cooperatives in Ethiopia are assessed and presented as follows.

Economic Impacts

Evidence indicate that cooperatives in Ethiopia have been creating enormous socioeconomic benefits to members through distributing agricultural inputs, providing improved technologies, and encouraging farmers to produce high value crops. For instance, cooperatives imported and distributed a total of 906,220 tons of fertilizers from 2005–2008, which is about 70% of the total fertilizers the country imported each year (FCA 2014). The same source shows that although cooperatives have not been directly importing fertilizers since 2009, they have been distributing 95% of the fertilizers imported through a centralized Agricultural Input Supply Corporation (AISCO); and they distributed 692,781 tons of fertilizers in 2013/14 alone. Generally, compared to private traders, input supply through cooperatives has created an easy access to the farmers at a reasonable price (Emana and Nigussie 2011).

In addition, cooperatives are involved in the distribution of improved seeds, farm implements (such as water pumps), pesticides and herbicides, modern beehives and other agricultural inputs. For instance, in the 2012/13 cropping season, cooperatives distributed about 110,578.4 tons of improved seeds of different types (FCA 2014). Moreover, they also play important roles in non-agricultural input supply such as construction materials, and consumable and agricultural products in a good quality, quantity, and at reasonable prices.

Cooperatives are also involved in output marketing, creating market opportunities and in serving as a market channel. Coffee, sesame, grains, animal products, milk and milk products are among the main agricultural products that they have successfully marketed. For example, seven coffee cooperative unions exported about 6,967 tons of coffee and generated revenue of about 24 million USD in the year 2007. This raised the export to 11,532 tons of coffee (generated about 76 million USD) in 2013 (FCA 2014). FCA data also show that over the period of 2009 -2013, cooperatives supplied, on average, about 2.5 million tons of grain; 11.7 million liters of milk;

124,404 live animals; 17,356 quintals of fish; and 21,141 quintals of honey per year to the market and improved members' income.

Cooperatives have also been paying higher prices to members and maintaining the price of floor for the commodities they market. The presence of cooperatives has by large created competitive markets and protected the producers, and even benefited non-member farmers (Emana and Nigussie 2011).

Other important economic benefits of cooperatives are direct and indirect employment opportunities created for many individuals. This could also be considered as a social benefit. As FCA (2013) data indicate, about 12,902 cooperatives created direct employment opportunities to over 623,950 members and to 181,133 non-members. Hence, cooperatives have generated more than 805,053 jobs throughout the country. Some cooperative unions have also been engaged in product processing and value addition, thereby economically benefiting their members. A good example in this case includes Liche Hadiya and Lume Adama cooperative unions that have been involved in value addition through processing (FCA 2014). According to FCA, cooperatives have been playing important roles in economic benefits, ensuring a fair share of resources, and reducing income disparity. Several empirical studies that analysed the economic impact of agricultural cooperatives in different parts of Ethiopia and elsewhere also indicate an overall positive contribution of cooperatives to rural development and poverty reduction efforts. However, the results are inconsistent, location-specific and vary with the nature of cooperatives (see Kodama 2007, Bacon. 2008, Emana 2009, Getnet and Anullo 2012, and Mojo,2017). Additionally, some studies show low participation of members in cooperatives (Anteneh et al. 2011 and Bernand, 2013) and suggest a need for updating information regarding the economic benefits of cooperatives since low participation could be due to low benefits of cooperatives to the members. In fact, a recent study conducted to assess the economic impact of coffee farmer cooperatives in Ethiopia indicate that the low participation of cooperatives could be attributed to the undifferentiated services of cooperatives, i.e., cooperatives provide similar marketing and non-marketing services to both members and non-members (Mojo, 2015).

Social Benefits

Different reports, such as Emana and Nigussie (2011) and FCA (2015) indicate that agricultural cooperatives also perform a wide range of social activities. They contribute to the development

of community health by providing training on family planning, HIV prevention, and on personal and environmental hygiene.

They also involve in building public infrastructure, such as health centres, clean water, schools, roads, bridges, etc. They support the youth, children and women, the homeless and disabled individuals and ensure their participation in the economy. Cooperatives also participate in awareness creation, provision of good social protection for employees and in creating a joint voicing mechanism for the rural and scattered people.

The economic benefits of cooperatives discussed earlier have also their share in contributing to social benefits, as the income earned from cooperatives could be invested in children's education and cover health expenses. Furthermore, as service provision being one of the objectives of cooperatives, both primary cooperatives and cooperative unions (should) spend about 5% of their profits as investment in social services (EPRDF 1998). This has also long-term economic benefits to the cooperatives, since it can help to increase the social capital of the community.

Some empirical studies also indicate that cooperatives have significantly positive impact in creating social and human capital (Majee and Hoyt 2010; Mojo 2015). Despite their potential however, only a few cooperative unions are currently undertaking such activities of contributing to the social wellbeing.

Natural Resources Management and Environmental Benefits

Agricultural cooperatives are, in nature, organizations that engage in natural resource management activities, environmental protection and care for the community. They are expected to provide financial and material support for environmental protection, soil and water conservation, forest, wildlife, water and air protection activities. Despite the expected all-around roles of cooperatives - potential organizational vehicles for sustainable development (Wanyama 2014), both qualitative and quantitative studies are scanty regarding the environmental impacts of cooperatives in Ethiopia.

Nevertheless, some studies report that cooperatives have been negatively contributing to environmental sustainability in Ethiopia (Stellmacher and Grote 2011 and Mojo, 2015). These authors argue that improvements in farm gate prices (due to better markets created by cooperatives) motivate the farmers to further increase their yields through intensifying production encroaching onto forestlands and consequently utilizing the natural resource unsustainably.

Conversely, cooperatives should not only be economically viable and socially equitable, but also environmentally sustainable so long as they are guided by principles of the International Cooperative Alliance. Furthermore, Rodrigo (2013) reported that cooperative participation reduced adoption of soil and water conservation practices in some parts of Ethiopia, due to the nature of the technologies that require fixed investment the cooperatives fail to promote.

2.2.5 Coffee as a global commodity

Coffee is one of the world's most traded commodities, employing millions of people worldwide. 25 million households are estimated to depend on coffee cultivation. The producing countries are concentrated in the global south, while consuming countries are mainly in the developed west. Coffee is a traded commodity on major futures and commodity exchanges in London and New York (ICO, 2011).

There are two species of coffee: Arabica and Robusta. This thesis focuses on Arabica, which is the only kind of coffee cultivated in Ethiopia. Arabica coffee is very sensitive to diseases, frost and drought, and is best grown in tropical highlands (ICO, 2011).

During most part of the 20th century the coffee market was regulated through different International Coffee Agreements (ICA's) and supply quotas and prices were set. In 1989 the ICA was abandoned, and coffee prices could fluctuate freely. Because of giving up the supply quotas, stocks were released, and prices decreased. The new free market led to higher price volatility. Frost or drought in Brazil, delays between planting and harvesting, and the possible oversupply in the absence of quotas are all factors contributing to the high price volatility. The coffee market can also be characterized by low price elasticity of both supply and demand. From the planting of a coffee tree it takes three years before the tree yields any beans. Coffee drinking is habitual and individual consumers tend to drink regardless of the price. The low-price elasticity of supply and demand leads to long periods of oversupply with low prices and short periods of shortage with high prices (Daviron & Ponte, 2005). Fluctuations in prices make it hard for the typical small-scale producer to plan the production and rely on the income generated by coffee. After 2000 when coffee prices plunged, Grasser & Tickell (2002) reported that coffee farmers could not afford tuition fees and had to take their children out of school.

The futures price for Arabica coffee at the New York Board of Trade (NYBOT) is commonly used as a reference price for exporters and importers of coffee. A relatively small portion of

coffee is physically delivered to NYBOT, but the terminal market plays an important role for determining the value of almost all coffee throughout the world (Gilbert, 2008).

The growing of coffee is not capital intensive and therefore, is not characterized by increasing returns to scale. Generally, the coffee cherries, which contain two beans each, are picked by hand and machinery is not used. 70% of the coffee grown is cultivated on farms smaller than 5 hectares (Fitter & Kaplinsky, 2001).

2.2.6 Coffee in Ethiopia

According to a common Ethiopian myth coffee inherits from Ethiopia. A farmer noticed that his goat became alert and sharp after eating the leaves of the plant now called coffee. The farmer found that he gained strength from eating the leaves and later, the coffee beverage was discovered. Unlike most other coffee producing countries, Ethiopia has a strong coffee culture and they consume a vast amount of the produced coffee themselves.

Ethiopian coffee is classified in four producing categories: garden, forest, semi-forest and plantation coffee. Coffee in Ethiopia is generally produced on small-scale farms. The farmers typically live in small houses built from clay, and they hold a hectare or so of land where they cultivate coffee among other plants and crops. Other crops and fruits such as maize, papaya, avocado and cabbage are usually grown for consumption in the household, while most of the coffee is sold to generate some income.

Coffee cherries are harvested in October through December when they are red ripe. Each cherry contains two beans. The beans can be wet processed or dry processed. Wet processing requires more facilities for washing the coffee than dry processing where the cherries are dried in the sun. The coffee farmers in Ethiopia are typically arranged in cooperatives. In the villages there is often a primary cooperative present, which may be part of one of the large cooperative unions. In general, Ethiopia has a strong culture of cooperatives from its past communist regime.

The farmers may sell their coffee to the cooperative or to a local trader. The farmers do not have vehicles and cannot bring their coffee to local marketplaces. They are dependent on someone coming to their homes to collect their coffee.

2.2.7 Ethiopia Commodity Exchange

The Ethiopian Commodity Exchange is a marketplace in Addis Ababa where most coffee needs to bypass. It was established in 2008 to rationalize the marketing chain for coffee, and to create

an efficient, reliable and transparent marketplace for buyers and sellers. (ECX Annual Report, 2009).

It was established in 2008, which makes it one of the newest global commodity exchanges. It was organized as a private company, but the ownership consists of market actors, exchange members and the Ethiopian government.

The driving force behind the creation of ECX was its former CEO, Ethiopian economist Eleni Zaude Gabre-Madhin. Prior to the formation of the ECX, Gabre-Madhin worked as a researcher for the International Food Policy Research Institute (IFRI), where she studied agricultural markets in Ethiopia. She noticed that the crop marketplaces in the country were volatile and uneven. Some regions had bumper crops one year followed by drought and famine the next. Gabre-Madhin surveyed grain traders in 2002 and learned that many of them lacked key infrastructure and resources such as access to credit, market information, transportation, the ability to enforce contracts and other key items. Essentially, prior to ECX, the Ethiopian commodities markets were not operating in an efficient manner. In 2004, Gabre-Madhani launched an IFRI program to help the Ethiopian government improve agriculture and market policies. These efforts culminated in her forming an advisory board to develop plans for creating ECX. The creation of ECX was a logical and necessary step in the development of African agriculture. At the time of its founding, Ethiopia's share of cereal grain production was growing, and the only other viable commodities exchange in Africa was in South Africa

Prior to the establishment of ECX, private traders collected the coffee from farmers. The private traders needed to hold a specific license to trade. They did not have warehouses of their own and their role in the market was simply to bring coffee from remote areas to the wholesaler (Petit, 2007). The wholesaler would then store coffee in warehouses and take it to auction in Addis Ababa or Dire Dawa, where it would be sold to exporters and retailers (Dahlberg, 2011).

Following the implementation of ECX, the license for traders is no longer in existence and an effort has been made to remove private traders from the market chain. The wholesaler is supposed to collect the coffee directly from the farmers, thus eliminating one level from the chain. The authorities could not see that the private traders added any value to the chain. ECX is setting up local marketplaces near farmers to make the market more efficient. (2011, Dahlberg).

ECX has warehouses to guarantee the availability of coffee. Wholesalers take their coffee to the warehouses and receive a receipt. ECX also grades the coffee and ensures its quality. At the auction, buyers and sellers only know the grade and kind of coffee, not who produced it. ECX also ensures that buyers have enough funds available for trades at the auction (2011, Tilahun). There are several previous examples of buyers not paying, coffee not being delivered from sellers, and farmers suffering from forged checks (farmer interviews, 2011). ECX has been implemented to eliminate these problems and to create a safe and secure marketplace to benefit for everyone. “Farmers are now better informed about prices at the ECX through mobile phones and radio and are no longer cheated” (Dahlberg, 2011).

2.2.8 How fair-trade certification works in Ethiopia?

The structure and regulations of the cooperative unions are the same. They are licensed to bypass the coffee auction (ECX) and can export their coffee directly. Under each union there are several Primary Cooperatives (PC’s) with which the farmers can be members. PC’s are typically named after the district in which it is active, and the members are the local farmers in this specific area. The PC’s buy the coffee from its members at a price, set by the local market conditions (competition between cooperatives, local traders and wholesalers). When the union buys the coffee from the PC, they pay the current market price set at ECX for the specific kind of coffee. When the union sells the coffee to foreign importing companies, 70% of the net profit is paid back to the primary cooperatives. In turn the primary cooperatives, pay back 70% of their net profit as dividend to the farmers (Dahlberg, 2011).

The cooperative unions are in Addis Ababa and are exporting coffee directly, bypassing the auction at ECX. The price received for their coffee is based on the NYBOT reference price. Premiums are added for attributes such as quality, Fair Trade and organic certification. The Fair-Trade premium is dealt with separately and is used for community projects such as roads, schools, equipment and electricity. The dividend structure is government controlled and is the same for all cooperatives. Dividends to farmers are paid out on an annual basis at low season (Dahlberg, 2011).

2.2.9 The Cooperative Unions

Six coffee farmers’ cooperative unions were established following the issue of Proclamation No. 147/1998. Unions were new institutions that organized the primary cooperatives. As background

to their establishment, after 1998, the decline of international coffee prices caused a great deal of business trouble between traders and cooperatives. Exporters who offered higher prices at coffee auction centres swindled coffee out of cooperatives without paying. The Ethiopian government took the initiative to establish Coffee Farmers' Cooperative Unions to manage coffee export business on behalf of primary coffee cooperatives that lacked human resources and logistical capacity.

At the first stage of establishing coffee unions, the Ethiopian government recruited ex-government officials who were experienced in cooperative activities and the coffee business and supported their salaries in the first two years after their establishment.

Currently there are 12 coffee cooperative unions established in Ethiopia, of which one of them studied: Yirgacheffe coffee farmers' cooperative union (YCFCU). Coffee cooperative unions have been able to negotiate fair trade agreements with developed countries. Unions represent cooperatives in dealing with importers and roasters and try to create and develop long term business relationships. Their role is to search for new export markets, and they perform quality controls and store the coffee while it is waiting to be exported.

The typical Ethiopian farmer grows his/her crops in the backyard of the house. Besides coffee, the farmer generally grows staple food such as enset (false banana), corn and cabbage for family consumption. The costs of production differ from farm to farm depending on the use of pulping machines, hired workers etcetera. Agriculture is traditionally organic, and no chemical fertilizers or pesticides are used.

2.2.10 Yirgacheffe Coffee Farmers' Cooperative Union (YCFCU)

YCFCU was established in June 2002 and represents 44,189 farmers in its 28 members cooperatives. It is in the Gedeo zone in southern Ethiopia. Production potential is T. All cooperatives are Fairtrade and an organic certification. This cooperative has exported Fairtrade coffee worldwide since 2004. The certification took place after the suggestion and economic aid from Oxfam America and FINTRAC, a US based contractor working for USAID. The overall aim of the union is poverty reduction and in turn.

3 Objectives and Methodology

3.1 Objective

The aim of the thesis is to evaluate the contribution of fairtrade coffee to a better living condition of small scale farmers in Southern Ethiopia Gedeo zone. Based on comparison of different types of cooperatives, the thesis examines:

- 1) Whether small-scale coffee farmers gain better incomes after joining fairtrade certified cooperatives
- 2) Whether small-scale coffee farmers are better off financially ;
- 3) Assess challenges of fairtrade coffee cooperatives in southern Ethiopia
- 4) What Benefits do farmers get by becoming a member of Certified cooperative?
- 5) How does Fairtrade certification ensure better income for the farmers ?

4 METHODS

4.1 Location, Time

The survey was conducted in Gedeb woreda, Gedeo zone, Southern Nations, Nationalities, and Peoples' Region (SNNPR), Ethiopia. Collection of primary data was conducted at during September and January 2019.

The research team included two specialists from local Agricultural Development Office and the researcher . Participation of the specialists during the data collection was crucial because of their knowledge of local language, area, and location of the woreda and villages where selected respondents lived. Furthermore, the presence of specialists' involvement in the research was required from the cooperative.

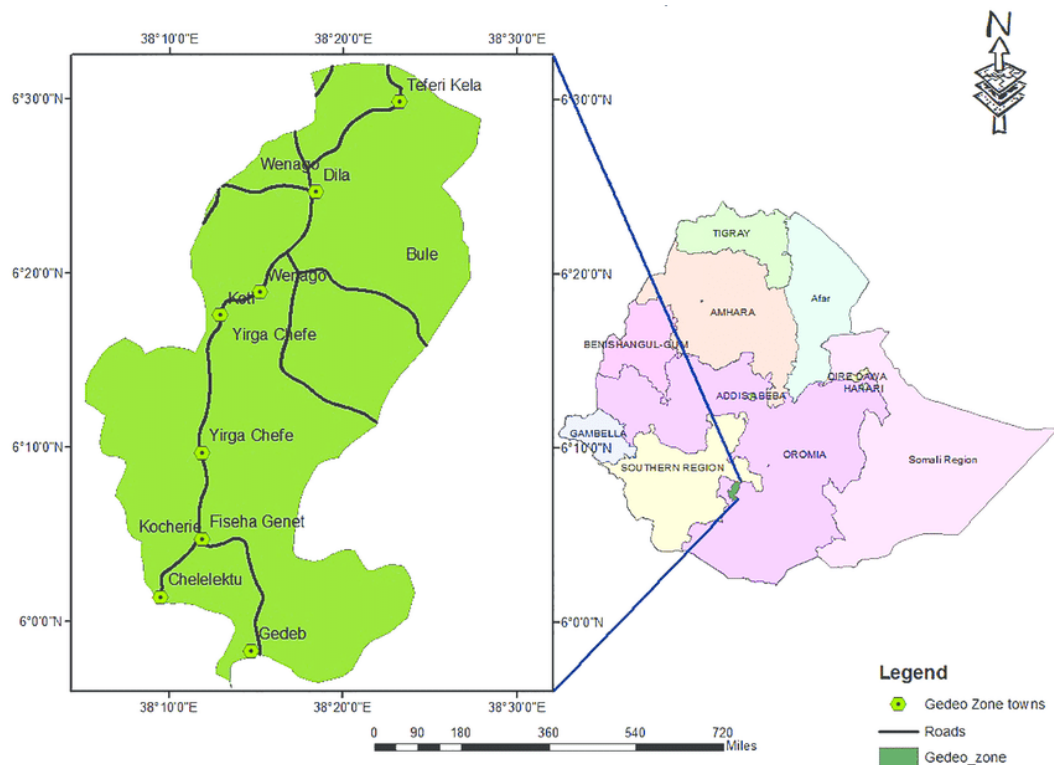
4.2 Gedeb woreda

Gedeb is a town in Gedeo Zone, SNNPR, Ethiopia. The town is located at a distance of 417 km from Addis Ababa, a capital city of Ethiopia and 145 km from Hawassa, the capital city of Southern Nations, Nationalities, and Peoples Region, Ethiopia.

According to the latest estimate for 2012 based on census carried out in 2007, population of Gedeb woreda was 141,990 from which 71,113 were men and 70,877 women (CSA). 6.29% or 8,931 of the population are urban dwellers. According to Ethiopian CSA (2003) total area of Gedeb woreda is 23,250 hectares from which 18,600 hectares (80 percent) are used for agricultural production. The woreda is made up of 16 kebeles.

Coffee is an important cash crop in the zone and the woreda is a home to thousands of coffee farming families producing some of the most incredible coffees in the world.

Figure 1 Map of Gedeo zone



(Source : Sileshi Degefa 2013)

4.3 Selection of cooperatives

As a first step general data about Coffee cooperative societies were being collected at Statistical website and local agricultural office.

There are 12 Coffee farmers cooperative unions in Ethiopia of which one of the cooperative was selected for this study. Under this cooperative union there are 28 primary cooperatives and from them three of them were studied. The three selected cooperatives are Worka , Banko Dadato and Banko Gotit. The cooperatives are named after the village they are located. Worka cooperative was founded in 2002 .The cooperative has 411 members and 618 hectares of land producing Yirgacheffe washed and unwashed coffee . Banko Dadato cooperative was founded in 2005. It has 531 members and 602 hectares of land producing only Yirgacheffe unwashed coffee. The third cooperative Banko Gotit was founded in 2007. It has 270 members and 504 hectares of land producing both Yirgacheffe washed and unwashed coffee.

4.4 Questionnaires and interviews for members and leaders

In order to collect primary data the researcher used questionnaires for members of the cooperatives and personal interviews for members of the board and managers.

Questionnaires prepared for members of the cooperatives consisted of 25 questions with both opened and closed ended questions which were divided into 6 sections. In first section a respondent provided basic personal and household characteristics, for example, age, size of household , and so on. Second section of the questionnaire included questions related to farm size , farmer's main production and its use, motivation to join a cooperative , production and sales. The third section aims to find out about the financial situation of the farmers while the fourth section includes questions on how farmers finance their costs .The last two sections provides data on the interaction between cooperative and member and benefits of being a member of the cooperative, etc.

For the heads of the selected cooperative a 20 questions semi-structured interview and a questionnaire for cooperative member farmers were prepare then questionnaire and the interview got translated to Amharic the national language of Ethiopia . Before the beginning of the data collection questionnaires were tested on pilot testing. 5 respondents were chosen within members of one coffee production cooperative for the pilot testing. Having finalized

questions in questionnaires, respondents within members of each chosen cooperative were selected. 25 respondents from each cooperatives were selected randomly and questioned personally using

the corrected questionnaires. Specialists participated in questioning the respondents in order to translate questions and explain to the respondent if necessary.

An interview with the head of the particular cooperative was conducted in order to cross-check, clarify and triangulate the information from members. One manager from each selected cooperative and one manger from the cooperative union was interviewed by the researcher . Both the questionnaire and interview questions are enclosed in the appendix .

4.5 Target population and sample size

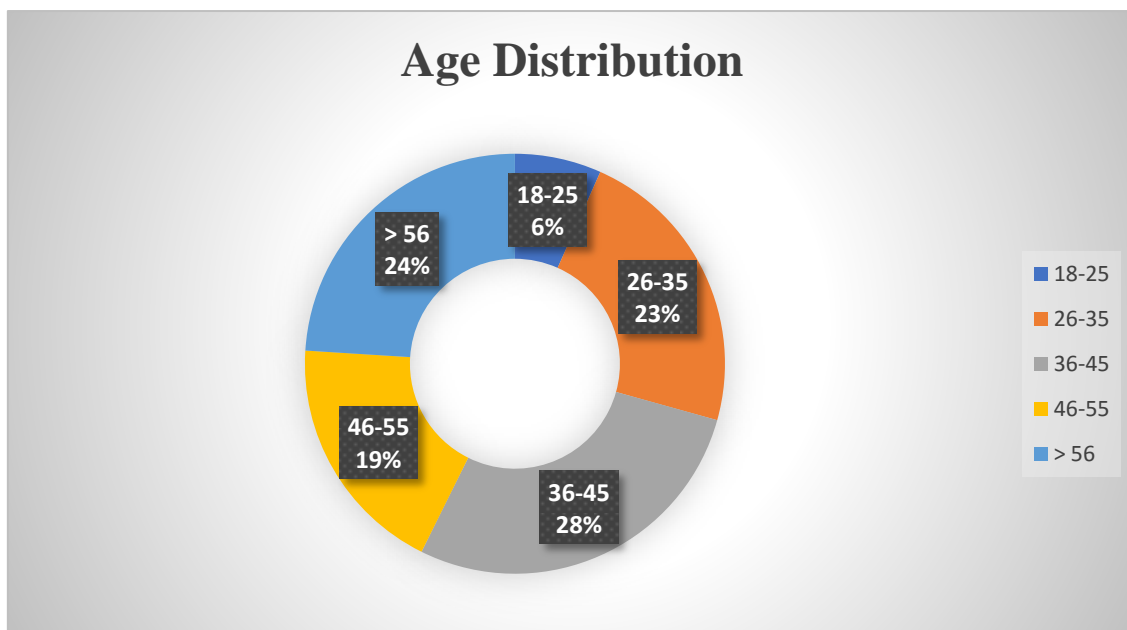
The target population of the research were small-scale coffee farmers who were registered members of coffee cooperative in Gedeb woreda. Total number of target population was 1212 farmers . For calculation of sample size Sample size calculator by Creative Research Systems (2013) was used. With confidence level of 95 percent and confidence interval 10 it was established that the representative sample size of members of cooperatives in Gedeb woreda was 89 respondents. However, some of the questionnaires were no filled in the right way, so the final number of respondents was 75. After recalculation it was established that the confidence interval increased from 10 to 10.96 .

4.6 Sample description

4.6.1 Age and Gender distribution

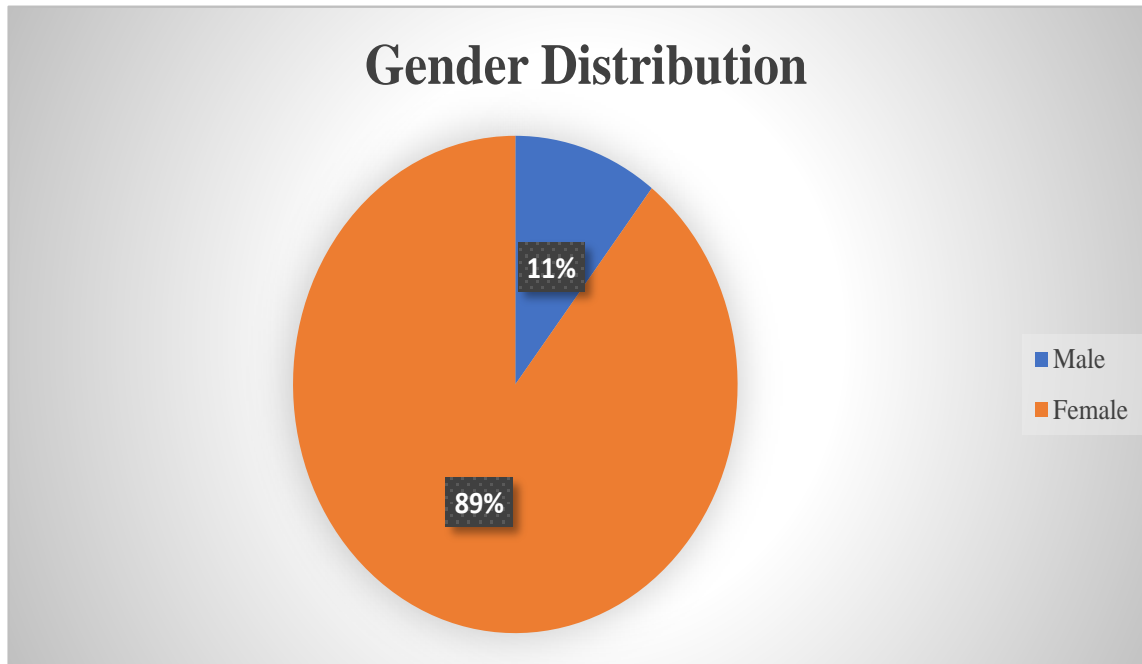
According to the data represented below many of the respondents precisely 28% of the respondents are in the 36 - 45 age And 24 % of the total population is in the age range > 56 which is the second highest group from the total poulation, 23% of that is the age range 26- 35 is in the third position. The age group that ranges 46-55 comes fourth and the age range 18-25 are 6% of the total population. According to Bezu S. and Holden S. 2014 youth in rural south have limited access to agricultural land because of land scarcity and land market restrictions this forces the youth to abandon agriculture in search of other livelihoods.

Figure 2 Age distribution of respondents



(Source : own elaboration based on own survey 2020)

Figure 3 Gender distribution of respondents



(Source : own elaboration based on own survey 2020)

As shown in the result Figure 3 , 89% of respondents from the survey conducted were male while 11% were female. In general, there are more male farmers than females in Ethiopia and usually in rural areas the the role of women in the family involves taking care of the household and children. Therefore its is no surprise that the proprtion is greater in males and lower in female responsents .

4.7 Processing of primary data

After primary data had been collected it was classified and organized and it was processed using basic descriptive statistics and then visualized in graphs. Graphs were created using Microsoft Excel software.

4.8 Limitations

During the study the author have encountered several limitations. Primarily there were several bureaucratic obstacles due to the local state control over cooperatives and any research in the field. Therefore, the presence of local specialist might have influenced reliability of the data. Secondly, language barrier could be the reason that some of the questions in the questionnaires and interviews were misunderstood by the respondents which limited number of reliable answers for data processing. The sample taken was too

small to represent the cooperatives in the union . At last the formulated questions didn't achieve the desired goal because they were too many and some of the questions were irrelevant for the analysis .

5 Results and Description

5.1 Living condition of coffee farmers

5.1.1 Financial status

At the time of the study the coffee prices in Ethiopia were average . Where the selling price of to the cooperatives was 17.68 birr/kg equivalent to 0.56 \$/kg . In addition to fairtrade the cooperatives have organic certificate which gives them access to a better market .All of the 3 cooperatives studied are financially sustainable. The union helps the primary cooperatives to survive by providing credit and pre- payment of goods. The cooperative have managed to put farmers in a better financial situation by substantially increasing the production capacity in the past years, but growth is highly variable..

Table 1 Yield contributio to total export and growth rates for Worka, Banko Dadato and Banko Gotit

	Contribution to the total export of the union in kg			Annual increase in%		
	Worka	Banko Dadato	Banko Gotit	Worka	Banko Dadato	Banko Gotit
2015	143,873	141,322	131,917	-	-	-
2016	176,379	179,638	142,671	18.43	21.33	7.75
2017	192,890	202,568	154,406	8.56	11.32	7.6
2018	222,480	216,720	181,440	13.3	6.53	14.90
2019	249,622	235,033	200,781	12.2	8.45	10.66

(Source: YCFCU annual report)

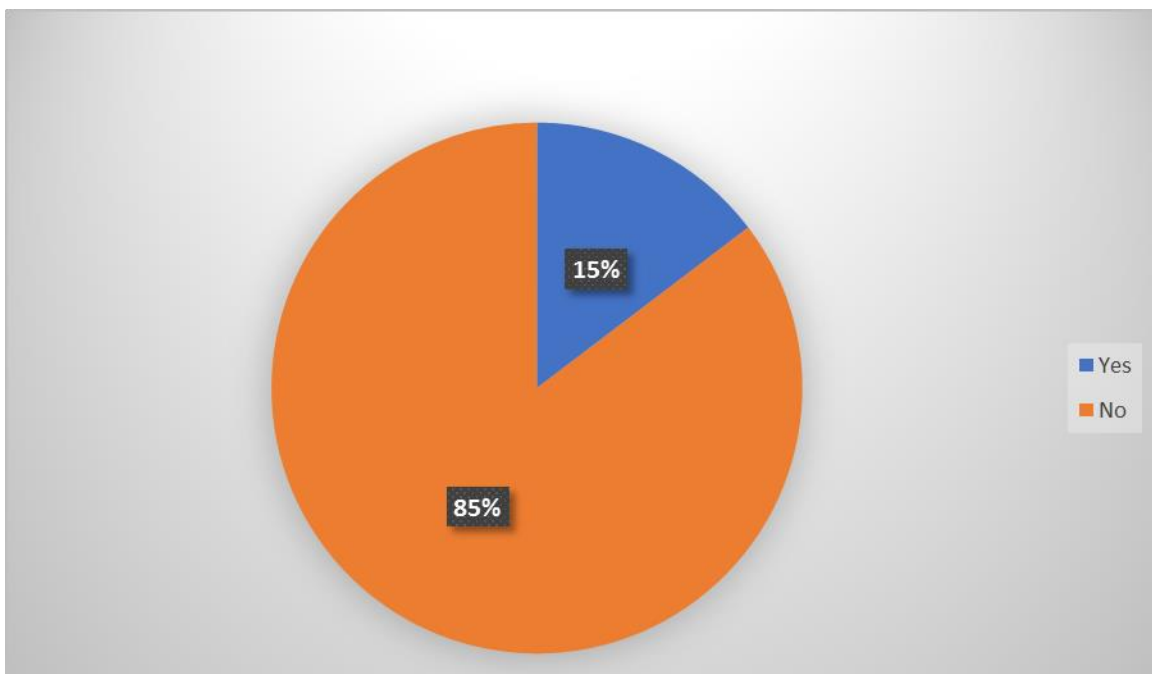
The result in Table 1 shows that the contribution of the studied cooperatives to the total export of the cooperative union where their own consumption and sales for the local market is exempted from Fairtrade has brought economic benefits to farmer in such way as improving

their yield capacity production and contribution to the total export by providing trainings on farming and growth in their contribution to the overall export which in return benefits farmers with additional income from the sales as well as dividend from surplus. The cooperatives believe that fair trade is not the only solution to improve the livelihood of the farmers and attain premium price because premium prices may easily be attained with other certifications such as organic certification. A higher income to the cooperatives benefits farmers and is a step towards the overall aim of both unions: poverty alleviation.

The distribution of extra income is proportional to the amount of coffee that members deliver to their respective cooperative. Higher income to a part of the population affects the community through a dispersion effect. It increases consumption, creates job opportunities, and augments tax revenues. An opposite effect is derived from the overall higher coffee price that affects the community as a decrease in purchasing power of coffee. 50 % of coffee production is consumed domestically; coffee is an everyday drink for all Ethiopians. The outcome depends on which effect is stronger.

5.1.2 Other Income

Figure 4 Access to other income



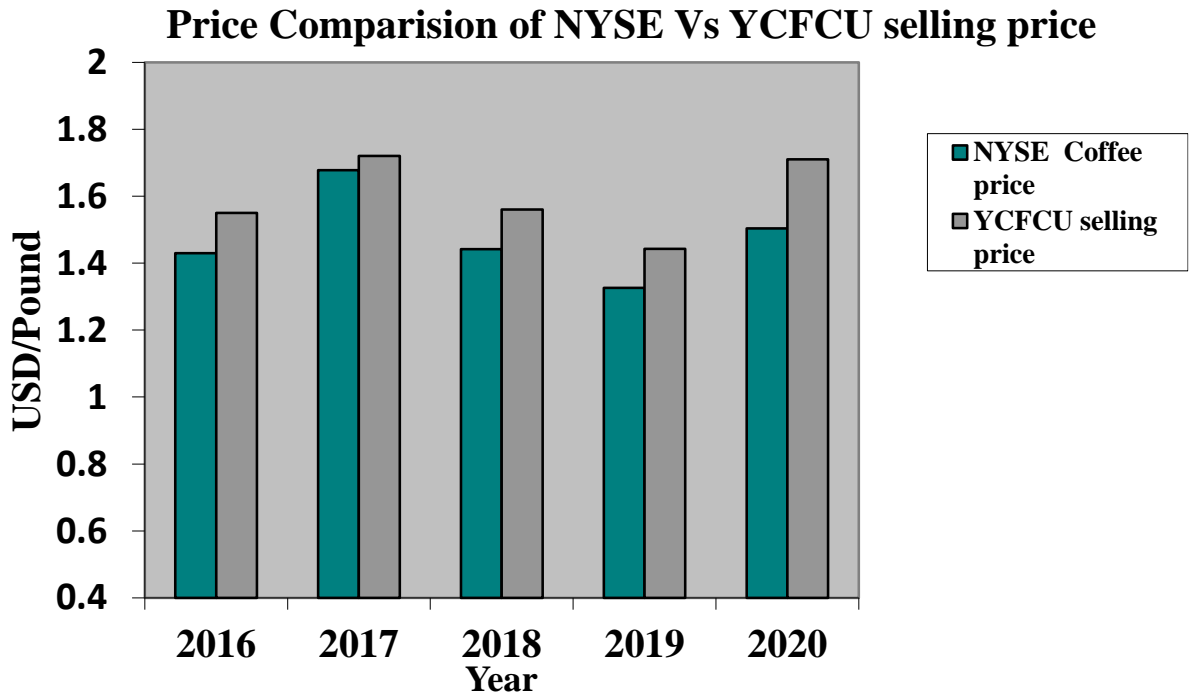
(Source: Own elaboration based on own survey 2020)

Additional income to sales of coffee can be derived from working at the cooperative's washing base . The majority of households in this study depend on coffee as their main source of cash income. Other sources of income are grains, fruits and vegetables . Few farmers also work as agricultural day-laborers and are involved in non-farm activities. The average total landholding of the interviewed farmers is 1.8 hectares Of this, an average of 1.5 hectares is allocated to coffee cultivation. The number of farmers having access to non-farm income is 15 % which can be an indicator that can be taken as the extent of dependability on coffee production and sells . Therefore any shock to coffee production in terms of pest attack or weather disturbances, and price volatility can immediately sink these farmers into critical situation . The extra income can be crucial for the survival of many families in harsh times.

5.1.3 Selling price

The Union YCFCU sells all its Fairtrade coffee on the specialty market. The 28 certified cooperatives have a production possibility of 15,536 tons of coffee per year, And 65 % is sold on the fair trade market.

Figure 5 New York stock exchange coffee price versus YCFCU selling price



(Source: YCFCU financial report 2020)

5.1.3.1 Satisfaction with selling price

According to figure from the respondents majority of the farmers are satisfied with selling price . Where 13.3% and 56% are very satisfied and satisfied respectively .While the remaining 30% are unsatisfied and 5% very unsatisfied. The certified farmers stated that “After we join Fairtrade coffee cooperative we have improved our yearly yield and investments we made and efforts required to produce coffee brought us return and increase in their revenues.

Figure 6 Farmers satisfaction with the selling price

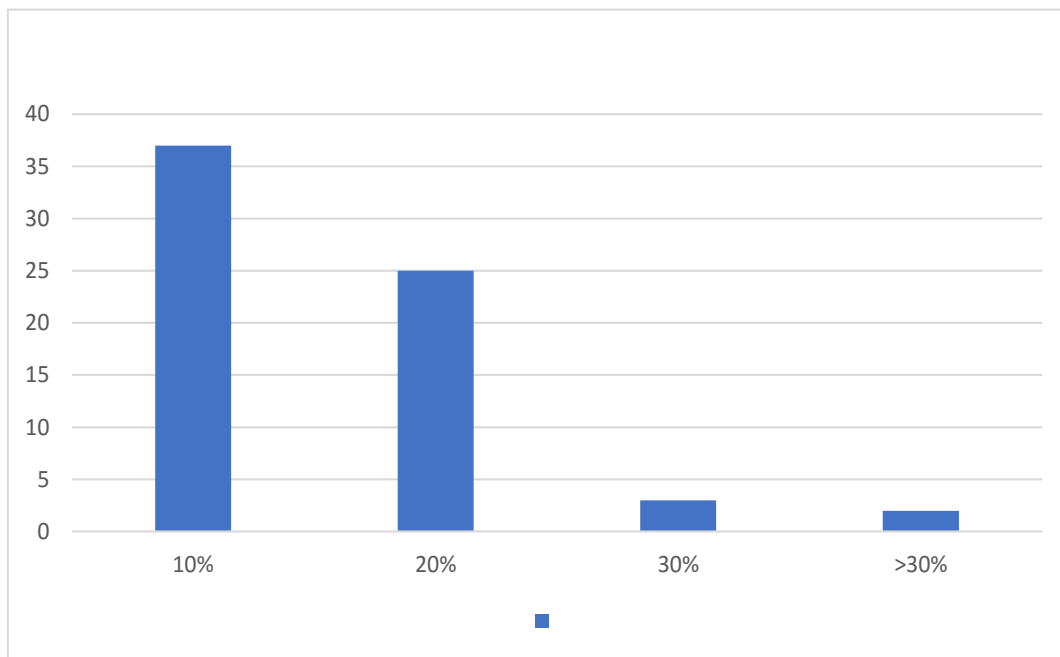


(Source: own elaboration based on own survey 2020)

5.1.3.2 Income growth

The main motivation of farmers to join a cooperative which is discussed later in figure is for better income or additional income. Since the cooperative not only offers premiums and minimum price but also an opportunity to work in the cooperative. Most of the respondent claimed that they have seen 10- 20% income growth after they joined a cooperative.

Figure 7 Income growth of cooperative members after certification



(Source: own elaboration based on own survey 2020)

5.1.4 Management of Premium

The Fairtrade premium is extra payment from the buyer that supports the improvement of business, community and environment. It can be used by the cooperative as funding for projects or training, and how it is used is decided democratically in the General Assembly of the cooperative where all members have a right to take part and to vote. After the decision a proposal is written by the board of the cooperative. When the union has evaluated and approved the proposal the cooperative is responsible for the realization of the project.

In the year 2019 16,340,750 birr (496,679\$) of premium was paid for washed and unwashed coffee Fairtrade certified cooperatives of YCFCU .

Money from the cooperative was invested in improvement of:

- 1 asphalt road
- 2 new schools
- 2 health clinics
- 1 water refill stations

Premium money from the previous year of the Fairtrade membership was invested in fixed assets . The fluctuating amount of premium money is co-varying with the export quantity. The

probability that the projects would have been realized without Fairtrade money is low because of the overall bad financial status of the cooperatives. Although Fairtrade by its structure excludes non-fair trade farmers from its financial benefits, the investments made by the Fairtrade premiums are beneficial to all community members. Cooperatives use locals to realize the projects, which gives employment opportunities for the community.

The schools will help increase the average ability to read and write in the community. According to Woessman 2015 education is a leading determinant of economic growth, employment, and earnings. Ignoring the economic dimension of education would endanger the prosperity of future generations, with widespread repercussions for poverty, social exclusion, and sustainability of social security systems. Also it is an important means to facilitate development because social returns are much higher than social costs at the primary and secondary educational level. Productivity increases markedly when people get basic education such as reading and mathematics because education is a necessity for a country to efficiently use modern technology and to increase productivity, capacity and growth. Without education it will be difficult for farmers to leave subsistence farming as the main income and create a more dynamic and diversified production.

As manager Andenet stated “ Before the new classrooms and schools were built the number of students in one class room was more than the capacity of the rooms which makes the learning and teaching process very difficult. ,, In addition to that there was a notorious lack of pens and paper. Whereas currently members of the cooperatives get support in stationary supplies from the cooperative for their children At the same cooperative the road to reach it was hardly accessible, a tiny winding road made of earth and filled with potholes. To find the way to the cooperative is difficult and to transport the beans from there is a problem.

Health clinics make health services more accessible, which will decrease child mortality rate and increase life expectancy.

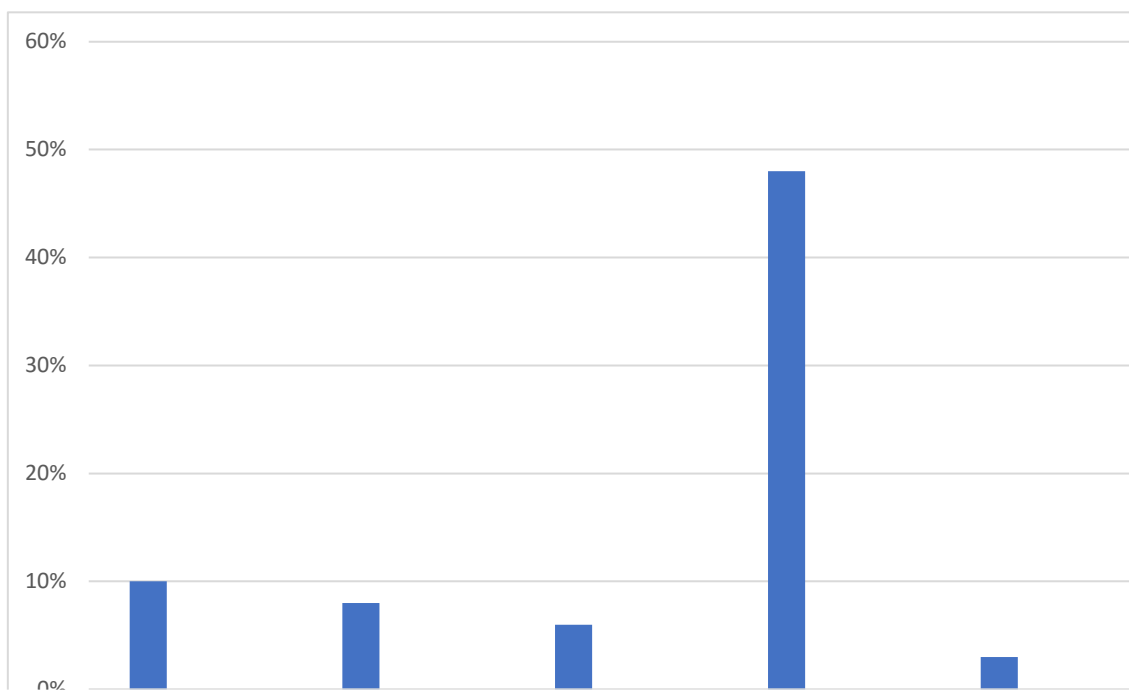
5.2 Other Findings

5.2.1 Knowledge about cooperatives

The most important role in promoting cooperative societies is played by local governmental institutions. Farmers were more likely to find out about a coop they joined from local administration institutions and media rather than from neighbors or their

family members . As shown in Figure 10, majority of respondents discovered about a cooperative they joined from locality administrations. Fewer farmers learned about cooperatives from neighbors or family members and farming training centers . These indicates that the government has put prominence on promoting cooperatives as described in its development plans.

Figure 8 Where farmers learned about the possibility to join a coffee marketing cooperative

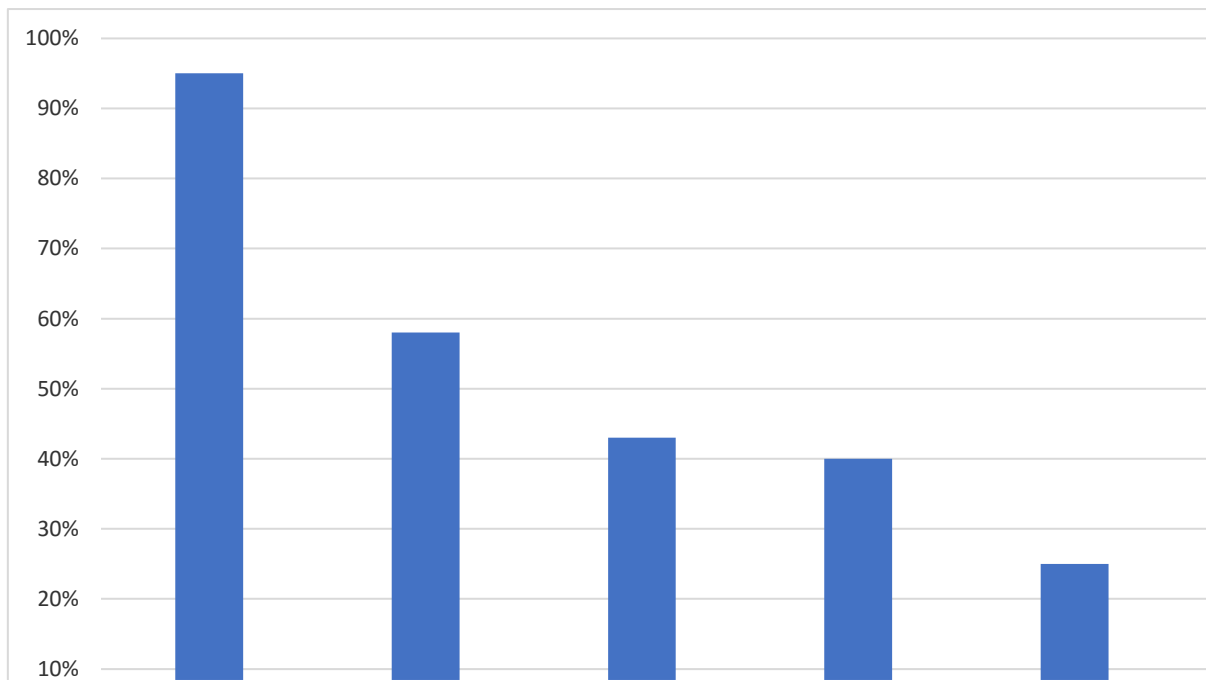


(Sources :own elaboration based on own survey 2020)

5.2.2 Motivation to join a cooperative

Farmers motivation to join the cooperative varies. However, the most common reason was farmers’ interest to improve their financial situation: close to a third of farmers claimed they joined a cooperative to gain better income (see Figure 5). Others recognize coops as the to get access to market , benefits and services offered by cooperatives and information . While low membership fee and improved farming skills were the less common reason why farmers joined a cooperative

Figure 9 Motivation of Farmers to join a cooperative

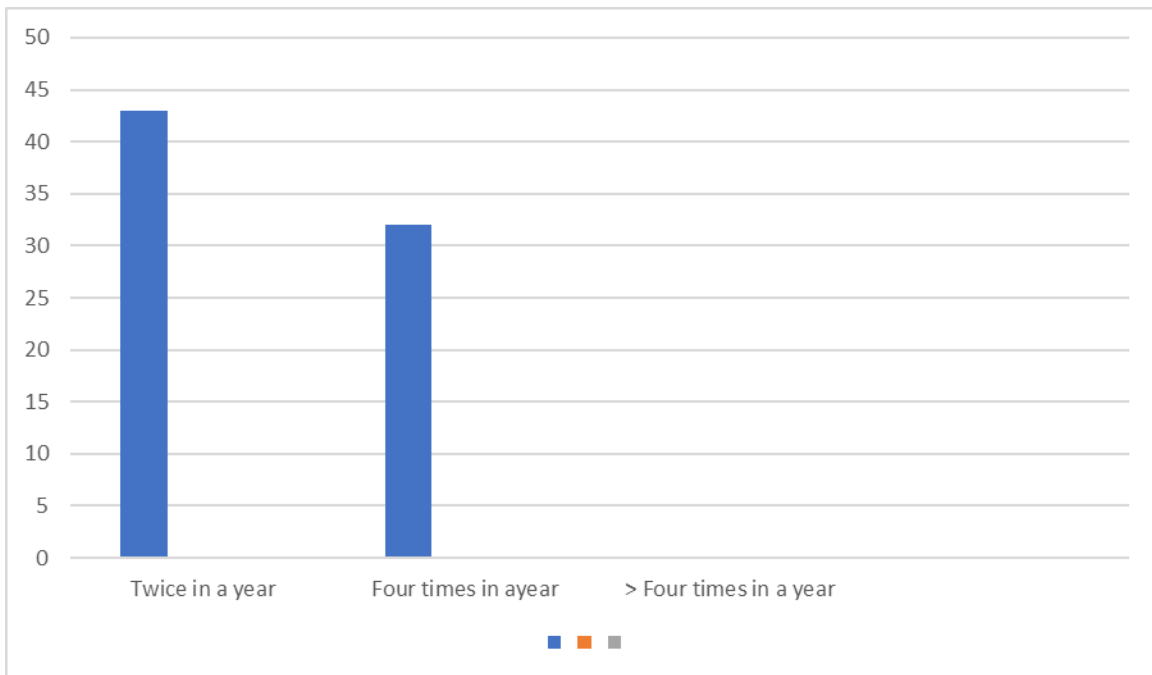


(Source: own elaboration based on own survey)

5.2.3 General meetings

According to the data from the farmers more than half of the farmers stated that they hold a General meeting twice . While others claimed to have it four times in a year . In addition to the local meeting in each respective cooperative there is annual general meeting of all the cooperative represented with the management of the cooperative union. The role of this meetings is to help members to be regularly updated about the working of the cooperative and how it is performing, whether it is making profits or not and other important aspects to be disclosed to the members by the management if not on detailed basis but atleast in summarized basis.

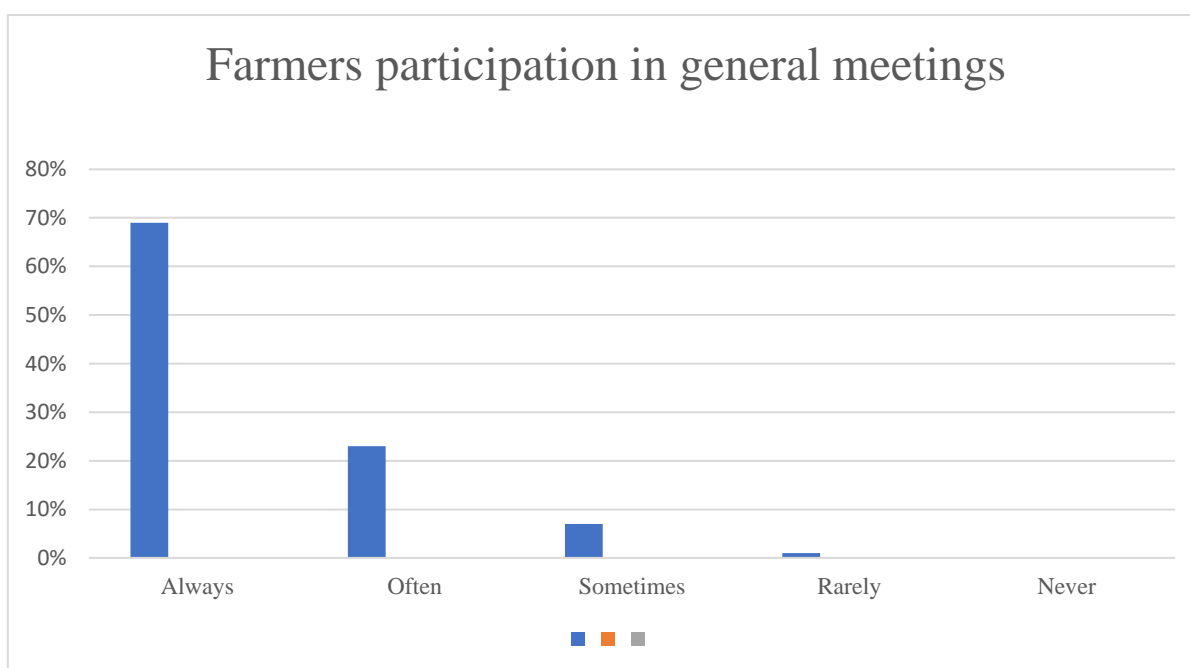
Figure 10 General meeting held in a year



(Sources :own elaboration based on own survey 2020)

As for the participation of farmers in general meetings since they are obligated to be present in at least one meeting that is held in a year most of the farmers claimed that they participate in general meetings held by the cooperatives . Less than 10% of the respondents claim to participate rarely .

Figure 11 Farmers participation in general meetings



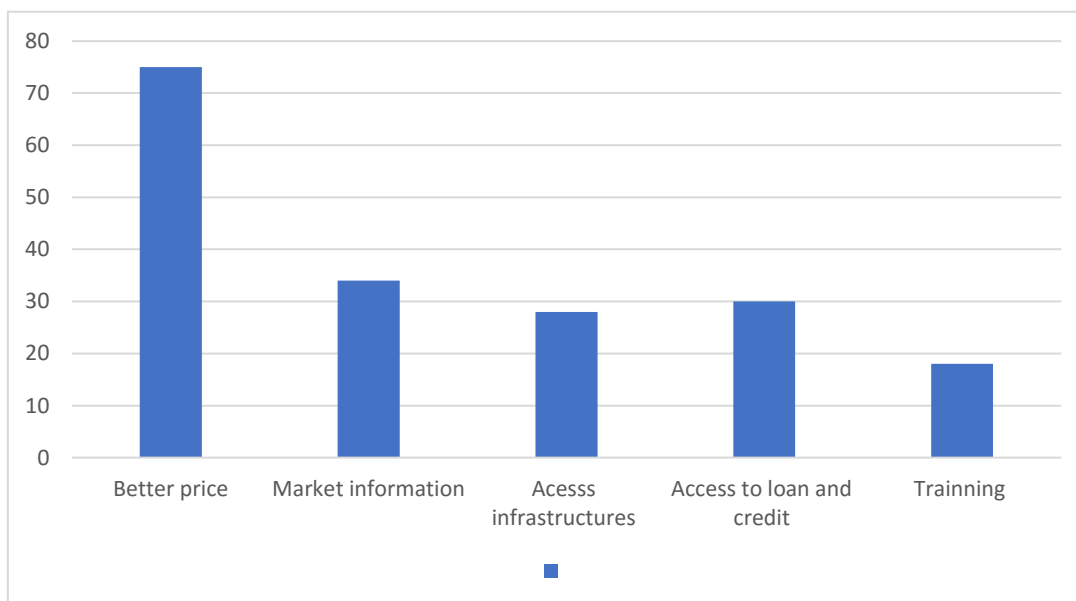
(Source: own elaboration based on own survey 2020)

5.2.4 Benefits for members of cooperative

Members of coops receive additional benefits – either provided by the government or by the cooperative they participate in. Some of governmental benefits, which are determined by Proclamation No. 147/1998, are: exemption of societies from income tax, possibility for societies to acquire land, receiving of other assistance from the Federal Government or Regional Government or City administration (FDRE, 1998).

Furthermore members of cooperatives gain other benefits in terms of their coops. Respondents stated they received benefits such as better price for their product, information about prices, demand and supply, access better market, access to cooperative's infrastructure (transportation, storage, equipment, etc.), possibilities to get loan with a lower rate and farming trainings. From the total farmers in the study a few respondents stated that they have received a training from a cooperative. As stated by Bäckman 2007 "Cooperatives give farmers an alternative market and consequently the possibility of choosing buyers. Their presence is a counterbalance to private buyers that stabilizes the market. Farm-gate prices are therefore less volatile, and they are higher because of the competition. ,,

Figure 12 Benefits to cooperative members

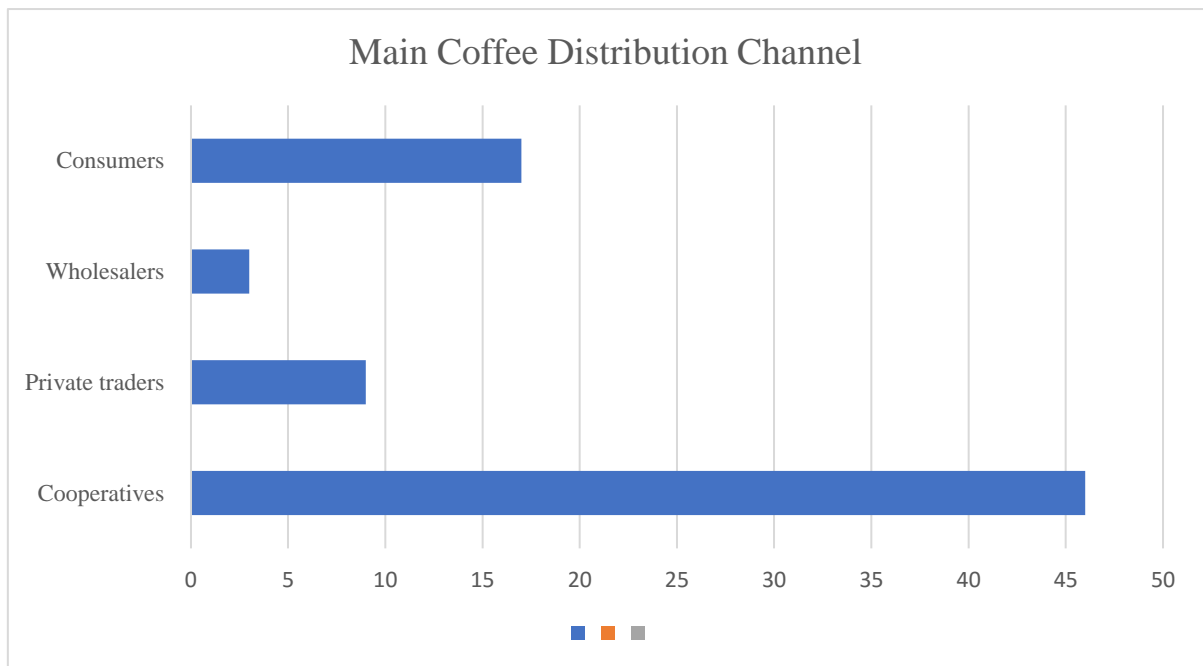


(Source:own elaboration 2020 based on own survey)

5.2.5 Main coffee distribution channel

The result on the Figure11 shows that 61% of cooperative members sell their coffee directly to cooperatives . 23% of members sell to consumers . 12% of members sell their products to private traders. At last 4% of members sells their product to wholesalers . The main distribution channel of coffee the cooperatives . According to Tigist“The cooperative has collection centers in each woreda so that farmers won’t have to go further away from where they live to sell their products but go o the nearest collection centere to sell and hand in their products . ,, Eventhough in the case of private traders the buyers directly go to the farmers which makes the process easier for the farmers in accordance to transportation the private traders might offer competitive price but they do not gurantee a minimum price when prices go down nor they benefit farmers in divdend and premium .

Figure 13 Distribution channels



(Source: own elaboration based on own survey 2020)

5.2.6 Market information sources

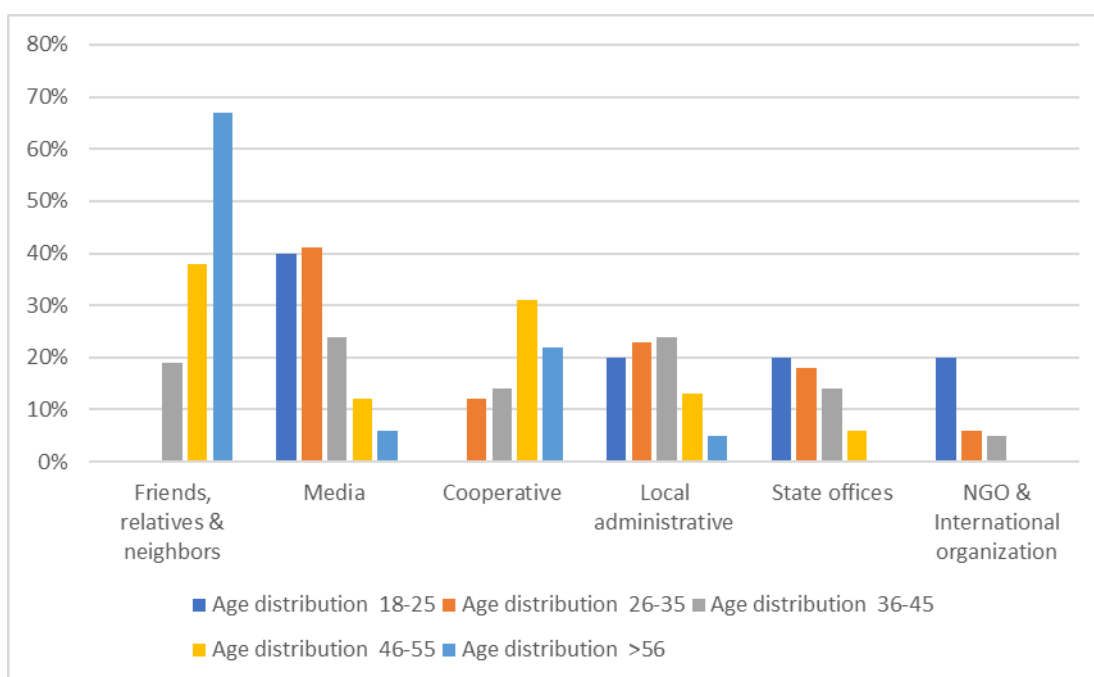
The main market source of obtaining information about price and for farmers is friends, relatives and neighbors followed by media as the second rated source of information. Third source is cooperatives. Local administrative, state offices and NGOs and international organizations are the other sources of market information. There is a significant difference in market information sources among respondents. Friends, relatives and neighbours are active source of information for people that are in the age range >56 (67%) mainly because the farmers think that the information is reliable. Friends, relatives and neighbours is not only the source of market information but its where farmers exchange their skills. While media is used to a greater extent by 41% of the age group 26-35. The other sources of market information like cooperative, local administrative, state offices and NGO & international organizations are evenly distributed.

Table 2 Market information relation with age distribution

Market information sources	Age distribution				
	18-25	26-35	36-45	46-55	>56
Friends, relatives & neighbors	0	0	4	6	12
Media	2	7	5	2	1
Cooperative	0	2	3	5	4
Local administrative	1	4	5	2	1
State offices	1	2	3	1	0
NGO & International organization	1	2	1	0	0

(Source: own elaboration based on own survey 2020)

Figure 14 Main market information sources in relation with age distribution



(Source: own elaboration based on own survey 2020)

5.2.7 Gender equality

One aim of Fairtrade is to bring more gender equality into the society through the empowerment of women. Studies have found that the position of the woman is stronger in a family where the income of the woman is relatively high. Furthermore, when household income is low women allocate virtually 100 % of their income towards nutrition, a significantly higher percentage than men. There is no criteria concerning women in the

Fairtrade standards other than non-discrimination by gender, and the unions do not have any specific policy regarding the matter. Coffee is a cash crop, and cash is generally controlled by male household members. Land is by tradition passed on to males in Ethiopia, and most members of the cooperatives are male.

Being a member of a Fairtrade cooperative for females gives them a better chance to survive because of the higher income. Another possibility is to work on the board of a cooperative. The elected get training in their respective area, and attend meetings at the union level.

5.3 Challenges the cooperative and members face

There are a number of Challenges YCFUC face both as an institution and individual members of the cooperative. According to the data obtained from the interview of cooperative heads and cooperative members the following points were summarized.

Internal Challenges

As far as the internal challenges of cooperatives are concerned, it is related to limitation in the capacity of the management committee, initial capital, members participation, transparency and accountability of the management committee, members awareness on duties and responsibilities, member participation.

External Challenges

The external challenges are beyond the control of both the cooperative and individual members. One of the issues is the political unrest in the country and ethnic violence in the region between Gujji and Gedeo people. According to Tom Gardner 2019 as political ground shifted at the federal level, long-standing grievances between ethnic groups over land, borders, and rights re-emerged in an explosion of violence in southern Ethiopia. Significant displacement occurred between April and June 2019 along the internal border of Oromia and the Southern Nations, Nationalities, and Peoples' Region (SNNPR). According to official estimates of the government, up to one million Gujjis and Gedeos were left homeless after ethnic violence broke out. Reconciliation, despite the deep blood and cultural ties between the two communities, is proving a long and fraught process. Resolving ethnic disputes will be a long-term endeavor for the new government. Displacement due to intercommunal violence is therefore likely to remain a challenge for the foreseeable future. The other challenge is price instability while the industry is able to hedge market volatility to acceptable level of risk, most of the small scale coffee farmers

do not have that capacity. This leaves farmers the most vulnerable to price fluctuations while the least able to weather.

Adequate capital is one of the fundamental requisites for the sound cooperatives businessoperation. From the stand point of ownership, there are two kinds of capital equity and debt capital. Concering capital the cooperative heads stated that evnthough there is an opportunity to get a loan from commerical banks with a lower rate the process takes longer than it should which makes it unconvenient for the coopertive .

The existance of illegal traders and competition from private traders is another challenge for both the cooperative and the farmers.

6 Discussion

The study conducted on small scale coffee producer cooperatives in Gedeb woreda allowed the author to gain information from the viewpoint of both cooperatives' members and the heads of cooperatives. The primary data collected directly from farmers helped to investigate and compare the financial status, evaluate their income growth, access to other benefits, cooperative functioning after becoming the member and identify challenges individual cooperative members and the cooperative face.

Based on the evidence in this paper it can be said that the three cooperatives under the union YCFCU in Gedeb woreda do help their members small-scale farmers and having fair trade certification is critical to improve their financial situation and achieve better incomes. Fairtrade contributes to development by seeking greater equity in international trade and securing the rights of producers. Fairtrade supports producers in awareness raising such as education about coffee prices and practises.

Small-scale farmers engaged in coffee production live in rural areas where poverty is widespread. Coffee prices are extremely volatile, which puts farmers in a vulnerable position. Fairtrade gives the opportunity to unprivileged farmers to get a stable income that often is higher than for conventional coffee.

It was not possible to study a group of farmers that are cooperative members without certification because the union chosen for the study have certified all of the primary cooperatives. However based on the comparison evaluation between before and after farmers joined a certified cooperative it is clear that most of the farmers studied are better off financially.

The impact of Fairtrade is clear in times of low coffee prices on the world market, when cooperatives operate at a loss and Fairtrade successfully protects farmers from bankruptcy and extreme poverty. There is no guarantee that a certain percentage of consumer prices go directly to the farmer, but the minimum price helps farmers to plan ahead, which enables them to take conscious business decisions that positively affects their future (it may be to invest in their childrens' education or to diversify into value added coffee). There is an emphasis on sustainability in terms of environment, production, and economic growth, which has a noticeable influence on the work of the cooperatives.

The Fairtrade premium that is invested for social development is strengthening the society and provides services that would otherwise not be accessible. Overall quality of life is expected to increase as the investments from premium money come into place. Cooperatives give training to raise coffee farmers' knowledge of prices and quality, which increases their bargaining position in the local market, and allows for access to new markets that increases exports. As indicated in the secondary data collected, the price at the producer level is set by the cooperative union based upon the present price in the ECX. This price is then communicated to the primary cooperatives to be utilized when buying coffee from the farmers. Nonetheless, primary cooperatives increase the price given by the union so as to compete with the private traders as the private traders compete to buy coffee from the farmers. The cooperatives presence in the Ethiopian rural areas increases competition and enables them to get a higher price for their coffee. The economic benefit from Fairtrade is visible.

Finally there are a number of challenges the cooperative face such as price fluctuation, inadequate finance, non transparency of management and political unrest in the country. Due to ethnic conflict in the region that started in December 2016 between the Gedeo and Gujii people the cooperative and members are highly impacted. Specifically in the year 2018 the situation got worse and led a total number of 2.9 million people displaced by December 2018. In addition to that according to the data obtained from the cooperative head while the cooperatives were transporting their coffee to a further market place it was robbed which brings a very significant loss to the cooperative as well as the members.

7 Conclusion

The aim of this study was to examine whether Fairtrade labelled coffee contributes to better living condition of certified coffee farmers in southern Ethiopia, to determine whether Fairtrade certified farmers are better off economically as well to access challenges of the cooperative and members face.

Fairtrade gives the opportunity to unprivileged farmers to get a stable income that often is higher than for conventional coffee. The impact of Fairtrade is clear in times of low coffee prices on the world market, when cooperatives operate at a loss and Fairtrade successfully protects farmers from bankruptcy and extreme poverty. There is no guarantee that a certain percentage of consumer prices go directly to the farmer, but the minimum price helps farmers to plan ahead, which enables them to take conscious business decisions that positively affects their future.

Even though it's difficult to conclude that all farmers in the cooperative benefited or have a better living condition from the study results and discussions small scale farmers that are a member of Fairtrade certified cooperative are better off financially since they receive an average price of coffee offered by the cooperatives 17.68ETB/kg approximately 0.56\$/kg which is relatively higher than the price offered by private traders or local market ranging from 10–12 birr/kg (0.31-0.37\$). The cooperatives ensure that farmers get a minimum price when the coffee price declines in the international market. In addition to that the farmers get dividends (70 % of the surplus) as well as premiums. Furthermore the farmers also are provided with different trainings that would help them enhance their production capacity which in return enables them to have additional income.

The premium from the year 2019 was invested to develop and establish different communal infrastructures in the Woreda such as new schools, asphalt road, refill water station and clinics.

The Fairtrade premium that is invested for social development is strengthening the society and provides services that would otherwise not be accessible. Overall quality of life is expected to increase as the investments from premium money come into place. Unions give training to raise coffee farmers' knowledge of prices and quality, which increases their bargaining position in the local market, and allows for access to new markets that increases exports.

In addition to that the cooperatives studied had a major challenges related to ethnic violence in the region and this external factors can only be dealt with the cooperation of both the society and the goverment working together to keep the peace and security of the region. While issues like that of ethnic violence can not be resolved with the effort of a few individuals both the goverment and the society should collaborate to resolve the issue and keeping the peace . As well as the cooperative union should work on its communication with its members to create an environment and working ethic that is transparent .

Based on this paper several recommendations can be given for further researchers aiming their studies on Fair trade certified coffee cooperatives in Ethiopia. Primarily more attention should be given to the principles and the management of the cooperatives and how they are acheiving their aim using fairtrade certification as an instrument. More primary cooperatives under the union should be studied to get a reprsentation of the population since the limitation in represnting the population can affect the results and the reliabilty of the conclusions . In addition to that the role of govermnet in the development and maintanance of this cooperatives should be studied in detail . Furthermore the non financial benefits of fairtrade certification should be conducted since its one of the critical aspect of fairtrade . Finally, focused research on the challenges of cooperatives' members, primary cooperatives and the union as a whole should be conducted in order to provide suitable solution to overcome those restrictions .

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9 Appendix

9.1 Questionnaire for farmers

SURVEY ON TOPIC “Fair trade coffee production”

Dear Sir/Madam

Thank you very much for finding time in answering the questions in the survey. The aim of the research is to access the benefits of fair-trade coffee production to small scale farmers. The information that you have provided will only be used for academic purposes.

SECTION 1: GENERAL QUESTIONS

SURVEY NUMBER	
DATE	
PROVINCE	
Number of household members	
Age	
Gender (Male- M, Female - F)	
What is your highest level of obtained education? None =1 Elementary =2 Secondary=3 High School=4 Vocational=5 High =6	

Other=7

SECTION 2: CROP PRODUCTION

2.1 Does your household own any land for agricultural purposes?

Yes

No

2.2 What is the total land amount you own in hectares? -----

2.3 Do you grow other crops apart from Coffee?

Yes

No

If yes, specify

.....

2.4 How much of your total land do you use for Coffee production, in hectare?

.....

2.5 Do you own any land together with other farmers?

Yes

No

2.6 How much of the land do you own from the common shared land, in hectares?

.....

					1	2
Production details	-2.7	Type of Coffee bean			Washed	Unwashed
	-2.8	Did you harvest any of the following Coffee in the last?	one year?	Yes=1 No=2		
	(2.9) Total harvest of the coffee in the last year?			From 1 ha		
				From total	land	
	-2.1	Quantity used for own consumption?		Kg		
	(2.11) Sold as raw red ripe beans?			Kg		
				Price/kg		
	(2.12) sold as processed and stored product?			Kg		
			Price/kg			

2.13 Which one of the coffee beans types do you specialize in?

Washed

Unwashed

None

If you do, why?

Sale details				
N	(2.14) Type of coffee bean	(2.15) Where did you sell the Coffee? =1 =2 =3 Other=4	(2.16) Main type of distribution To consumers =1 To cooperative =2 Private traders =3 Wholesalers =4 To other institutions by contract=5 Other=6	(2.17) How far do you have to go to sell the coffee? In km
	Washed			
	Unwashed			

2.15 Have you enlarged your production in last two years?

Yes

No

2.16 In the last two years my production has increased/decreased

by:

0 – 15 %

31- 45%

16- 30 %

> 46%

2.17 What was the reason for the increased or decreased production?

.....
.....

2.18 How satisfied are you with your coffee selling price?

Very unsatisfied Satisfied

Unsatisfied Very satisfied

2.19 Is the price stable through the year?

Yes No

If not, why?

.....
.....

2.20 How much of social premium do you get per year?

.....

Production cost

	Expenditure item	(02.18) What is your monthly cost for the following factors of production?	
		Quantity	Price
01	Water		
02	Rent		
03	Hired labor		
04	Equipment Tools		
05	Agricultural chemicals (fertilizer and pesticide)		
06	Transportation		
07	Gasoline, fuel		
08	Other		
Total			

SECTION 3: OTHER INCOME

3.1 Do you have any job other than agriculture?

Yes No

3.2 What kind of job do you do? (.....)

3.3 What was the type of the work?

Unpaid Paid Non-monetary payment

3.4 What was the type of your work employer?

Cooperative State owned company

Corporation Government organization

Other, state -----

3.5 Could you please provide your monthly wage? -----

SECTION 4: SAVINGS AND LOAN

4.1 Do you have a saving?

Yes

No

4.2 Have you enlarged your production in last two years?

Yes

No

4.3 In the last two years my production has increased/decreased by:

0 – 15 %

31- 45%

16- 30 %

> 46%

4.4 Did you take any loan in the last one year to finance your production expenditures?

Yes

No

4.5 Where did you get a loan? Choose from following sources?

<input type="checkbox"/>	Commercial Bank
<input type="checkbox"/>	Non-Bank Financial Institutions
<input type="checkbox"/>	Savings and Credit Cooperative
<input type="checkbox"/>	State loan institutions
<input type="checkbox"/>	Individual
<input type="checkbox"/>	Other

SECTION 5: SOCIAL CAPITAL

5.1 Are you a member of any social group?

Yes

No

5.2 What type of group is that?

Farmers union

Cooperative

Religious group

Other

5.3 Where did you learn about the possibility of joining the cooperative?

Media	<input type="text"/>	Family members	<input type="text"/>
Locality Administration	<input type="text"/>	Farming training centers	<input type="text"/>
Neighbors	<input type="text"/>		

5.4 How often do you have general meetings?

>10%	<input type="text"/>	20%	<input type="text"/>	> 30%	<input type="text"/>
10%	<input type="text"/>	30%	<input type="text"/>		

5.5 How frequently do you participate in the general meetings? In how many celebrations in the village did you attend in the past one year?

Always	<input type="text"/>	Often	<input type="text"/>	Rarely	<input type="text"/>
Never	<input type="text"/>	Sometimes	<input type="text"/>		

5.6 How many farmers outside your community do you communicate with?

.....

5.7 What kind of relationship do you have with other farmers outside your community?

Only for farming activities	<input type="text"/>	Close friendship	<input type="text"/>
Both above	<input type="text"/>	Other (.....)	

SECTION 6: QUESTIONS FOR COOPERATIVE MEMBERS

6.1 How many years have you been a cooperative member?

.....

6.2 What is your position in the cooperative?

Member

Director

Member of Board of Directors

Other

6.3 How long did it take to join the cooperative?

.....

6.4 How long did it take to be a certified coffee producer?

.....

6.5 What were the main requirements to be certified?

.....

6.6 What social benefits do you get by being a member of the cooperative?

.....

(6.5) How many meetings do your cooperative organize in the past year	(6.6) How many trainings do your cooperative organize in the past year.	(6.7) In how many meetings did you attend?	(6.8) In how many trainings did you attend?

6.7 How actively are you involved in the cooperative activities?

Very inactive	<input type="checkbox"/>	Average	<input type="checkbox"/>	Very active	<input type="checkbox"/>
Inactive	<input type="checkbox"/>	Active	<input type="checkbox"/>		

6.8 How many members are actively involved in business transactions with cooperative, in %?

.....

6.9 How would you rate the cooperative capacity to provide services on a scale from 1 to 5?

1. Very bad 2. Bad 3. Average 4. Good 5. Very good

6.10 What is the amount of land which is under cooperative management?

.....

6.11 What are the main services provided from the cooperative to the members?

.....
.....

6.12 What are the main benefits you receive from the cooperative?

.....
.....

6.13 What are the main products sold by the cooperative?

.....

6.14 What was your motivation to join the cooperative?

Better income	<input type="checkbox"/>	Access to Market	<input type="checkbox"/>
Benefits of cooperative	<input type="checkbox"/>	to gain Information	<input type="checkbox"/>
Low membership fee	<input type="checkbox"/>	Improving Farming skill	<input type="checkbox"/>

6.15 Do you know main principles of cooperative?

Yes No

6.16 Do you understand what Fairtrade is and its principles?

Yes No

6.17 Are you familiar with -Law on Agriculture Cooperative?

- Not familiar at all
- I have heard about it
- I know a little bit
- I know it very well

6.18 Does your cooperative support you in selling your product?

- Very unsupportive
- Unsupportive
- Supportive
- Very supportive

6.19 What kind of service does your cooperative provide?

- To obtain better prices in the market
- To get better information about the market
- To reduce the transportation cost to the market
- To obtain credits from financial institution

Other (.....)

6.20 Which one of the services is most important to you?

.....

6.21 Is there any improvement in your production or market accessibility after you joined the cooperative compared to when you were not a member?

Yes

No

If yes , can you specify

.....
.....

6.7 Where do you get information about market, production and technology?

<input type="checkbox"/>	Media (TV, radio, newspaper)
<input type="checkbox"/>	Local administrative office
<input type="checkbox"/>	State offices
<input type="checkbox"/>	Cooperative
<input type="checkbox"/>	Friends, relatives, neighbors
<input type="checkbox"/>	NGO
<input type="checkbox"/>	International organization

6.8 Are there any problems or constraints associated with the cooperative that you are facing currently?

Yes

No

If yes, what should be done to solve them?

THANK YOU VERY MUCH

9.2 Interview Questions for Cooperative heads

1. What is the total size of the farmland under your cooperative?
2. What are the main cultivated crops in the area? What are your specialties?
3. When was the cooperative established?
4. . How many members do you have?
5. Was there any group before your cooperation in the community? if yes what kind?
6. Is the group officially recognized as a formal institution? If yes, in what form is it recognized?
7. What was the reason for formation of the group?
8. What is the aim of the cooperative?
9. What are the main services you provide? What is the most important benefit for the farmers?
10. Do you organize regular meetings? If yes how often do you meet?
11. Does the cooperative have its own processing line?
12. What means of transportation do you use to deliver your products?
13. Where do get information about the market?
14. Do you possess quality certification for your products? If yes, how did this certification affect your sales?
15. How did you finance your cost to run the Cooperative?
16. Where did you currently sell your products?
17. Where do individual farmers sell their product before they joined the cooperative?
18. Do you have contracts you signed to deliver your product outside Ethiopia?
19. If yes, how many contracts have you signed currently to export your products?
20. Are there any challenges internal or external that you face as a cooperative?

9.3 Photos from Field study





